Explaining the Findings of a Study About Medical Underwriting in the Individual Health Insurance Market

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Last summer the Kaiser Family Foundation released a report entitled, "How Accessible is Individual Health Insurance for Consumers in Less-Than-Perfect Health?" Researchers at Georgetown University and their partners[1] surveyed 19 health insurers providing individual health coverage in eight geographic markets and asked them to "medically underwrite" seven hypothetical applicants with different characteristics and health conditions, reporting what coverage they would offer to the applicants and at what price.[2]

The purpose of the original study was to test the variability in medical underwriting actions by health insurers and assess its impact on the availability and cost of coverage in the individual market for people in less-than-perfect health. The report -- released in June 2001 -- presented detailed data on the 420 applications for coverage, and reported for each of the seven hypothetical applicants how often they were accepted for coverage with no restrictions (a "clean offer"), received offers for coverage with benefit restrictions and/or premium surcharges, or were rejected. The detailed data collected in the study were included in the original report so that the basis for any conclusions drawn would be transparent.

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[1] Karen Pollitz and Richard Sorian, researchers at the Georgetown University Institute for Health Care Research and Policy, and Kathy Thomas, of K.A. Thomas and Associates, worked with the National Association of Health Underwriters to collect and analyze the data for this study.

[2] The hypothetical applicants were Alice, 24, who had hay fever; Bob, 36, with a knee injury repaired 10 years ago; the Crane Family of 4, whose son, Colin, had asthma; Denise, 48, a 7-year breast cancer survivor; Emily, 56, a widow who was situationally depressed; Frank, 62, an overweight smoker with high blood pressure; and Greg, 36, who was HIV-positive.

Recent Commentary

Reasonable people can reach different conclusions from the same underlying data., and recently renewed debate over proposals to expand coverage for the uninsured using tax credits for the purchase of individual market insurance has prompted some to re-evaluate and comment on the findings of the original study. In particular, the National Association of Health Underwriters (NAHU) issued a new analysis of the Kaiser Family Foundation report in March 2002. NAHU -- which participated in the original study by using its network of independent health insurance agents and brokers to collect data from insurers -- says it continues to "vouch for the accuracy of the objective data included in the study," but suggests that it would not "have reached the same conclusions based on the analysis of the underwriting and pricing information collected."[3] The analysis issued by NAHU contains some valid interpretations of the original data, but other statements in the NAHU report are incorrect or incomplete. An explanation of the findings from our original study follows, while a more detailed response to the specific points raised by the NAHU report is attached.

Findings from the Original Study

Based on the data collected, the original study concluded that medical underwriting is unpredictable and can make coverage in the individual insurance market inaccessible, less comprehensive, and/or more expensive for people with health conditions or a history of health conditions.

For example, the applicant with the mildest health condition – Alice, who is 24 years old and suffers from seasonal hay fever – encountered a wide variety of responses from medical underwriters. Five percent of the time (3 of 60 applications) she received a clean offer and 8 percent of the time (5 of 60 applications) she was rejected. Her remaining applications resulted in substandard offers that limited covered benefits under the policy, imposed premium surcharges, or both. Many of the benefit limitations imposed were modest, excluding coverage only for her hay fever, but the majority were more significant (for example, raising the annual deductible to $2,500, increasing cost sharing for all physician services, or excluding coverage for her entire respiratory system.) Premium surcharges ranged from 20 to 40 percent. The average cost of coverage quoted was $1,656/year, although price variation around this average was more than 10 to 1.

Other hypothetical applicants who were older and/or sicker than Alice fared less well. As a group, the 7 hypothetical applicants were rejected 37 percent of the time. The vast majority of coverage offers were substandard – excluding coverage for health conditions (such as asthma, cancer), entire body parts (knee, breast) or systems (circulatory); increasing cost sharing; or imposing premium surcharges.

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[3] "Cost and Availability of Health Insurance for People with Chronic Health Conditions," available at www.nahu.org/news/Index.htm, March 12, 2002. See also press release, "Addressing Availability of Coverage for the Chronically Ill Uninsured," at www.nahu.org/news/releases/03-12-2002.htm.

The study also found that the cost of individual health insurance varies substantially based on several factors. Premium surcharges imposed for health status reasons ranged from 16 percent to 110 percent. Geographic cost variation was dramatic – coverage in Miami, Florida costs twice as much or more than in any other community studied. Age rating also causes premiums to vary – applicants in their early 60s pay 3 to 4 times more for the same coverage compared to applicants in their 20s.

Finally, the study found that the content of coverage in individual market health insurance policies tends to be more limited in some respects than group coverage obtained through employers. For example, coverage for maternity benefits, prescription drugs, and mental health and substance abuse treatment tended to be limited, if available at all.

These findings suggest that many consumers in the individual health insurance market are likely to have difficulty finding coverage that is simultaneously accessible, affordable, and adequate. While most of our hypothetical applicants received multiple offers of coverage in every market, very few of those offers were unrestricted and, in several instances, the hypothetical consumers received no unrestricted offers of coverage in some markets. The data show that consumers with even mild health conditions are likely to encounter at least some coverage restrictions or premium surcharges in this market, while those with more significant health problems will face even greater barriers to obtaining coverage. Further, the study illustrates that it is difficult to predict the outcome of medical underwriting, compromising the ability of consumers to comparison shop for individual market coverage. Finally, the data demonstrate that age rating substantially raises the cost of coverage for consumers who are middle-aged or older, even if they are in perfect health, and that the design of individual market policies tends to limit access to certain benefits for all consumers.

Summary

The original study was not designed as an effort to evaluate the accessibility and affordability of individual insurance coverage for all of the uninsured; nor was it intended to provide an overall assessment of how well health insurance tax credits would work. However, the study points to the difficulty in relying on the individual health insurance market as a mechanism for expanding coverage for some of the most vulnerable among the uninsured -- in particular, those with a history of health conditions ranging from the mild to the serious. Our hope is that this study will continue to contribute to an informed policy debate about the issues raised by the individual insurance market and how to appropriately resolve them.

[4] "Cost and Availability of Health Insurance for People with Chronic Health Conditions," available at www.nahu.org/news/Index.htm, March 12, 2002. See also press release, "Addressing Availability of Coverage for the Chronically Ill Uninsured," at www.nahu.org/news/releases/03-12-2002.htm.

Attachment

Response to Analysis by the National Association of Health Underwriters

The National Association of Health Underwriters (NAHU), an organization representing independent health insurance agents and brokers, participated in the Kaiser Family Foundation/Georgetown study by collecting the original data from insurers in the individual health insurance market. On March 12, 2002, NAHU released a report vouching for the accuracy of the objective data included in the study, but reaching different conclusions based on their own analysis of the underwriting and pricing information collected.

The analysis issued by NAHU contains some valid interpretations of the original data, but other statements in the NAHU report are incorrect or incomplete. Specific points raised in the NAHU report are addressed below:

1. NAHU writes that the "vast majority" of offers made to hypothetical applicants "were affordable and not restrictive."

This statement is incorrect. The vast majority of offers made to hypothetical applicants were, in fact, restrictive (meaning that the offer included benefit limitations of some kind). Overall, the applicants received 266 offers for coverage (out of 420 applications), with 63% of the offers (167) including benefit restrictions. Three of Frank's 27 offers (11%) included benefit restrictions, the only applicant for whom a majority of the offers were not restrictive. Restrictions were included in 84% of Alice's 55 offers, 64% of Bob's 53 offers, 87% of the Crane Family's 60 offers, 53% of Denise's 34 offers, and 50% of Emily's 46 offers. The seventh applicant, Greg, received no offers for coverage.

The question of whether the premiums quoted to the hypothetical applicants were affordable is open to interpretation. It depends on the incomes and expenses of the applicants, and was beyond the scope of the original study. In its analysis, NAHU presented "average" premiums for the applicants. While the NAHU report does not describe the methodology used to arrive at these figures -- which differ from the average premiums presented in the original study -- it appears that they are calculated as an average of the lowest prices offered to each applicant in each geographic market for unrestricted coverage. These figures differ substantially in some cases from the overall average premiums cited in the original report.

The premiums associated with each offer of coverage are included in the original report. Average annual premiums for those applicants who received any offers of coverage were as follows: $1,656 for Alice, $1,764 for Bob, $5,460 for the Crane Family, $3,912 for Denise, $4,056 for Emily, and $9,936 for Frank.

2. NAHU states that "all but one of the fictitious applicants (with the exception of the HIV positive patient) received at least one offer in each market…" Their report notes that Alice received unrestricted coverage offers in 5 markets and the Cranes in 4 markets, while Bob, Denise, Emily, and Frank received offers with no restrictions in all 8 markets studied.

The NAHU analysis does not mention that these unrestricted offers were the exception, not the rule. The majority of applications by every applicant in almost every market either resulted in an offer with coverage restrictions or a rejection.[5]

Additionally, had the hypothetical applicants been real people, they might have had problems identifying the one or two carriers in any market willing to offer unrestricted coverage. Comparison-shopping in the individual market is hampered because the results of medical underwriting cannot be predicted in advance.[6] The only way to know the outcome is to apply. Once one has applied, unfavorable outcomes typically must be reported on subsequent applications and may be entered into an industry-wide database known as the Medical Information Bureau (MIB), making a trial-by-error approach to shopping somewhat risky. In addition, applying for multiple policies simultaneously, as our hypothetical consumers did, is impractical as well. Real consumers generally must submit a payment of one month's premium with each application.

3. NAHU says: "Not all applicants who had 'riders' would face much higher costs." As an example, they point to Alice, who received 20 offers of insurance that excluded coverage for her allergies (often called a "rider"). NAHU estimates the likely financial impact of such an exclusion rider for Alice to be $31/month – reflecting the cost of allergy pills and shots. When this cost is added to the lowest premium Alice was quoted for this restricted coverage, NAHU argues that the resulting expense could be less than the premium for a plan with unrestricted coverage.

NAHU's point is an important one -- that consumers should consider not only the premium they must pay, but also the out-of-pocket costs they may be required to pay for services under a given insurance plan. However, the NAHU report presents only Alice's case as an example of this issue, and the benefit restrictions she received in the study were likely among the least costly. Other examples include:

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[5] Only one consumer in one market (Bob in Fresno) had a majority of applications result in clean offers. Using NAHU's broader measure of "unrestricted offers" (that is, either clean offers, or offers in which a premium rate-up but no other coverage restriction was imposed) two other exceptions can be counted: Bob received a majority (4) of unrestricted offers from his 7 applications in Winamac. Frank received a majority (4) of unrestricted offers from his 8 applications in Chicago (Arlington Heights). Bob's average premium for unrestricted coverage was $137/month in Fresno and $127/month in Winamac. Frank's average premium for unrestricted coverage in Chicago was $942/month.

[6] In the course of a conference call on January 24, 2001 between the study authors and NAHU agents who collected the original data, the agents expressed surprise at the responses received by some hypothetical applicants.

Rider asthma (44 offers)
Rider knee (33 offers)
Rider breast/implants/all cancer (10 offers)
Rider all mental/nervous disorders (7 offers)
Rider upper respiratory system (6 offers)
Rider circulatory system (3 offers)
Exclude coverage for 12-year-old son (9 offers)
Increase annual deductible to $2,500 for all services (4 offers)
Increased cost sharing for all physician office visits (35 offers)
Increased cost sharing for all prescription drugs (8 offers)

4. NAHU says that "almost all of the applicants would have faced vastly higher health insurance costs" in states that prohibit medical underwriting for individual health insurance and require guaranteed access and community rating. They point to a community-rated premium of $1,801 per month in New Jersey as an example.

In making this statement, NAHU appears to use as a reference plan one indemnity policy in New Jersey (a state that requires guaranteed issue and community rating) that costs $1,801/month for a single individual. In fact, other HMO coverage is available in New Jersey at far lower premiums and virtually all participants in the New Jersey individual market purchase HMO coverage. When the original study data were collected in October 2000, the least expensive HMO policy in New Jersey was sold for $245/month ($733 for a family).

To illustrate what might happen in a more tightly regulated insurance market, the original study presented premiums for Albany, New York, a market regulated much like New Jersey. The least expensive policy available in Albany at that time cost $248/month for an individual ($733 for a family). Unlike in medically underwritten markets, consumers can reliably price-shop for coverage in New York and New Jersey where all policies cover standardized benefits and no consumer can be turned down, charged more, or have coverage limited due to their health status, age, or other factors.[7]

As the original report noted, however, there are tradeoffs involved in requiring guaranteed access to coverage and community rating as in New York or New Jersey. The average annual premium in Albany for single applicants ($4,104) was in fact somewhat higher than the average premium quoted to the hypothetical single applicants in other markets ($3,996), and substantially higher than what the applicants would have paid elsewhere had they been in perfect health ($2,988). In most instances, however, the underwritten coverage was less comprehensive and imposed restrictions such as exclusion riders (which are not permitted in New York and New Jersey) (see Table 1).

[7] The community rated premiums for all health insurance in New York are published monthly by the state insurance department and can be obtained easily on the Internet at www.ins.state.ny.us/ihmoindx.htm. Current community rated premiums for all health insurance in New Jersey are also available on the Internet at www.state.nj.us/dobi/ihcrates.htm.

Table 1
Comparison of Experiences in Underwritten Markets vs.
Albany, New York

Applicant	Total offers in underwritten markets (60 applications)	# underwritten offers less expensive than best Albany price ($245/$745)	# underwritten offers less expensive and no more restrictive than in Albany	Comments
Alice (24, hay fever)	55	50	9	Maternity coverage standard in Albany, not in underwritten markets
Bob (36, knee)	53	48	17	No policies offered in Miami were less expensive and no more restrictive compared to Albany
Crane Family (36, son has asthma)	60	56	8	No policies offered in Austin, Miami, or Richmond were less expensive and no more restrictive compared to Albany
Denise (48, cancer survivor)	34	15	8	No policies offered in Chicago or Miami were less expensive and no more restrictive compared to Albany
Emily (54, depression)	46	14	12	No policies offered in Chicago or Miami were less expensive and no more restrictive compared to Albany
Frank (62, hypertension)	27	1	1	No policies offered in Chicago, Corning, Fresno, Miami, Richmond, Tucson, or Winamac were less expensive and no more restrictive compared to Albany
Greg (36, HIV)	0	0	0	No policies offered at all
% of all offers/all applicants	100%	67%	20%	