



SNAPSHOT
Health Insurance:
Can Californians Afford It?

2005

Introduction

Spending on health care represents more than 15 percent of the U.S. economy and is higher than virtually any industrialized nation. These high costs hamper our ability to compete in global markets, raise the costs of consumer goods, and strain public sector budgets.

While it's important to consider the impact of rising costs on our economy at large, it's equally important to understand how rising costs affect the lives of individual consumers, households, and businesses. How affordable is health insurance for California's businesses and workers? And how well is health insurance providing the financial protection it is supposed to assure?

To help answer these questions, this snapshot focuses on two insurance markets—individual and small business—where the greatest number of currently uninsured Californians would get their insurance, if they thought they could afford it. Using recent data on products and premiums, this snapshot shows how insurance premiums and out-of-pocket expenses stack up to Californians' total household spending and reveals how these costs compare to hourly wages. The report shows that:

- Total health insurance premiums represent a quarter to nearly half of wages for workers who earn the minimum wage, pricing many low-wage workers and their employers out of the market.
- Even lower-priced products available in California can cost \$1.62 per hour worked, or 11 percent of the state's median wage.
- The annual costs of care and coverage for a chronically ill individual can be as much as \$11,500—nearly a quarter of average household spending.

Of course, what is affordable to one Californian may not be to another. While insurance is, to some degree, a matter of choice, these numbers show that it's a choice many Californians struggle to afford.

Affordability

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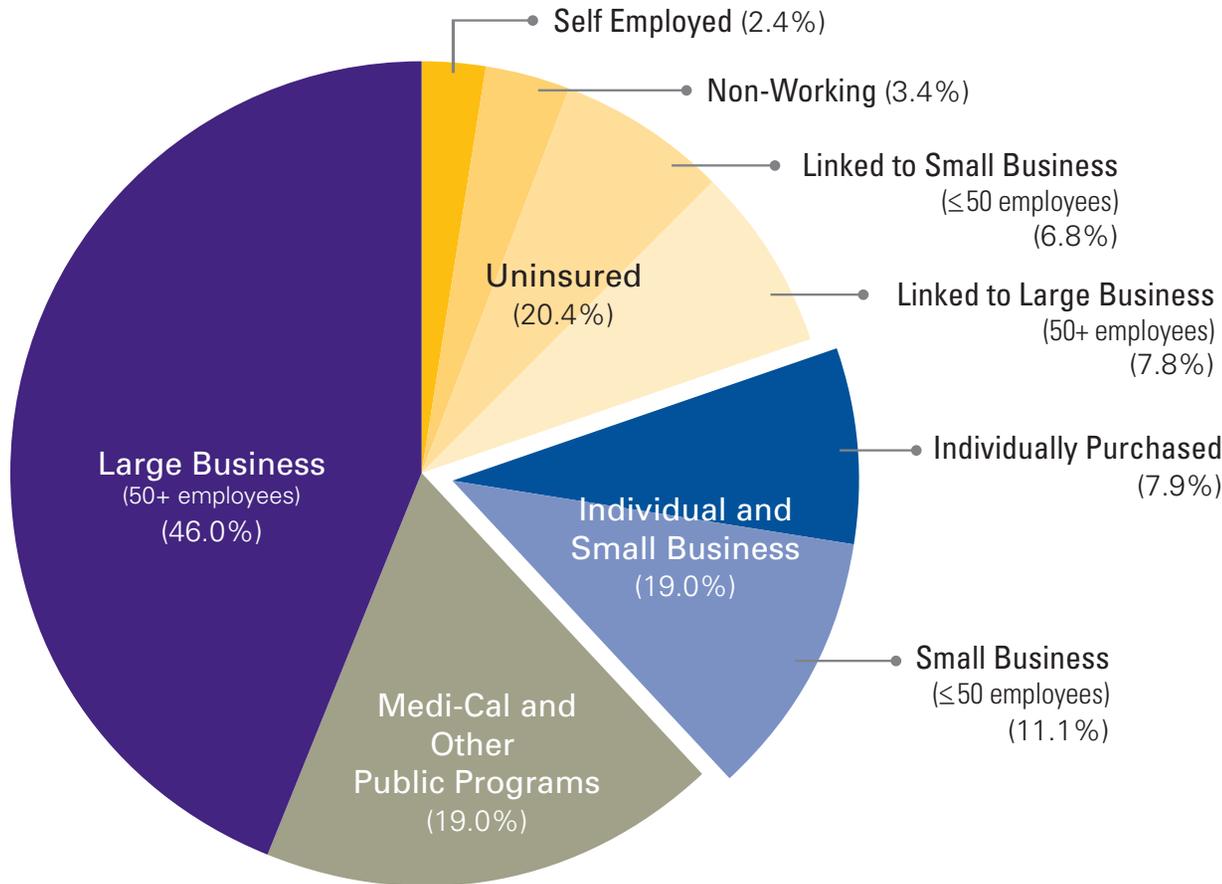
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Health Insurance Sources, Non-Elderly, 2003



Note: Pie does not add to 100 percent because respondents may have more than one source of insurance.

Source: Employee Benefit Research Institute estimates of the Current Population Survey, March 2004 Supplement.

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OVERVIEW

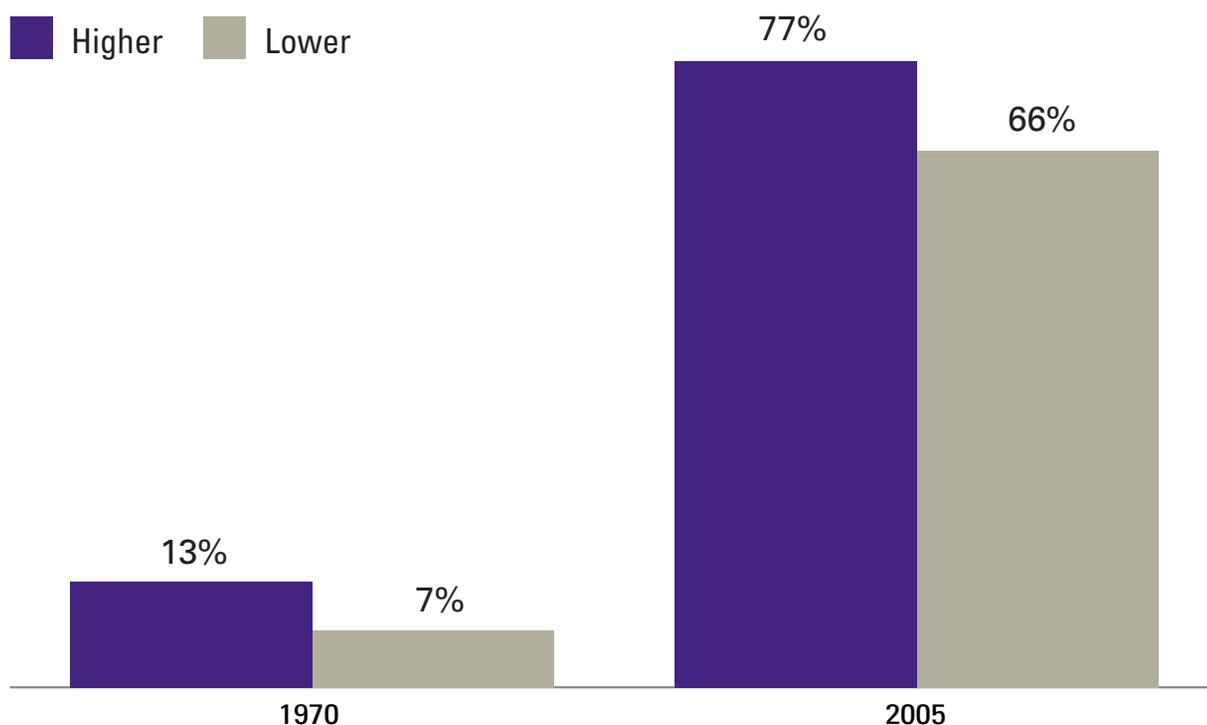
One in five Californians is insured through the small group and individual markets.

For many of California's uninsured, these markets are the primary avenues for obtaining coverage.

Total Family Health Insurance Premium as a Percent of Minimum Wage Earnings, 1970 vs. 2005

Blue Cross/Blue Shield Options

Higher Lower



Notes: Figures reflect monthly Federal Employees Health Benefits (FEHBP) total family premium (employer and employee contributions combined) for the government-wide Blue Cross/Blue Shield options and minimum wage earnings for full-time work in California as defined in Background and Methodology on page 18. The hourly minimum wage was \$1.65 in 1970; it is currently \$6.75.

Source: U.S. Office of Personnel Management; U.S. General Accounting Office Staff Paper, "Information on 1976 Health Insurance Premium Rate Increases for Federal Employees Health Benefits Program."

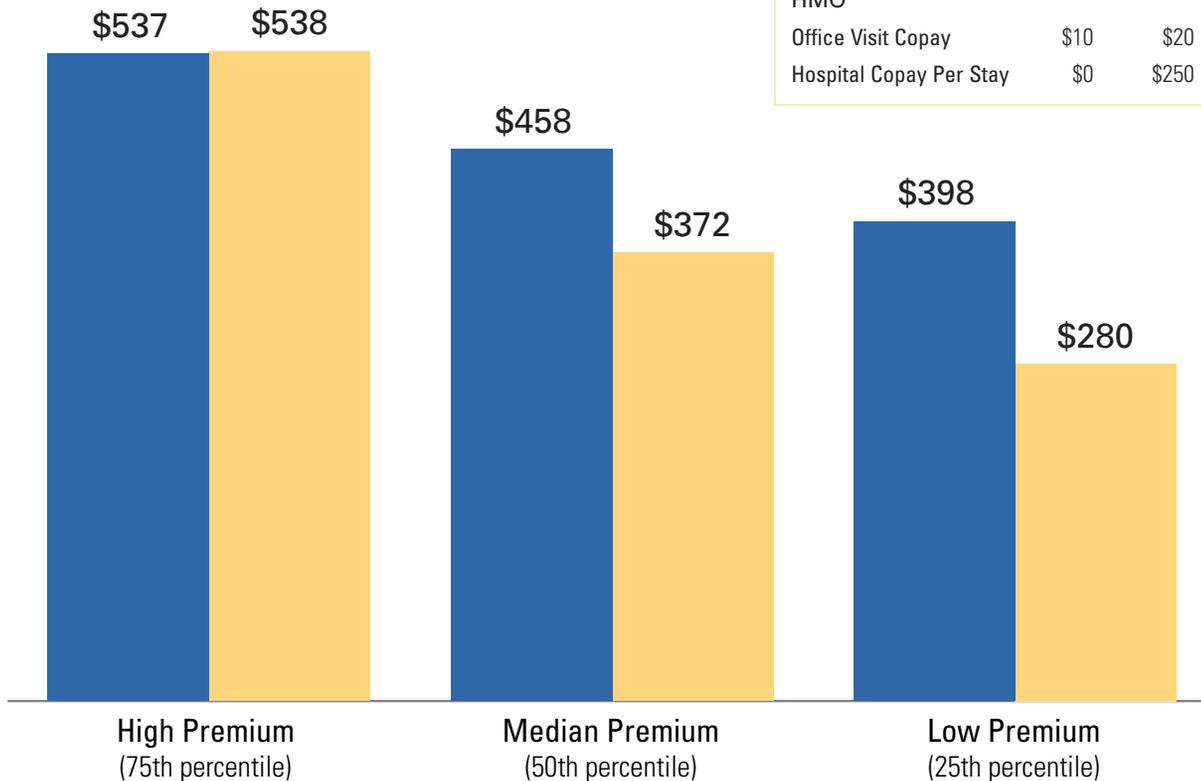
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OVERVIEW

Health care cost increases have so outpaced wage growth that family premiums for a federal employee would now consume between two-thirds and three-quarters of full-time, minimum-wage earnings.

Monthly Premiums Per Employee, 2005

■ HMO ■ PPO



Summary of Small Group Benefits

	High	Median	Low
PPO			
Deductible	\$250	\$500	\$1,500
Coinsurance	20%	20%	30%
Out-of-Pocket Maximum	\$3,000	\$3,000	\$5,000
HMO			
Office Visit Copay	\$10	\$20	\$25
Hospital Copay Per Stay	\$0	\$250	\$1,000

Affordability

SMALL GROUP
COVERAGE

> GEOGRAPHIC DETAIL

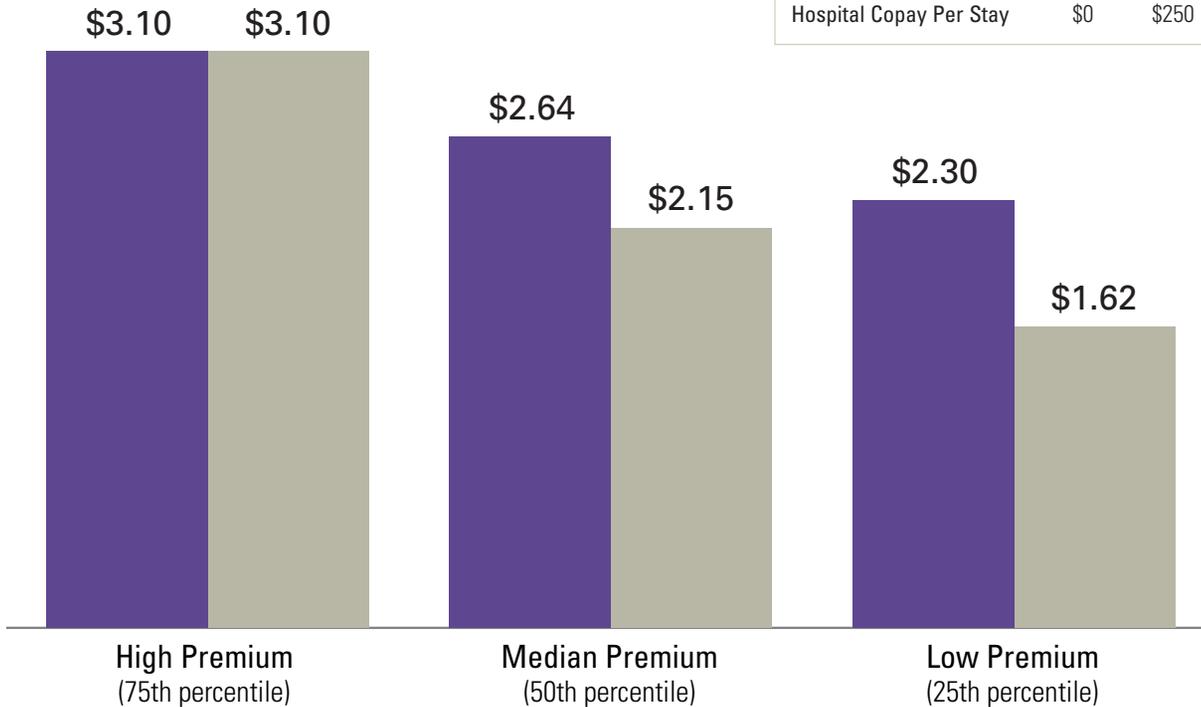
Small businesses are offered products across a range of premiums. Reflecting variation in benefit levels, premiums for PPO products vary more than those for HMO products.

Note: Premiums reflect total cost (employer and employee contributions combined) for a group with average age 40 and 0.8 dependents per employee. Data represent the California average of six geographic areas, presented on page 14. For more detail, see Background and Methodology on page 18.

Source: CHCF Small Group and Individual Insurance Market Tracking Study, 2005.

Premiums Per Employee as Dollars Per Hour Worked, 2005

■ HMO ■ PPO



Summary of Small Group Benefits			
	High	Median	Low
PPO			
Deductible	\$250	\$500	\$1,500
Coinsurance	20%	20%	30%
Out-of-Pocket Maximum	\$3,000	\$3,000	\$5,000
HMO			
Office Visit Copay	\$10	\$20	\$25
Hospital Copay Per Stay	\$0	\$250	\$1,000

Note: Premiums reflect total cost (employer and employee contributions combined) for a group with average age 40 and 0.8 dependents per employee. Data represent the California average of six geographic areas, detail presented on page 15. Based on full-time work defined in Background and Methodology on page 18.

Source: CHCF Small Group and Individual Insurance Market Tracking Study, 2005.

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SMALL GROUP
COVERAGE

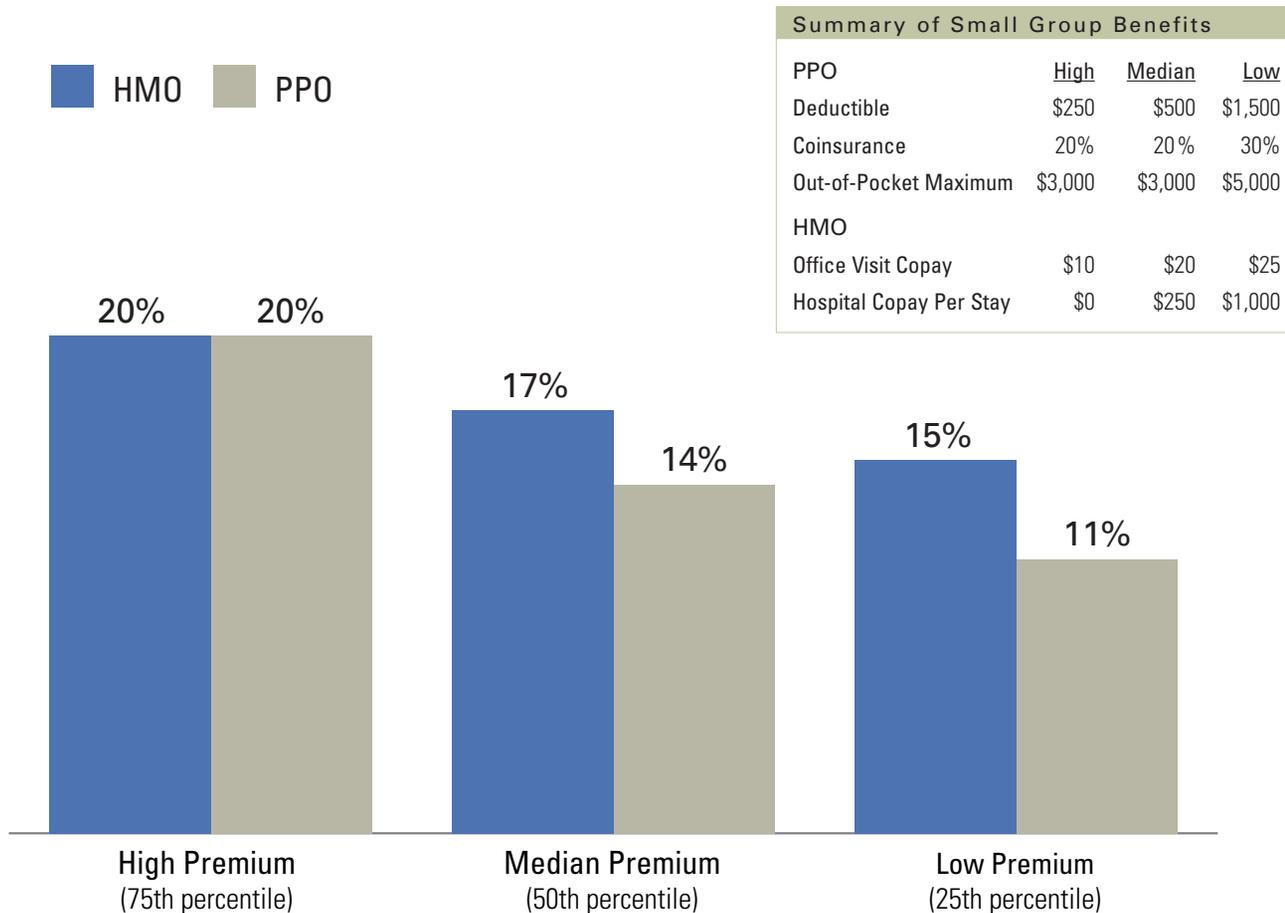
> GEOGRAPHIC DETAIL

For full-time workers, total premiums, typically shared by employer and employee, translate to \$1.62 to \$3.10 per hour worked. Premium costs force employers to make trade-offs among coverage, wages, and other benefits.

Premiums Per Employee as Share of Median Hourly Wages, 2005

Affordability SMALL GROUP COVERAGE

Premiums can account for as much as 20% of median full-time wages for California workers.



Summary of Small Group Benefits			
	High	Median	Low
PPO			
Deductible	\$250	\$500	\$1,500
Coinsurance	20%	20%	30%
Out-of-Pocket Maximum	\$3,000	\$3,000	\$5,000
HMO			
Office Visit Copay	\$10	\$20	\$25
Hospital Copay Per Stay	\$0	\$250	\$1,000

Notes: Premiums reflect total cost (employer and employee contributions combined) for a group with average age 40 and 0.8 dependents per employee. For more detail see Background and Methodology on page 18.

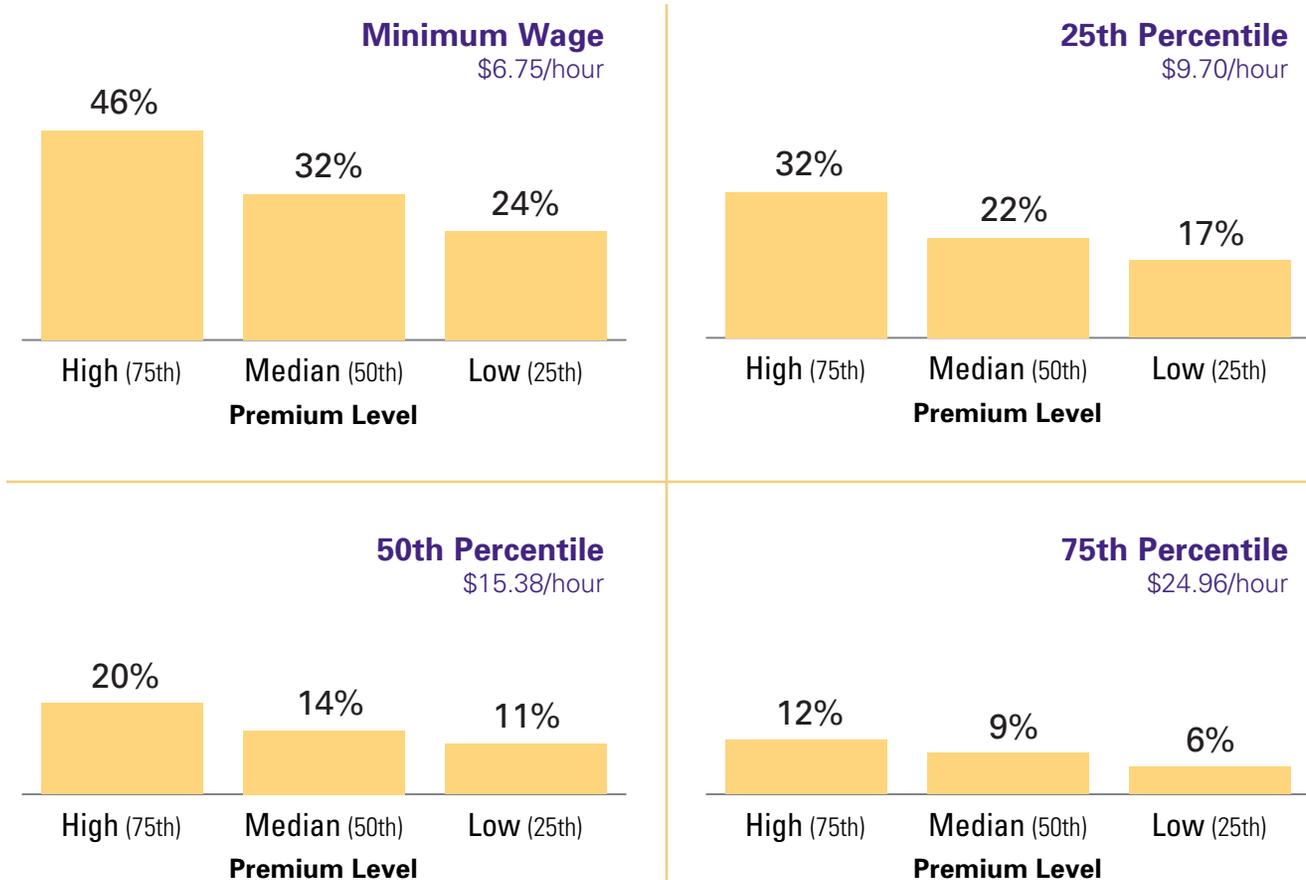
Sources: CHCF Small Group and Individual Insurance Market Tracking Study, 2005. Wage data from California Employment Development Department (EDD), Occupational Employment Statistics Survey 2004, 3rd Quarter.

PPO Premiums Per Employee as Share of Various Hourly Wage Levels, 2005

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SMALL GROUP
COVERAGE

> GEOGRAPHIC DETAIL



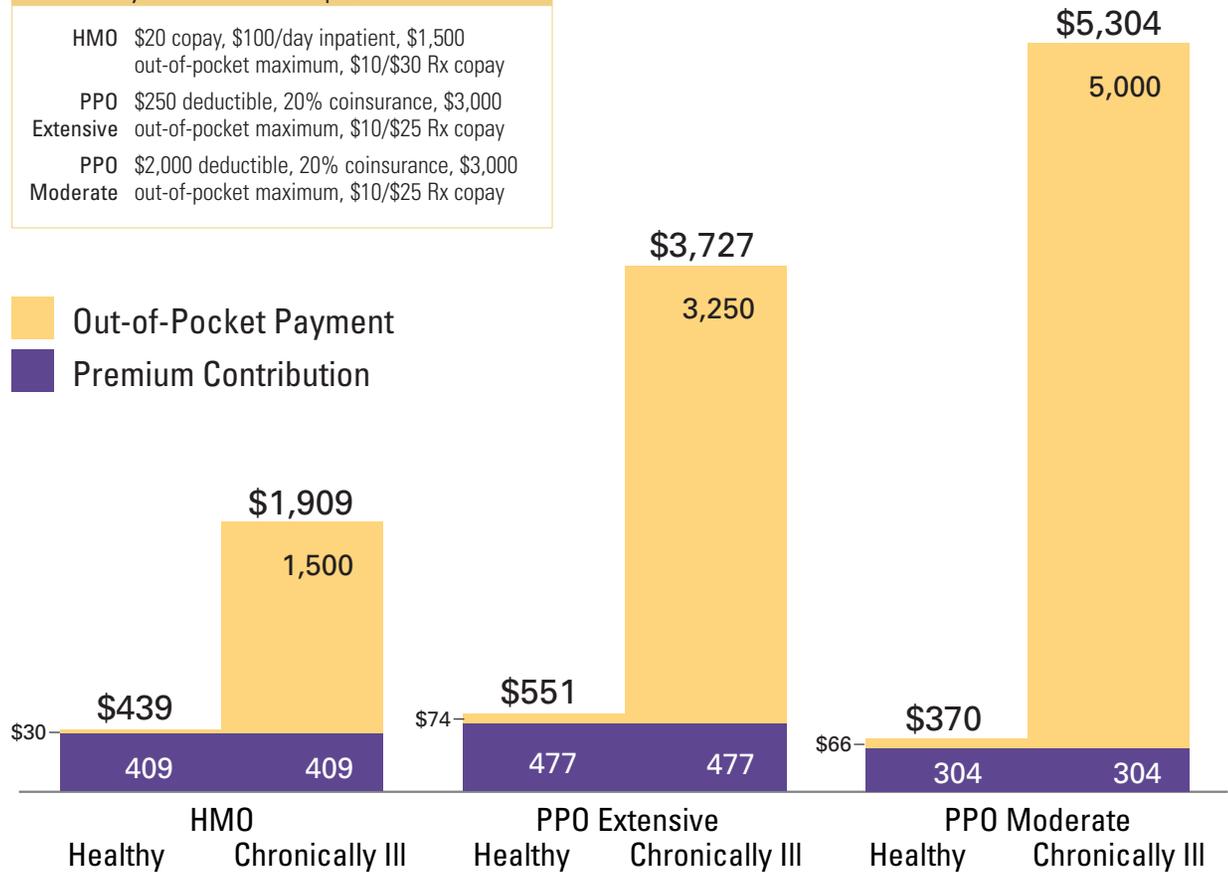
Premiums represent a greater share of wages for low-wage earners. For minimum-wage workers in high-premium plans, premiums are equivalent to 46% of full-time wages.

Notes: Premiums reflect total cost (employer and employee contributions combined) for a group with average age 40 and 0.8 dependents per employee. Data represent the California average of six geographic areas, presented on page 16. Percentages based on full-time work. For more detail, see Background and Methodology on page 18.

Sources: CHCF Small Group and Individual Insurance Market Tracking Study, 2005. Wage data from California Employment Development Department (EDD), Occupational Employment Statistics Survey 2004, 3rd Quarter.

Premium Contribution and Out-of-Pocket Costs Per Employee, 2005

Summary of Small Group Benefits	
HMO	\$20 copay, \$100/day inpatient, \$1,500 out-of-pocket maximum, \$10/\$30 Rx copay
PPO Extensive	\$250 deductible, 20% coinsurance, \$3,000 out-of-pocket maximum, \$10/\$25 Rx copay
PPO Moderate	\$2,000 deductible, 20% coinsurance, \$3,000 out-of-pocket maximum, \$10/\$25 Rx copay



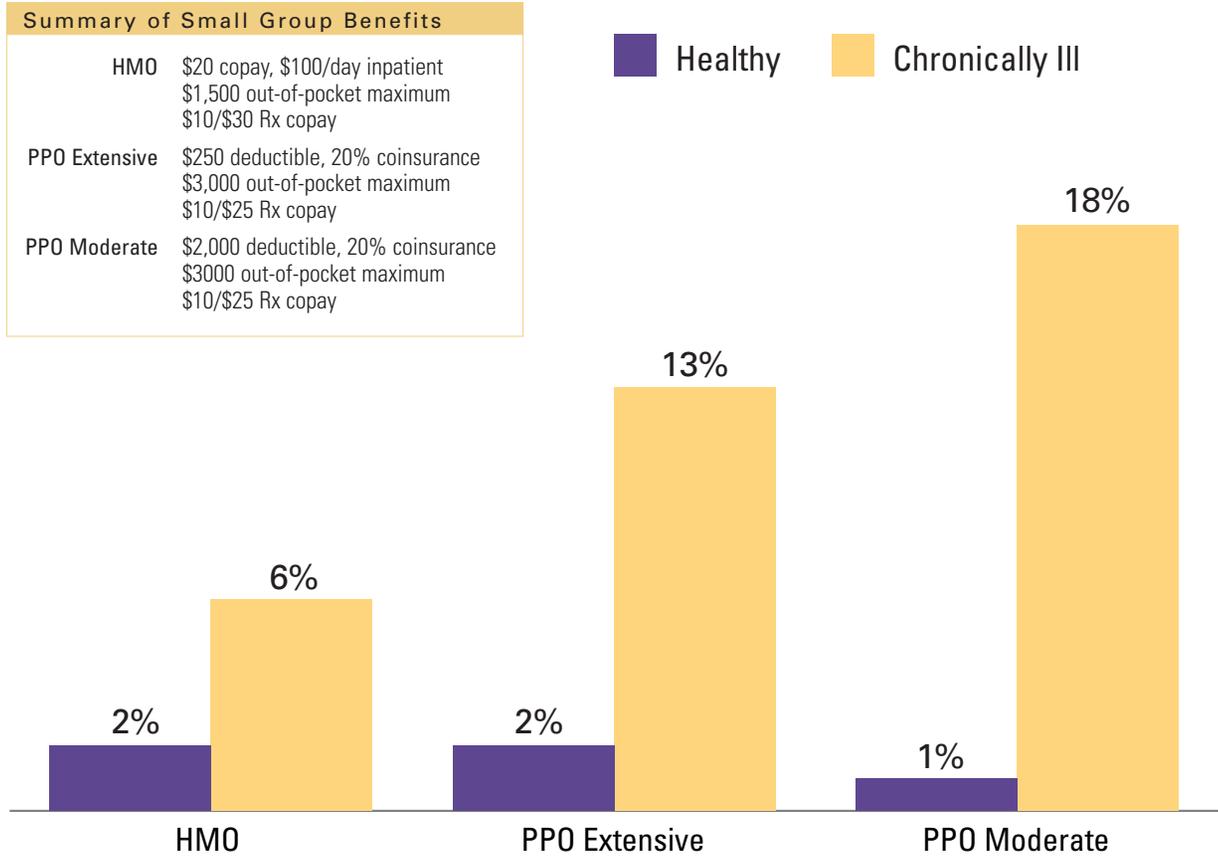
Notes: Employee premium contribution of 13 percent reflects average for a single California worker. For more detail on “healthy” and “chronically ill” consumers profiled, see Background and Methodology on page 18.

Sources: CHCF Small Group and Individual Insurance Market Tracking Study, 2005. Premium contribution data from CHCF/HRET California Health Benefit Survey, 2004.

Affordability SMALL GROUP COVERAGE

Worker costs vary depending on coverage level and the number of services used. Even with insurance, a chronically ill worker may incur more than \$5,000 in annual costs, including premium contribution, deductibles, and coinsurance.

Income Devoted to Premium and Out-of-Pocket Costs Per Employee, 2005



Affordability

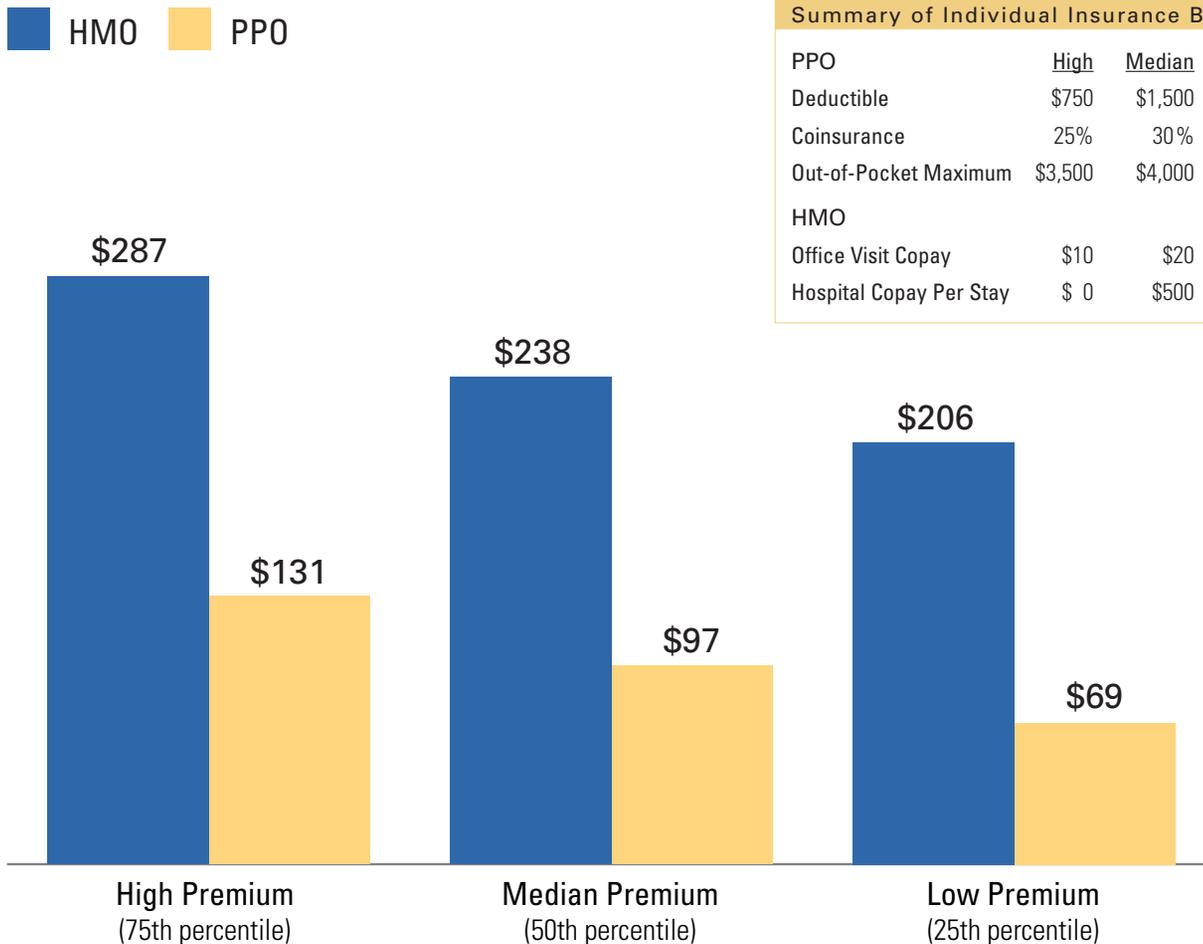
SMALL GROUP
COVERAGE

Depending on covered benefits, a chronically ill worker would spend between 6% and 18% of per capita income on health care and coverage.

Notes: Based on 2003 California per capita disposable personal income of \$29,458. "Disposable" income is total personal income less income and property taxes. For more detail, see Background and Methodology on page 18.

Source: CHCF Small Group and Individual Market Tracking Study, 2005. Income data from U.S. Bureau of Economic Analysis (BEA).

Monthly Premiums for a 32-Year Old, 2005



	High	Median	Low
PPO			
Deductible	\$750	\$1,500	\$3,000
Coinsurance	25%	30%	30%
Out-of-Pocket Maximum	\$3,500	\$4,000	\$5,000
HMO			
Office Visit Copay	\$10	\$20	\$30
Hospital Copay Per Stay	\$ 0	\$500	\$1,000

Notes: In the individual market, applicants may be denied coverage or charged higher rates based on health status or risk factors. For more information, see Rules Governing California's Individual Insurance Market, April 2005 at www.chcf.org. Because premiums in the individual market are age-rated, a healthy 52-year-old with the same coverage would pay premiums two to three times the amounts shown here. Data represent the California average of six geographic areas, presented on page 17. For more detail, see Background and Methodology on page 18.

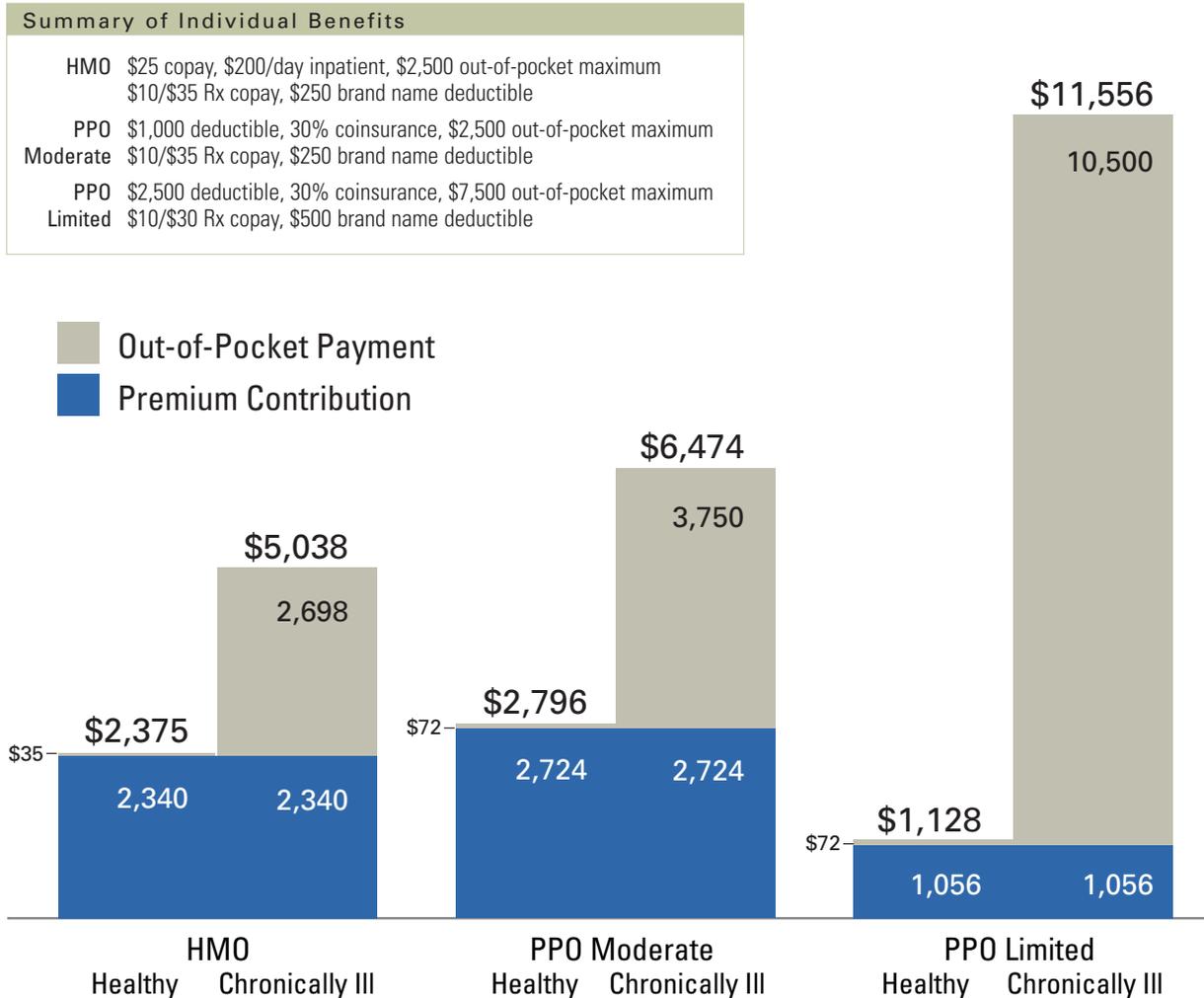
Source: CHCF Small Group and Individual Market Tracking Study, 2005.

Affordability INDIVIDUAL COVERAGE

> GEOGRAPHIC DETAIL

In the individual market, because benefits and cost-sharing requirements vary greatly, premiums range from \$69 to \$287 for a healthy 32-year old.

Premium and Out-of-Pocket Costs, 2005



Note: Annual premiums reflect a 32-year-old purchaser in the California individual market. For detail on “healthy” and “chronically ill” consumers profiled, see Background and Methodology on page 18.

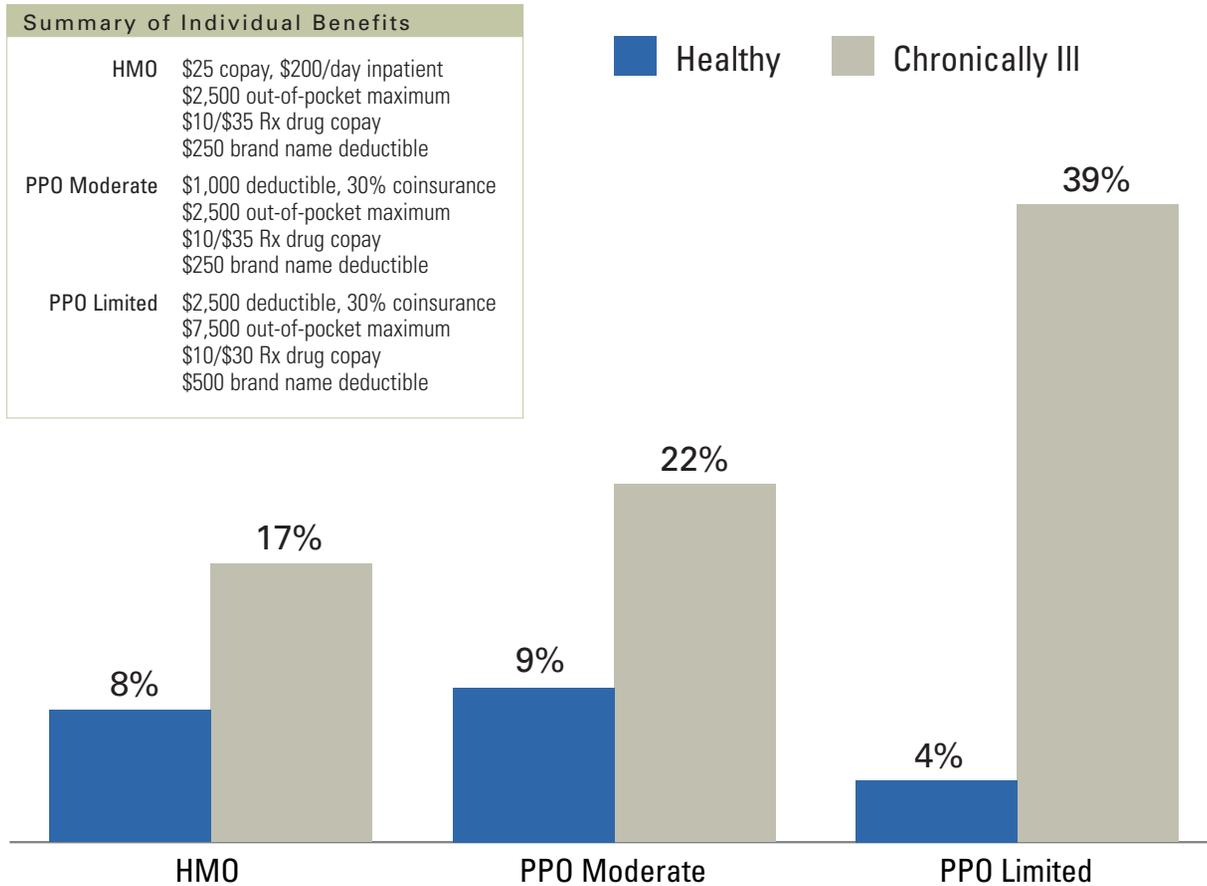
Source: CHCF Small Group and Individual Insurance Market Tracking Study, 2005.

Affordability

INDIVIDUAL COVERAGE

Individual purchasers pay all of their premium and typically pay more at the time of service. An insured, chronically ill individual could incur total annual costs of over \$11,500.

Income Devoted to Premium and Out-of-Pocket Costs, 2005



Notes: Based on 2003 California per capita disposable personal income of \$29,458. “Disposable” income is total personal income less income and property taxes. Annual premiums reflect a 32-year-old purchaser in the California individual market. For detail on “healthy” and “chronically ill” consumers profiled, see Background and Methodology on page 18.

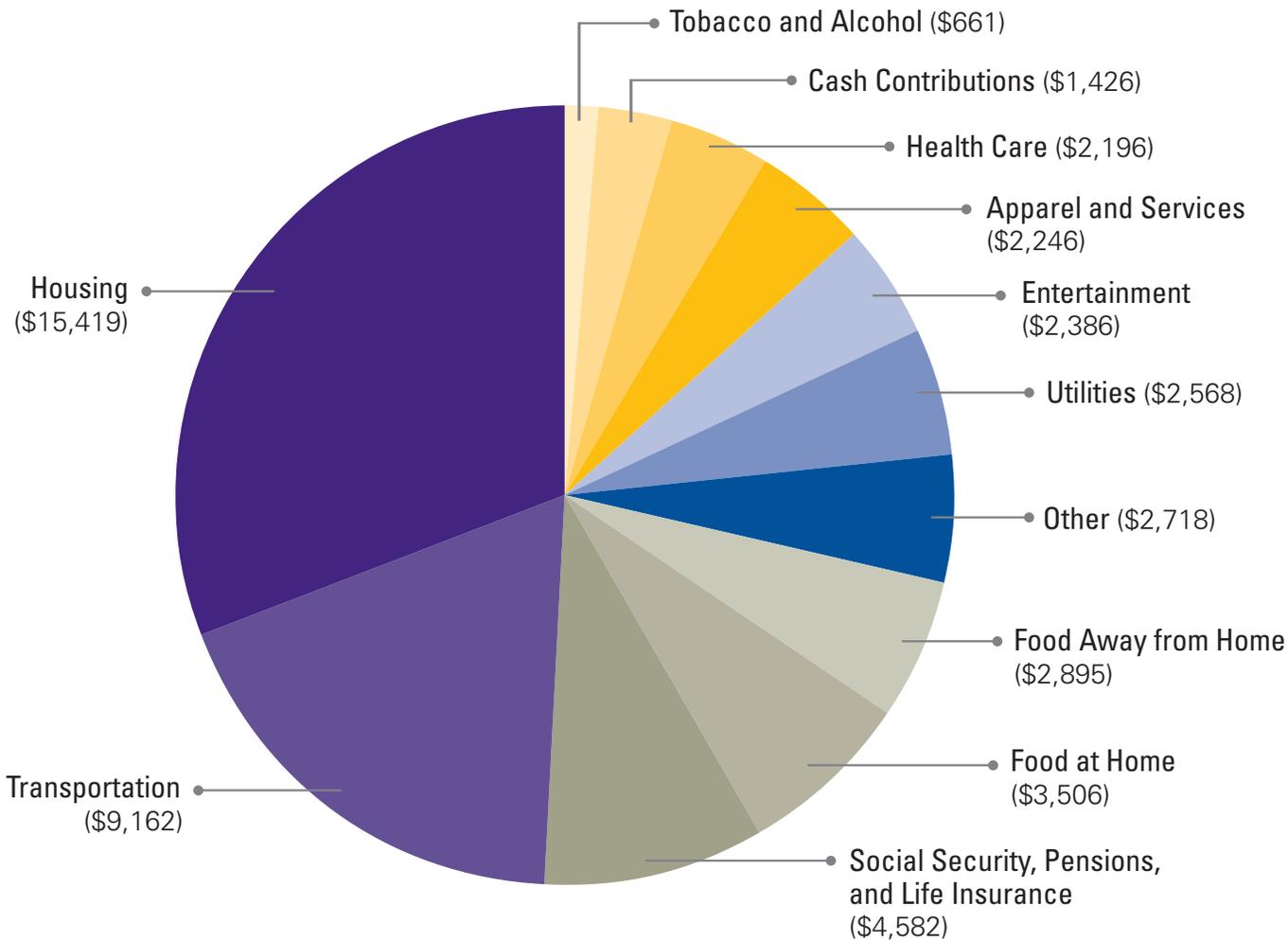
Source: CHCF Small Group and Individual Insurance Market Tracking Study, 2005. Income data from U.S. Bureau of Economic Analysis (BEA).

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INDIVIDUAL COVERAGE

Whether healthy or ill, the costs of health insurance and care represent a significant proportion of per capita income for individual purchasers.

Average Household Budget, 2002–2003



Notes: Data for Los Angeles Metropolitan Statistical Area are shown. “Housing” includes shelter (which makes up approximately two-thirds of the category) plus household operations, supplies, furnishings, and equipment. “Health Care” includes both insurance premiums and out-of-pocket costs. “Other” includes education, reading, and personal care products and services.

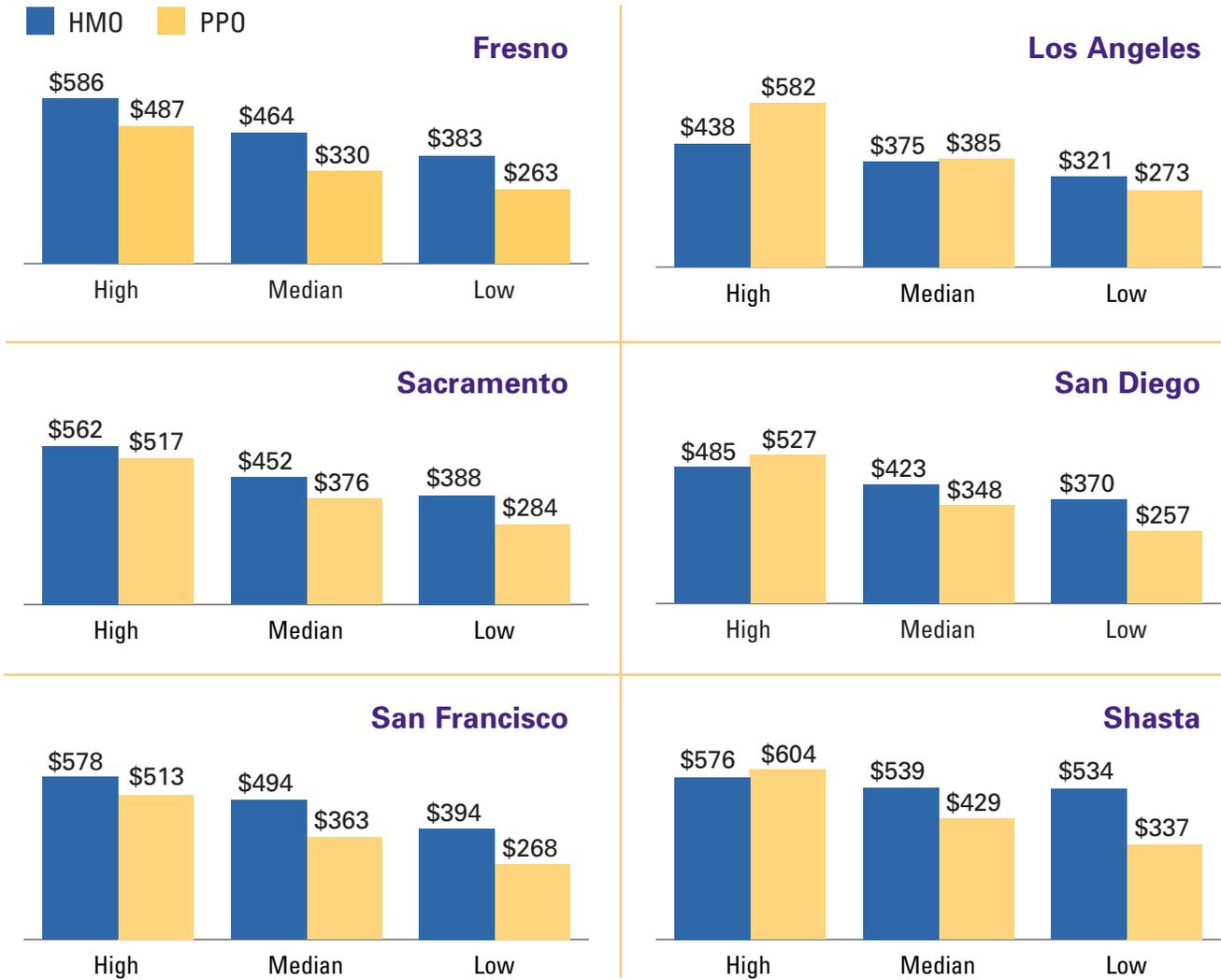
Source: Bureau of Labor Statistics, Consumer Expenditure Survey (CEX), 2002–2003.

Affordability

BUDGET COMPARISON

On average, California households spend \$49,765 annually. The greatest share goes for necessities such as housing, transportation, and food. If serious health problems arise, would \$5,000 to \$11,500 for coverage and care be available?

Monthly Premiums Per Employee, 2005



Note: Premiums reflect an average age of 40 and .8 dependents per employee. Assumes full-time work.

Source: CHCF Small Group and Individual Insurance Market Tracking Study, 2005.

Affordability

GEOGRAPHIC DETAIL
SMALL GROUP (SLIDE 4)

> STATE AVERAGE

Benefits Summary

High Premium (75th percentile)

PPO	
Deductible	\$250
Coinsurance	20%
Out-of-Pocket Maximum	\$3,000

HMO	
Office Visit Copay	\$10
Hospital Copay Per Stay	\$0

Median Premium (50th percentile)

PPO	
Deductible	\$500
Coinsurance	20%
Out-of-Pocket Maximum	\$3,000

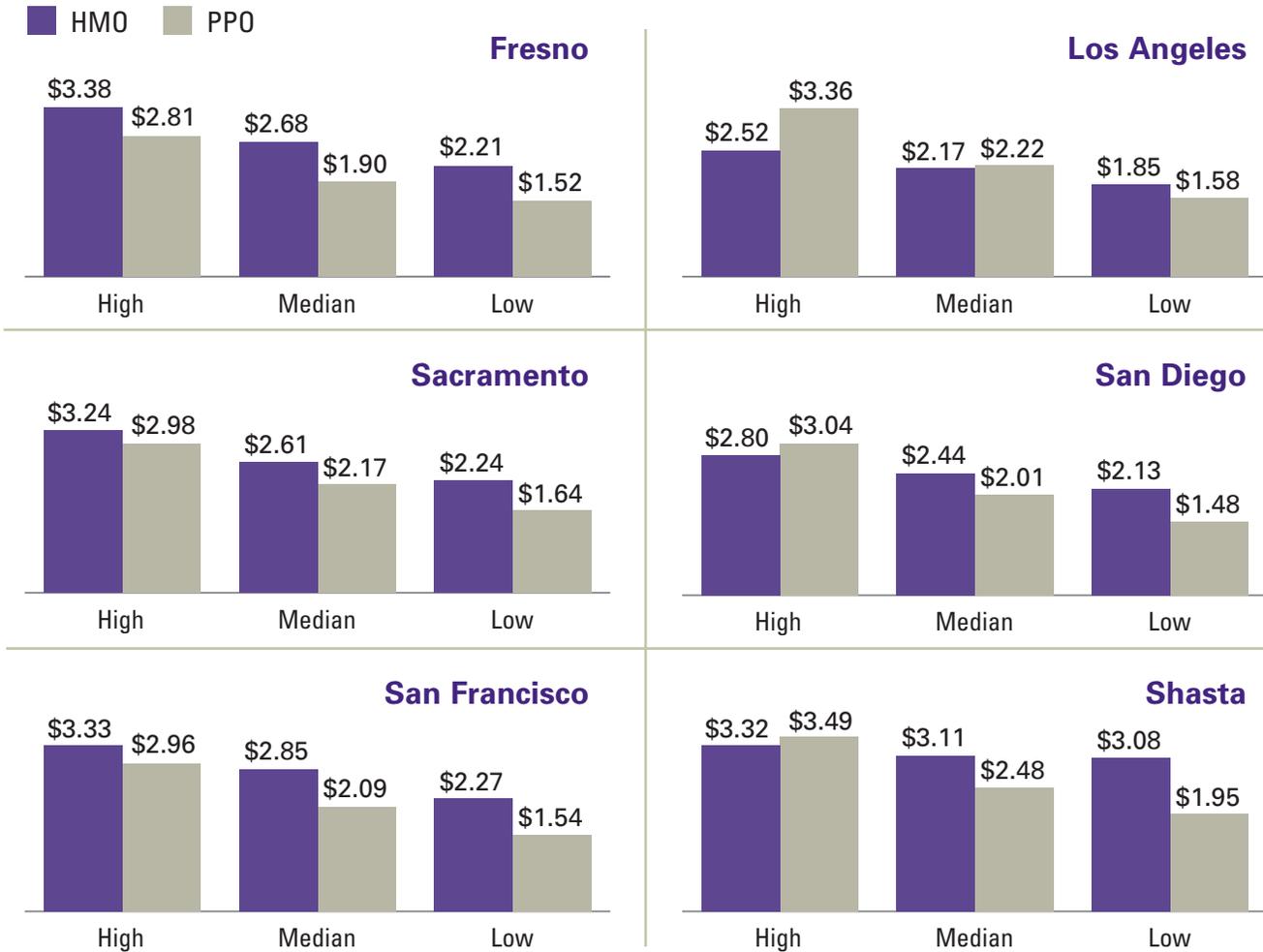
HMO	
Office Visit Copay	\$20
Hospital Copay Per Stay	\$250

Low Premium (25th percentile)

PPO	
Deductible	\$1,500
Coinsurance	30%
Out-of-Pocket Maximum	\$5,000

HMO	
Office Visit Copay	\$25
Hospital Copay Per Stay	\$1,000

Premiums Per Employee as Dollars Per Hour Worked, 2005



Note: Premiums reflect an average age of 40 and .8 dependents per employee. Assumes full-time work.

Source: CHCF Small Group and Individual Insurance Market Tracking Study, 2005.

Affordability

GEOGRAPHIC DETAIL
SMALL GROUP (SLIDE 5)

> STATE AVERAGE

Benefits Summary

High Premium (75th percentile)

PPO

Deductible	\$250
Coinsurance	20%
Out-of-Pocket Maximum	\$3,000

HMO

Office Visit Copay	\$10
Hospital Copay Per Stay	\$0

Median Premium (50th percentile)

PPO

Deductible	\$500
Coinsurance	20%
Out-of-Pocket Maximum	\$3,000

HMO

Office Visit Copay	\$20
Hospital Copay Per Stay	\$250

Low Premium (25th percentile)

PPO

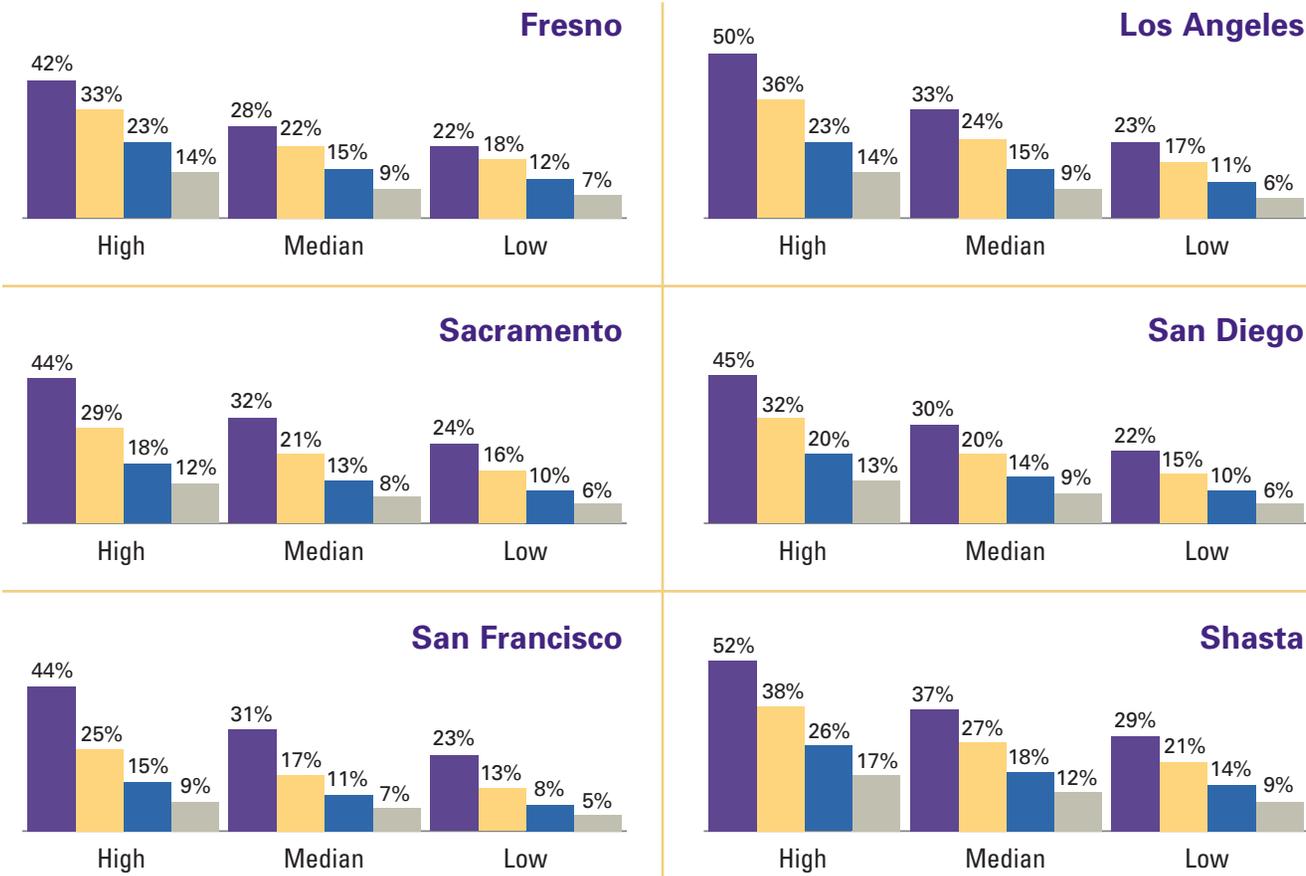
Deductible	\$1,500
Coinsurance	30%
Out-of-Pocket Maximum	\$5,000

HMO

Office Visit Copay	\$25
Hospital Copay Per Stay	\$1,000

PPO Premiums Per Employee as Share of Various Hourly Wage Levels, 2005

■ California Minimum Wage ■ 25th Percentile ■ 50th Percentile ■ 75th Percentile



Affordability

GEOGRAPHIC DETAIL
SMALL GROUP (SLIDE 7)

> STATE AVERAGE

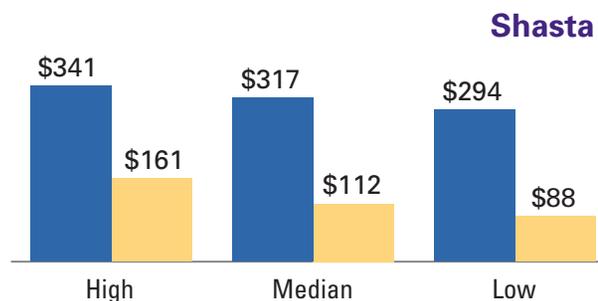
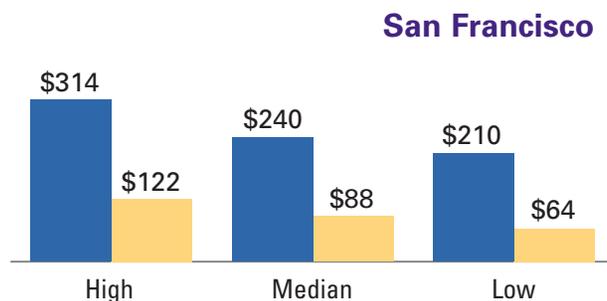
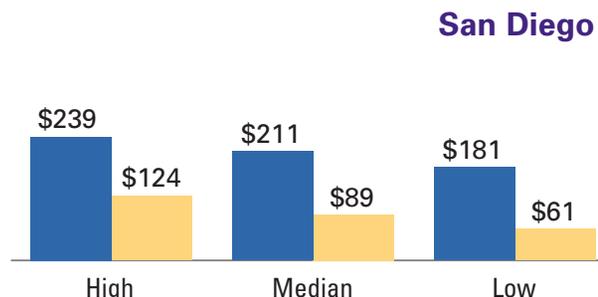
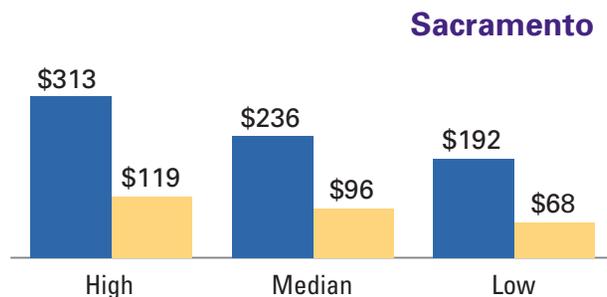
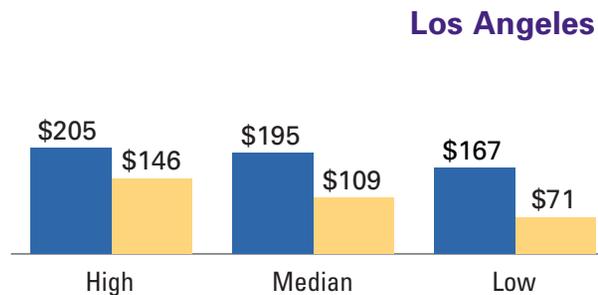
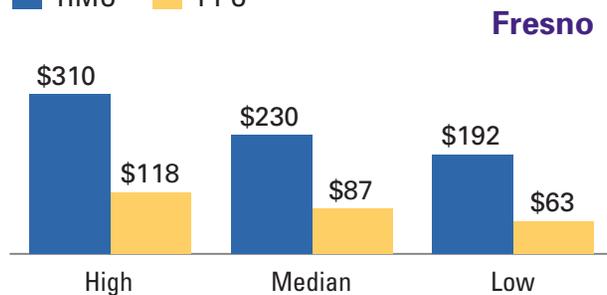
Wage Levels, by Percentile			
California Minimum Wage	\$ 6.75		
	25th	50th	75th
Fresno	\$ 8.49	\$12.48	\$20.45
Los Angeles	9.37	14.82	24.30
Sacramento	10.26	16.26	25.54
San Diego	9.56	14.87	23.55
San Francisco	12.07	19.37	31.17
Shasta	9.09	13.54	20.92

Notes: Premiums reflect an average age of 40 and 0.8 dependents per worker. Premiums per hour are divided by hourly wages. Assumes full-time work.

Sources: CHCF Small Group and Individual Insurance Market Tracking Study, 2005; California Employment and Development Department (EDD), Occupational Employment Statistics Survey, 2004, 3rd quarter.

Monthly Premiums for a 32-Year Old, 2005

■ HMO ■ PPO



Affordability

GEOGRAPHIC DETAIL
INDIVIDUAL (SLIDE 10)

> STATE AVERAGE

Benefits Summary

High Premium (75th percentile)

PPO	
Deductible	\$750
Coinsurance	25%
Out-of-Pocket Maximum	\$3,500

HMO	
Office Visit Copay	\$10
Hospital Copay Per Stay	\$0

Median Premium (50th percentile)

PPO	
Deductible	\$1,500
Coinsurance	30%
Out-of-Pocket Maximum	\$4,000

HMO	
Office Visit Copay	\$20
Hospital Copay Per Stay	\$500

Low Premium (25th percentile)

PPO	
Deductible	\$3,000
Coinsurance	30%
Out-of-Pocket Maximum	\$5,000

HMO	
Office Visit Copay	\$30
Hospital Copay Per Stay	\$1,000

Source: CHCF Small Group and Individual Insurance Market Tracking Study, 2005.

Background and Methodology

Background: Since 2002 CHCF has been tracking products and premiums offered in California’s small group and individual markets through its ongoing “Small Group and Individual Health Insurance Tracking Study.” Results presented here, unless otherwise noted, come from that study, conducted under contract with Milliman Inc.

Premium Data: This report is based on premium data for coverage effective January 1, 2005. Premium quotes were obtained for a hypothetical small group and a hypothetical individual for each of the six geographic areas. Small group premiums were quoted for a fictional group of five employees; the employee census had an average age of 40 and 0.8 dependents per worker. Premiums for individual insurance reflected a 32-year old individual (male or female). The quotes were obtained using an online broker. Because insurance applications and enrollments were not actually completed, it should be assumed that premiums quoted reflected no underwriting surcharges. The study examined plans for sale (the supply side of the market) rather than what employers and consumers have actually purchased (the demand side of the market). (Information about employer health insurance purchases is found in the CHCF/HRET California Employer Health Benefits Survey, 2004, available at www.chcf.org.)

Scope of the Market: The study found a wide range of plans offered in both markets. In the small group market, 13 insurers offered HMO and seven offered PPO products. A large number of products were available in every market, with the largest number (208) in San Diego and the fewest in Shasta County (85) due to the relatively few HMO offerings in this rural area. In the individual market, six insurers offered HMOs and six offered PPOs. Los Angeles had the largest number (77) of individual products for sale, while Shasta County had the fewest (60).

Benefit Levels: Specific benefit features are shown in the data boxes on each chart. For Charts 4, 5, 6, 7, and 10, a distribution of premiums for the full set of plan offerings allowed researchers to identify premiums at the 25th, median, and 75th percentile level. The benefits associated with these premiums do not reflect a single actual product, but are typical of the benefits available for products priced close to that premium level. For Charts 8, 9, 11 and 12, specific benefit plans representative of the options currently available in California’s small group and individual market were established, including two PPO products and one HMO product in each market segment. Reflecting the generally more limited benefits and higher cost sharing that characterize individual market offerings as compared to the small group market, the PPOs in the individual market are labeled “moderate” and “limited,”

Background and Methodology, continued

whereas the PPOs in the small group market are “extensive” and “moderate.”

Consumer Profiles: The study research team established five consumer profiles in order to examine how out-of-pocket costs differ depending on insurance plan benefits and health services required. Researchers could then compare the spending required of an insured person with multiple chronic diseases to the spending of an insured healthy person, as well as assess the consumer cost impact of enrolling in different plans. This publication compares costs for the lowest-cost consumer profiled, labeled “healthy,” to those for the highest-cost consumer profiled, labeled “chronically ill.” The “healthy” consumer had no chronic medical conditions and used only a few services during the year, incurring \$116 in annual allowed charges for an office visit, chest x-ray, and a single prescription for a generic antibiotic. The “chronically ill” consumer had multiple chronic conditions (diabetes, hypertension, and congestive heart failure) and incurred \$44,092 in annual allowed charges for hospitalization, surgery, multiple outpatient visits, and multiple prescriptions. Consumer out-of-pocket costs accumulated service-by-service in accordance with the benefits and features of each of the plans examined. The packages of services used and costs assigned came from Milliman data files and expert advice.

Notes on California-Wide Figures: “California” level figures for premiums (slides 4 and 10) represent a simple average of the six California counties studied (San Francisco, Sacramento, Shasta, Fresno, Los Angeles, San Diego). Unless noted, other figures reported for California, for example, wage data from the state Occupational Employment Statistics Survey (OES), represent statewide sampling and weighting. Note that the household distribution of spending (CEX data) is available for three Metropolitan Statistical Areas (MSAs) in California; Los Angeles is shown. Links to tables for two other California MSAs are provided in the Sources on page 20.

Full Time Work: Throughout the charts, full-time work is defined as 2,080 hours per year or 173.33 hours per month.

Income and Spending: Charts 9 and 12 are based on California *per capita* disposable income for 2003. Chart 13 is based on California *household* spending. Additional information about data sources and definitions is included in the chart note sections and in explanatory material referenced on page 20.

Sources

Bureau of Labor Statistics, Consumer Expenditure Survey (CEX)

- Home Page www.bls.gov/cex/home.htm
- Glossary www.bls.gov/cex/csxgloss.htm#health
- Data Tables www.bls.gov/cex/home.htm#tables
<ftp://ftp.bls.gov/pub/special.requests/ce/msa/y0203/west.txt>

California Employment Development Department (EDD), Occupational Employment Statistics Survey (OES)

- Overview of Survey [www.calmis.ca.gov/file/occup\\$/oeswages/oestechnotes.htm](http://www.calmis.ca.gov/file/occup$/oeswages/oestechnotes.htm)
- Hourly Wage Data [www.calmis.ca.gov/file/occup\\$/oes\\$.htm](http://www.calmis.ca.gov/file/occup$/oes$.htm)
- Additional Employment www.labormarketinfo.edd.ca.gov New site
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Additional Resources

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