



CALIFORNIA  
HEALTHCARE  
FOUNDATION

SNAPSHOT

# Individual Health Insurance Market

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2005

# Introduction

In 2004, approximately 6.5 million Californians were uninsured. Most are employed but work for firms that don't offer insurance. Individual insurance may be an option, but only a small fraction of consumers purchase individual insurance and purchase rates have been declining steadily for the past 15 years.

Policymakers and analysts want to expand this market, arguing that it gives consumers a greater choice of products and has the potential to reduce the number of the uninsured. However, many experts warn of inherent weaknesses in the market, including rising premiums, limited access, or higher prices for consumers in poor health. Would current policy proposals address these issues and reduce the number of uninsured?

This snapshot presents some highlights from a multi-year study of California's individual market for health insurance commissioned by CHCF and conducted by RAND. Among the questions addressed by the project are:

- Who buys individual insurance?
- How do consumers respond to price changes?

- Can only healthy people purchase individual insurance?
- Are there barriers, exclusive of price, to purchasing coverage?

Key conclusions of the project include:

- Tax credits and subsidies are intended to give low-income individuals a financial incentive to purchase insurance. However, they are likely to have only modest effects on the number of uninsured. Those making decisions about purchasing insurance are not very responsive to changes in price, and the poor and the non-poor are about equally unresponsive.
- Making it easier to get information about products and simplifying the application process could increase purchase rates as much as offering modest subsidies.

Over the long term, the viability of the individual insurance market may depend on finding ways to temper price increases.

Information on the methodology and data sources used in this study can be found on page 23.

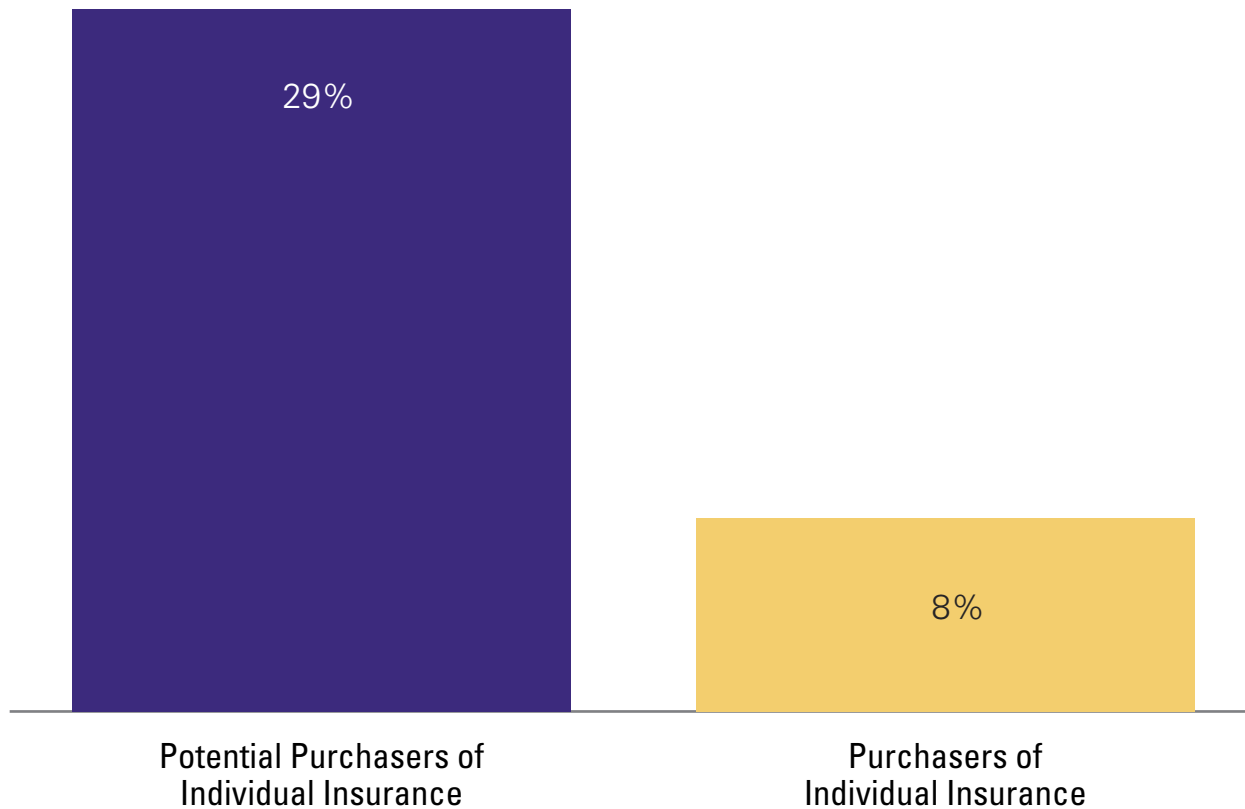
## California's Individual Health Insurance Market

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# The Market for Individual Insurance, 2004

## Potential vs. Actual Purchasers among California Adults



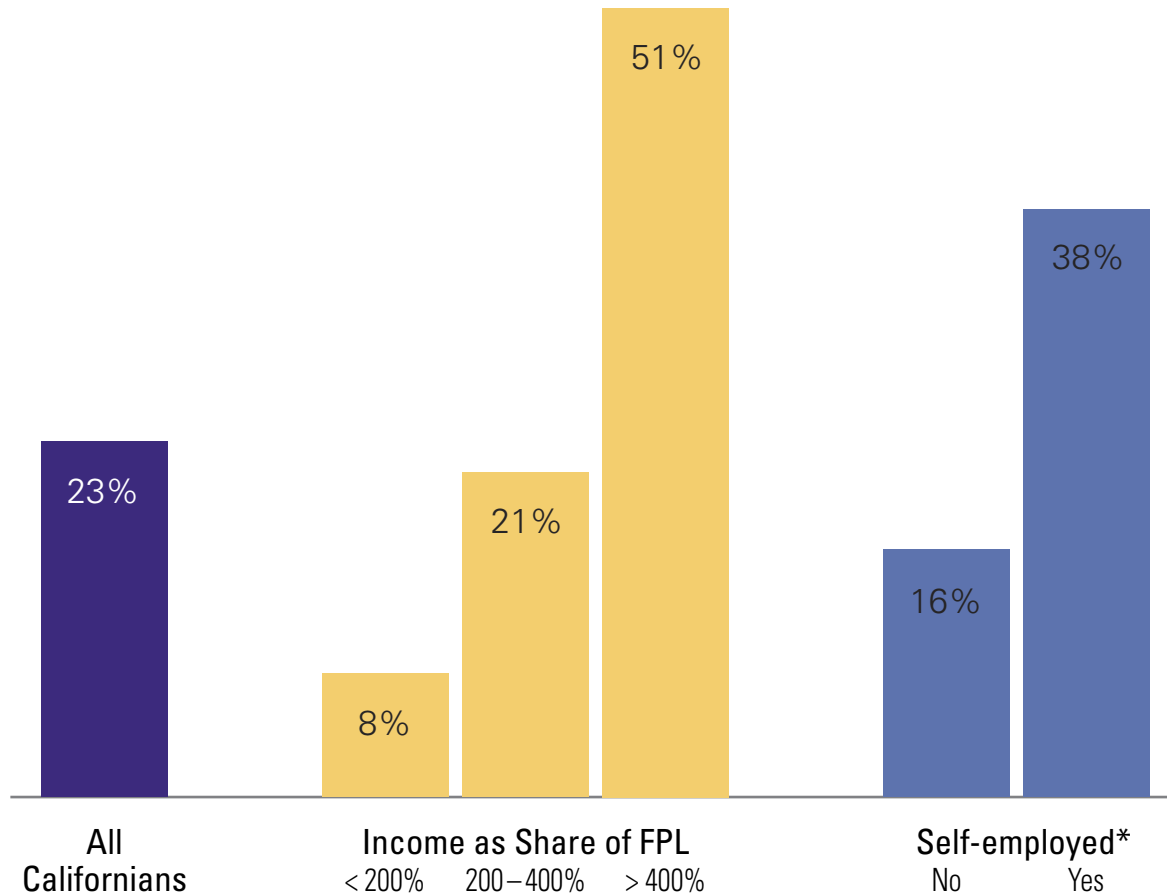
Notes: Potential purchasers include both adults who are uninsured and those who have purchased individual insurance. For the purposes of this study, adults are defined as those between the ages of 18 and 64.

Source: 2004 Current Population Survey.

### California's Individual Health Insurance Market

Almost 30 percent of California adults are potential purchasers in the individual market. Approximately 8 percent of adults purchase coverage through the individual market; another 21 percent are uninsured.

# Purchase Rates by Income and Self-employment Status, 2003



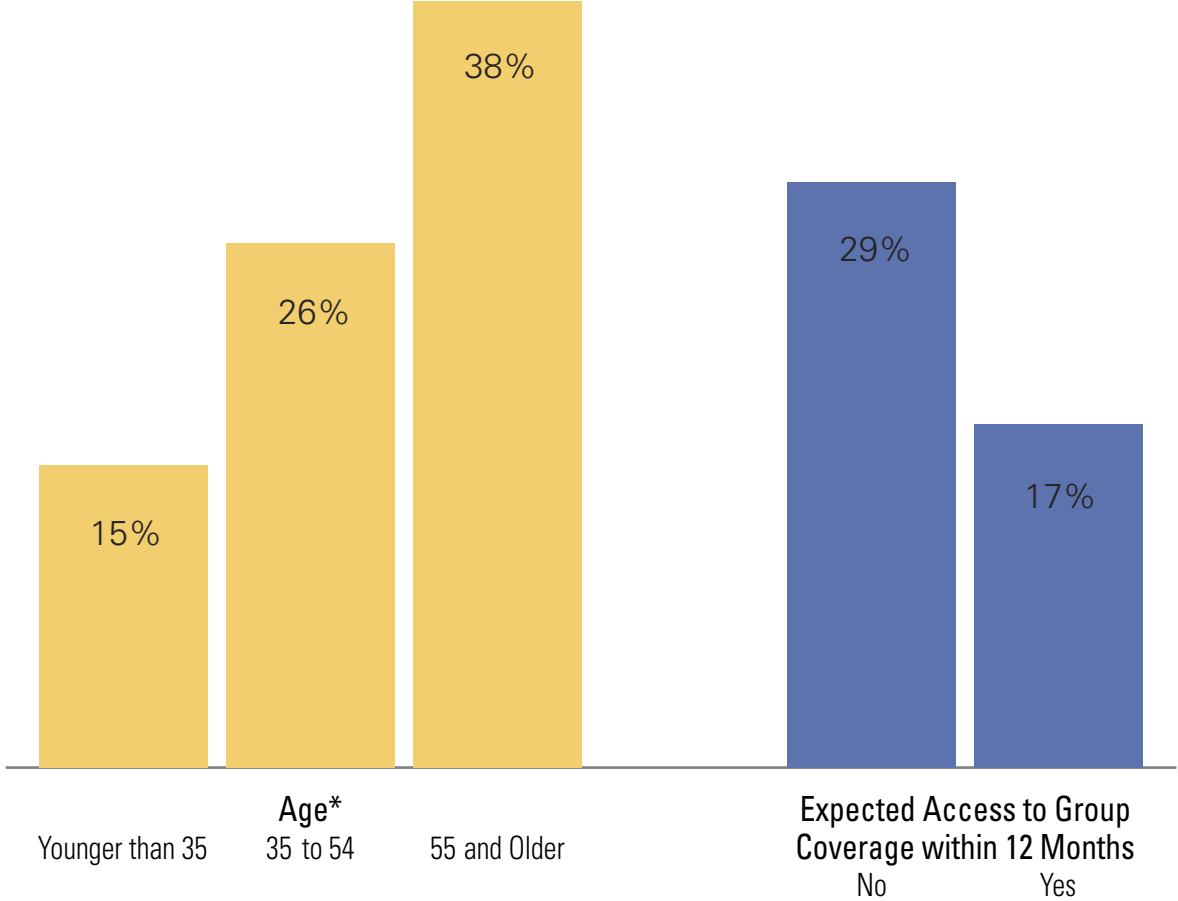
\*Refers to head of family.

Note: Federal poverty level (FPL) income for 2003: \$9,573 for a single person, \$18,810 for a family of three.

## California's Individual Health Insurance Market

Potential purchasers in families with incomes greater than 400 percent of FPL are more than three times as likely to purchase individual insurance as those with incomes less than 200 percent of FPL. Purchase rates among the self-employed are also higher, perhaps in part because premiums are tax deductible for the self-employed.

# Purchase Rates by Age and Expectation of Obtaining Group Coverage, 2003

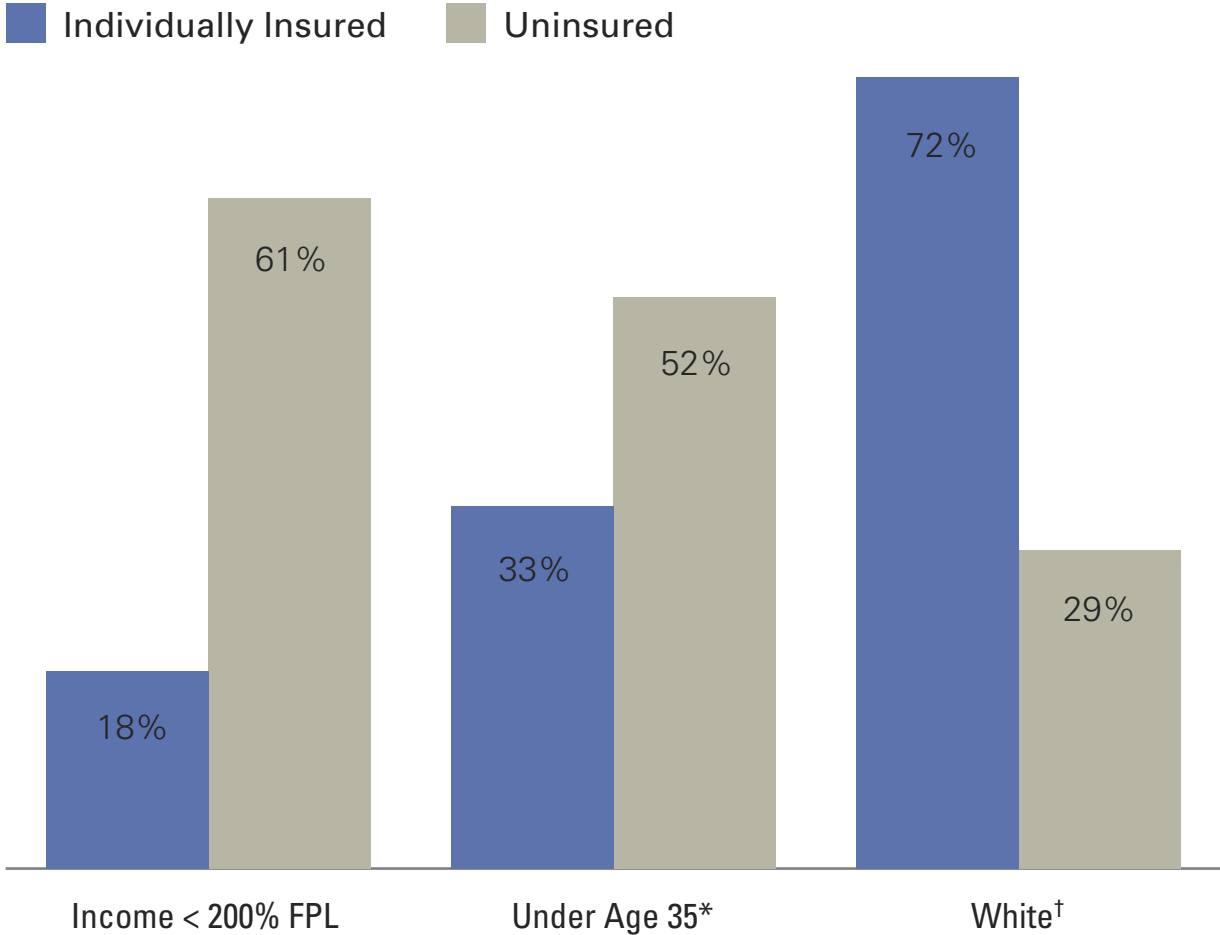


\*Refers to head of family.

## California's Individual Health Insurance Market

Heads of families age 55 and over, many of whom are early retirees, are more than twice as likely to purchase individual coverage as those under age 35. Purchase rates are lower among families who expect to have access to group insurance within the year.

# Individually Insured vs. Uninsured Families by Income, Age, and Ethnicity, 2003



\*Refers to head of family.

†Does not include Hispanic.

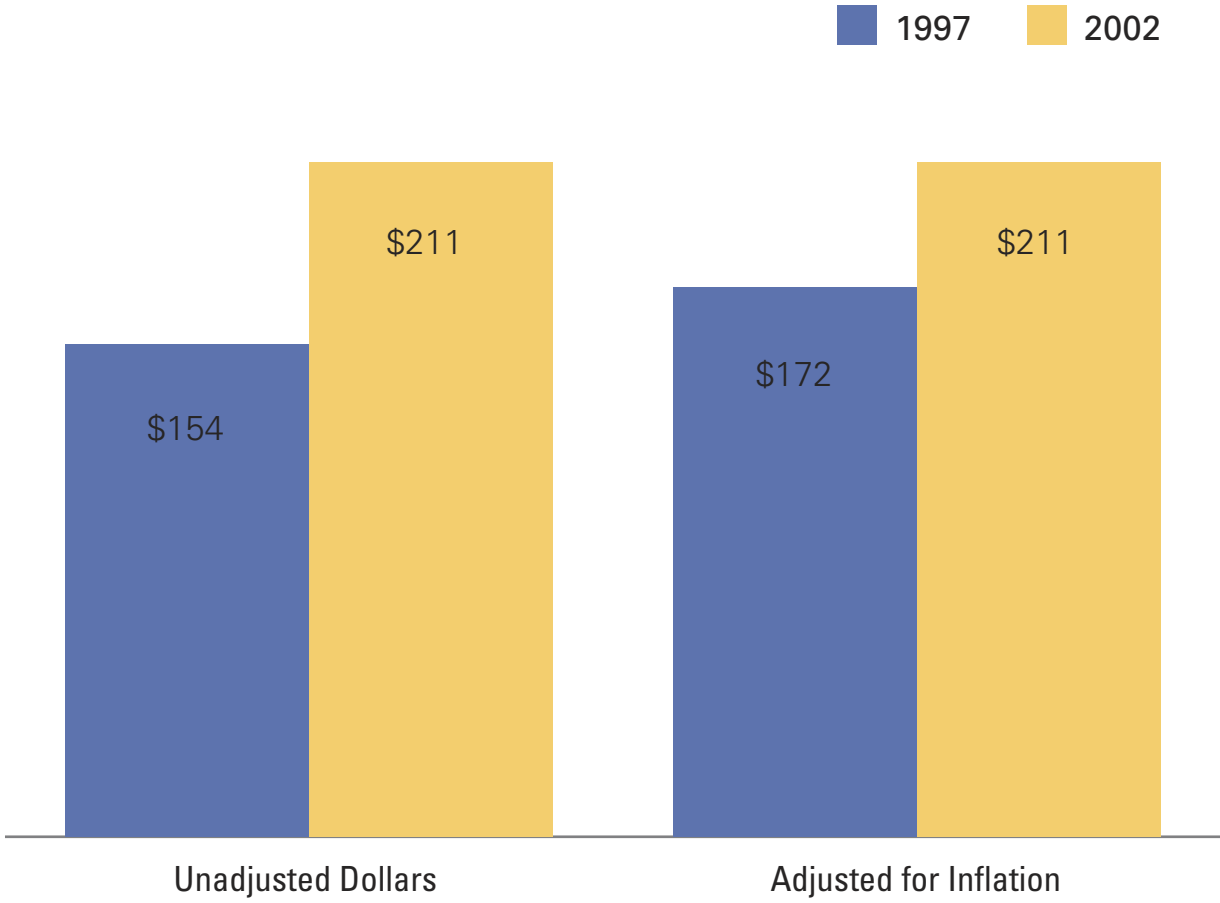
Note: Federal poverty level (FPL) income for 2003: \$9,573 for a single person, \$18,810 for a family of three.

## California's Individual Health Insurance Market

Sixty-one percent of uninsured families have incomes below 200 percent of the poverty level, compared with 18 percent of those who buy individual insurance. Uninsured families are also more likely to be low income and young, and less likely to be white than those who have purchased individual coverage.

# Monthly Premiums

## Individual Market, 1997 vs. 2002

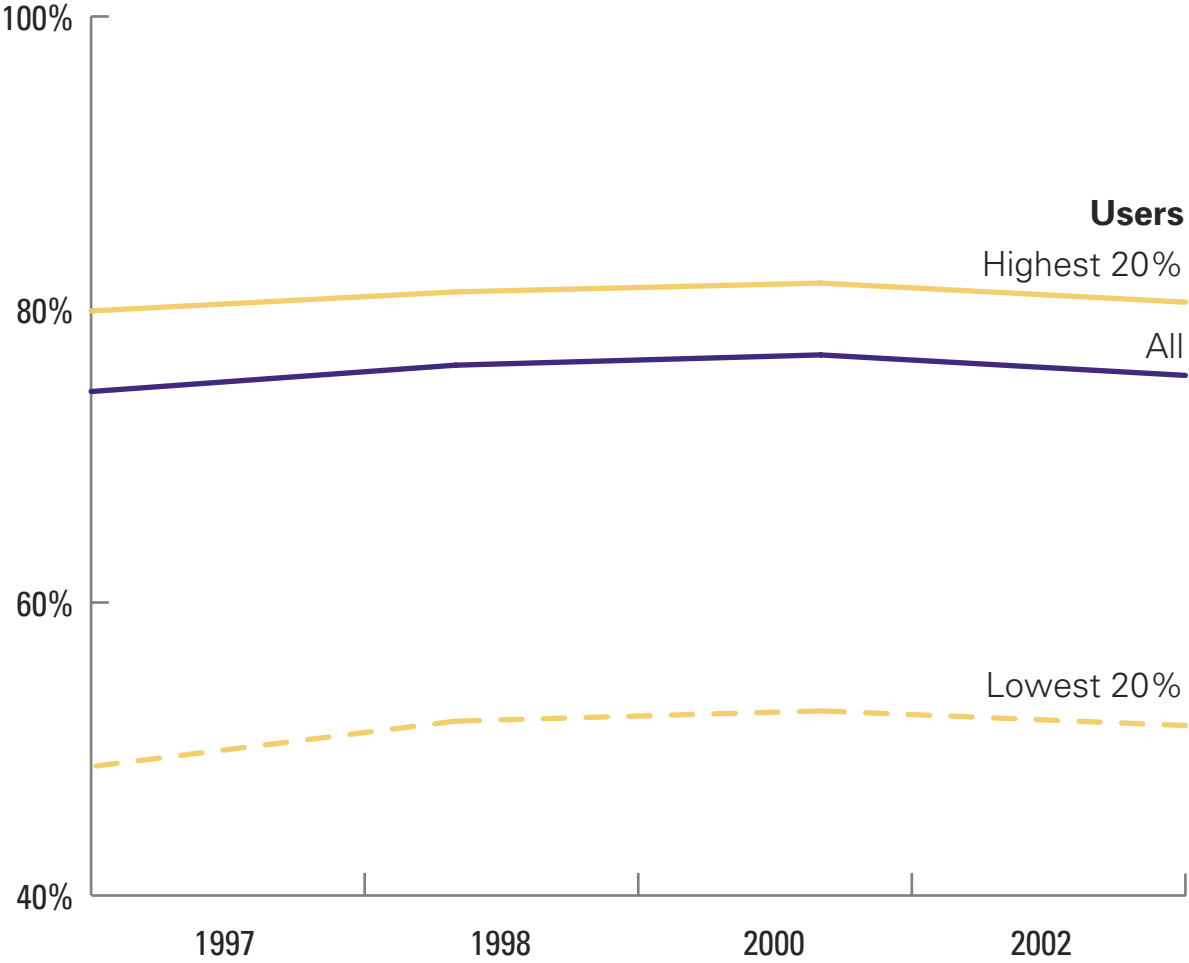


### California's Individual Health Insurance Market

The average premium for individual coverage increased 40 percent between 1997 and 2002, or about 25 percent when adjusted for inflation.

Notes: Premiums adjusted for inflation have taken into account increases in the prices of other goods over the time period to isolate the amount premiums increased independent of inflation in the economy as a whole.

# Share of Spending Covered by Individual Insurance, 1997 to 2002



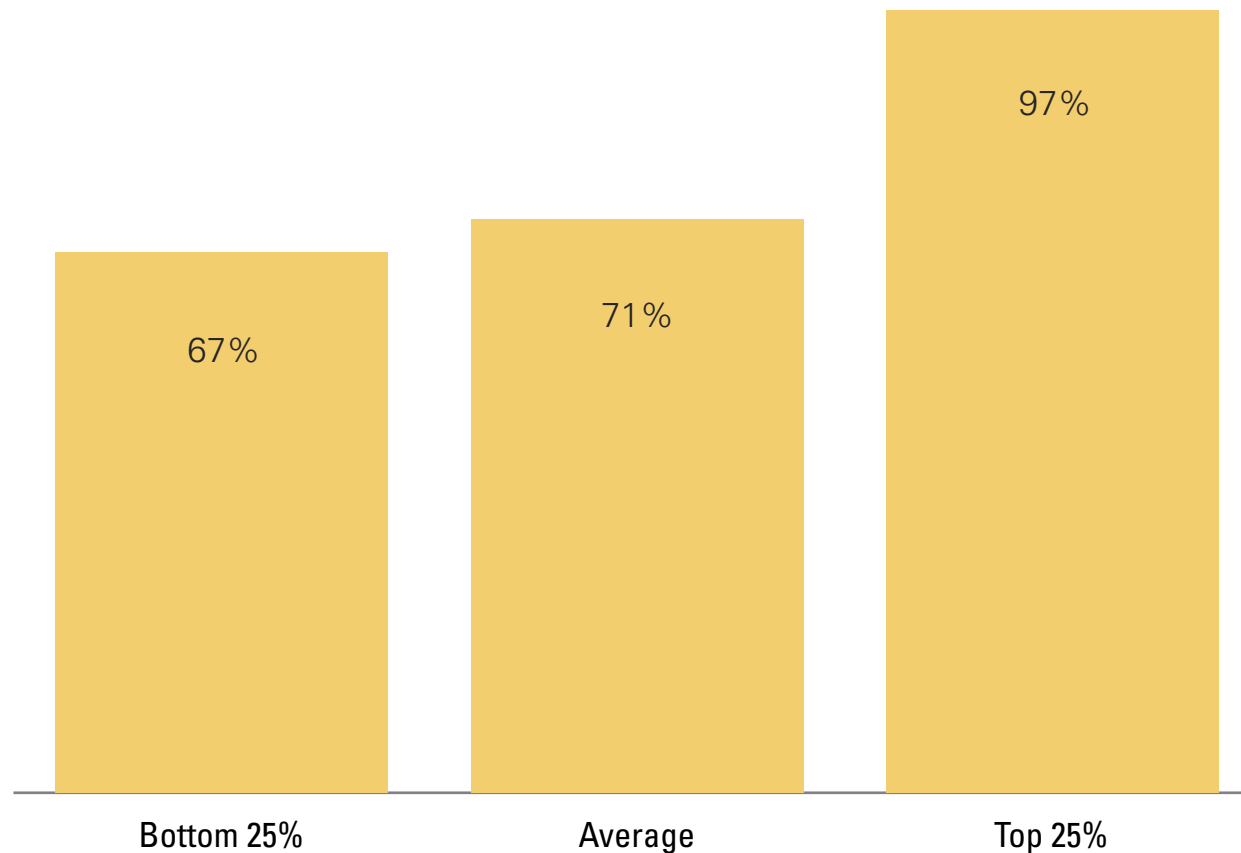
## California's Individual Health Insurance Market

The share of health care costs incurred by a typical population that were paid by individual insurance remained relatively constant between 1997 and 2002. Insurance covered a greater share of spending for people who were high users of health care than for those who were low users.



# Choice of Coverage Level by Individual Insurance Purchasers, 2003

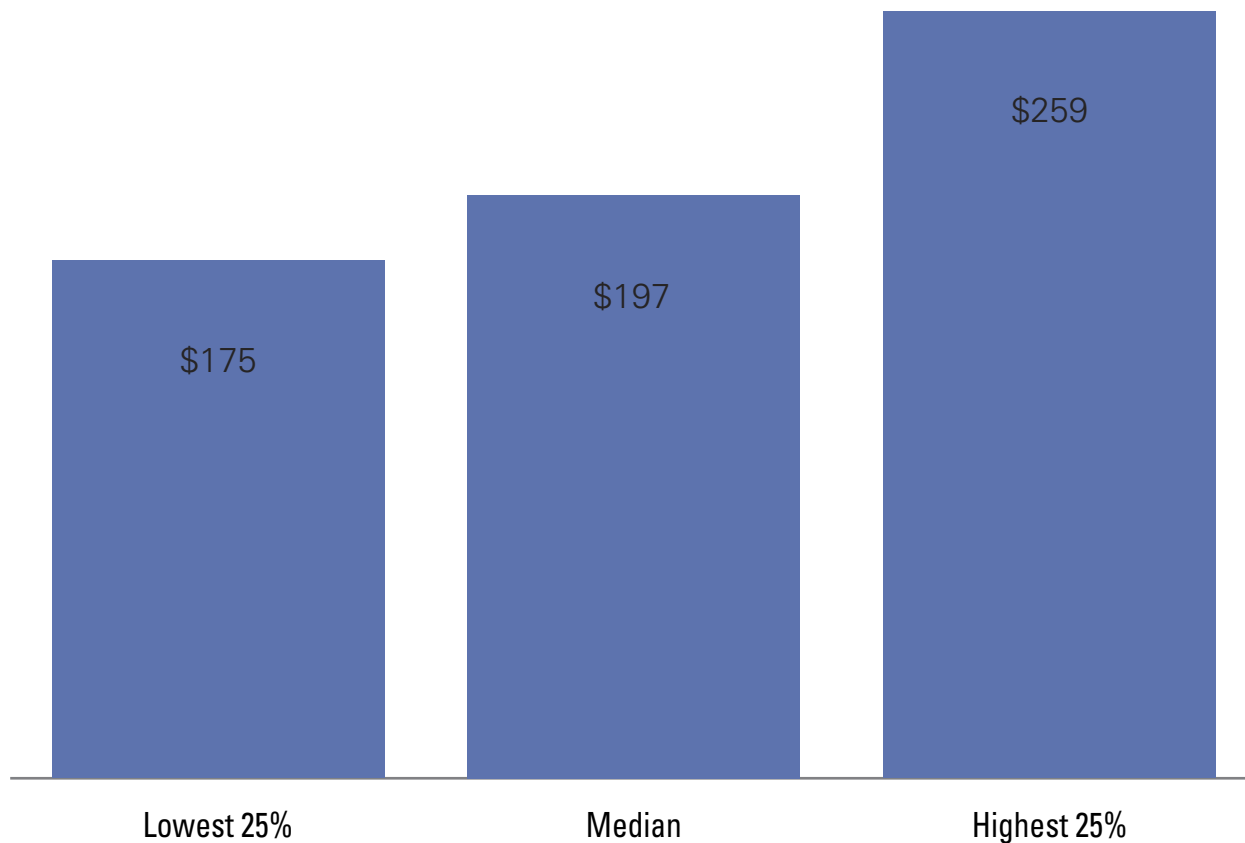
## Share of Costs Paid by Insurance



## California's Individual Health Insurance Market

Californians have a wide choice of plans in the individual market. In 2003, the average plan covered 71 percent of the spending by a typical population. The 25 percent preferring more comprehensive benefits (in spite of higher premiums) chose a plan that would pay 97 percent of their health care costs; the 25 percent preferring less comprehensive benefits (and lower premiums) chose a plan that covers about two-thirds of spending.

# Distribution of Monthly Premiums, 2002

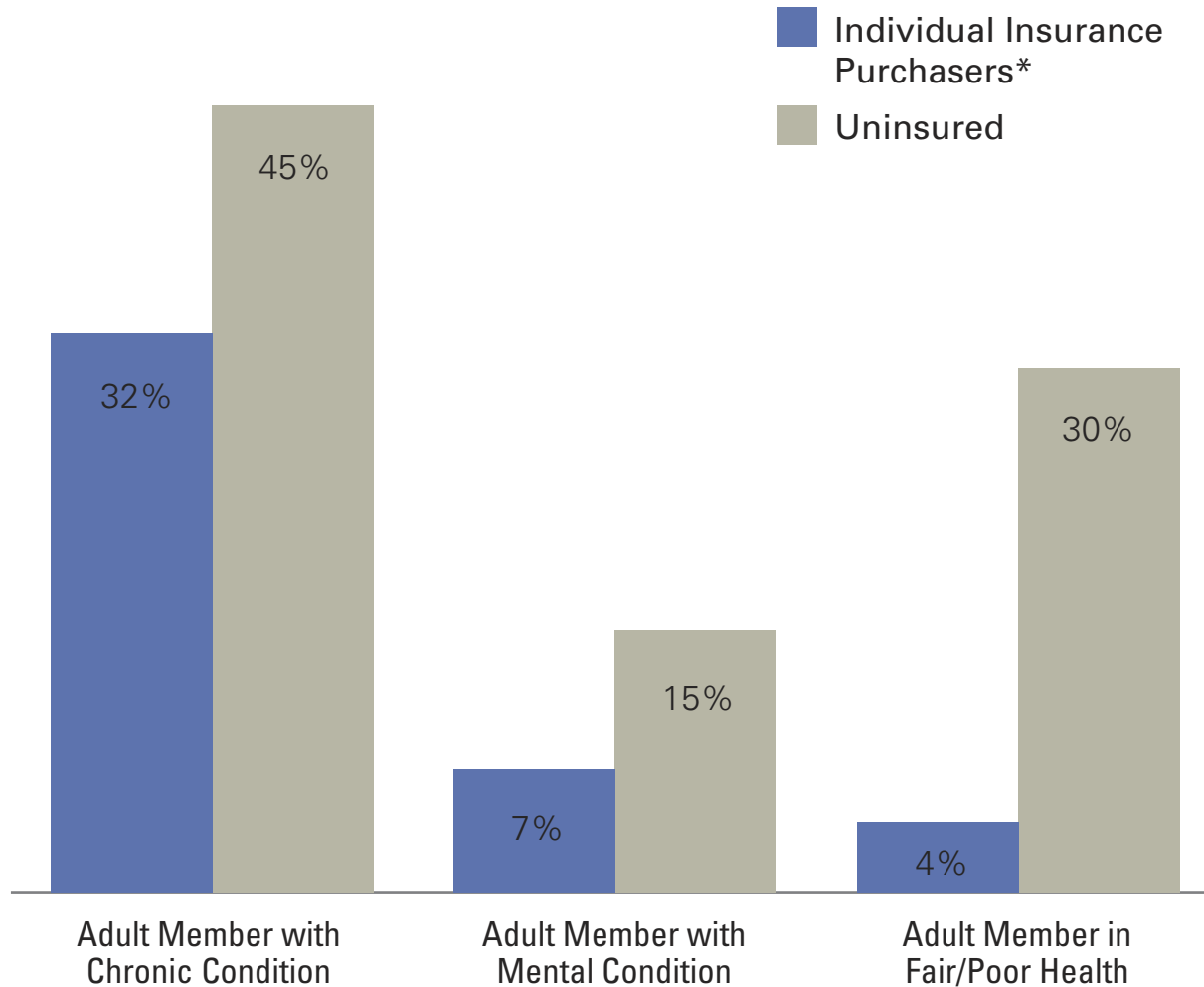


Note: Premiums are adjusted for benefits, age, and geography, so differences shown are not attributable to differences in benefit package, age, or location of purchaser.

## California's Individual Health Insurance Market

People in the individual market pay varying amounts for the same coverage, pointing to the importance of information and shopping. In 2002, 25 percent of purchasers paid a premium of \$175 a month or less, while 25 percent paid almost 50 percent more.

# Family Health Status among Individual Insurance Purchasers and the Uninsured, 2003

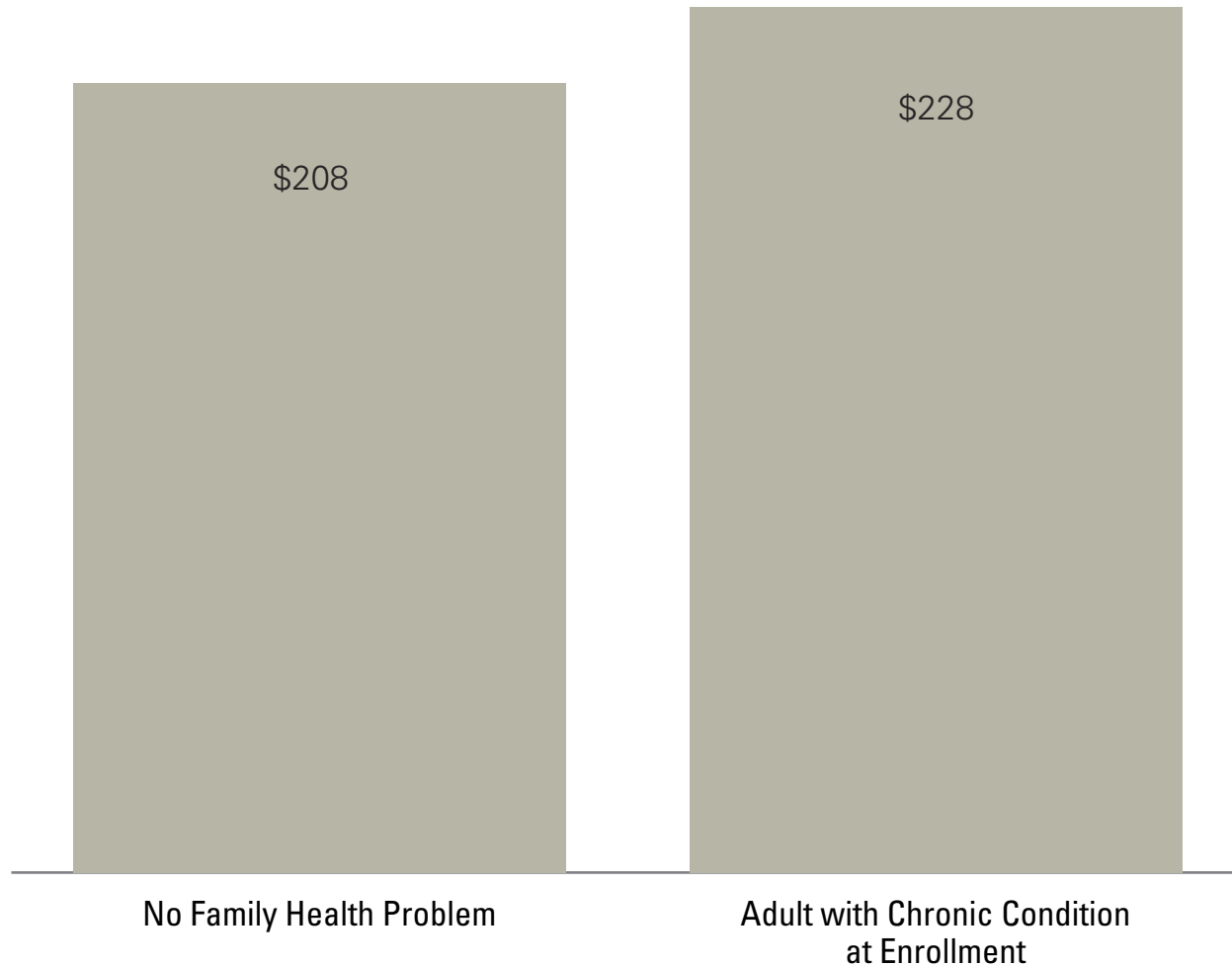


\*Purchased within the last year

## California's Individual Health Insurance Market

The family health status of those who purchase individual insurance is better than for those who remain uninsured. This may be partly a result of insurers denying coverage or charging higher premiums to high-risk individuals. However, a large share of people with health problems obtain individual insurance—almost one-third of purchasers have an adult family member with a chronic condition.

# Monthly Premium by Family Health Status, 2002



Note: Figures reflect coverage purchased within the last year.

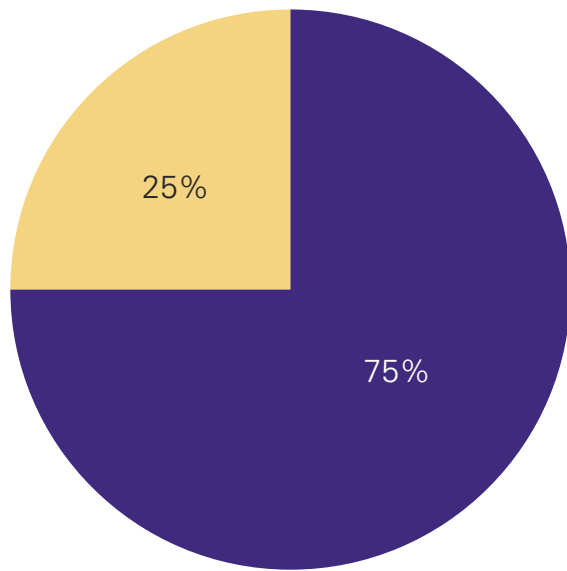
## California's Individual Health Insurance Market

People in poor health at enrollment do not pay substantially more than healthy families. This suggests that insurers pool risks—that is, spread some of the risk for sicker enrollees across all purchasers rather than charge much higher premiums for those in poor health.

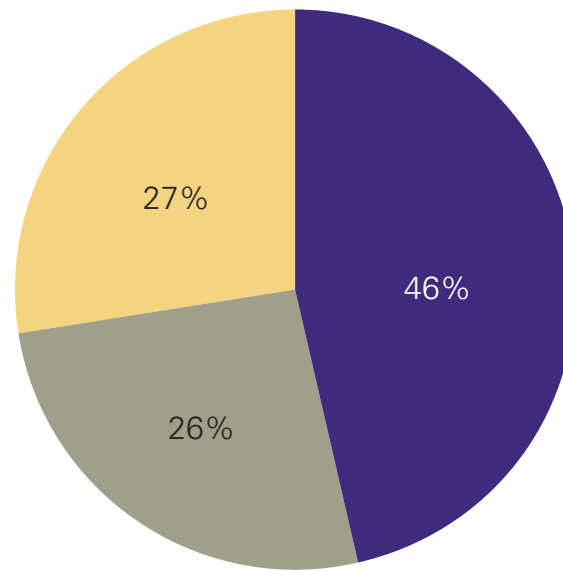
# Family Health Status Over Time among Individual Insurance Purchasers

■ No Family Member with Chronic Condition   ■ Chronic Condition at Enrollment   ■ New Chronic Condition

**New Enrollees**



**Enrollees in Plan 3 to 4 Years**

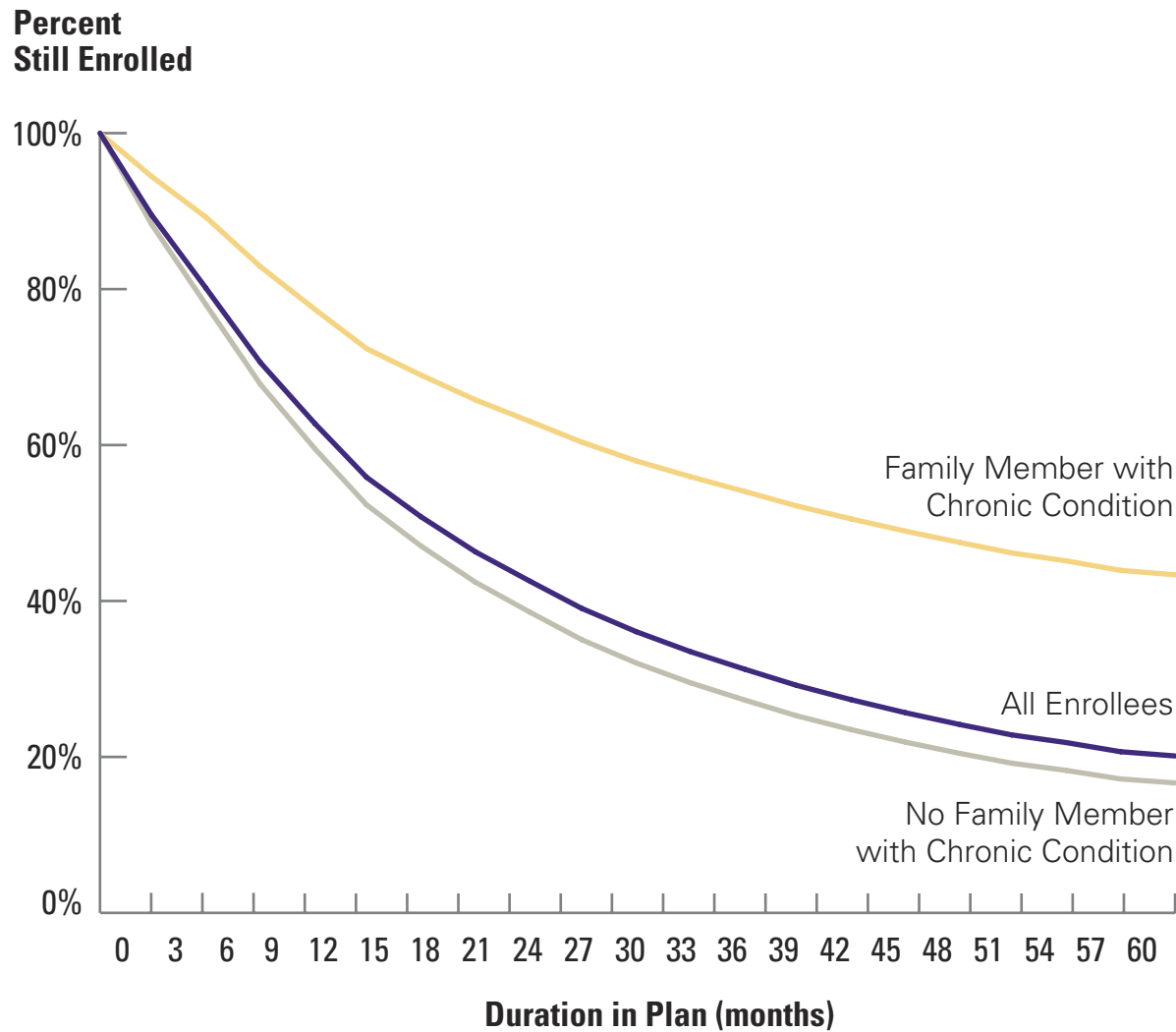


Note: In the right-hand chart, the greater proportion of adults with a chronic condition at enrollment reflects the fact that sick people tend to stay enrolled, while healthy people are more likely to drop coverage. Therefore the sick account for a larger percentage of enrollees over time.

## California's Individual Health Insurance Market

Risk pooling increases over time in the individual market; 75 percent of new enrollees have no health condition, but among those who have been enrolled 3 to 4 years, that number drops to 46 percent. This is due in large part to guaranteed renewal: purchasers of individual insurance are able to continue their coverage even if they become sick.

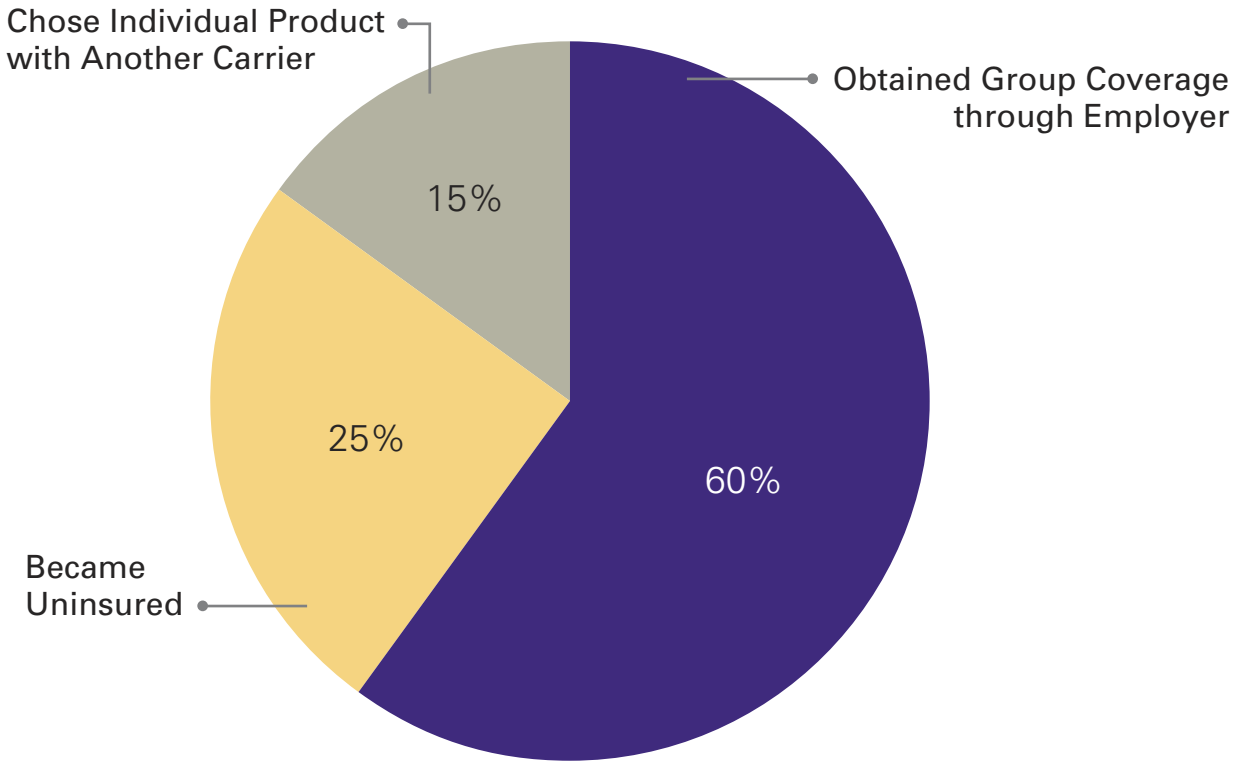
# Length of Time the Individually Insured Remain in a Plan



## California's Individual Health Insurance Market

About 60 percent of new enrollees stay in an individual plan for more than one year, and over 30 percent continue for more than three years. Those in poorer health are more likely to remain in a plan. As the number of sick people in a plan increases, insurers will increase premiums to cover their costs, pricing some purchasers out of the market. Insurers need to attract new, healthier subscribers to keep premiums low.

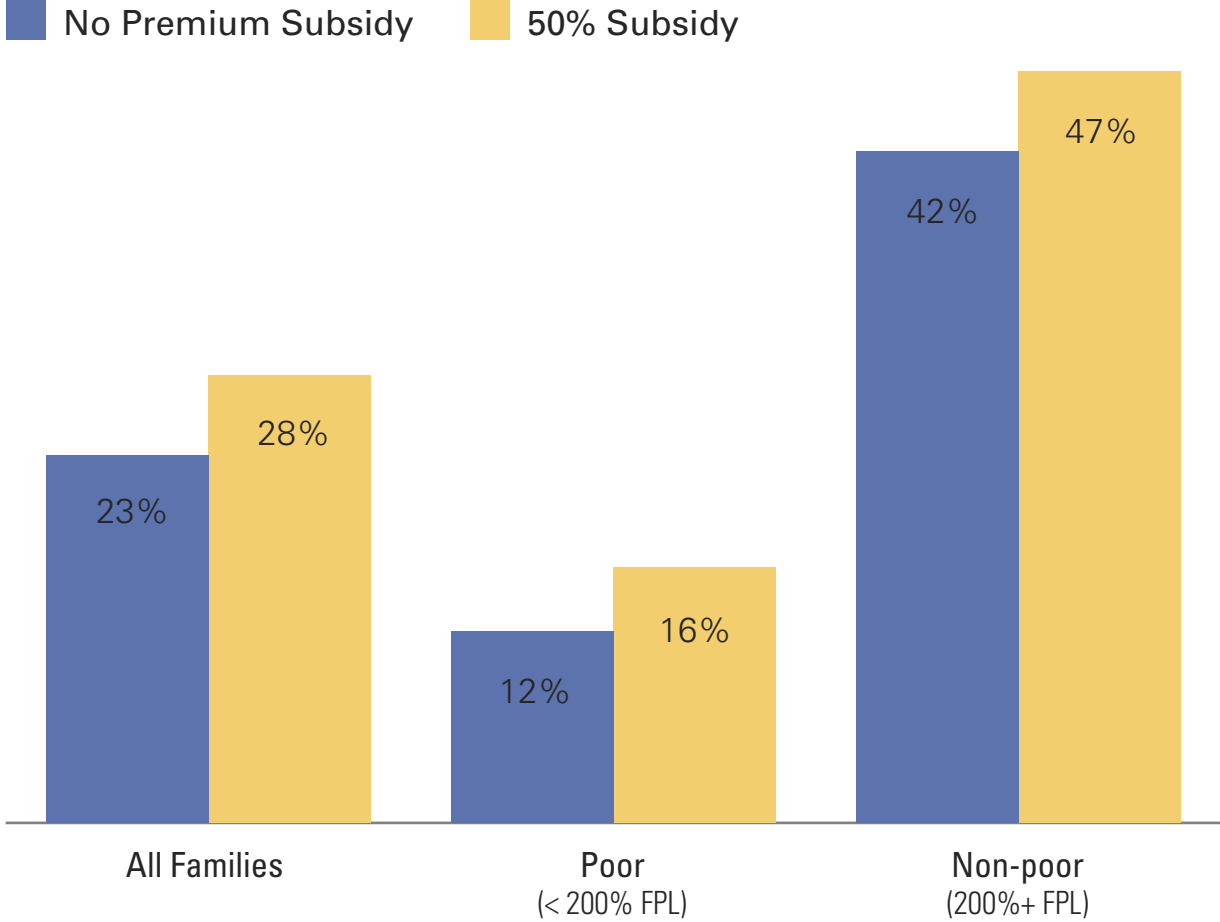
# Status of Coverage Among Those Who Drop Individual Insurance, 2003



## California's Individual Health Insurance Market

Most subscribers who drop their individual health insurance obtain employer-sponsored coverage. About 15 percent switch to an individual product offered by another insurer, and about 25 percent become uninsured.

# Effect of Subsidies on the Decision to Purchase Individual Coverage



Note: Because data reflect a multi-year study, no single federal poverty level (FPL) applies.

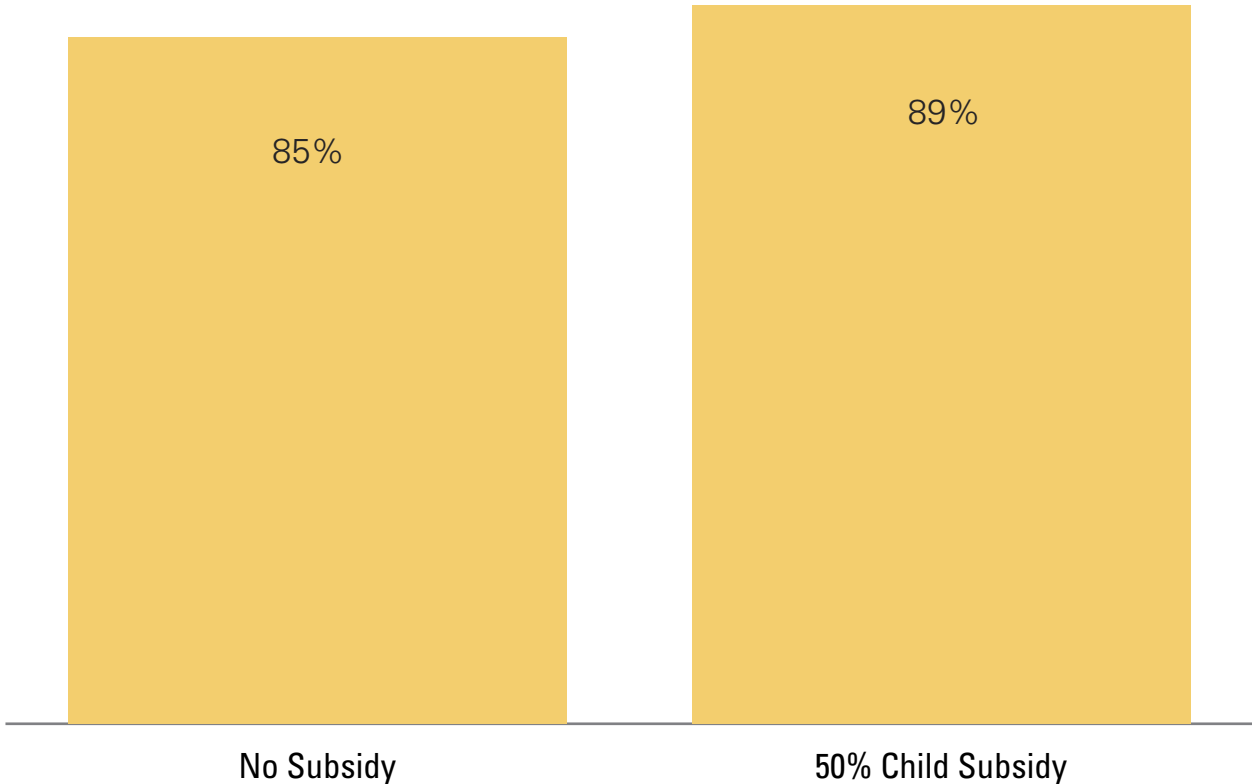
## California's Individual Health Insurance Market

Subsidies have only a small effect on the decision to purchase individual insurance: a 50 percent subsidy would increase the purchase rate of individual insurance by only about 5 percentage points, representing an increase of 200,000 families in California. Purchase rates for the poor and non-poor are very different, but their response to price changes does not differ significantly.



# Effect of Child Subsidies on the Decision to Purchase Family Coverage

Percent Who Would Buy Among Family Candidates

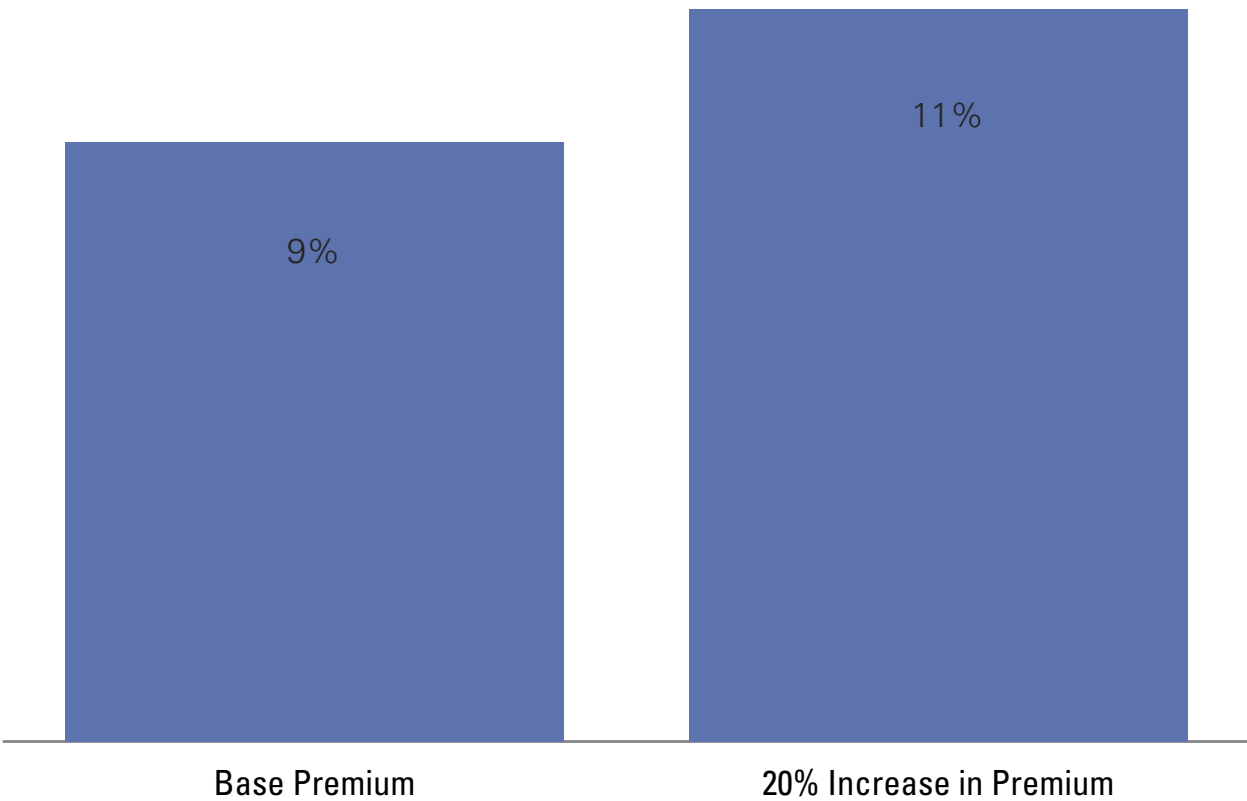


## California's Individual Health Insurance Market

A 50 percent subsidy toward the cost of covering a child would increase the number of families purchasing whole family coverage by about 4 percentage points, representing about 12,000 families in California.

# Effect of Price Increase on Decision to Drop Individual Coverage

Disenrollment Rate During Calendar Quarter



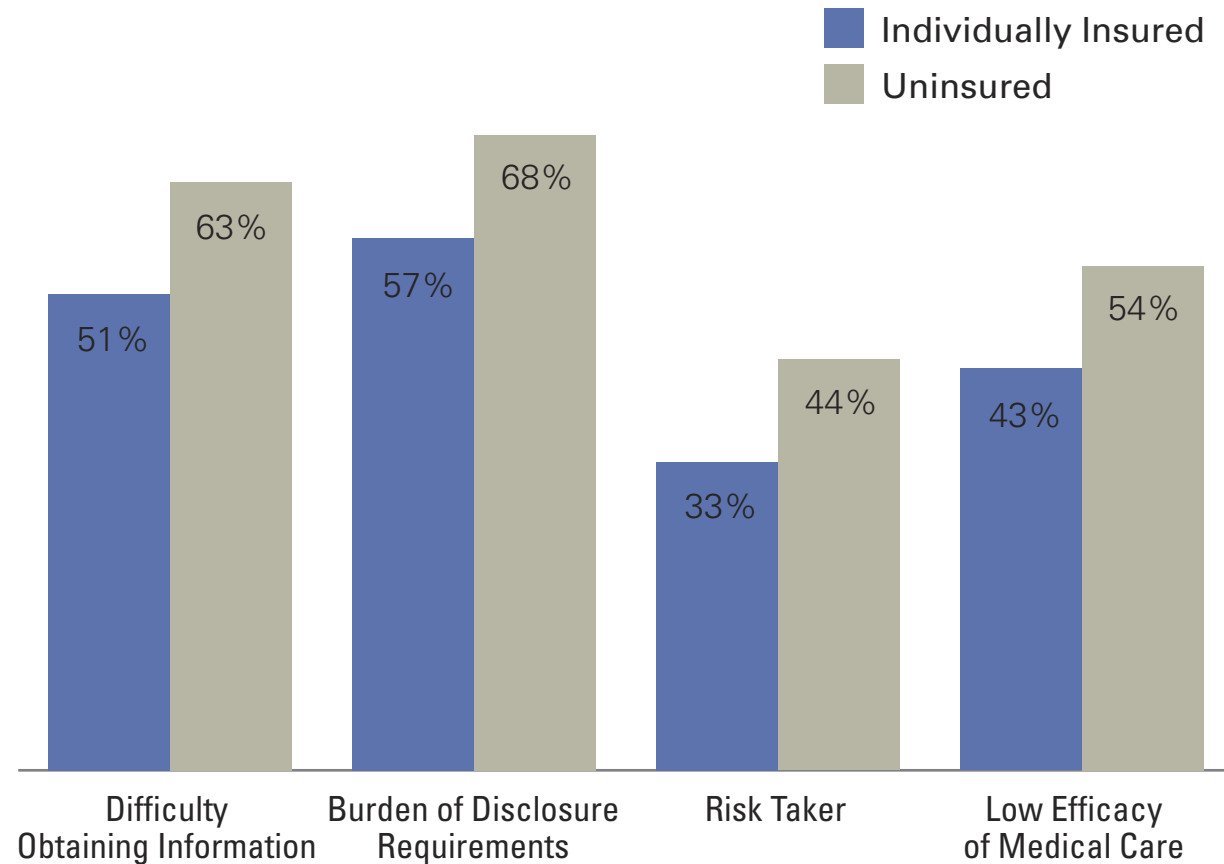
Note: The disenrollment rate changes over time in the individual market; the base disenrollment rate used for this analysis is that estimated for 7th quarter of enrollment

## California's Individual Health Insurance Market

A 20 percent premium hike would increase the portion of enrollees who drop coverage by about 2 percentage points. It would increase the number of enrollees who drop coverage in any quarter by 16,000 in California.

# Non-economic Barriers to Obtaining Individual Coverage, 2003

## Percent of Families Reporting



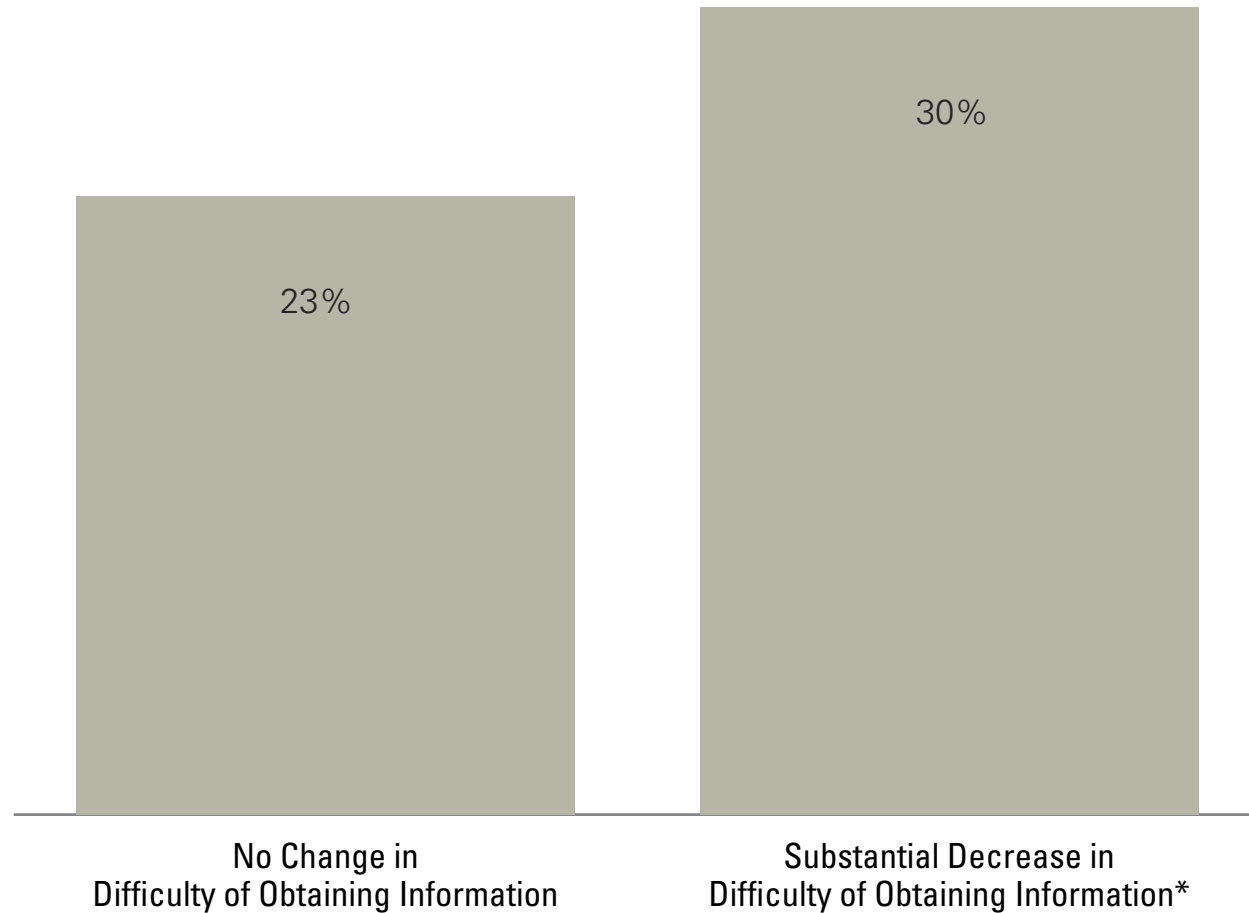
Note: Non-economic barriers were measured by agreement/disagreement with the following statements. Difficulty obtaining information: searching is difficult, requires time, don't know where to search, no one to trust. Burden of disclosure requirements: search reveals too much information and paperwork. Risk taker: take risks more than average. Low efficacy of medical care: own behavior determines health, can overcome illness without doctor, home remedies are better.

## California's Individual Health Insurance Market

Those who are uninsured perceive greater difficulty in obtaining information about health insurance than do those who purchase individual coverage. The uninsured also find disclosure requirements more burdensome, are willing to take more risks, and are less confident in the value of medical care.

# Effect of Insurance Information on Purchase Rates

## Percent Who Would Buy Among Family Candidates

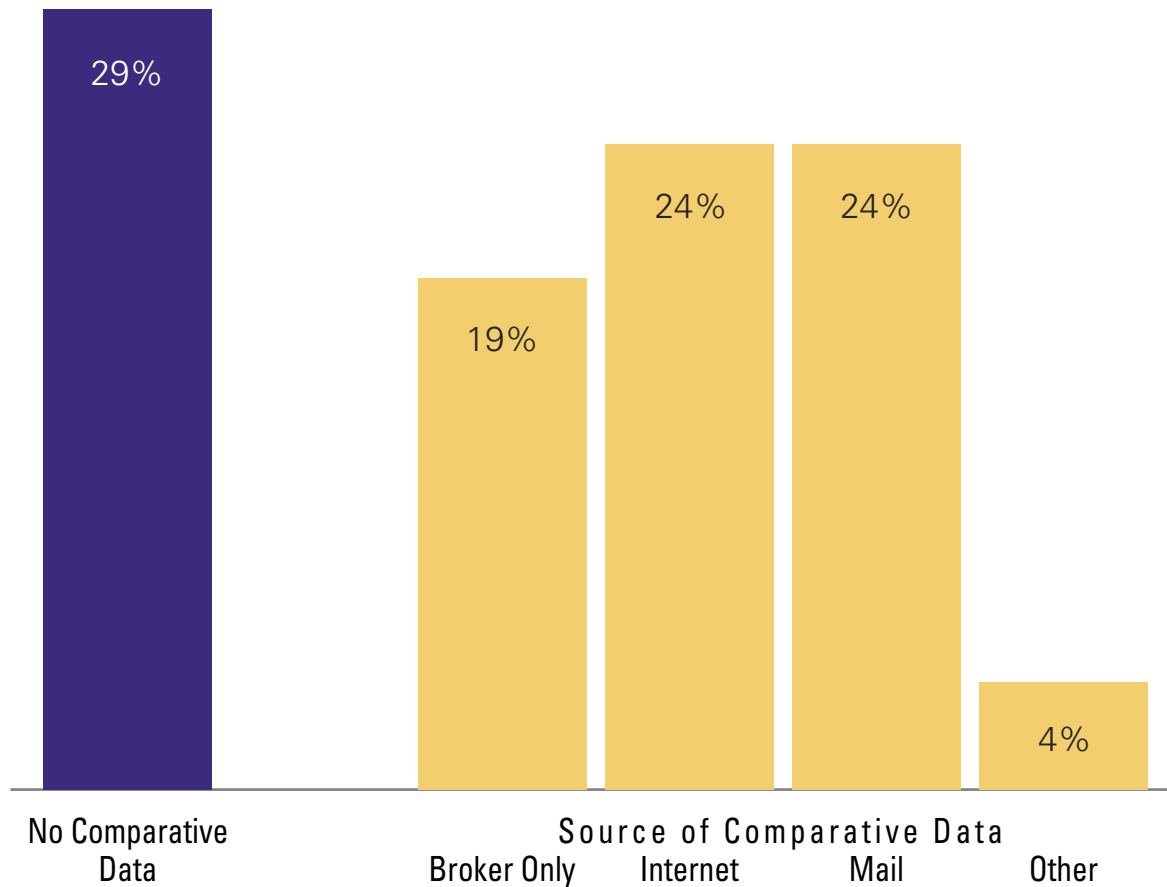


\*“Substantial decrease in perception of difficulty obtaining information” means reducing everyone’s perceived effort to the perceived effort of the lowest 10 percent of respondents.

## California’s Individual Health Insurance Market

Substantially reducing the perceived effort of searching for information would increase the percent of potential purchasers who buy insurance. This effect is larger than that of a 50 percent premium subsidy.

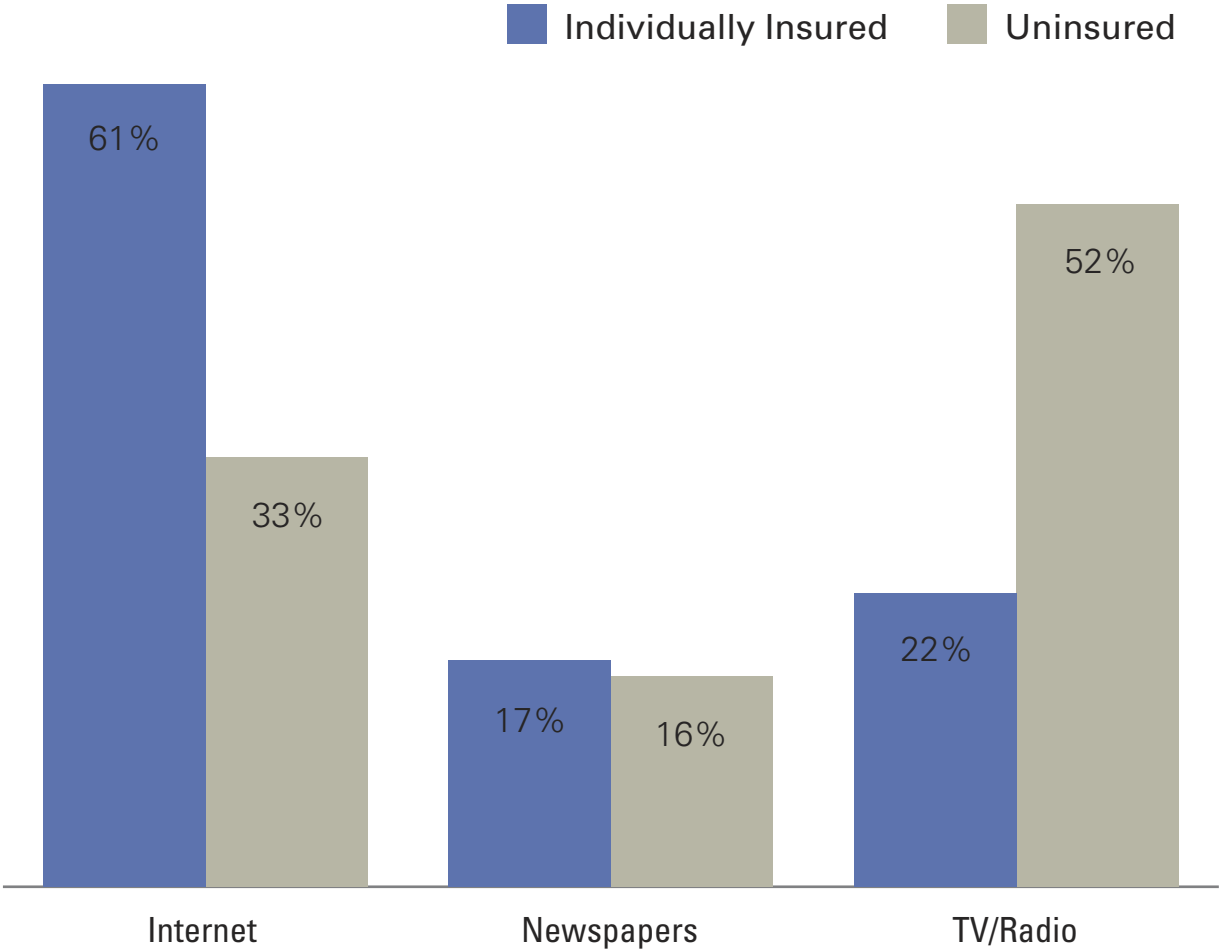
# Access to Comparative Insurance Information among Purchasers, 2003



## California's Individual Health Insurance Market

Almost 30 percent of purchasers reported that they did not have comparative information about products when making a choice of insurance plan. About 20 percent reported that the broker was their only source of comparative information, and about one-quarter used the Internet.

# Sources of Information among the Individually Insured and Uninsured, 2003



## California's Individual Health Insurance Market

Reaching the uninsured with information will require new approaches. Compared with the insured, the uninsured are much less likely to use the Internet as their primary source of information and much more likely to use TV or radio.

# Methods

This snapshot highlights key findings from a study of consumer decision-making in the individual insurance market in California. This study, commissioned by CHCF and performed by RAND, examines differences between those who purchase and those who remain uninsured, trends in prices and benefits of products purchased, whether the market pools or separates the healthy and sick, how long people continue their coverage, and the role that public policies might play in expanding the role of the individual insurance market.

The findings are based on a number of data sources. The three largest carriers offering individual health insurance products in California, which account for over 80 percent of the individual insurance products sold in the state, provided detailed information about their products and enrollees. Insurers' price files provided premiums for each product offered during the years 1996 to 2003. They also provided administrative files covering all enrollees in their individual plans during these years. The administrative files include information about enrollees' product choices, their enrollment and

termination dates, premium paid, contract type, and the age and gender of the subscriber and covered dependents.

In addition to these data, RAND conducted a survey of the individually insured and the uninsured in California. The survey included a sample of 3,964 subscribers enrolled in the individual and family health plans offered by the participating carriers in late summer of 2003. RAND also completed interviews with 409 uninsured people and their families in California to evaluate differences between purchasers and non-purchasers in perceived barriers to the purchase of insurance

Finally, the analysis used information about insurance purchasers and non-purchasers from the California sample in three large national surveys—the Current Population Survey for 1996 to 2002; the Survey of Income and Program Participation (SIPP) 1996 panel, which covers the years 1996 to 1999; and the National Health Insurance Survey for the years 1997 to 2001. Unless otherwise noted, sources for all slides are provided in the References section on page 24.

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