Analysis of National Sales Data of Individual and Family Health Insurance

Implications for Policymakers and the Effectiveness of Health Insurance Tax Credits

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SUMMARY

Policy makers seeking to help the uninsured obtain affordable, quality health insurance need accurate information in designing the most effective public policies. A recent analysis of 20,000 sold policies from America's leading distributor of individual and family health insurance, eHealthInsurance, provides new and previously unavailable information. The data indicates that the health insurance coverage purchased directly by individuals and families is generally both *less expensive* and *more comprehensive* than previously thought. This suggests an interesting and strong correlation between real-world experience and the likelihood that modest health insurance tax credits for individuals and families may significantly reduce the number of uninsured.

More Comprehensive Coverage

Specifically, the data shows that individuals and families directly purchasing coverage strongly prefer and typically purchase reasonably comprehensive coverage.

- **Solid range of benefits covered** – 88% of the policies purchased by single individuals and 84% of the policies purchased by families (2 or more related individuals) through eHealthInsurance could be considered "comprehensive" in their coverage. The "comprehensive" benefits are comparable to Medicare's Part A and Part B coverage plus some level of Medicare supplemental coverage.

- **Modest deductibles** - Of the HMO products purchased, 80% had no deductible at all, while of the PPO products purchased, 71% had deductibles of less than $1000. Thus, the out-of-pocket expenses for the policies purchased by most consumers of individual and family health insurance are a fraction of the deductibles in "catastrophic" policies designed to provide coverage only for major medical expenses.

- **Standard product types** – Of the individual and family policies purchased through eHealthInsurance, 75% were PPO plans, 16% were HMO plans, 5% were indemnity plans, 2% were POS plans and 1% were MSA plans. This distribution of plan types is similar to the distribution among the general population with private health insurance (most of whom are in employer sponsored plans). Hence, the individual health insurance market is not unduly encumbered with utilization restrictions (e.g., HMO gatekeepers) or characterized by non-mainstream, minimal coverage products.

Less Expensive

The data also shows that individuals and families purchasing coverage strongly prefer and then purchase policies with much lower premiums than generally perceived.

- **Modest average premiums** – The average individual premiums through eHealthInsurance fall in the range of $1200 to $1500 per-person-per-year. These market data points from eHealthInsurance, together with average premium data from various health plans and government programs, all seem to refute the perception that average premiums are multiples of two to three times more.

- **Reasons cost is perceived to be higher** – The analysis did find cases where the premiums paid by certain individuals are much higher than the average. General perception may stem from specific high premium cases rather than from statistically significant and geographically and demographically diverse data sets. Individuals paying high premiums may typically have pre-existing health condition, be near Medicare age, or reside in one of the few states with high prices due to guaranteed issue regulation for the individual market.

- **Lower than small business premiums** – Many people believe that individual premiums must be higher than small business premiums due to economies of scale, but the data actually shows the opposite. The average premium per-member-per-month for policies sold through eHealthInsurance is 25% higher for small business members than for individual members. This experience is generalized and confirmed by comparing, on a state basis, the average premiums for individuals and small groups charged by insurance companies that serve both markets in a state.

Implications for Policy Makers

The data suggests a number of implications for policy makers, particularly at the Federal level:

- **Government assistance is required** - Although premiums for individual health insurance are less than generally perceived, some government assistance will be required to make the expense affordable for uninsured lower-income workers and families.

- **Tax credits may likely help** - Proposed modest tax credits may likely result in a substantial reduction in the number of uninsured persons by enabling them to obtain affordable and comprehensive health insurance coverage.

  - Affordability impact - The tax credit amounts currently being considered would cover a meaningful portion of insurance premiums. Of the sample of 20,000 single and family policies purchased through eHealthInsurance, half charge premiums that are fully within the proposed tax credit amounts ($1,000 individual and $2500 family), and three-quarters charge premiums that are within 75% to 100% of the proposed tax credit amounts.

- Comprehensive coverage - The tax credit amounts can purchase benefit coverage that is meaningful and preventative, not just "catastrophic."

- Broadly Relevant - The tax credits can be relevant to a population that varies both geographically and demographically.

Hence, at the federal level, policymakers should continue to pursue the development of fixed dollar tax credits for individual health insurance purchases as one key way to quickly expand coverage to a large segment of the uninsured. At the state level, policymakers should reevaluate current insurance regulations to ensure that they are not an impediment to carriers offering plans at prices below an affordable threshold.

BACKGROUND

eHealthInsurance is one of the leading health insurance distributors in the country, and is licensed to distribute insurance in all 50 states and the District of Columbia. Through its web site, (eHealthInsurance.com), the company sells individual, small employer group, and Medicare supplemental health insurance products. eHealthInsurance offers over 7,000 different health plans from 70 different insurers throughout the U.S.[1]

In an effort to better understand consumer preferences, the company recently analyzed its sales data for the individual health insurance subset of its business. The analysis used a data set of 20,000 records from recent, completed transactions.[2] The analysis looked at the cost of coverage purchased and the relative distribution of plan types and features that resulted from customer purchasing decisions.

The principle value of the data set is that it is both "real world" and "real time." In other words, it captures information on actual, contemporaneous purchasing decisions, not hypothetical constructs or survey responses.[3] Another factor that makes the data set particularly valuable is that it captures information on purchases from multiple health insurance companies from across the country, not just data from sales by only one or two companies in specific geographic areas.

Also, the eHealthInsurance web site is designed and managed with the explicit goals of both maximizing comparison-shopping (e.g. side-by-side benefits and prices) while minimizing obstacles to purchasing (e.g., travel to an agent's office, non-standard applications, etc.). This means that the data set captures information from what is almost certainly the most robust

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[1] The number and type of plans available in any given location vary depending on several factors including the number and type of plans approved by state regulators, the number of carriers offering coverage in the state and which carriers have agreed to let eHealthInsurance sell their plans.

[2] A "completed transaction" means one for which that the applicant completed the application process, a carrier approved coverage of the applicant, and the applicant enrolled in the plan and began paying premiums.

[3] Actual purchasing data is particularly valuable for understanding customer preferences involving large, complex purchases like homes, automobiles or health insurance. This is because customers often rethink and change their preferences when forced to decide among a set of "real world" choices and actually pay for their choice, as opposed to expressing a preference in response to the hypothetical options presented in a survey without any actual financial consequences.

consumer choice market for health insurance currently in existence.

Of course, while the data set has clear advantages, it also has some notable limitations. It does not, for example, include data on customer incomes since that information is not relevant to the insurance application process.
However, because the data set is a large national sample it does provide the basis for some generalized insights into the individual health insurance market and serve as a guide to further research and analysis of that market.

ANALYSIS

The eHealthInsurance marketplace presents consumers with a diverse set of choices, with consumers in most states able to select from a variety of plans offering different combinations of covered services, co-pay structures and utilization restrictions and corresponding variations in premiums. As a market aggregator, eHeathInsurance's function is to maximize the choices presented to consumers while simultaneously simplifying and systematizing the decision making and purchasing process. However, to maintain the essential confidence of both its customers and vendors (the carriers), eHealthInsurance does not attempt to steer or influence the actual purchasing decision.

Because of these features, data from the eHealthInsurance marketplace provides a unique source of unbiased information on consumer demand and preferences with respect to plan type, design, features and price. Thus, it probably provides more accurate insights into what consumers really want than any other current data source for this market segment.

Preference for Comprehensive Coverage

Definition of Terms

Health insurance offerings vary significantly across different states and carriers, making it difficult to categorize benefit plans. For internal purposes, eHealthInsurance classifies the individual and family health insurance products it distributes as either "comprehensive" or "basic."

"Basic" plans are ones that cover a limited set of services and/or have higher deductibles. Carriers themselves may label these plans as "basic" or "catastrophic" or with other terms such as "hospital and surgical" that denote their limited coverage.

"Comprehensive" plans are ones that cover a broader range of services and generally have lower deductibles and co-payments. Those plans typically cover inpatient and outpatient hospital services as well as physician services, tests and laboratory services and in most cases pharmaceuticals.[4] The term “comprehensive” is a subjective term of trade, and does not imply a

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[4] Defining what is "comprehensive" and what is "basic" health insurance is a subjective exercise. Because the company was unable to find a suitable third-party definition, they made these distinctions based on a combination of carrier self-descriptions of the plans, the common practices of brokers describing plans to customers and by reviewing the plan benefits.

judgment about what is "complete" or "adequate" coverage. For example, none of the plans cover cosmetic medical procedures, and hence some people may not view them as complete. However, from an objective perspective, all of the plans sold through eHealthInsurance must adhere to various state mandates for required coverage levels before they can even be classified as "basic" or "comprehensive". More significantly, the categorization of "comprehensive" is objective to the extent that it denotes benefit plans with more extensive coverage than that offered by Medicare Part A and Part B combined. To attain comparable "comprehensive" coverage, a Medicare recipient would also need to purchase a Medicare supplement policy from the private market in most cases.

Solid range of benefits covered

Analyzing the data shows that eHealthInsurance individual and family coverage customers demonstrate a strong preference for reasonably comprehensive coverage. 88% of the policies purchased by single individuals and 84% of the policies purchased by families (2 or more related individuals) through eHealthInsurance could be considered "comprehensive" in their coverage.

A review of the health insurance benefit summaries indicates that the plans classified by eHealthInsurance as "comprehensive," are in fact robust when viewed in the context of whether they include the largest cost components of health insurance (see Table 1).

Table 1

Percent of "Comprehensive" Plans With the Most Costly Benefits

Benefit	Percent of "Comprehensive" Plans With Benefit
Inpatient (e.g. hospital and surgery charges)	100%
Outpatient (e.g. doctor office visits)	100%
Labs and Tests	100%
Prescription Drugs	85%

Modest Deductibles

Furthermore, as can be seen in Table 2 below, there seems to be a clear consumer preference for lower deductibles, with almost half (47%) of the plans having deductibles of $500 or less.

Table 2

Deductible Levels for Policies Purchased by eHealthInsurance Individual and Family Coverage Customers

	Percentage of Policies Purchased		
Deductible	**Comprehensive**	**Basic**	**All Policies**
$500 or less	45%	2%	47%
$501 to $1000	18%	7%	25%
$1001 to $1500	7%	0%	7%
$1501 to $2000	6%	0%	6%
$2001 to $3000	7%	3%	10%
Over $3000	3%	2%	5%
Total	87%	13%	100%

In analyzing these deductibles further by product type, of the HMO products purchased, 80% carry no deductible at all. Of the PPO products purchased, 71% had less than a $1000 deductible.

Hence, the out-of-pocket contribution required by individuals and families is a fraction of the deductible in "catastrophic" policies designed to provide coverage only for major medical expenses.

These two findings would seem to refute the presumption that individuals and families who purchase their own health insurance tend to purchase cheap, minimal coverage plans.

Standard Product Types

Another interesting finding was that the plan preferences of eHealthInsurance individual and family coverage customers seem to be very much in line, if not leading, the recent trends in plan design. In the late 1980s and early 1990s, employers responded to the rising costs of traditional Fee-For-Service (FFS) plans by shifting their employees into more restrictive Health Maintenance Organizations (HMOs). However, in the last few years, employee dissatisfaction with the restrictions and red tape imposed by HMO plans has lead carriers and employers to offer less restrictive versions of managed care known as Preferred Provider Organization (PPO) and Point of Service (POS) plans.

Table 3 below shows that among the general population with private coverage, between 1992 and 1998:

- enrollment in FFS plans declined by over 70%, (from 52% to 15%),
- enrollment in HMO plans increased by 40%, (from 19% to 27%), while
- enrollment in PPO plans increased by 85%, (from 28% to 52%).

In comparison, the eHealthInsurance data shows an even stronger preference for PPO plans (75%) somewhat less interest in HMO plans (16%) and minimal interest in FFS plans (5%).

Table 3

Plan Choices by eHealthInsurance Individual and Family Coverage Customers Compared with the General Population

Product Type	Percentage Covered by Plan Type[a] 1992 Private Coverage Population[b]	1998 Private Coverage Population[b]	2000 eHealthInsurance Individual Coverage Customers[c]
HMO	19.5%	27.3%	16%
PPO	27.9%	51.6%	75%
POS	0.9%	5.7%	2%
FFS	51.6%	15.3%	5%
MSA	n/a	n/a	1%
Total	100%	100%	100%

[a]Numbers may not add up to 100 due to rounding.
[b]Dallas Salisbury, EBRI Research Highlights: Retirement and Health Data, Employee Benefit Research Institute, Issue Brief 229, January, 2001, p. 43, Table 1. The "Private Coverage Population" does not include individuals with Medicare or Medicaid coverage who are enrolled in private plans.
[c]Unpublished data from eHealthInsurance Services, Inc.

This would appear to contradict any assumption that policies in the individual and family market unduly restrict utilization of health services. Rather, it suggests that when confronted with the various tradeoffs and options, most consumers are willing to accept some, but not substantial, restrictions in exchange for lower premiums.

Less Expensive Coverage

While plan type and features are one-half of the coverage equation, the premium (price) is the other half. As with any consumer purchase, features that may initially appear desirable may seem less so if the price is too high. Conversely, a product that is perceived as inadequate may not be worth buying no matter how cheap it is.

Given the range of options and cost/benefit considerations involved in purchasing health insurance directly, it is instructive to examine the premium costs as well as the benefit designs of the plans chosen by eHealthInsurance customers.

Modest Average Premiums

The average individual premiums through eHealthInsurance fall in the range of $100 to $125 per-member-per-month (PMPM). On an annual basis, this equates to $1,200 to $1,500 per-person-per-year.

The sales experience of eHealthInsurance, as a national distributor, compares similarly to the sales data of various health insurance companies. Specifically, the eHealthInsurance data corresponds with the experience of two of the largest, national health insurance carriers of individual policies. According to the annual report of Wellpoint, which sells nationally and is

the parent company of major carriers such as Blue Cross of California and Blue Cross & Blue Shield of Georgia, their average per-member-per-month-premium for their combined Individual and Small Group business is $113. According to sources at Golden Rule Inc., which sells policies in 25 states, their average individual premium is close to the $100 level.

When compared to government program premiums, the eHealthInsurance data still appears reasonable. Specifically, information on Medicaid's non-disabled population indicates an average monthly cost of $158 per person. The averages are expectedly higher than individual policy premiums since Medicaid is required to accept people with costly pre-existing conditions These market data points from eHealthInsurance correlate closely to the average premium data from various health plans and government programs, and therefore counter the perception that average premiums for individual and family health insurance are multiples of two to three times more than government-based medical insurance.

Reasons cost is perceived to be higher

Since the above average premium data appears statistically reliable, it raises the question of why many people perceive individual insurance as carrying higher premium prices. In actuality, there are specific cases where the premiums paid by certain individuals are much higher than the average. The more extreme variations seem to fall into categories where either: a) the individual has a significant pre-existing health condition; b) the individual is near Medicare age; or c) the individual resides in one of the few states that require insurance companies to insure individuals with pre-existing conditions (called "guaranteed issue"), and hence the overall market prices in the state reflect the additional costs.

Rather than a narrow or anomalous market, the data shows that eHealthInsurance customers represent a geographically dispersed and demographically diverse set of purchasers. The eHealthInsurance data set encompasses sales in 42 states covering 95% of the US population and the general mix of covered lives is roughly equivalent at 49% female and 51% male.

More importantly, the ages of people purchasing through eHealthInsurance include the full pre-Medicare range from age 1 to age 64, with a smooth distribution curve and average age of 30 years (see Table 4).

Table 4

Age Distribution of eHealthInsurance Customers

Age	Percent of Customers
0-19	5%
20-29	35%
30-39	31%
40-49	18%
50-59	9%
60-64	2%

Individual prices lower than small business prices

Many people believe that individual premiums must be higher than small business premiums due to economies of scale, but the data actually shows the opposite.

The average premium per-member-per-month (PMPM) for policies sold through eHealthInsurance is 25% higher for small group members than for individual and family members. This experience is generalized and confirmed by comparing, on a state basis, the average premiums for individuals and small groups charged by insurance companies that serve both markets in a state.

The average small business premium of two of the largest remaining national carriers of small business insurance, Aetna and Humana is above $150 per-member-per-month.[5] This is significantly higher than the premiums of leading carriers of individual insurance. In this context, it is also worth noting that both Aetna and Humana either have exited, or are seriously considering exiting, small business markets in numerous states due to profitability problems. Another course of action would be to raise prices even further.

As an example from a single geographic area, a large Maryland carrier confirmed privately that its average PMPM for small business is 7% higher than its PMPM for individual policies. Similarly, a recent study of 2001 health insurance premiums, by "Managed Care Online" confirms this point for California:

> "Not only were premium increases for individual policies lower than the small group market, but their actual average premium rates were lower than small group average premiums for some categories. An explanation lies in the fact that the individual market is not subject to guaranteed issue, and has strict underwriting, while in contrast, the group market has guaranteed issue, and negligible underwriting."

In addition, this study indicates that the small group coverage market has a higher inflation factor than the individual and family coverage market.

> "California small employers averaged a 19.99% premium increase for 2001, compared to 17.12% in 2000. However, individual policies, mid-size groups and large groups all averaged single digit increases for 2001. Mid size group increases averaged 4.54%, large groups increases averaged 7.27% and individual policies averaged 8.95% increases." [6]

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[5] Source: investor relations.

[6666] See: http://www.mcareol.com/2001find.htm

Implications for Policy Makers

The data suggests a number of implications for policy makers, particularly at the Federal level. Specifically:

Government assistance required – Although premiums for individual health insurance are less than generally perceived, some government assistance will be required to make the expense affordable for uninsured lower-income workers and families.

Consider, for illustrative purposes, a single person with an annual income of $32,000, who spends $2400/month for taxes, food, shelter, clothing, and transportation.. That individual is left with $267/month in discretionary funds. With average health insurance premiums above $100/month, it would require a commitment of more than one-third of this person's discretionary income to purchase insurance. This $32,000 income is approximately 400% of the Federal Poverty Level, and yet the individual may not feel able to afford health insurance. As a consequence, many such individuals are uninsured, and may remain so without government assistance.

Tax credits may likely help – Continuing with our example of a single person with an income of $32,000, assuming a single premium of $1334 is 75% reimbursed by the tax credit, this would enable this person to pay only $28 per month for health insurance. This comparison of the actual premiums with the value of proposed health insurance purchasing subsidies should be of particular interest to policymakers. Proposed modest tax credits may likely result in a substantial reduction in the number of uninsured persons by enabling them to obtain affordable and comprehensive health insurance coverage.

Comparing the premium data with proposed health insurance tax credit amounts gives an indication of the likely "purchasing power" of the tax credits. For purposes of comparison, the credit amounts used were the ones in the bipartisan REACH Act (S. 590) that provides for a maximum credit of $1,000 for single coverage and $2,500 for family coverage. [7]

The results of the analysis are summarized in Table 5 below. They show that for both coverage categories (single and family), half of the policies purchased through eHealthInsurance carried premiums that would be completely reimbursed by the proposed tax credits. Furthermore, another one-quarter of the policies purchased in each coverage category charged premiums for which the proposed tax credits would reimburse between 75% and 99% of the premium.

Thus, for over three-quarters of the individual and family policies purchased through eHealthInsurance, the proposed tax credits would cover at least 75% of the premiums.

At the other end of the scale, only 11% of the policies purchased by singles carried premiums for which the tax credits would reimburse less than half the cost (i.e., premiums in excess of $2,000). Similarly, only 7% of the family coverage policies purchased by eHealthInsurance

[7] The most recent proposal by President Bush would provide a $1000 credit for individuals and a $2000 credit for families.

customers carried premiums for which the tax credits would reimburse less than half the cost (i.e., premiums in excess of $5,000).

Table 5

Effects of Applying Proposed Tax Credit to Policies Purchased by eHealthInsurance Individual and Family Coverage Customers

	Percent of Policies by Type of Coverage Purchased		
Percent of Premiums Covered by the Tax Credit[a]	**Single**	**Family**	**All**
100%	50%	54%	52%
75% to 99%	25%	27%	25%
50% to 74%	14%	12%	14%
0% to 49%	11%	7%	9%
Cumulative Effect of Tax Credits			
100% or more	50%	54%	52%
At least 75%	75%	81%	77%
At least 50%	89%	93%	91%

These findings suggest the outlines of what may be a promising combined federal and state strategy for reducing the record number of 43 million uninsured individuals.

At the federal level, they indicate that it would be worthwhile for policymakers to continue pursuing the development of fixed-dollar tax credits for individual and family health insurance purchases as a way to quickly expand coverage to a large segment of the uninsured. The findings also suggest that most individuals and families would use such credits to purchase reasonably comprehensive coverage and that currently proposed credit amounts are of a reasonable size.

Since, by definition, those currently purchasing coverage through eHealthInsurance can afford the premiums, it is reasonable to expect that if affordability could be addressed through tax credits, a significant portion of the uninsured population could also obtain similar coverage, whether through eHealthInsurance or traditional brokers. It is also reasonable to expect that coverage could be made even more accessible if workable provisions were included in the legislation providing for the credits to be "advanced" to individuals and then "transferred" by them to insurers or brokers when they obtained coverage. Such provisions would relieve lower income individuals of the necessity of "fronting" the cost of coverage.

At the state level, the eHealthInsurance premium data suggests that as a rough, initial target state policy makers should try to ensure that the benefit requirements, rating laws and market conduct rules that they impose on health insurers don't preclude them from offering plans with premiums at or below about $1,500 for individuals and $3,000 for family coverage.

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[a] The tax credits are assumed to be a maximum of $1,000 for a single person and $2,500 for a family.