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Solutions for Today's Health Policy Challenges

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Real People, Real Coverage

Roughly 15 million Americans who are too young to qualify for Medicare and too affluent to qualify for Medicaid purchase private health insurance to cover major medical expenses. In the vast majority of cases, these Americans lack access to employer-provided coverage or seek less-expensive alternatives because the cost of that group coverage is so high.

Phony People, Phony Numbers. The Kaiser Family Foundation recently released a study of seven hypothetical people who submitted 420 applications for health insurance coverage to various insurers in the individual (i.e., non-group) market. According to the study:

- 37 percent of all of the applicants, or a family member, were rejected.
- 28 percent had benefit restrictions imposed, 13 percent had premium surcharges and 12 percent had both.
- 90 percent “were unable to obtain the coverage for which they applied at the standard (premium) rate.”

Thus, only 10 percent of the hypothetical people got what the authors of the study might call “real” insurance. Such results, if accurate, would seem to indicate an individual health insurance market unable to meet the needs of most consumers who want to purchase health insurance.

However, the Council for Affordable Health Insurance (CAHI) recently surveyed its member companies that sell policies in the

individual market to see what actually happens when real people apply for real coverage — and came up with dramatically different results.

Different People, Different Needs. People who seek private health insurance come from all walks of life. For example:

- Suzy is a young, single mother. She works full time, but her employer cannot afford to provide health insurance.
- Bill and Diane are “empty-nesters” in their late 50s. They worked and saved and have taken early retirement.
- Stanley’s employer provides a group health plan but pays only half the employees’ cost and contributes nothing toward the cost of dependent coverage. Stanley needs a less-expensive alternative for his wife and children.
- Mary is recently widowed. Although she can get by without working, she wants the security of health coverage.

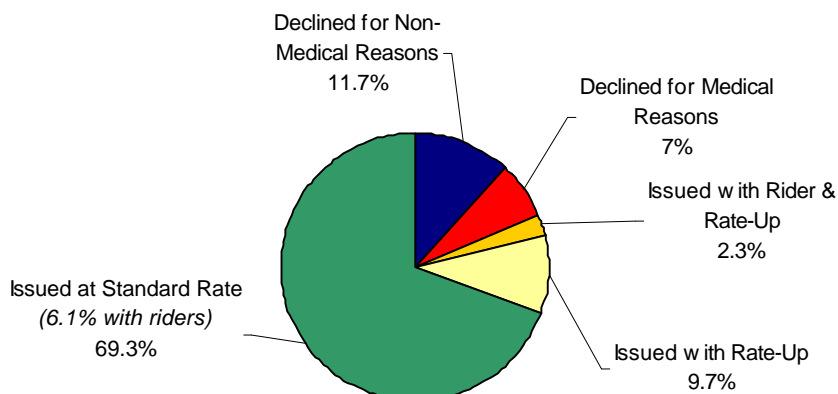
Each of these people has different health insurance requirements. Younger families with children typically want lower deductibles and copayments because children have frequent minor ailments. Older people without children often prefer high deductibles in order to protect their hard-earned assets from catastrophic medical costs. The private market delivers these and many other options.

Different Insurers, Different Options. Private health insurance in the individual market comes with myriad deductibles, cost sharing, levels of managed care and benefit options. Such options allow people to match their coverage to their needs and budgets. Consider:

Comprehensive Plans — These are designed for people who want health insurance to cover both their routine medical costs and major health care expenses. Most companies serving the individual market offer several deductible, coinsurance and managed care options, along with maternity, supplemental accident and life insurance “riders.”

High-Deductible Plans — Annual deductible options range from \$1,000 to \$5,000 and higher. Applicants can choose among Preferred Provider

Can Individuals Purchase Health Insurance?



Organizations (PPOs) or fee-for-service plans. Options include a prescription drug card. People who choose this type of coverage take responsibility for paying routine medical expenses and rely on insurance for major health care costs.

Basic Coverage — This no-frills solution suits people who want to save as much as 40 percent of the cost of typical major medical coverage. These plans cover inpatient and outpatient care for serious illnesses and injuries but lack the “bells and whistles” of comprehensive health insurance.

Medical Savings Accounts — Recent federal legislation created MSAs that allow self-employed workers to deposit money tax free into an account that can be used for small and routine medical care. The law requires those opening MSAs to purchase a high-deductible policy to pay for major medical expenses.

Given that several insurance companies and HMOs compete vigorously in most markets, those seeking coverage usually can pick and choose from a wide range of options.

Is It Difficult to Get Private Health Insurance? Everyone understands that when people want to purchase a multimillion-dollar life insurance policy, their age, sex and medical history will be considered. This underwriting is an effort to determine whether to offer the policy and, if so, how much to charge. The same is true for comprehensive health insurance: lifetime benefits may be several million dollars or even unlimited.

However, it is important to note that different companies underwrite differently. Some may increase the cost of premiums if the applicant has a chronic medical condition. Others will place a rider on the policy and cover the insured for all medical costs except those related to the medical condition. For example:

Increased deductible due to high blood pressure or asthma. A person with these conditions knows that he or she will incur costs to control them, mostly with prescription drugs. The insurance carrier might offer coverage with, say, a \$900 deductible instead of the \$500 deductible requested. The condition would still be covered. Nothing additional would be limited or excluded.

Outpatient cholesterol treatment. A person being treated with drugs for high cholesterol has a known expense. The insurance carrier might offer such a person coverage that excludes doctor visits, diagnostic tests and drugs only for the treatment of the high cholesterol. Coverage would otherwise be intact, and if the high cholesterol resulted later in a heart attack or a stroke, treatment for the latter conditions would be covered.

The ability of carriers to offer “rate-ups” and riders can make an enormous difference in the number of people issued coverage. A few years ago, Louisiana passed legislation prohibiting carriers from issuing coverage with medical riders. So many people were rejected for coverage that in 2001 the Louisiana Department of Insurance proposed legislation restoring the carriers’ ability to offer coverage with medical riders. The bill, H.B. 830, passed overwhelmingly and was signed into law by the governor.

Results of the CAHI Survey. As the figure on the opposite page shows, CAHI’s survey of member companies came to a very different conclusion than Kaiser’s. According to the analysis:

- Only 7 percent of the applicants were declined coverage for medical reasons.
- 11.7 percent were declined for nonmedical reasons such as application through an agent not registered to represent the company or the failure of the applicant to enclose a check with the application.
- 9.7 percent were offered a policy at a higher premium, 6.1 percent were offered policies with riders but standard premiums, and only 2.3 percent had both a rate-up of premiums and a rider.

In sum, 81.3 percent of applicants received a policy and 69.3 percent got their policies at standard rates.

Are Standard Rates Affordable? Until recently, no serious survey had been conducted on the cost of private health insurance. But in the summer of 2001, eHealthInsurance, one of the best sources for health insurance quotes for individuals and small businesses, analyzed “the purchasing decision of 20,000 customers from across America who have obtained health insurance for themselves or their families” through its free Internet service.

The results surprised many: private health insurance often is more affordable than group coverage. The average premium for the purchased policies was only \$1,200 to \$1,500 per person per year. This compares to the U.S. median family income of \$38,885 (1998).

The study reported that the “average premium per-member-per month for policies sold through eHealthInsurance is 25 percent higher for small business members than for individual members.” Apparently, more than 10 years of state and federal “reforms” in the small group market has had a serious negative effect on the cost of small group health insurance.

Conclusion. The individual market for health insurance is not a theory; it is a reality for millions of Americans. In those states that haven’t destroyed the market for health insurance by excessive regulation, working families have numerous options at affordable prices. These aren’t hypothetical applicants; they are real people with real coverage.

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