News Release

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NEW STUDY SHOWS GETTING HEALTH COVERAGE IN INDIVIDUAL INSURANCE MARKET CAN BE DIFFICULT

Benefit Limits and Steep Premiums Common Even for Consumers with Mild Health Conditions

(Washington, DC)—Finding comprehensive health coverage in the individual insurance market can be time-consuming, expensive, and challenging for consumers with even the most common health conditions according to a new report by the Kaiser Family Foundation. The study, conducted for Kaiser by researchers at Georgetown University's Institute for Health Care Research and Policy, was designed to test access to the individual insurance market by creating hypothetical applicants and asking real insurers to consider them as actual consumers. The results show that consumers with various health conditions can often get coverage of some kind, but that coverage often comes with limits on benefits and may be priced out of their reach.

"Trying to buy insurance in the individual insurance market is a little like playing roulette with your health coverage," said Drew E. Altman, Ph.D., president and CEO of the Kaiser Family Foundation. "If you are already sick or low-income, the individual market is unlikely to be an answer for you," he added.

How Individual Consumers Fare in the Individual Market
The report, *How Accessible is Individual Health Insurance for Consumers in Less-Than-Perfect Health?*, shows extremely wide variations in benefits and premiums offered that are highly dependent on the age, residence, and health status of the applicant, as well as on the particular insurer.

"The individual health insurance market is unpredictable, inconsistent and expensive. The benefits you receive and what you pay depend on your personal circumstances and the reaction of each individual insurance carrier," said Karen Pollitz of Georgetown University's Institute for Health Care Research and Policy, author of the study along with Richard Sorian and Kathy Thomas.

The report follows seven hypothetical consumers through the application process with 19 insurance companies and HMOs in eight markets around the country: Arlington Heights, Illinois; Austin, Texas; Corning, Iowa; Fresno, California; Miami, Florida; Tucson, Arizona; Richmond, Virginia; and Winamac, Indiana. Insurance carriers were asked to determine whether each applicant would be offered coverage and under what terms, using a policy that included a $500 deductible and a $20

copayment per physician visit. Insurers responded to the applications either by accepting the applicant without benefit limitations or increased premiums (called a "clean offer"), by rejecting the applicant, by offering coverage with restrictions on covered benefits, or by offering coverage at a higher-than-standard premium (a "surcharge" or "rate-up"). The hypothetical consumers were:

- **Alice, a 24-year-old with hay fever;**
- **Bob, a 36-year-old with a ten-year-old repaired knee injury;**
- **The Crane Family (Carl and Cathy, both aged 36, daughter Cindy, 10, and son, Colin, 12, who has asthma and recurring ear infections);**
- **Denise, a 48-year-old, seven-year breast cancer survivor;**
- **Emily, a 56-year-old widow who is "situationally depressed;"**
- **Frank, a 62-year-old, overweight smoker with high blood pressure; and**
- **Greg, a 36-year-old who is HIV positive.**

For each of the hypothetical consumers 60 applications for coverage (for a total of 420 applications) were submitted, resulting overall in clean offers 10% of the time, rejections 37% of the time, coverage with benefit limits 28% of the time, coverage with premium increases 13% of the time, and coverage with both premium increases and benefit limits 12% of the time. The average premium quoted for single applicants was $3,996 per year.

Behind these overall numbers are tremendous variations from one consumer to another:

- All 60 of Greg's applications were rejected as most insurers consider HIV to be an "uninsurable" condition.
- Frank was rejected 55% of the time, and
- Denise was denied coverage 43% of the time.

Other consumers faced fewer rejections, though even people with relatively mild and common health conditions faced rejection:

- Alice, with the relatively mild condition of hay fever (shared with 36 million Americans), was rejected 8% of the time.
- Bob, whose knee was repaired 10 years ago, was turned down in 12% of cases.
- While the Crane family was offered coverage all 60 times, nine of those offers excluded their son Colin from the policy because of his asthma (a condition that afflicts nearly 17 million Americans).

When coverage was offered, it usually came with premium surcharges or restrictions on coverage. Premium increases were most common for Emily, whose quoted rates ranged from $1,920 to $10,992 a year, and for Frank, whose annual premiums ranged from $2,928 to $30,048. Alice, through a combination of her young age and relatively mild health condition, received the lowest premium offers (an average of $1,656 a year, ranging from a low of $408 to a high of $4,596). Offers commonly excluded coverage for the applicant's primary health condition, though limitations sometimes went beyond that: for example, some insurers excluded coverage of cancer of any type for Denise, or for Colin's entire respiratory system. Applicants whose conditions required treatment with prescription medications--such as Alice's hay fever, Colin's asthma, and Emily's depression--were in some cases offered policies with only limited drug coverage.

The study shows that insurance availability varies not only by what your health condition is, but also where you live: the percentage of applications accepted ranged from lows of 49% in Fresno and 55% in Winamac to more than two-thirds accepted in Miami, Corning, Austin, Arlington Heights, and Richmond. The report suggests that low offer rates in California and Indiana may be the unintended

result of laws prohibiting insurers from attaching "riders" to policies that exclude coverage of a particular condition or part of the body. Insurers in these states tended to reject applicants, while in other states (where riders are permitted), they offered substandard coverage.

A Complicated Market Even for the Healthy

Even those in "perfect" health can face barriers to obtaining coverage. Rates offered by carriers are generally based on the age, sex and geographic location of the applicant. Advertised premiums offered to healthy consumers, known as "standard rates," were three to six times higher for a 62-year-old man than those offered to a 24-year-old woman in the markets studied. Geographic differences were also dramatic: standard rates charged in Miami averaged twice those charged in Arlington Heights, Illinois, a suburb of Chicago. Premiums in the small, rural areas studied were much lower than in the other regions included in the study.

Comprehensive coverage is often not available even to healthy consumers. Coverage for maternity benefits, mental health care and prescription drugs tends to be very limited in the individual market, particularly compared to the benefits offered through most group health plans.

The study also found that the application process can make it hard for consumers to "shop around" for the most affordable or appropriate coverage. Applying for individual insurance coverage may take two to eight weeks, and most carriers require a refundable payment for the first month's premium with the application, in some cases cashing the check up front and returning it later after rejecting the applicant. In addition to requiring past medical records and, in some cases, samples of blood, urine or saliva, some insurers may consult a database maintained by the insurance industry for information about any actions or decisions made by other carriers on the applicant.

Challenges of Regulating the Individual Market

The geographic areas in the study were chosen to test how the individual insurance market functions in states with few restrictions on insurer practices. However, a few states, such as New York, have enacted laws to make coverage in this market more evenly available to consumers. New York, for example, requires that no resident be turned down for coverage or charged more due to their health, age or gender. In addition, New York requires insurers to cover maternity benefits, prescription drugs, and mental health care.

To study the influence of these regulations, the hypothetical applicants were tested separately in New York. The study found that greater access comes at a cost: premiums in New York tend to be higher than in states without such regulations. In Albany, New York, the average premium offered to the single hypothetical applicants in the study was $4,104 per year. This is somewhat higher than the average premium these applicants faced in other markets ($3,996), and significantly higher than they would have been charged if they were healthy ($2,988 per year). While this means that each of the hypothetical consumers in the study would have been sold a standard policy without limitations on benefits at a standard rate in New York, it also means that young healthy consumers pay more for coverage in New York than in other places.

Increasing Policy and Business Interest in the Individual Market

A great deal of attention has recently been paid to this market—which now covers 16 million people--as both policymakers and employers consider options for helping consumers purchase individual coverage. One approach policymakers have discussed for reducing the number of uninsured is providing tax credits to help people purchase coverage in the individual market. Some employers have considered moving to a "defined contribution" approach in which employers would provide employees with a set amount of money to purchase coverage on their own in the individual market rather than providing coverage through a group policy.

"On average a perfectly healthy consumer in our study would have had to pay almost $3,000 a year for health insurance, three times the amount of the $1,000 tax credit for individuals that some have proposed. And people in less-than-perfect health face even higher premiums," said Larry Levitt, vice president of the Kaiser Family Foundation. "This study highlights the need for greater accessibility and affordability before the individual insurance market can be more broadly tapped as a vehicle for covering the uninsured."

Hypothetical Consumer	Clean Offers	Rejections	Offers with Benefit Limits or Premium Surcharges	Average Premium
Alice	3 (5%)	5 (8%)	52 (87%)	$1,656/ year
Bob	15 (25%)	7 (12%)	38 (64%)	$1,764/ year
The Crane Family	3 (5%)	9 (15%)*	48 (80%)	$5,460/ year
Denise	11 (18%)	26 (44%)	23 (38%)	$3,912/ year
Emily	9 (15%)	14 (23%)	37 (62%)	$4,056/ year
Frank	2 (3%)	33 (55%)	25 (42%)	$9,936/ year
Greg	0	60 (100%)	0	N/A

*The Crane Family was accepted for coverage all 60 times, but Colin was excluded in 9 cases.

Methodology

This study was conducted during the period 2000-2001 for the Foundation by researchers at Georgetown University and K.A. Thomas & Associates (a risk management consulting firm) to test the cost and accessibility of individual health insurance for consumers with varying life and health circumstances. Through the National Association of Health Underwriters (NAHU), insurance carriers were provided with a description of seven hypothetical applicants and asked to "underwrite" these applications as if they were actual consumers. Nineteen insurers in eight markets nationwide participated, making it possible for our hypothetical consumers to apply for a total of 60 health insurance policies.

The Henry J. Kaiser Family Foundation, based in Menlo Park, California, is a non-profit independent national health care philanthropy dedicated to providing information and analysis on health issues to policymakers, the media and the general public. The Foundation is not associated with Kaiser Permanente or Kaiser Industries.