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NEWS RELEASE
Embargoed for Release
12:01 a.m. EST
Tuesday, Jan. 8, 2008

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Higher Costs and Stagnant Incomes Increase Financial Burden of Health Care

Health Affairs Article: 45.4 Million Americans in Families Spending More than 10 Percent of After-Tax Income on Health Care in 2004—Almost 6 Million More than in 2001

WASHINGTON, D.C.—Rising out-of-pocket expenses and stagnant incomes increased the financial burden of health care for more Americans between 2001 and 2004, especially for the privately insured, according to a national study supported in part by the Commonwealth Fund and published in the January/February edition of *Health Affairs*.

More than one in six Americans—or 17.7 percent of the nonelderly population—lived in families spending more than 10 percent of after-tax income on health care in 2004, up from 15.9 percent in 2001. Conducted by researchers at the Center for Studying Health System Change (HSC) and the Agency for Healthcare Research and Quality (AHRQ), the study defined people living in families spending more than 10 percent of after-tax income on health care—including health insurance premium payments and direct spending on services—as having a high financial burden.

After accounting for general inflation, total average out-of-pocket spending on health care increased by \$373 to \$2,656 a person in 2004—about a 16 percent increase from 2001. In contrast, average family incomes during the same period were largely unchanged after accounting for inflation.

The increase in financial burden was driven entirely by people with private insurance, most of whom had employer-sponsored coverage: one in six people (17%), or 29 million people, with employer-sponsored insurance faced high burdens in 2004, up from one in seven people (14.7%) in 2001, the study found. For people with employer coverage, out-of-pocket spending for premiums and services rose \$553 to \$3,211, a 21 percent increase between 2001 and 2004 after accounting for inflation. The increase in high financial burden for this group would have been higher if not for a small rise (4.6%) in family incomes during the same period.

“Many families with private insurance—especially those with low incomes—are having difficulty paying medical bills,” said HSC Senior Fellow Peter J. Cunningham, Ph.D., coauthor of the study with Jessica S. Banthin and Didem M. Bernard of AHRQ.

Commonwealth Fund Assistant Vice President Sara Collins said, “With the U.S. currently engaged in a national debate over expanding health insurance, these findings underscore how important it will be to ensure that everyone has access to insurance that covers essential services with premiums, deductibles and out-of-pocket-costs that are affordable relative to family income.”

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Given projections that overall private health insurance costs and out-of-pocket spending will rise 6 percent to 7 percent annually through 2016, the authors conclude that high financial burdens for health care are likely to continue to affect more Americans since growth in incomes is unlikely to keep pace with increases in the cost of care.

The *Health Affairs* article, titled “[Financial Burden of Health Care, 2001-2004](#),” is based on an analysis of AHRQ’s 2001 and 2004 Medical Expenditure Panel Survey. In both years, the survey included information on more than 28,000 people under age 65.

Other key study findings include:

- In 2004, more than half (52.7%) of people with nongroup, or individual, private health insurance faced high out-of-pocket burdens, a dramatic increase from 39 percent in 2001. People with nongroup coverage must pay the entire premium out of pocket, they may pay higher premiums if they have pre-existing health problems or are older, and benefits in such plans are often less generous than in employer-sponsored plans.
- There was no change in financial burden among the uninsured and people with public coverage. About 16 percent of the publicly insured—6.4 million people—faced high financial burdens in 2004, while 14 percent of uninsured people faced high burdens. For the uninsured, lower out-of-pocket spending and comparable burden levels relative to privately insured people reflected lower medical care access and use. About 55 percent of the uninsured used health services in 2004, compared with 88.1 percent of people with employer coverage.
- Financial burdens were highest among poor and low-income people with private insurance—53.5 percent of privately insured people with incomes below 100 percent of the federal poverty level, or \$18,850 for a family of four in 2004, faced high financial burdens. Likewise, 37.4 percent of people with private insurance and incomes between 100 percent and 199 percent of the federal poverty level faced high burdens.
- Despite the overall increase in financial burden, the share of total health spending paid for out of pocket actually decreased slightly from 34.8 percent in 2001 to 33.6 percent in 2004, meaning that much of the increased burden is a result of health spending growing more rapidly than income.

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The Commonwealth Fund is a private foundation working to promote a high performing health care system that achieves better access, improved quality, and greater efficiency, particularly for society's most vulnerable. The Fund carries out this mandate by supporting independent research on health care issues and making grants to improve health care practice and policy.

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The Center for Studying Health System Change is a nonpartisan policy research organization committed to providing objective and timely research on the nation’s changing health system to help inform policy makers and contribute to better health care policy. HSC, based in Washington, D.C., is funded in part by the Robert Wood Johnson Foundation and is affiliated with Mathematica Policy Research, Inc.