



# In the Literature

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**Health Affairs**  
January/February 2008  
27(1):188–95

Full text is available at:  
<http://content.healthaffairs.org/cgi/content/abstract/27/1/188?iikey=x1uOF8QUZ.tCo&keytype=ref&siteid=healthaff>

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This summary was prepared by Christopher Gearon and Deborah Lorber.

Commonwealth Fund Pub. 1091  
January 2008

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## FINANCIAL BURDEN OF HEALTH CARE, 2001–2004

Rising health care costs, combined with slowed economic growth, have created greater financial burdens for U.S. families in recent years—and raised the likelihood that they will face problems paying bills, accumulate medical debt, and even forgo needed medical care. In a Commonwealth Fund-supported study examining families' financial burdens and out-of-pocket spending between 2001 and 2004, researchers found that by 2004, more than 45 million Americans lived in families with high financial burdens—spending more than 10 percent of their after-tax income on health care. That represents an increase of nearly 6 million people over 2001.

The authors of “[Financial Burden of Health Care, 2001–2004](#)” (*Health Affairs*, Jan./Feb. 2008) found that the overwhelming majority of people who face such high financial burdens had private health insurance. “Financial burdens have increased to the point at which private insurance is no longer able to provide financial protection for an increasing number of families,” say the authors. “[T]he same affordability issues that low-income families experienced a decade ago might affect middle-class families in the future.”

### Health Care Costs Continue to Outpace Wage Growth

In the first part of this decade, with health care costs continuing to grow faster than inflation, employers shifted more of their expenses to workers through higher premiums, deductibles, and copayments. At the same time, families faced economic pressures because of slower income growth, which resulted in increased poverty rates and a swelling of the ranks of the uninsured.

To assess the effect of the health care cost burden during these years, the researchers analyzed data from the Medical Expenditure Panel Survey.

Between 2001 and 2004, the percentage of the nonelderly population living in families with high out-of-pocket health care burdens rose from 16 percent to 18 percent. After adjusting for inflation, total out-of-pocket spending rose by \$373, from \$2,283 to \$2,656, a 16 percent increase over the three-year period. In that time, health care costs increased an average of 8.3 percent, while average family income rose only 1.6 percent.

### Individual Market Policyholders at Risk

The increase in families' financial burdens was driven by people with private employer-sponsored insurance. By 2004, 17 percent of people with such coverage, or 29 million people, faced high burdens, a 2.3-percentage-point increase from 2001. Although relatively small in number, people covered by private policies purchased in the individual market were far more likely than those covered by any other type of insurance to bear high financial risks. The number in this group who had high out-of-pocket burdens rose from 39 percent in 2001 to 53 percent in 2004.

The uninsured and those with public coverage did not see their financial burdens change between 2001 and 2004. About one-sixth of individuals with public coverage, or 6.4 million people, faced high financial burdens in 2004. Particularly for the uninsured, high cost burdens translate into obstacles to care. Only about 55 percent of the uninsured used any health

services in 2004, compared with 88 percent of individuals with employer-sponsored coverage.

Financial burdens were highest among poor and low-income people with private insurance. Fifty-four percent of poor and 37 percent of low-income people with private insurance faced high financial burdens in 2004. At the same time, one of five privately insured middle-income people spent more than 10 percent of their income on health care, a rate twice as high as that for higher-income individuals.

### Conclusions

“Private health insurance, as structured today, does not completely protect many poor and low-income individuals and families from the high cost of health care,” the authors say. “This group is of particular concern because these trends indicate that many Americans are underinsured and going without needed medical care.”

Although poor and low-income people faced a greater prevalence of high financial burdens, middle-income families are at risk going forward. The authors suggest that premium assistance programs, which help individuals pay for monthly premium

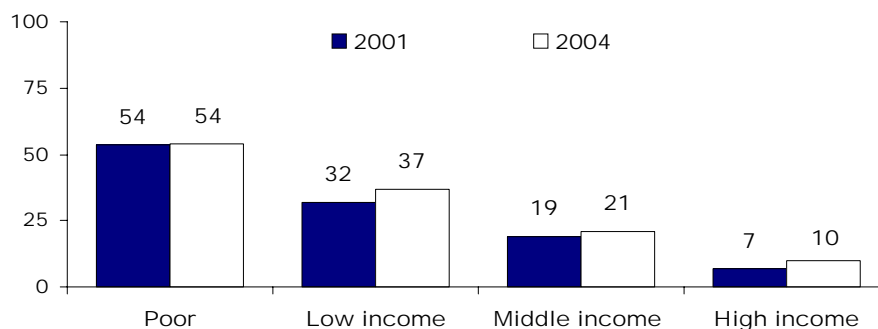
costs, are an effective way to target public dollars. “Subsidizing out-of-pocket premiums for low- and moderate-income workers who have access to employer-sponsored coverage is an alternative way to increase the affordability of private coverage.”

### Facts and Figures

- People with nongroup private insurance paid a much higher share of their total health care bill out-of-pocket (55.3%) than did those with employer-sponsored coverage (31.9%).
- Health insurance premiums alone were the source of high financial burdens for 30.1 percent of poor and 21.9 percent of low-income privately insured people in 2004.
- Despite the overall increase in financial burden, the share of total health spending paid for out-of-pocket actually decreased slightly, from 35 percent in 2001 to 34 percent in 2004.

### Nonelderly People in Families with Private Insurance and High Out-of-Pocket Burdens, by Income

Percentage with private insurance (group and nongroup) and high out-of-pocket burdens



Note: High burden = having combined out-of-pocket expenses for services and premiums >10% of after-tax family income.  
 Poor = family income <100% of federal poverty level (FPL); low income = 100%–200% FPL; middle income = 200%–399% FPL; high income = 400%+ FPL.  
 Source: Adapted from J. S. Banthoin, P. Cunningham, and D. M. Bernard, “Financial Burden of Health Care, 2001–2004,” *Health Affairs*, Jan./Feb. 2008 27(1):188–95.