



## Group Insurance: A Better Deal for Most People Than Individual Plans

December 3, 2009

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**Journal:** *Health Affairs* Web First, December 3, 2009

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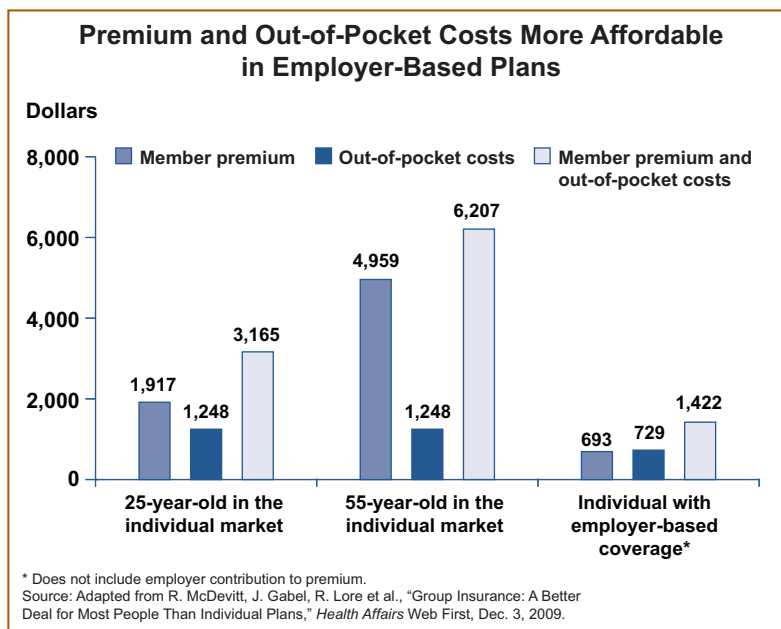
### Synopsis

Researchers compared employer-sponsored health insurance plans with individual market plans on the basis of scope of benefits, premiums, actuarial value, cost-sharing, and out-of-pocket costs. Employer plans were found to be much more affordable, and offered more comprehensive coverage, than individual plans.

### The Issue

The leading health care reform bills would require all people to obtain health insurance coverage, building on both employer-sponsored plans and a reformed individual market. Under reform, the individual insurance market would no longer be able to deny coverage, most underwriting would be prohibited, and lower-income people without access to an employer plan would receive subsidies to purchase coverage. Few studies have compared plans available in the two markets in terms

of premiums, out-of-pocket costs, or actuarial value (the percentage of total medical expenses paid for a standard population). This Commonwealth Fund-supported study drew on survey data from 2007 to compare plans offered by employers with those available in the individual insurance market.



### Key Findings

- In 2007, individual insurance plans paid only 66 percent of total charges, while employer-based plans paid 80 percent.

- The average annual employer group premium for a single adult was \$4,481, more than twice the average premium for a 25-year-old in the individual market but about \$500 less than the average individual premium for a 55-year-old. Enrollees in employer-sponsored plans receive substantial premium contributions from employers, which on average paid all but \$693 of the \$4,481 single premium.
- Seventy-eight percent of enrollees in individual plans pay an annual deductible, compared with only 58 percent of enrollees in employer-sponsored plans.
- Deductibles average more than \$2,100 for individual plans and less than \$600 for employer plans.
- Out-of-pocket maximums are common to both types of plan, but the average in individual plans is \$5,271—more than double the \$2,167 average in group plans.
- Employer group plans rarely exclude coverage for preexisting conditions, while such exclusions are common in individual plans. Similarly, maternity coverage is nearly universal in employer plans, while it is excluded from 57 percent of individual plans.

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### Addressing the Problem

Employer plans generally offer lower member premiums, higher actuarial values, and more comprehensive coverage. They are also more affordable when premiums and out-of-pocket costs are considered together. These advantages are largely explained by employers' substantial premium contributions and the federal tax code, which gives employer group plans a key advantage over individual market plans. While some people are able to obtain affordable coverage in the individual market, the market has limited appeal. It is likely to remain that way without substantial reorganization and reform.

**"For most people, premiums and out-of-pocket costs were more affordable in tax-advantaged employer plans than in individual market plans."**

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### About the Study

Data on employer-sponsored group plans were drawn from the 2007 Kaiser Family Foundation/Health Research and Educational Trust Employer Health Benefits Survey, which included 1,997 public and private firms with three or more workers. Individual market plan data was obtained from a survey of plans in 10 states that combined represent about 40 percent of all individually purchased plans. Using a simulation model, the researchers estimated actuarial value and out-of-pocket expenses for 152 individual market plans and 2,654 employer plans offered in 2007.

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### The Bottom Line

Individual health insurance is far less affordable than employer coverage. Health insurance reform will not ensure the affordability of health care unless the underlying cost of care is also brought under control.

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### Citation

R. McDevitt, J. Gabel, R. Lore et al., "Group Insurance: A Better Deal for Most People Than Individual Plans," *Health Affairs* Web First, Dec. 3, 2009.