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Shifting Health Care Financial Risk to Families Is Not a Sound Strategy: The Changes Needed to Ensure Americans' Health Security

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The Commonwealth Fund
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Invited Testimony
House Committee on Ways and Means
Subcommittee on Health
September 23, 2008

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A Broken System:
The Growing Numbers of Uninsured

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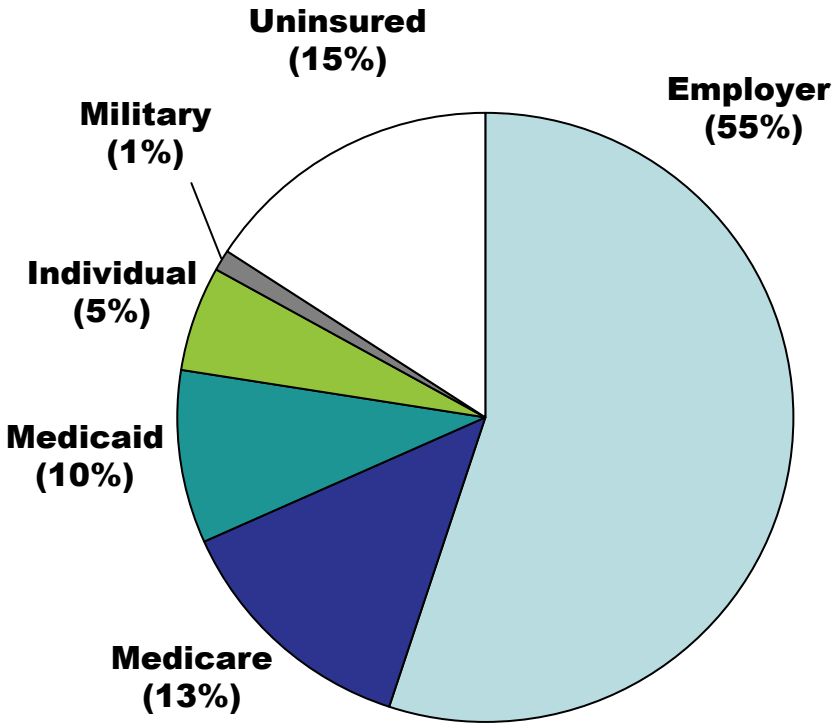
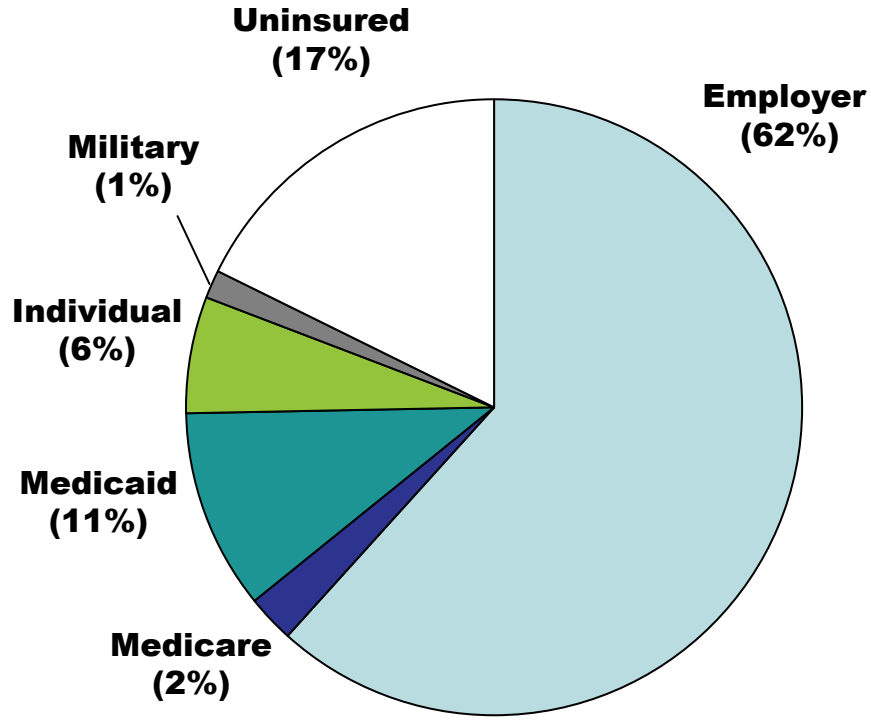
Health Insurance Coverage

45.7 Million Uninsured, 2007



Total population



Under-65 population

Source: Authors' estimates based on S. R. Collins, C. White, and J. L. Kriss, *Whither Employer-Based Health Insurance? The Current and Future Role of U.S. Companies in the Provision and Financing of Health Insurance* (New York: The Commonwealth Fund, Sept. 2007) and analysis of the Current Population Survey, March 2008, by Bisundev Mahato of Columbia University.

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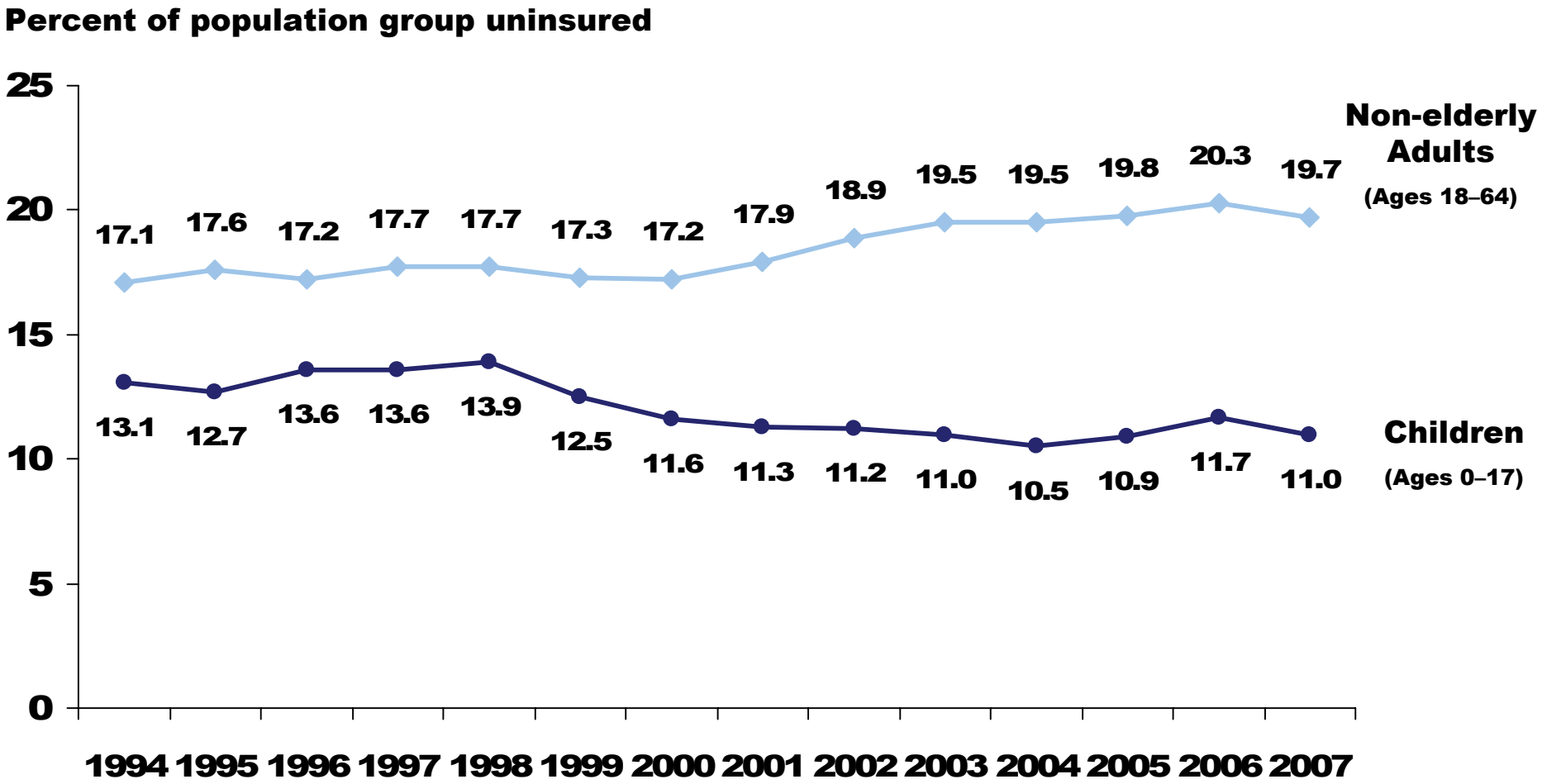
Percentage of Uninsured Children Has Declined Since Implementation of SCHIP While Uninsured Working-Age Adults Have Increased, 1994–2007



Source: P. Fronstin, "Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2008 Current Population Survey" Issue Brief No. 321 (Washington, D.C.: Employee Benefit Research Institute, Sept. 2008).

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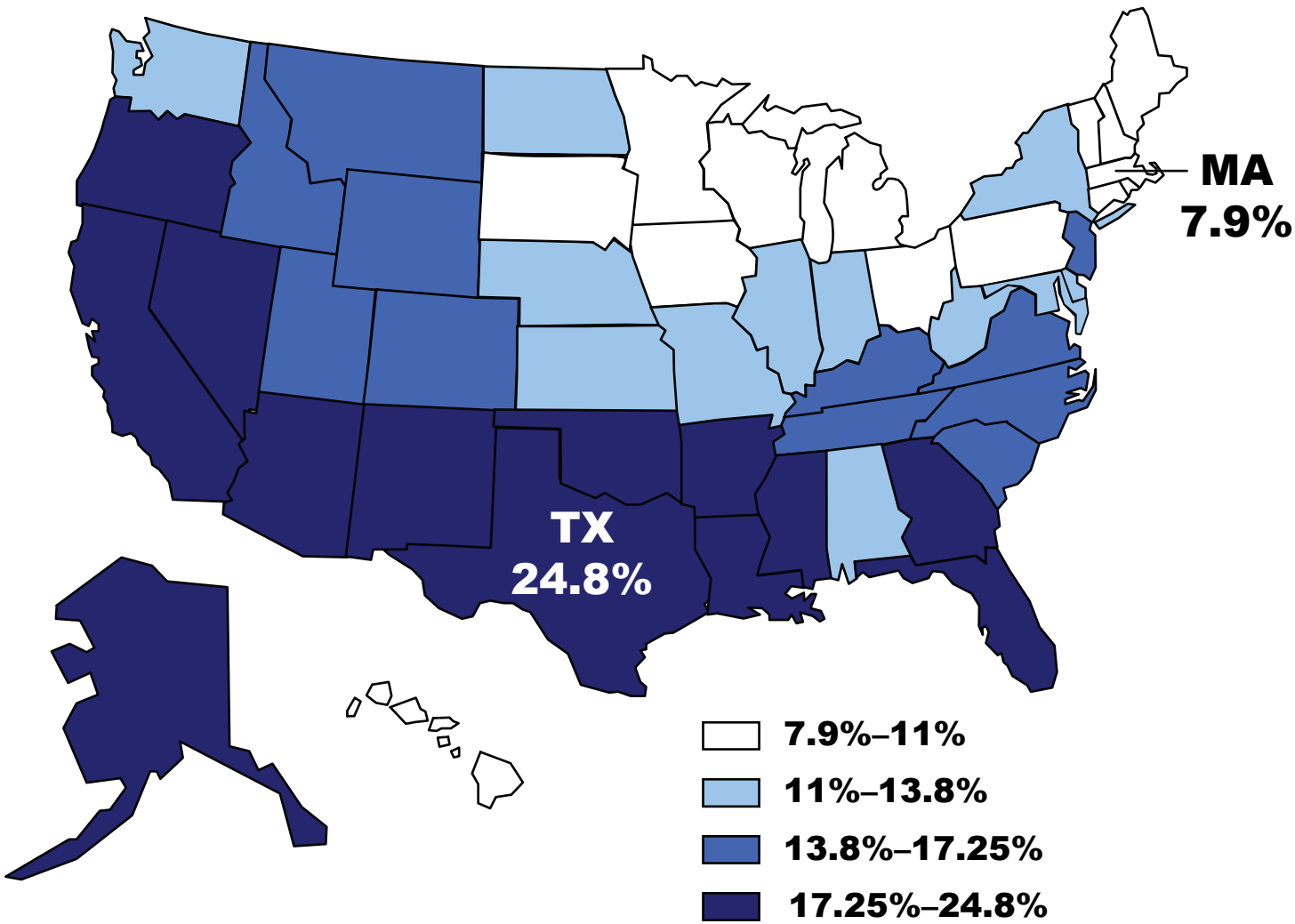
Uninsured Rates, by State, Two-Year Average, 2006–07



Source: DeNavas-Walt C, Proctor B, and Smith J. “Income, Poverty, and Health Insurance Coverage in the United States: 2007.” Washington: Census Bureau, 2008.

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Inadequate Coverage: The Rise of the Underinsured

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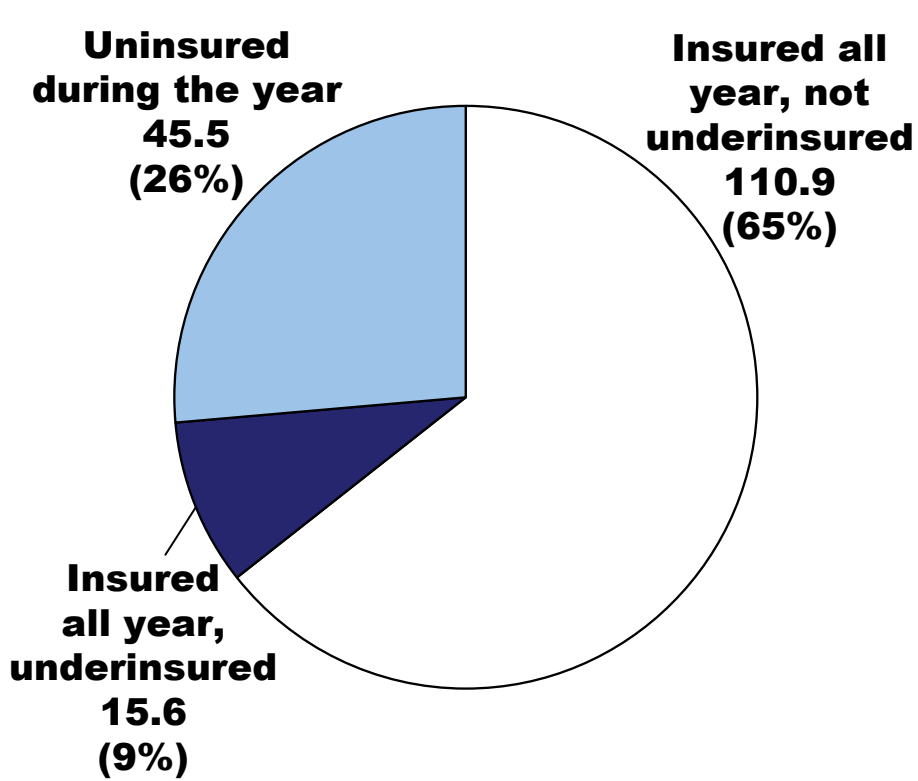
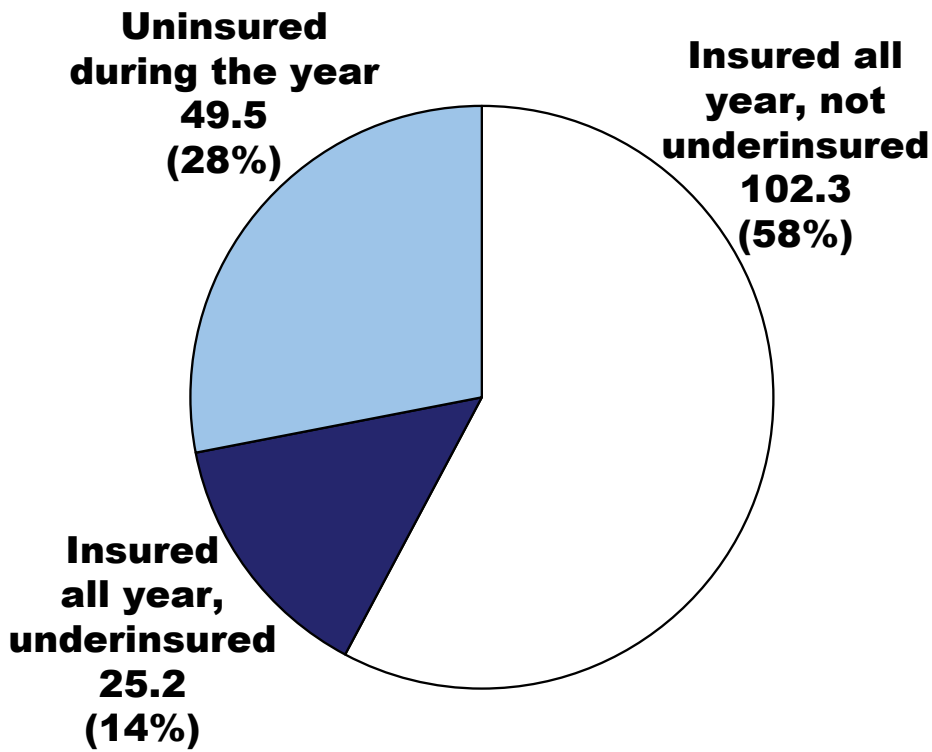
25 Million Adults Underinsured in 2007, Up from 16 Million in 2003



2003
Adults ages 19–64
(172.0 million)



2007
Adults ages 19–64
(177.0 million)

*Underinsured defined as insured all year but experienced one of the following: medical expenses equaled 10% or more of income; medical expenses equaled 5% or more of income if low-income (<200% of poverty); or deductibles equaled 5% or more of income.

Source: C. Schoen, S. R. Collins, J. L. Kriss, and M. M. Doty, "How Many Are Underinsured? Trends Among U.S. Adults, 2003 and 2007," *Health Affairs* Web Exclusive, June 10, 2008. Data: Commonwealth Fund Biennial Health Insurance Surveys (2003 and 2007).

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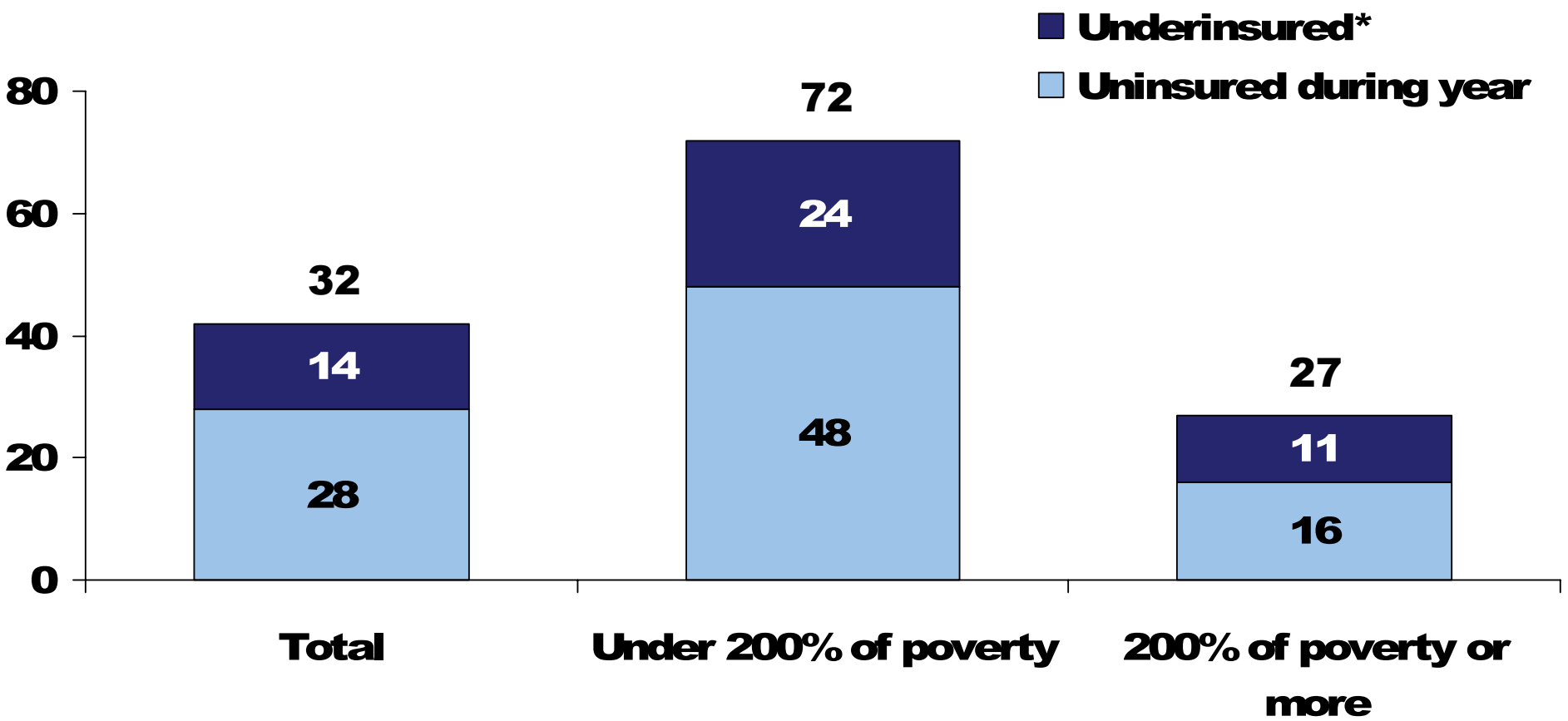
Almost Three-Fourths of Low-Income Adults Ages 19–64 Are Uninsured and Underinsured, 2007



* Underinsured defined as insured all year but experienced one of the following: medical expenses equaled 10% or more of income; medical expenses equaled 5% or more of incomes if low-income (<200% of poverty); or deductibles equaled 5% or more of income.
Data: 2007 Commonwealth Fund Biennial Health Insurance Survey (Schoen et al. 2008).

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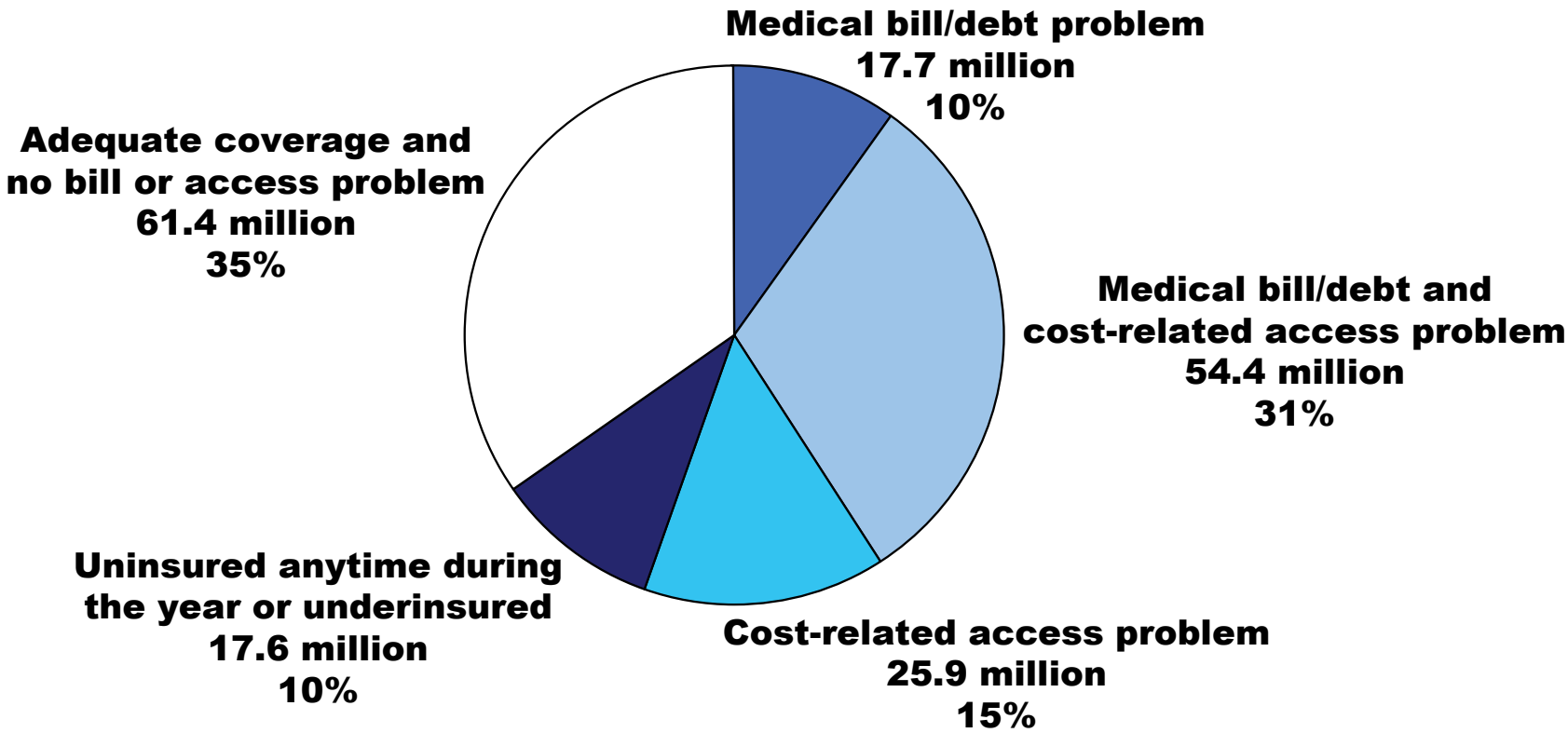
An Estimated 116 Million Adults Were Uninsured, Underinsured, Reported a Medical Bill Problem, and/or Did Not Access Needed Health Care Because of Cost, 2007



177 million adults, ages 19–64

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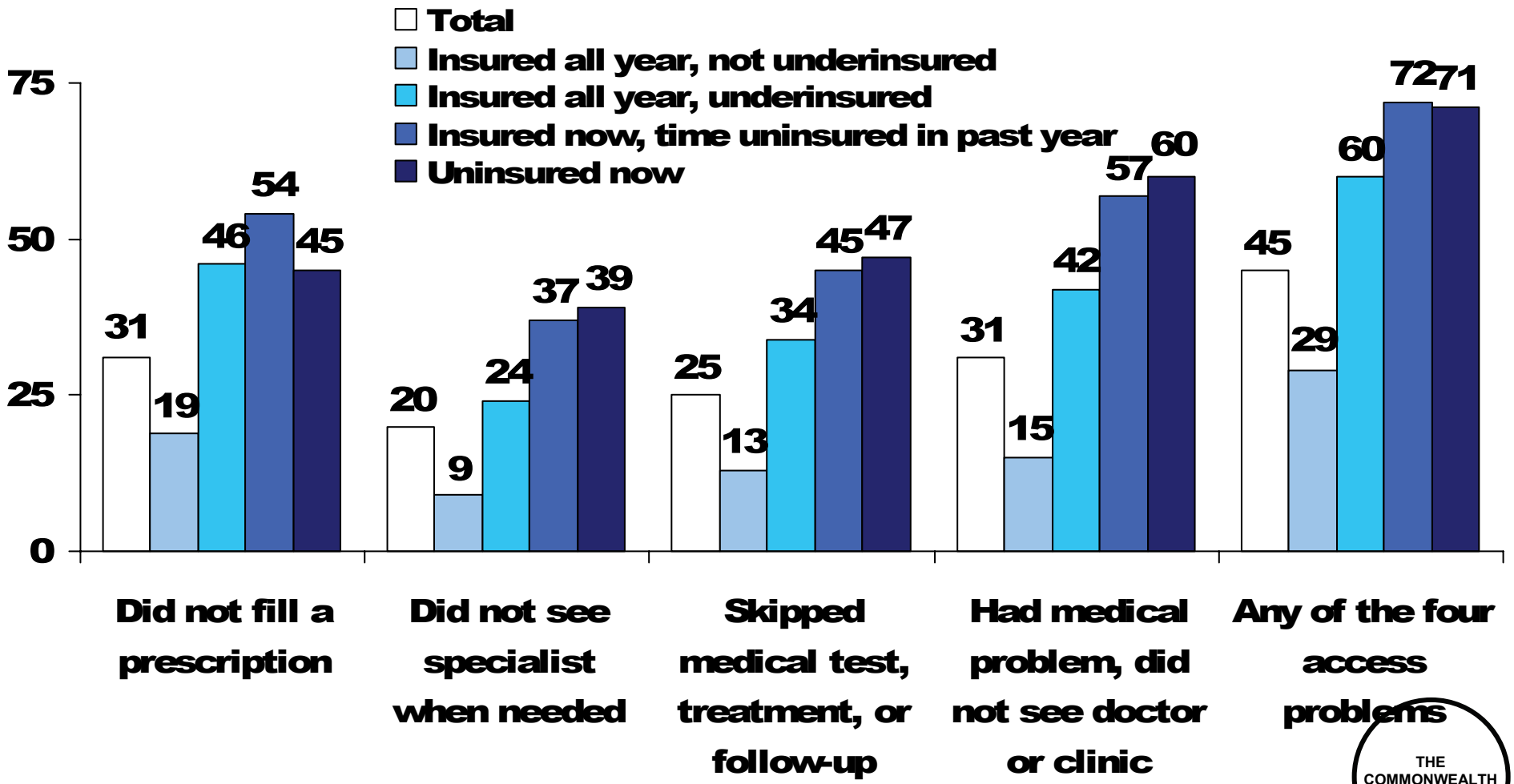
Source: The Commonwealth Fund Biennial Health Insurance Survey (2007).

Uninsured and Underinsured Adults Report High Rates of Cost-Related Access Problems

Percent of adults ages 19–64 who had cost-related access problems in the past 12 months



Source: The Commonwealth Fund Biennial Health Insurance Survey (2007).

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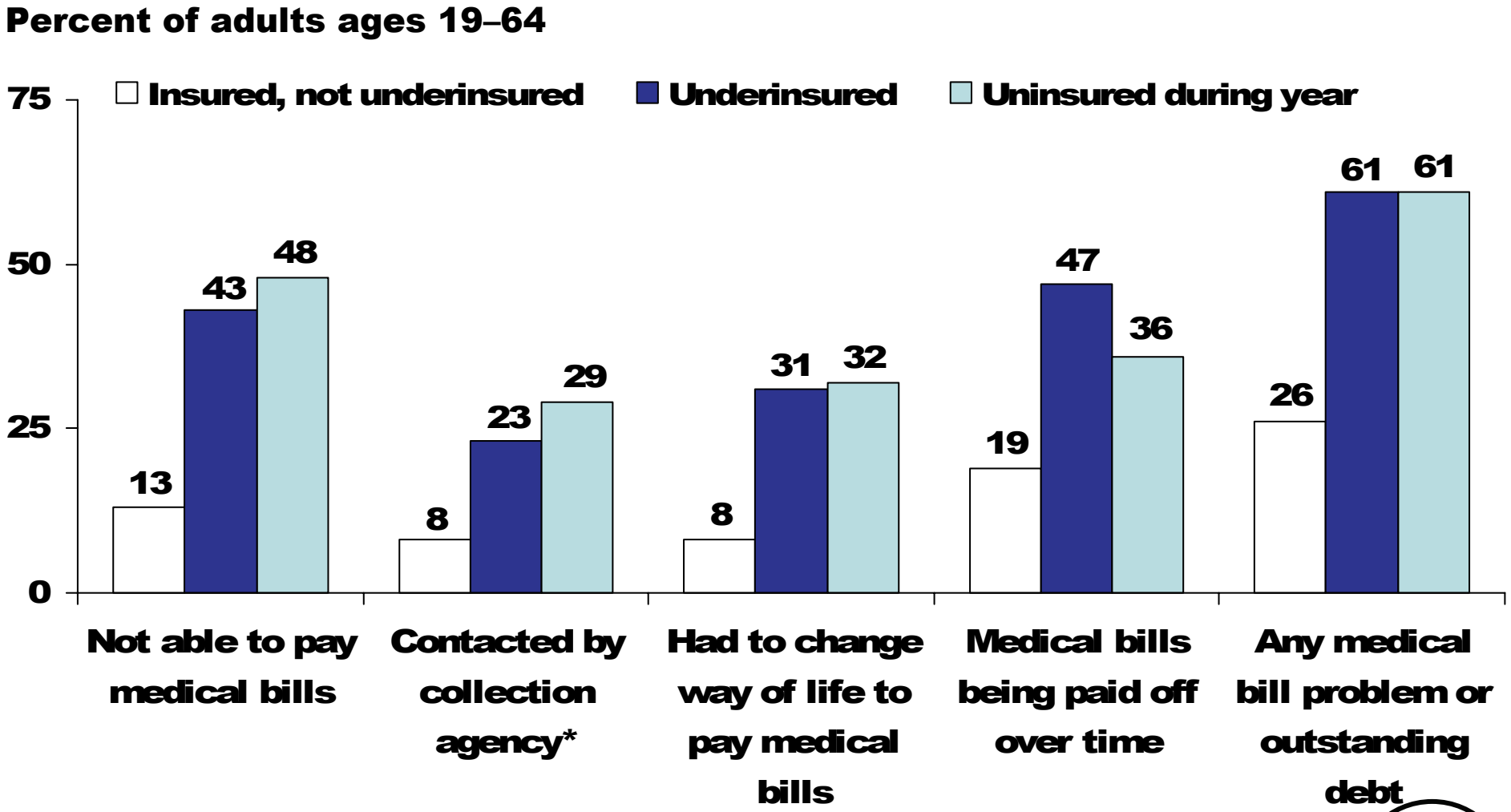
Sixty Percent of Adults Who Were Underinsured or Uninsured Reported Medical Bill Problems or Debt



* Includes only those individuals who had a bill sent to a collection agency when they were unable to pay it.
Source: The Commonwealth Fund Biennial Health Insurance Survey (2007).

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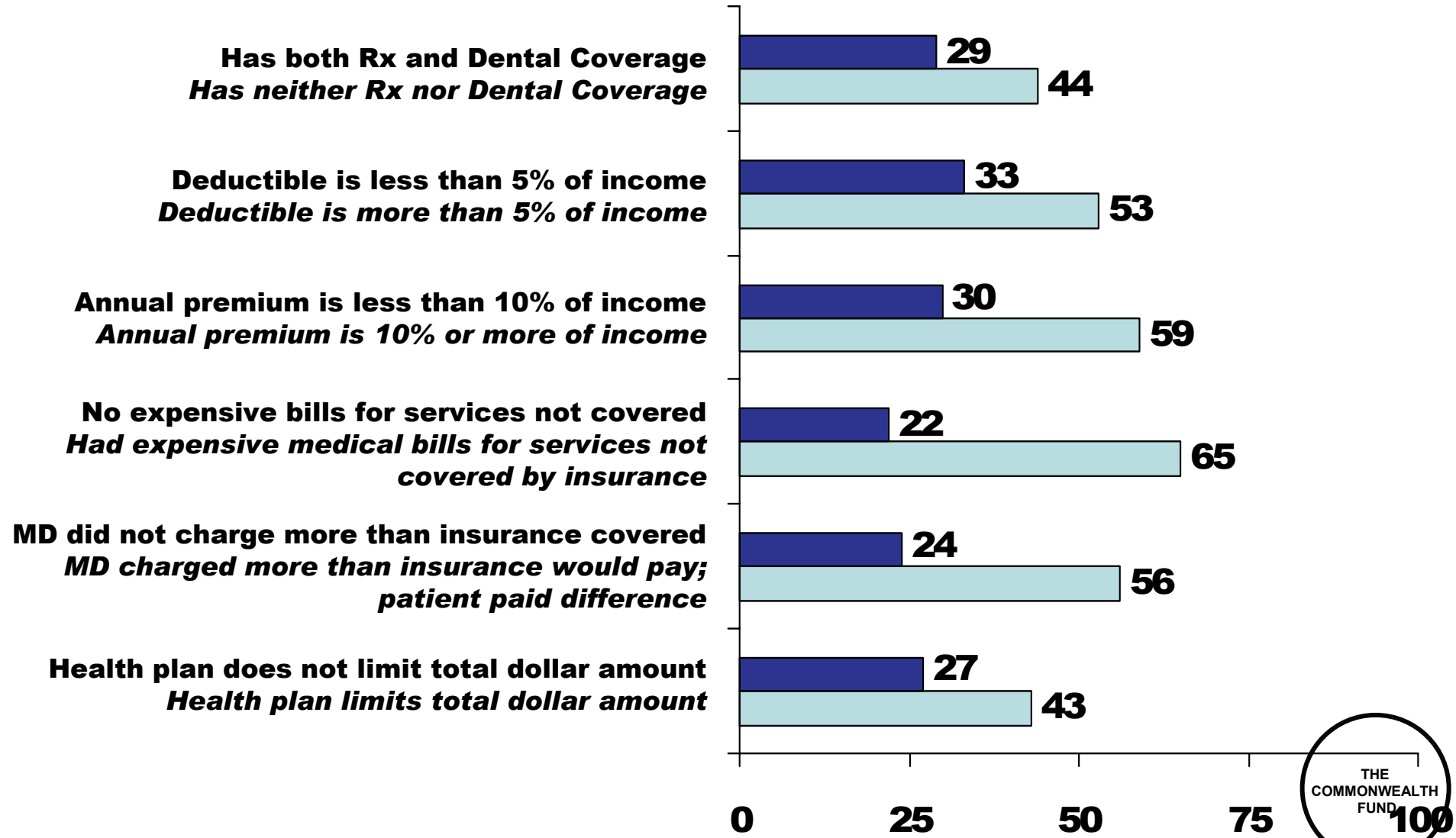
Insured Adults with Less Comprehensive Coverage and Benefit Limits Are More Likely to Face Medical Bill and/or Debt Problems

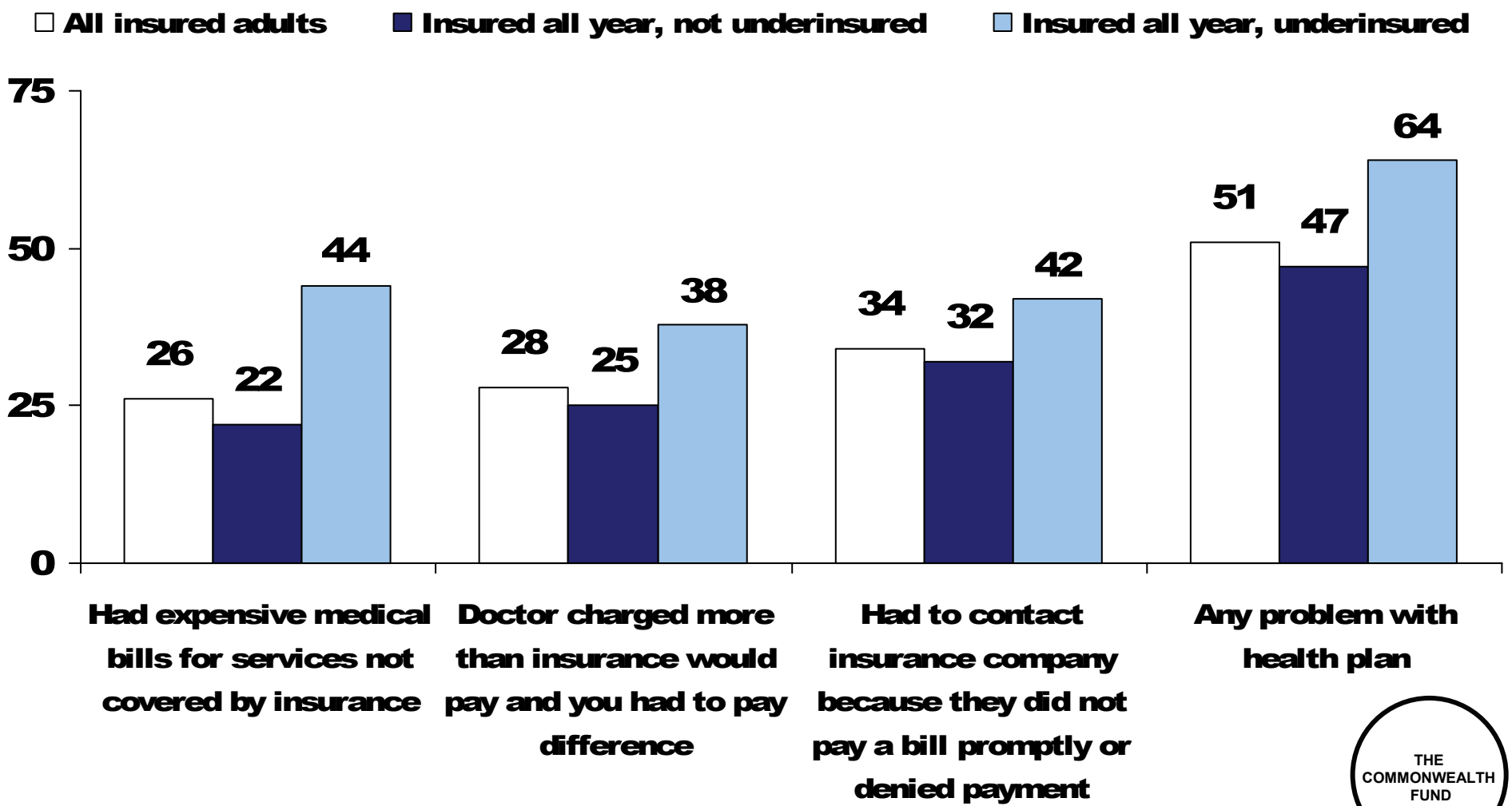
Percent of continually insured adults ages 19–64 with bill and/or debt problems



Source: The Commonwealth Fund Biennial Health Insurance Survey, 2007.

Underinsured Adults Report Higher Rates of Health Insurance Plan Problems than Adults with Adequate Insurance

Percent of adults ages 19–64 who were insured all year and had problems with health insurance plan



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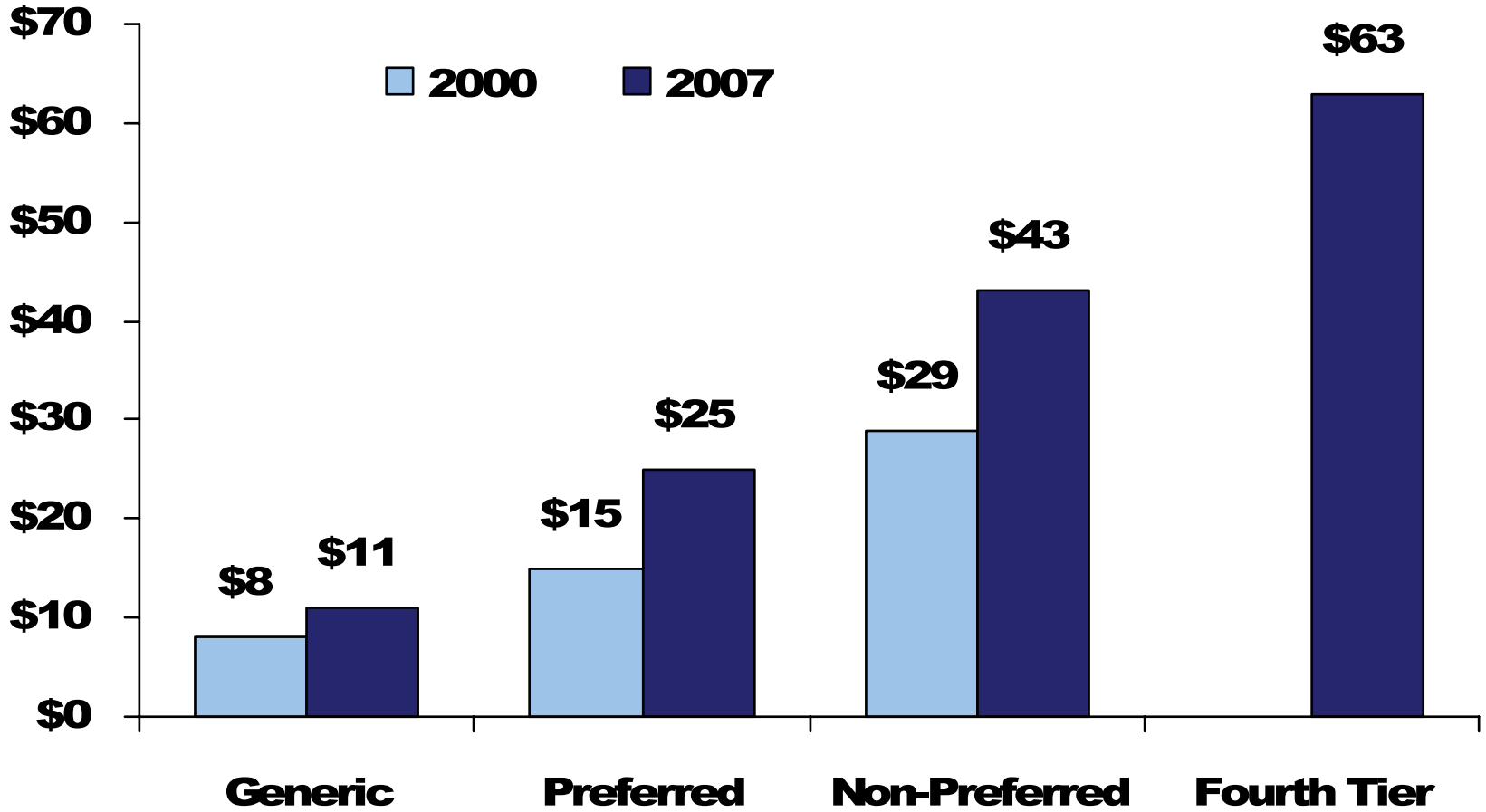
Source: The Commonwealth Fund Biennial Health Insurance Survey (2007).

Prescription Drug Cost-Sharing, Average Copayments Among Covered Workers, 2000–2007



Source: Kaiser Family Foundation/Health Research and Educational Trust, *Employer Health Benefits*, 2007 Annual Survey.

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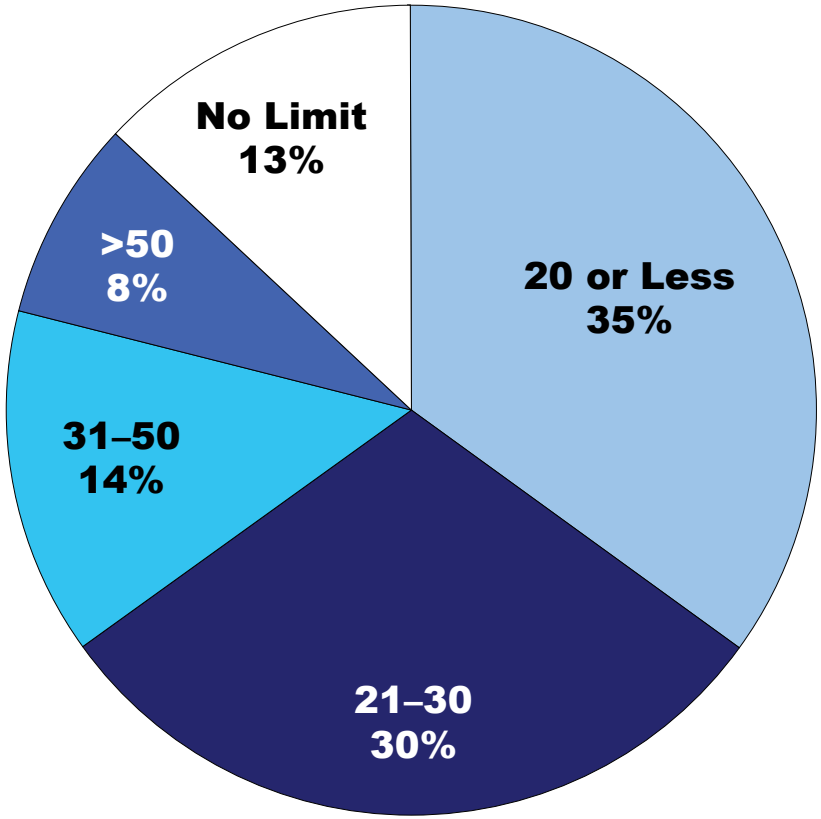
Annual Outpatient Visits Coverage Among Workers with Mental Health Coverage, 2006



All Plans

Source: Kaiser Family Foundation/Health Research and Educational Trust, *Employer Health Benefits*, 2007 Annual Survey.

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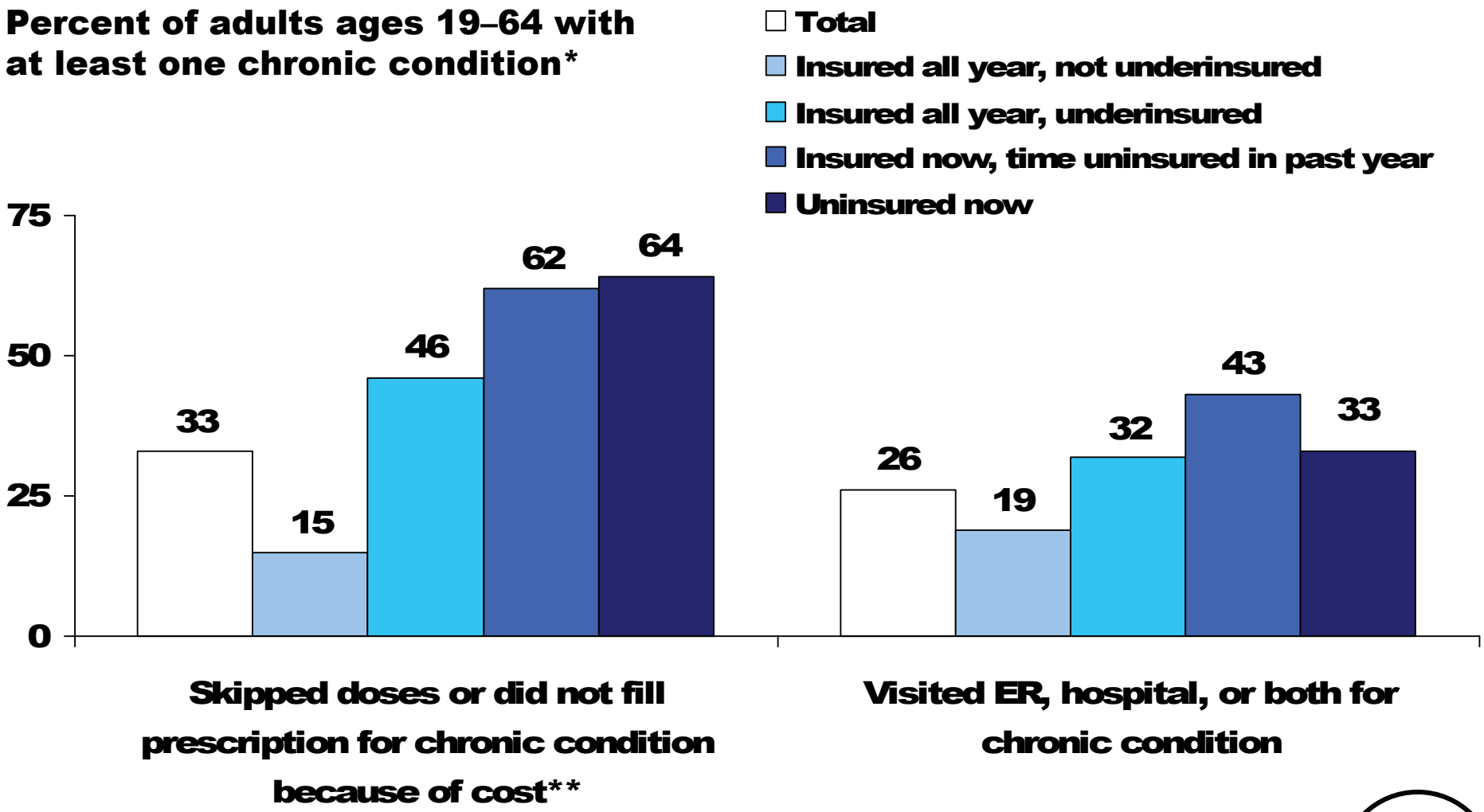
Uninsured and Underinsured Adults with Chronic Conditions Are More Likely to Visit the ER for Their Conditions



* Hypertension, high blood pressure; heart disease; diabetes; asthma, emphysema, or lung disease.
** Adults with at least one chronic condition who take prescription medications on a regular basis.
Source: The Commonwealth Fund Biennial Health Insurance Survey (2007).

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Coverage Is Eroding in Small Firms

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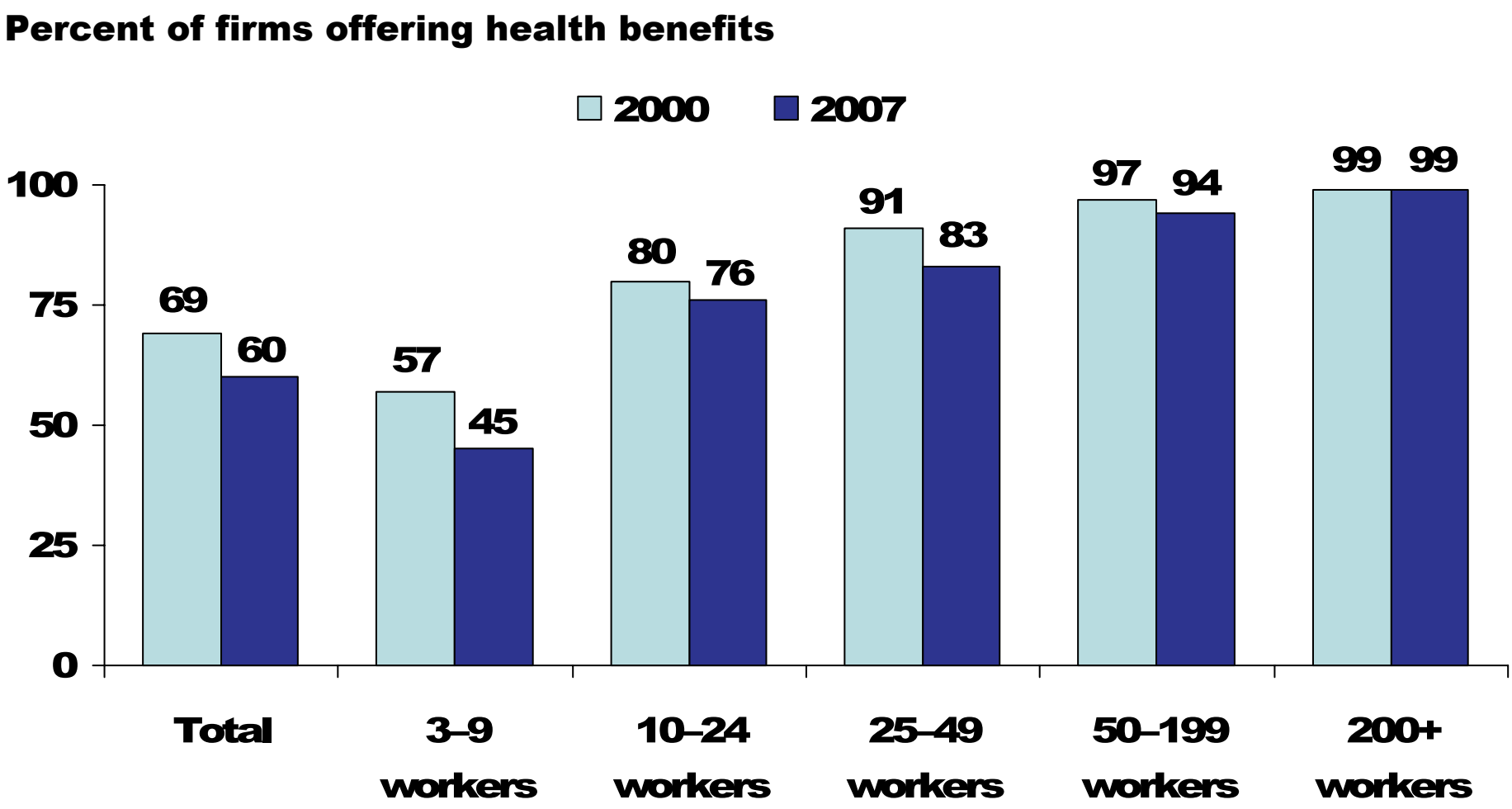
Employer Coverage Continues to Erode for Employees of Small Firms



Source: S. R. Collins, C. White, and J. L. Kriss, *Whither Employer-Based Health Insurance? The Current and Future Role of U.S. Companies in the Provision and Financing of Health Insurance* (New York: The Commonwealth Fund, Sept. 2007). Data: The Kaiser Family Foundation/Health Research and Educational Trust, *Employer Health Benefits*, 2000 and 2007 Annual Surveys.

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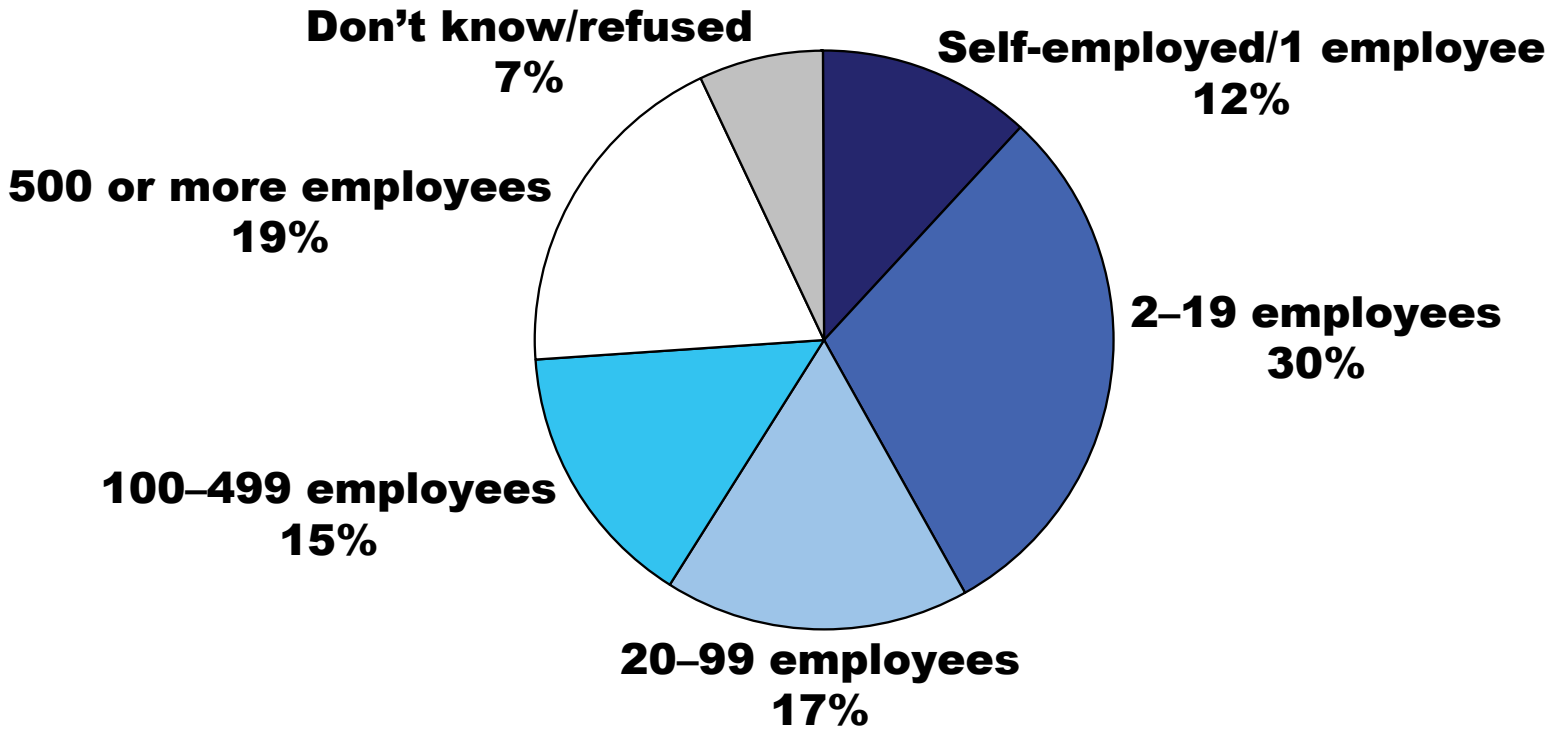
Three of Five Workers with Any Time Uninsured Are Self-Employed or in Firms with Fewer than 100 Workers



Full-time or part-time working adults ages 19–64 with any time uninsured, by employer size (27.5 million)

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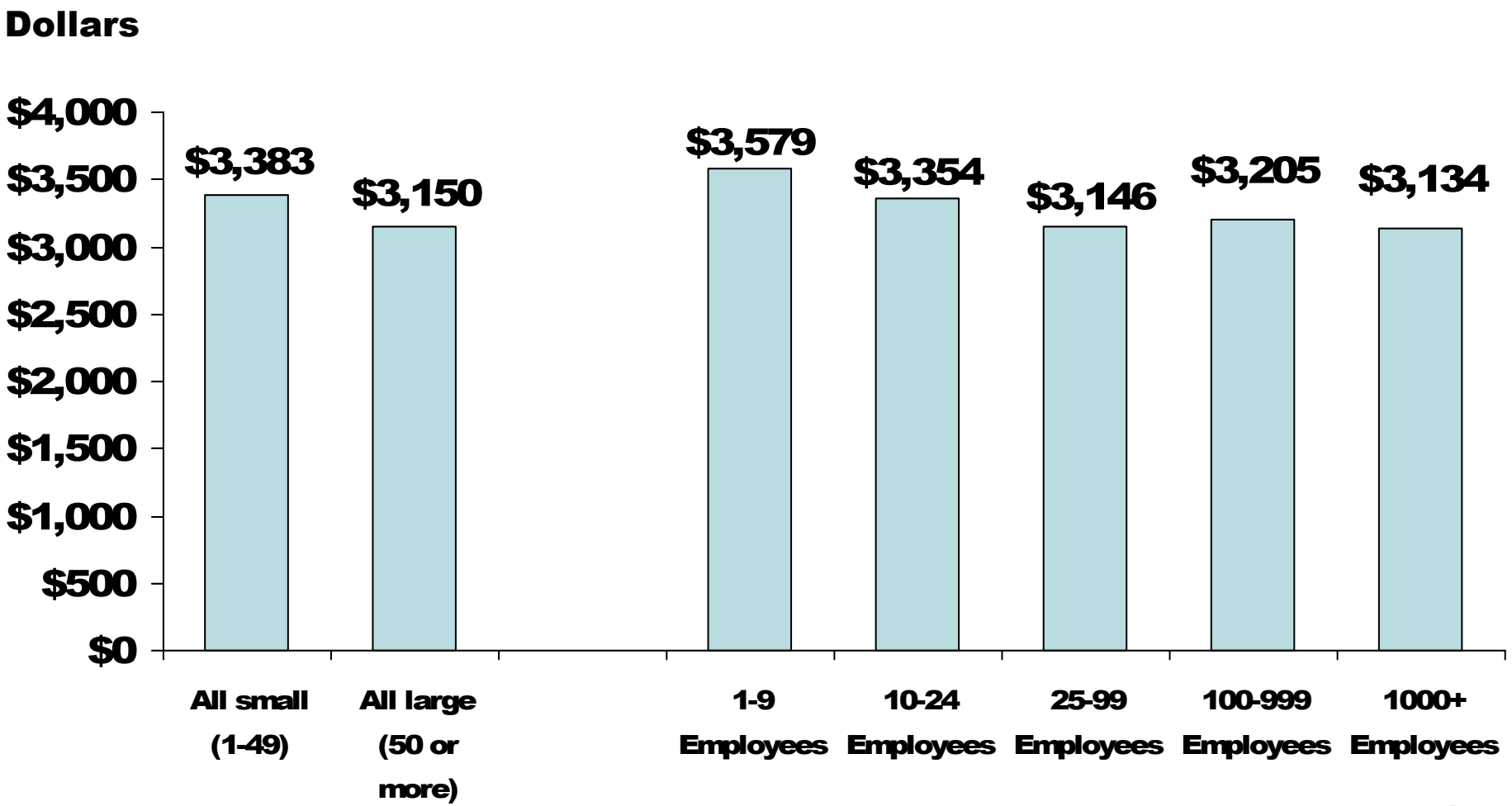
Source: The Commonwealth Fund Biennial Health Insurance Survey (2007).

Single Premium by Size of Firm, Adjusted for Actuarial Value



Source: J. Gabel, R. McDevitt, L. Gandolfo et al., "Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii Is Up, Wyoming Is Down," *Health Affairs,* May/June 2006 25(3):832–43.

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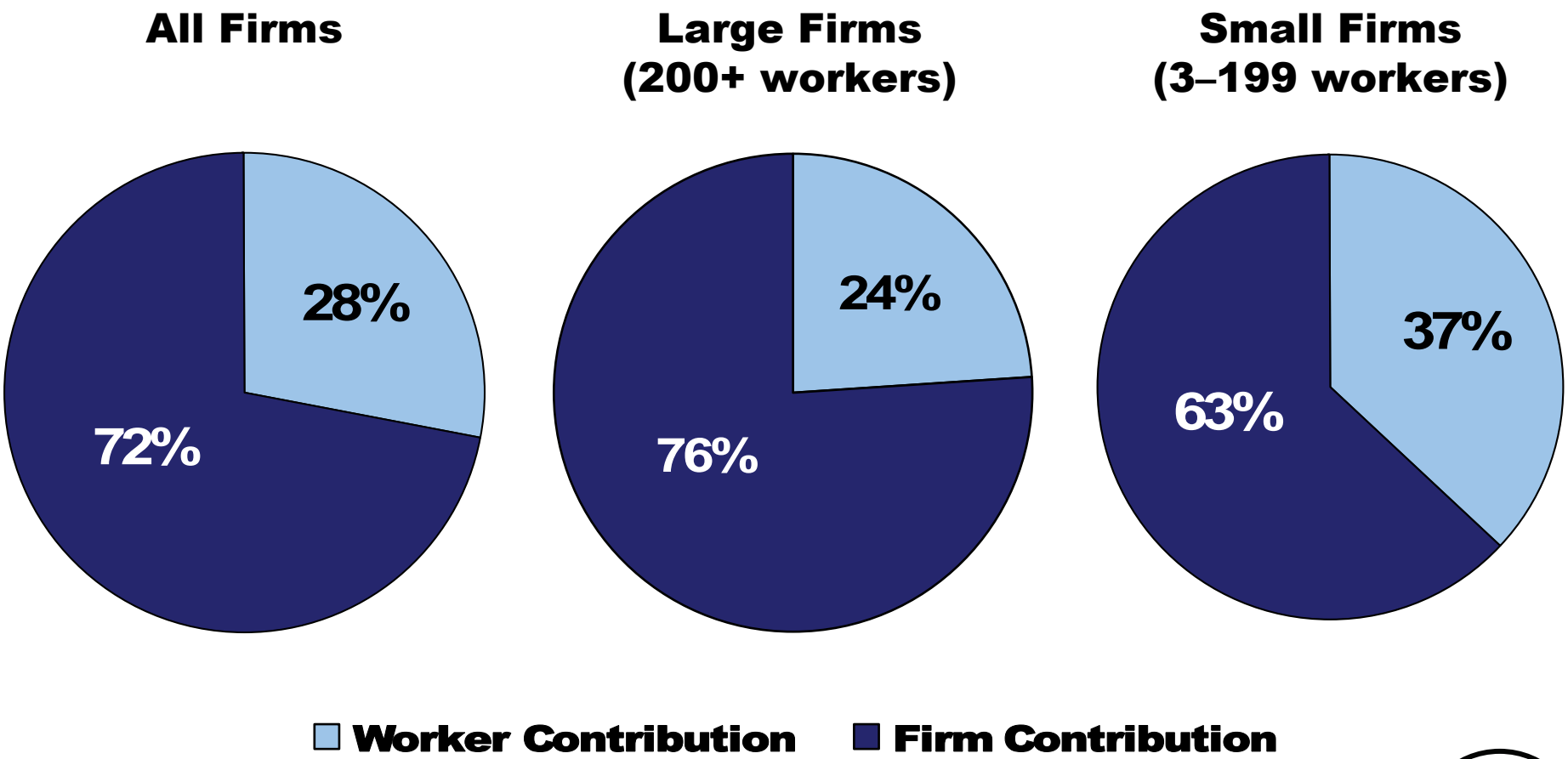
Small-Firm Workers More Likely than Large-Firm Workers to Contribute Large Share of Premium for Family Coverage



Source: Kaiser Family Foundation/Health Research and Educational Trust, *Employer Health Benefits*, 2007 Annual Survey.

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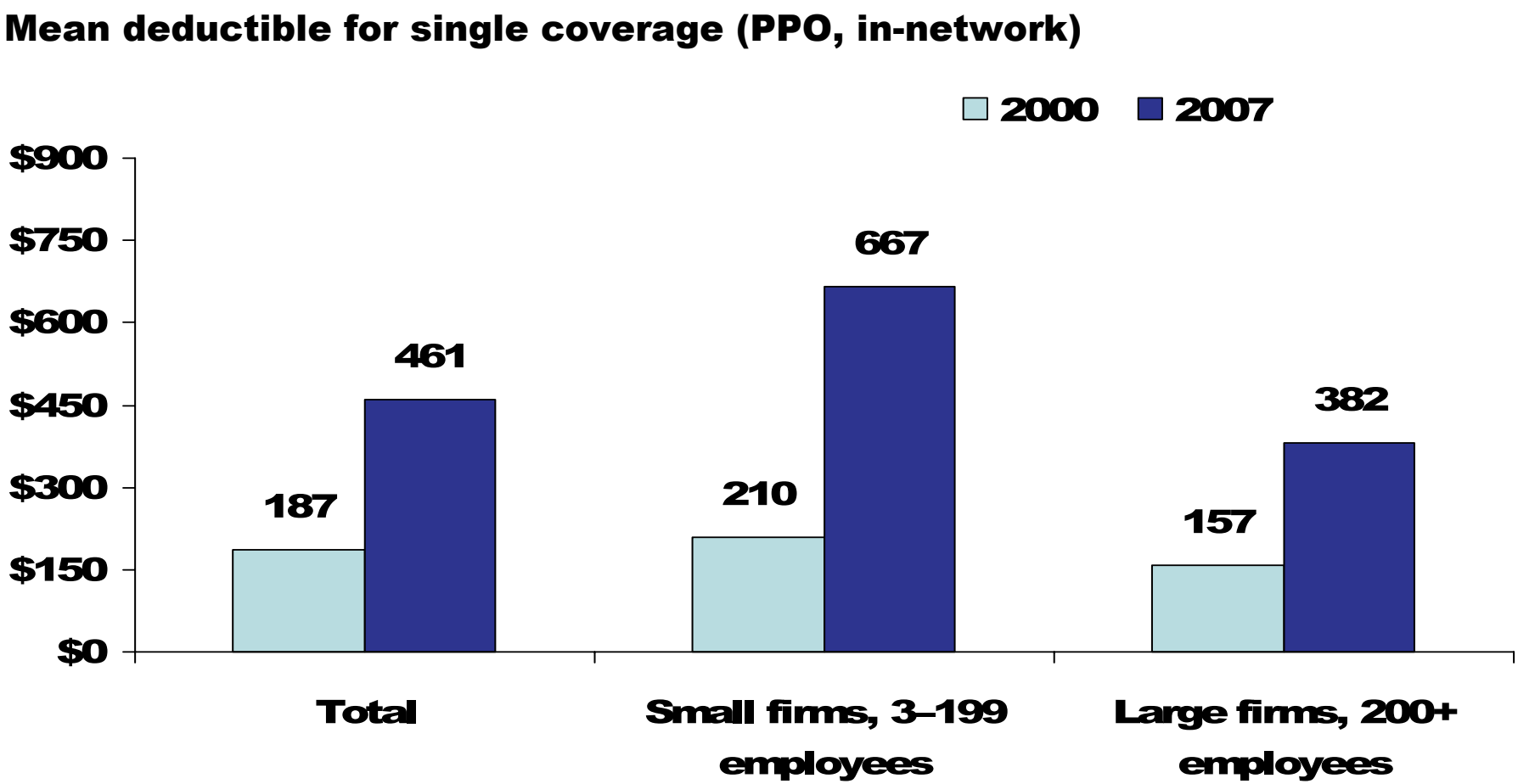
Deductibles Have Risen Sharply, Especially in Small Firms, Over 2000–2007



PPO = preferred provider organization. PPOs covered 57 percent of workers enrolled in an employer-sponsored health insurance plan in 2007.
Source: The Kaiser Family Foundation/Health Research and Educational Trust, *Employer Health Benefits*, 2000 and 2007 Annual Surveys.

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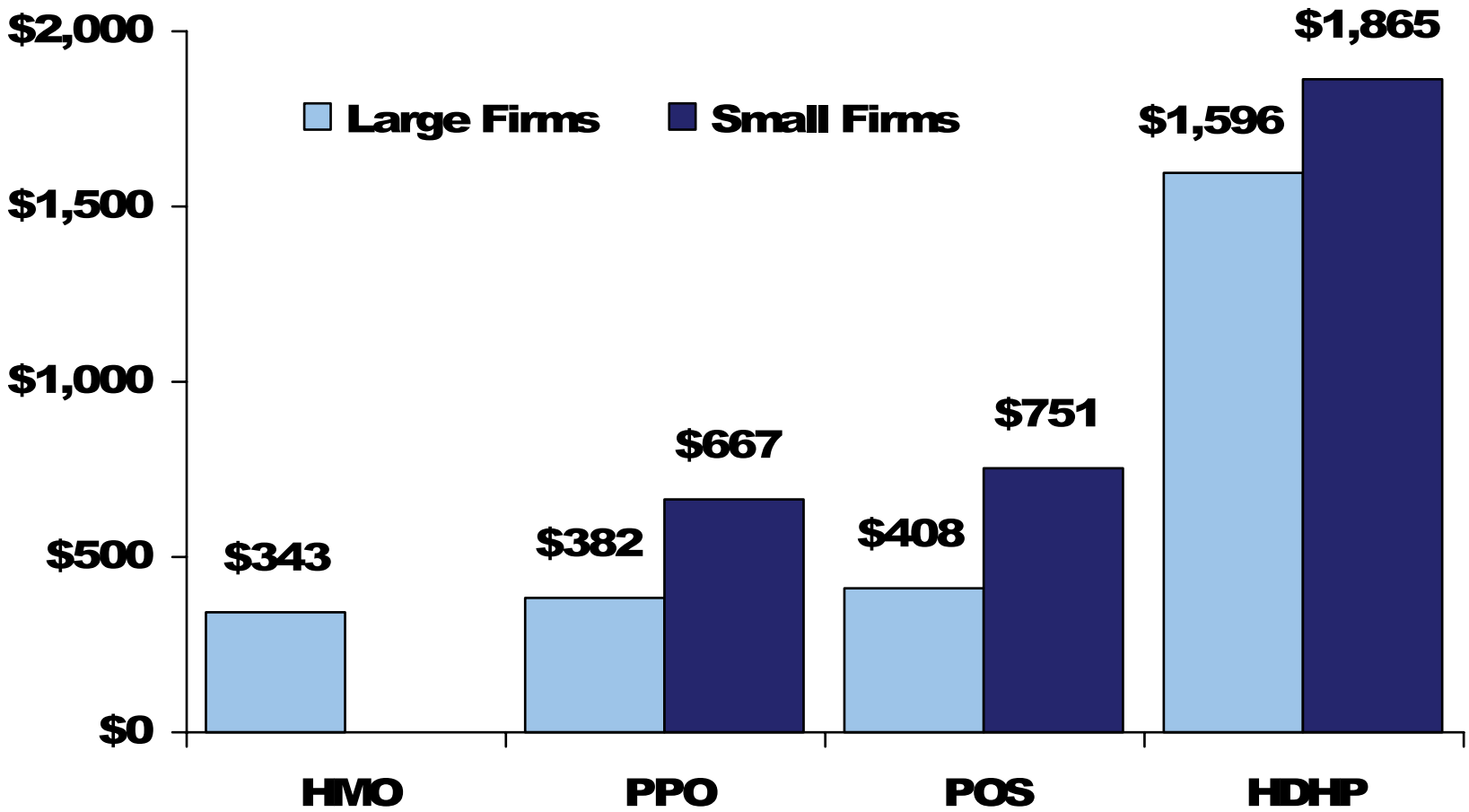
Deductible for Single Coverage by Plan Type and Firm Size, 2007



Source: Kaiser Family Foundation/Health Research and Educational Trust, *Employer Health Benefits*, 2007 Annual Survey.

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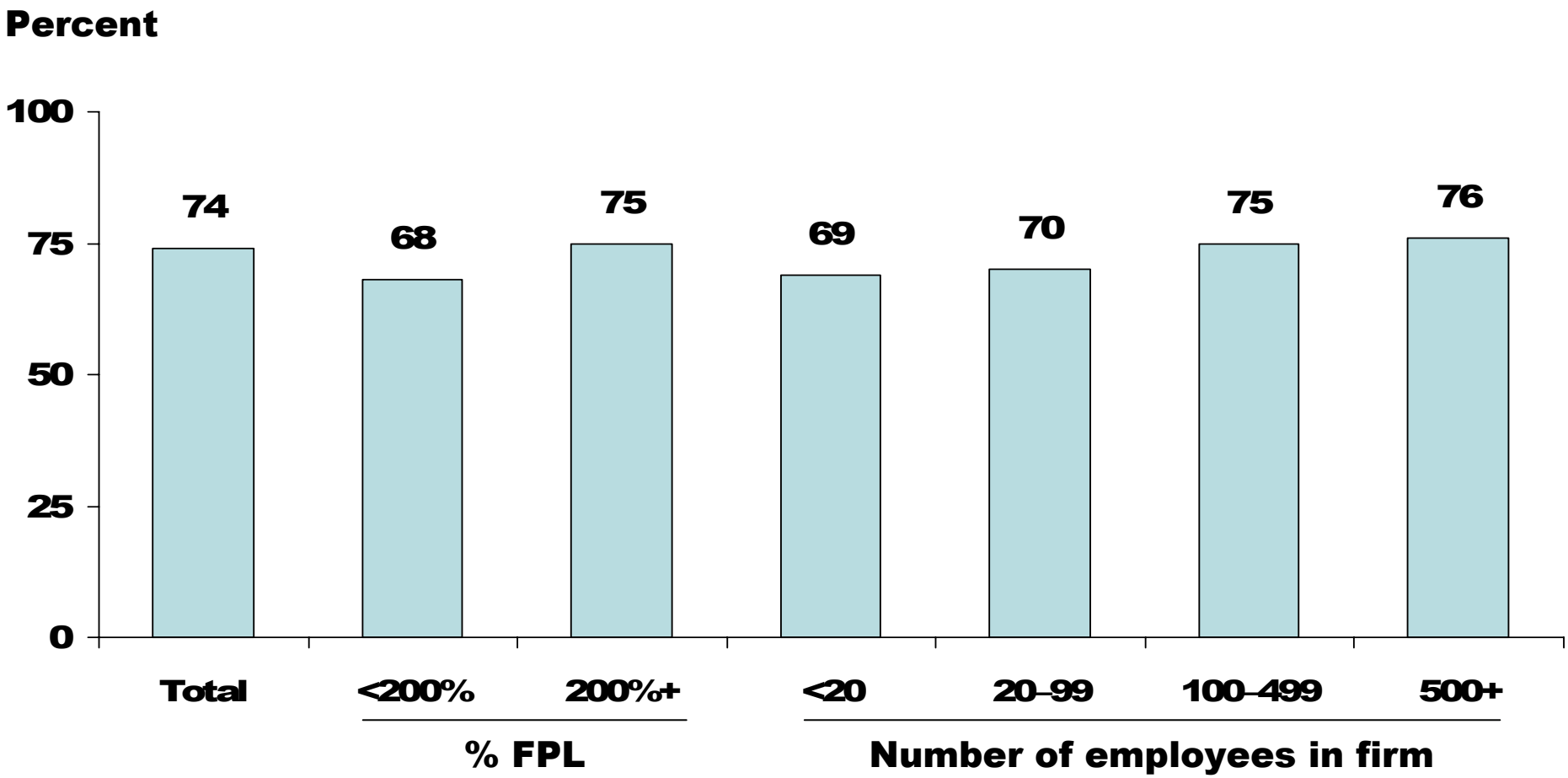
People with ESI* Who Say That Employers Do a Good Job Selecting Quality Insurance Plans



*ESI = employer-sponsored insurance. FPL = federal poverty level.
Note: Based on respondents age 19-64 who were covered all year by their own employer's insurance.
Source: S. R. Collins, J. L. Kriss, K. Davis, M. M. Doty, and A. L. Holmgren, *Squeezed: Why Rising Exposure to Health Care Costs Threatens the Health and Financial Well-Being of American Families,* The Commonwealth Fund, September 2006.

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Individual Insurance Market Works Less Well than Employer Coverage

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Individual Market Is Not an Affordable Option for Many People

Adults ages 19–64 with individual coverage or who thought about or tried to buy it in past three years who:	Total	Health Problem	No Health Problem	<200% Poverty	200%+ Poverty
Found it very difficult or impossible to find coverage they needed	34%	48%	24%	43%	29%
Found it very difficult or impossible to find affordable coverage	58	71	48	72	50
Were turned down or charged a higher price because of a pre-existing condition	21	33	12	26	18
Never bought a plan	89	92	86	93	86

Source: S. R. Collins, J. L. Kriss, K. Davis, M. M. Doty, and A. L. Holmgren, *Squeezed: Why Rising Exposure to Health Care Costs Threatens the Health and Financial Well-Being of American Families,* The Commonwealth Fund, September 2006.

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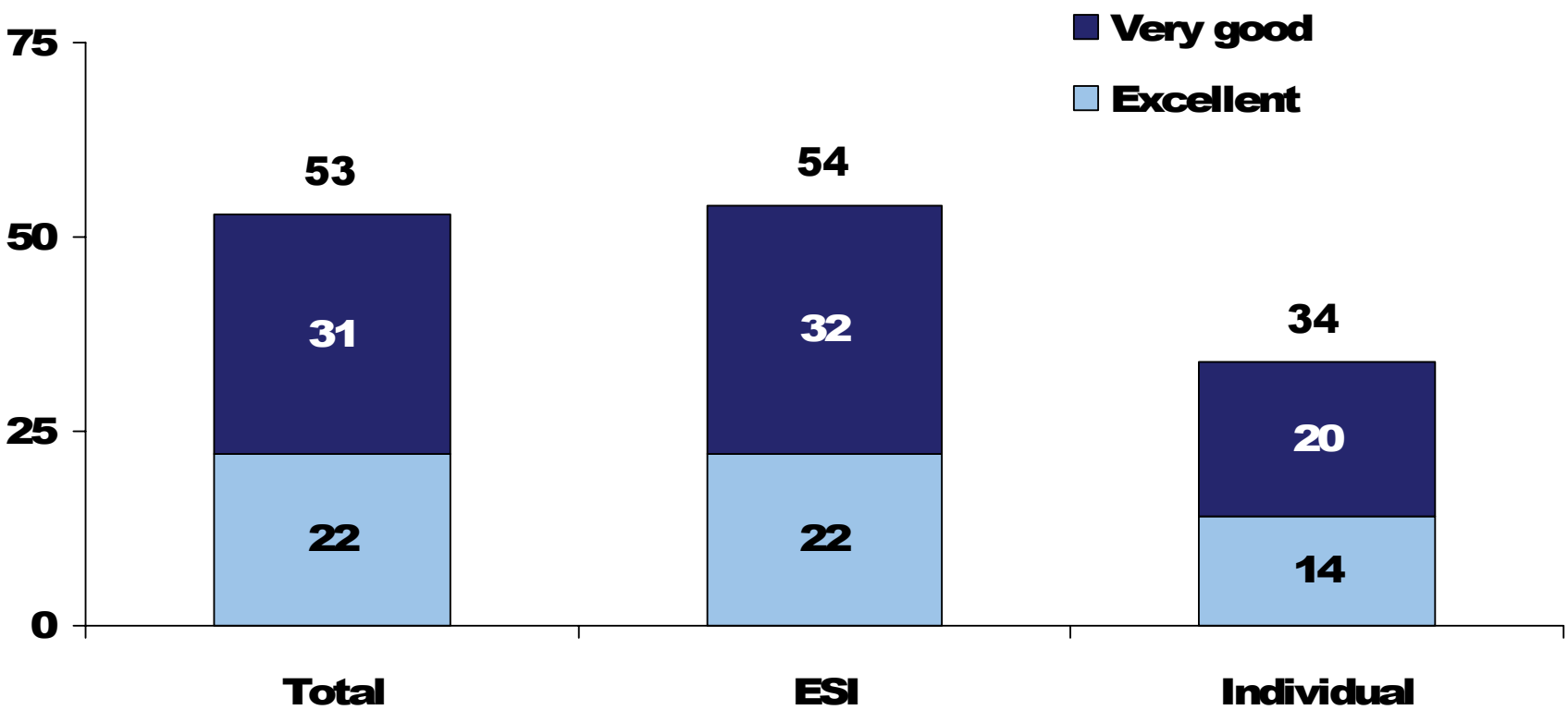
Adults with Employer Coverage Give Their Health Plans Higher Ratings Than Those in the Individual Market

Percent of adults ages 19–64 insured all year with private insurance



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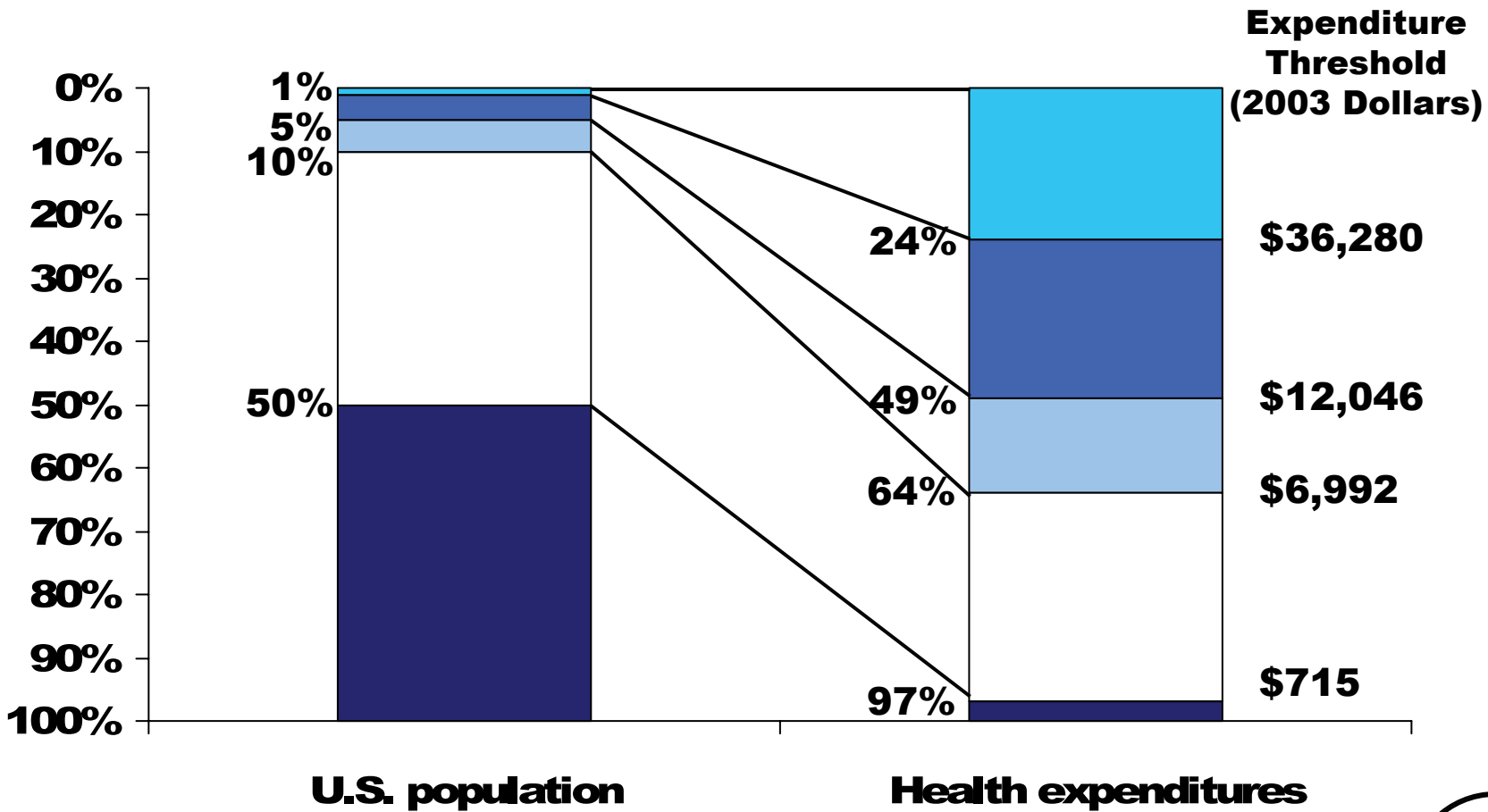
Health Care Costs Concentrated in Sick Few—Sickest 10% Account for 64% of Expenses

Distribution of health expenditures for the U.S. population, by magnitude of expenditure, 2003



Source: S. H. Zuvekas and J. W. Cohen, "Prescription Drugs and the Changing Concentration of Health Care Expenditures," *Health Affairs*, Jan/Feb 2007 26(1): 249–257.

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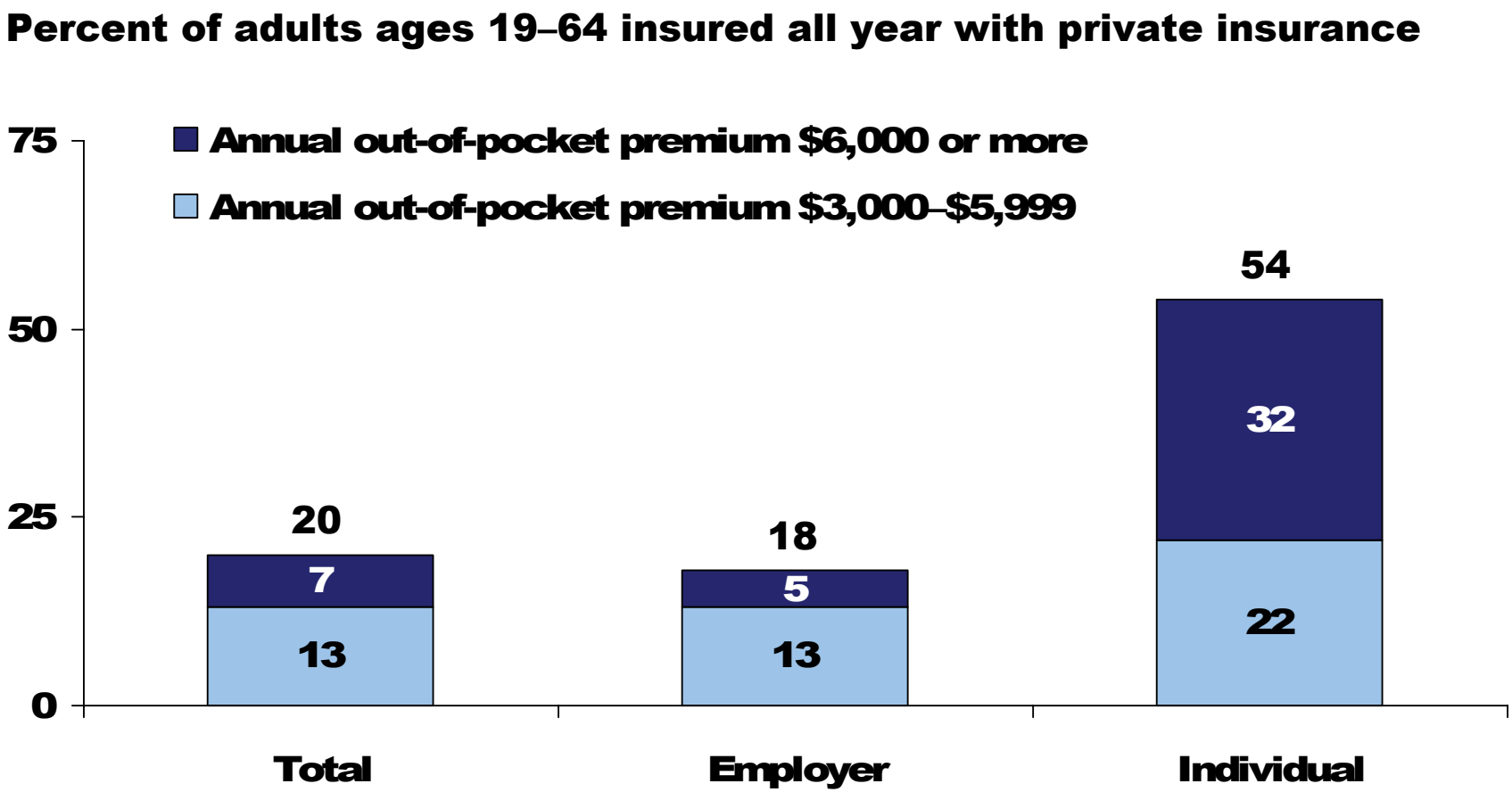
Risk Pooling and Employer Premium Contributions Lower the Cost of Health Benefits for Adults with Employer Coverage Relative to Those with Individual Market Coverage



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Public Programs Work

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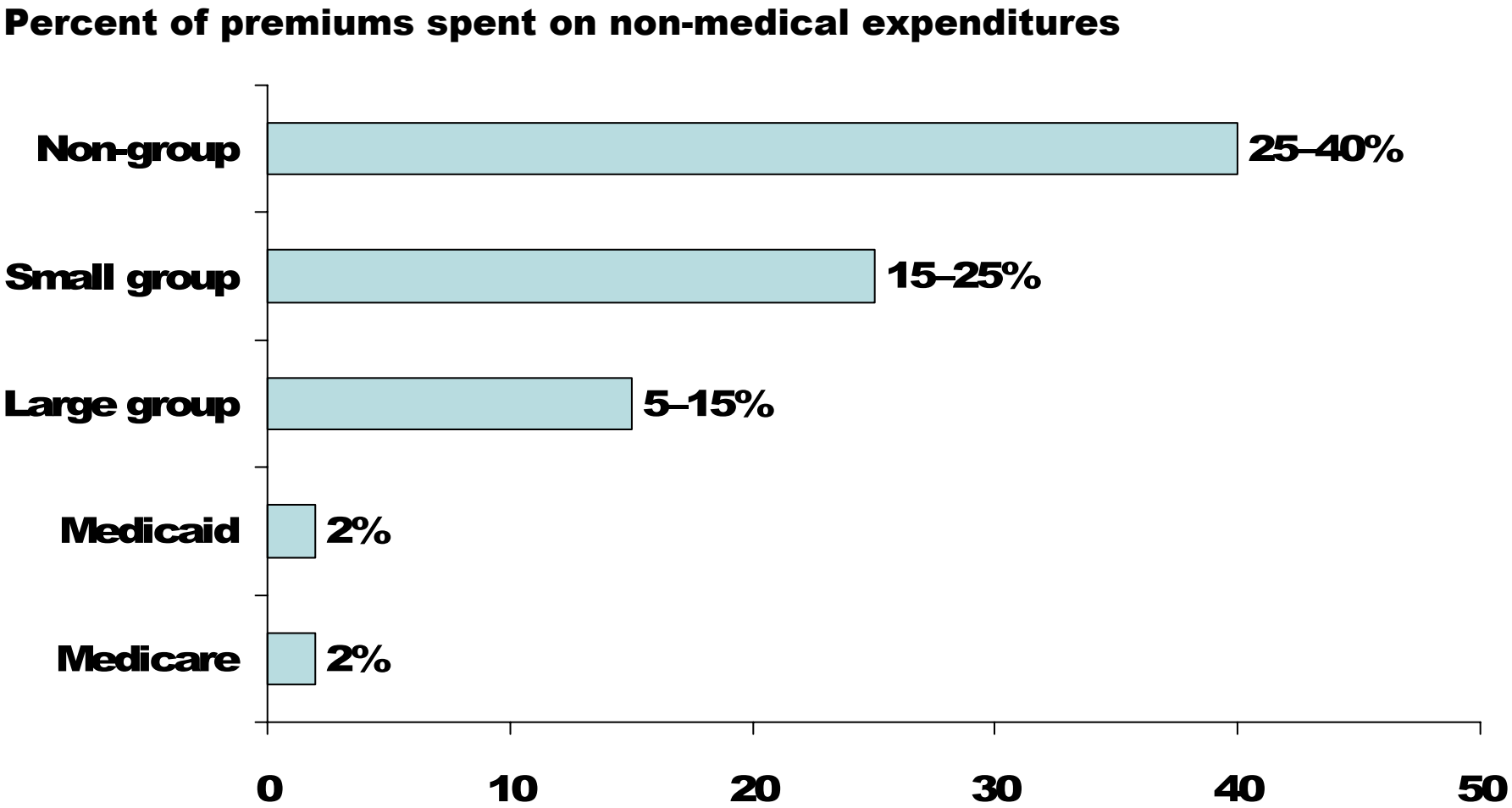
Only Two Percent of Premiums in Medicare and Medicaid Are Spent on Non-Medical Expenditures



Source: K. Davis, B. S. Cooper, and R. Capasso, *The Federal Employees Health Benefit Program: A Model for Workers, Not Medicare,* The Commonwealth Fund, November 2003; M. A. Hall, "The Geography of Health Insurance Regulation," *Health Affairs*, March/April 2000 19(2):173–84.

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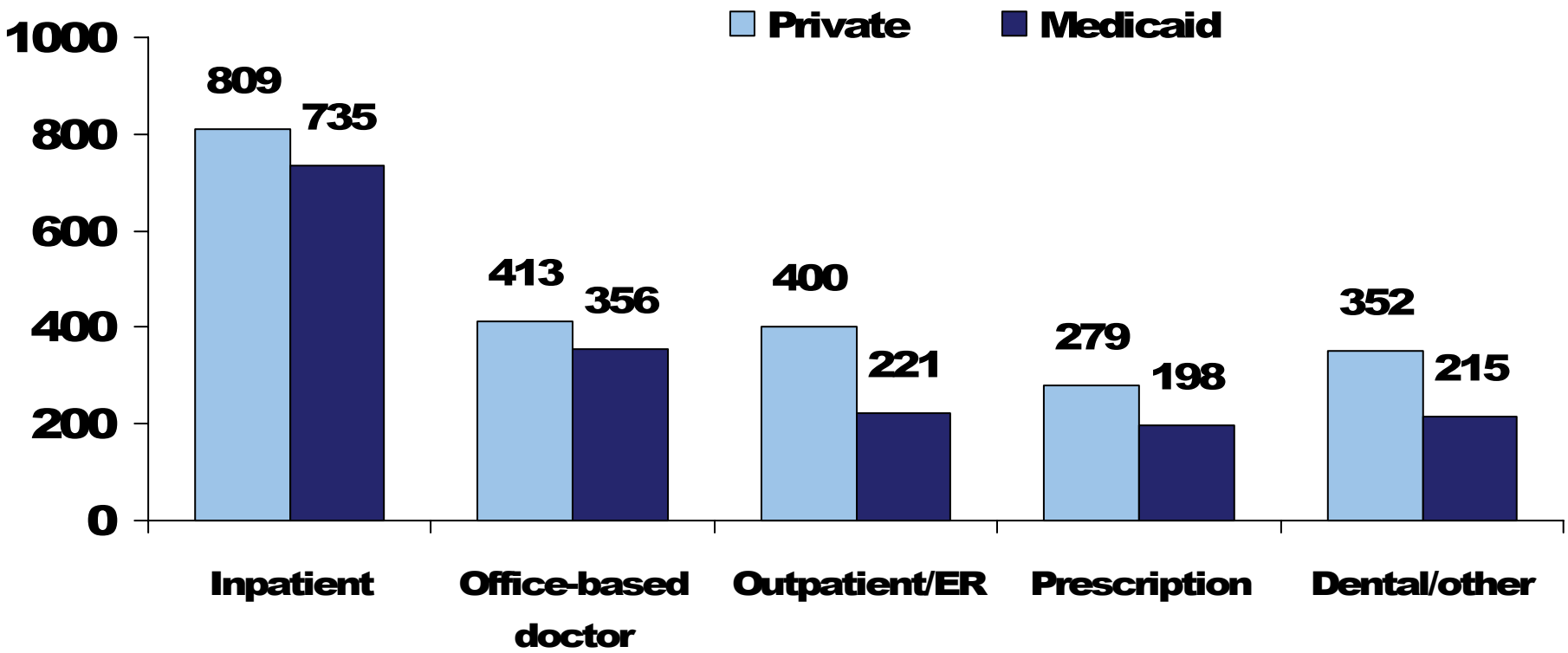
Medicaid's Spending on Health Services Is Lower Than That of Private Coverage

Expenditures ($) on health services for people without health limitations in private coverage and Medicaid



Source: J. Hadley and J. Holahan "Is Health Care Spending Higher Under Medicaid or Private Insurance?" *Inquiry,* Winter 2003 40(4):323–42.

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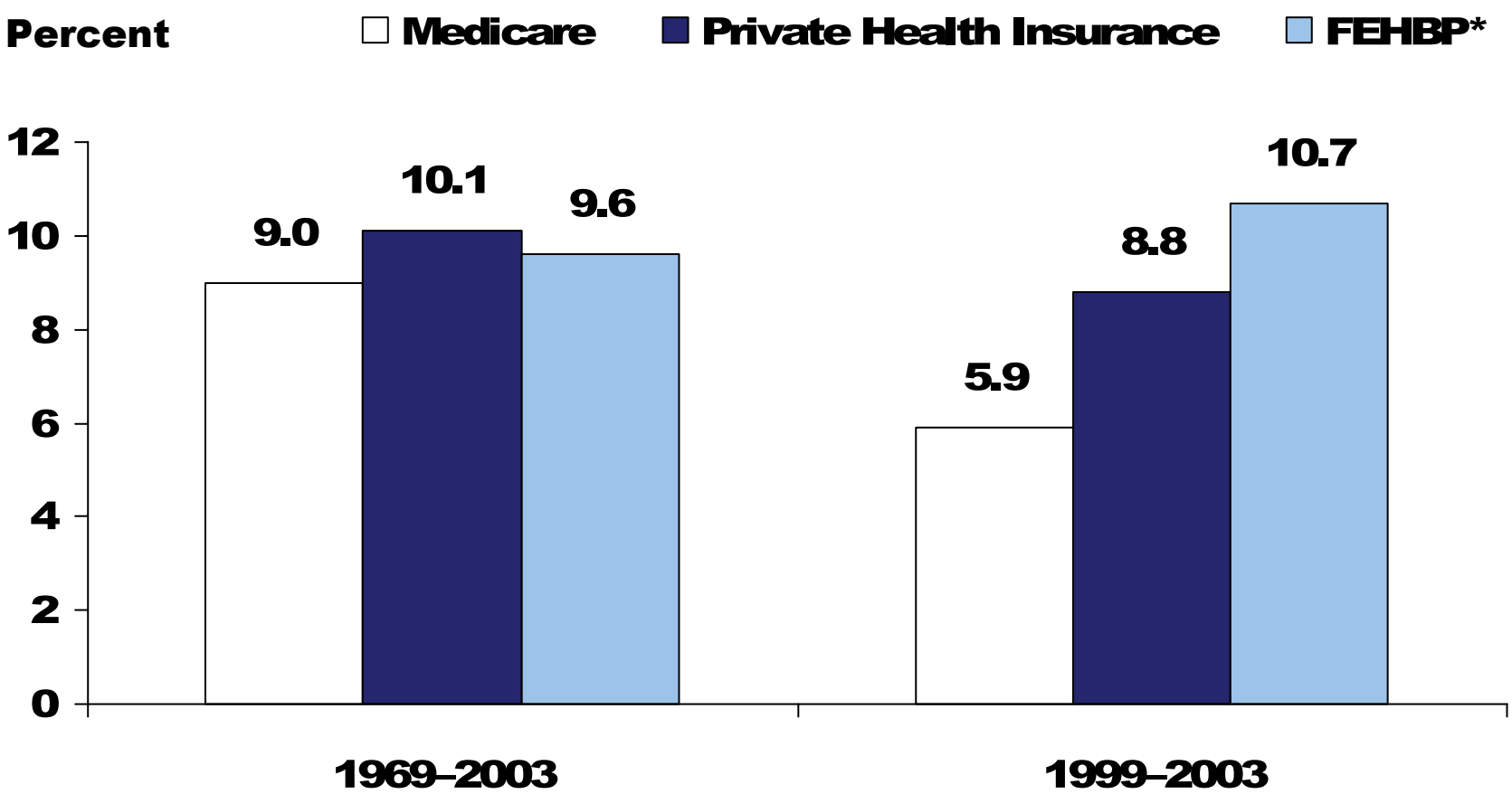
Percent Annual Per Enrollee Growth in Medicare Spending and Private Health Insurance and FEHBP Premiums for Common Benefits



* FEHBP estimates are for 1969–2002 and 1999–2002 from Levit et al., "Health Spending Rebound Continues in 2002," *Health Affairs* 23 (January/February 2004):147–59.
Source: Analysis by Office of the Actuary, Centers for Medicare and Medicaid Services, January 2005.

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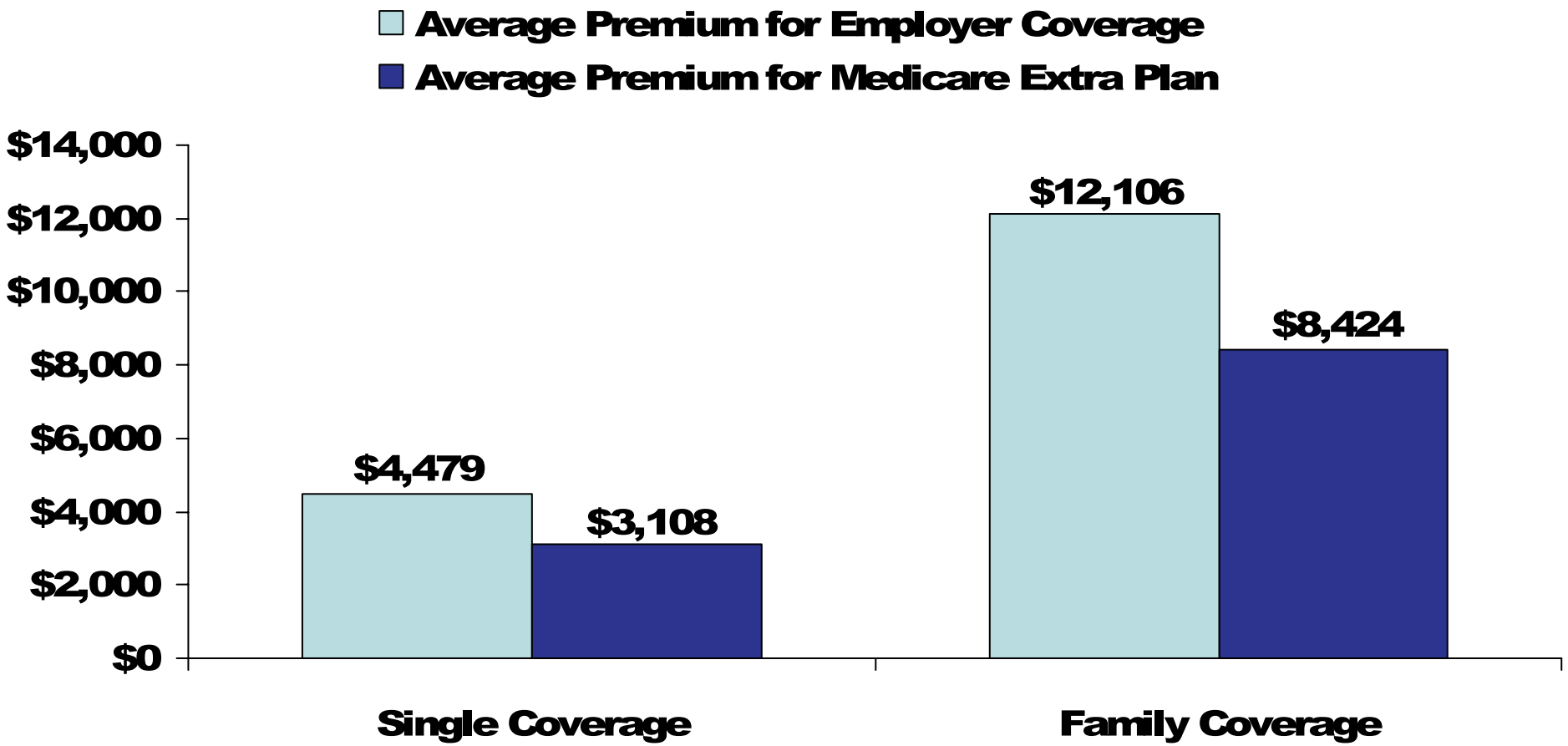
Medicare Extra Plan Would Lower Annual Premiums for Individuals and Families



Source: C. Schoen, K. Davis, and S. R. Collins, "Building Blocks for Reform: Achieving Universal Coverage with Private and Public Group Health Insurance," *Health Affairs,* May/June 2008 27(3):646–57; G. Claxton, "Health Benefits in 2007: Premium Increases Fall to an Eight-Year Low, While Offer Rates and Enrollment Remain Stable," *Health Affairs,* September/October 2007 26(5):1407–16.

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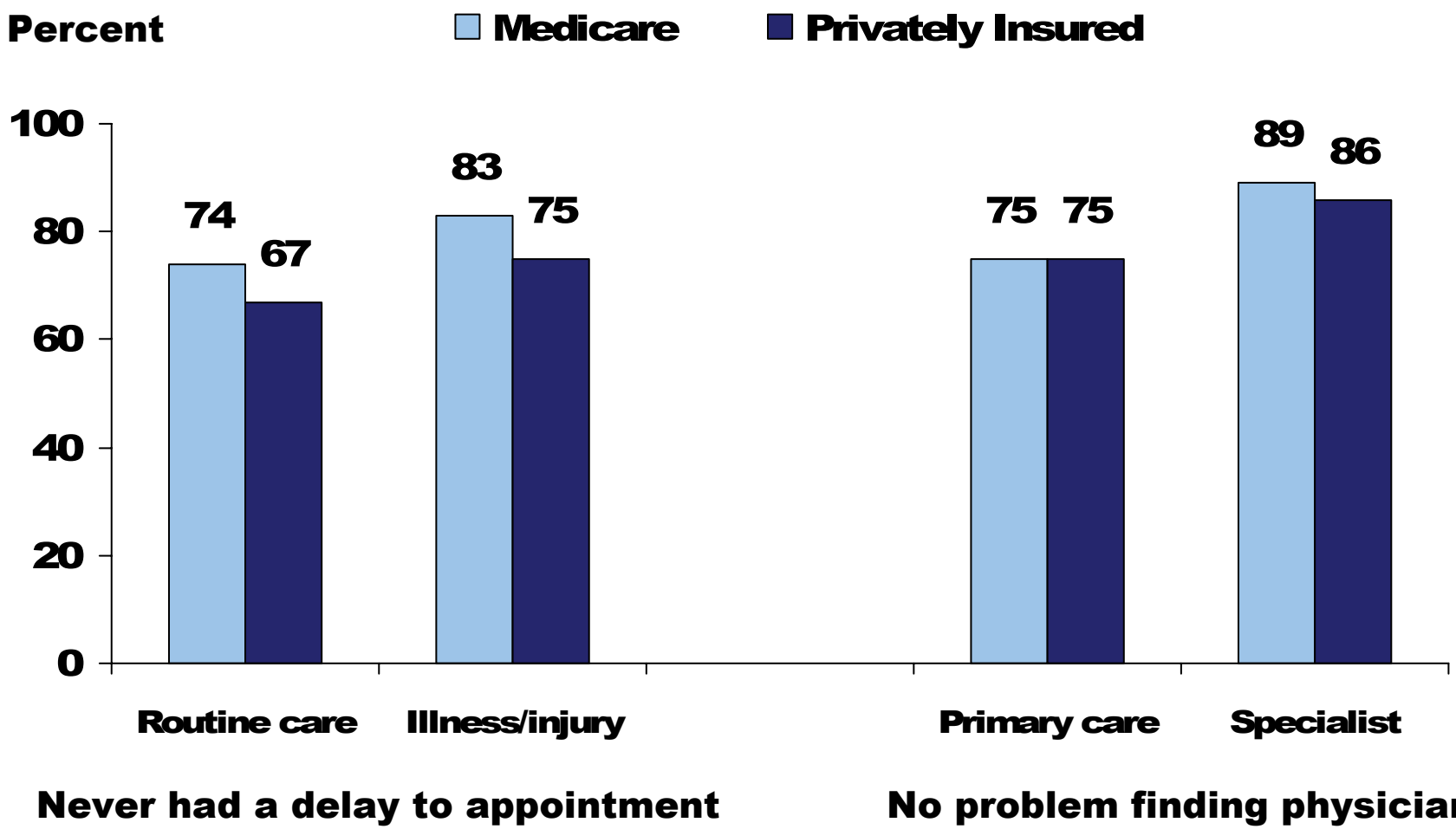
Medicare Beneficiaries Have Better Access to Physician Services than Privately Insured People, 2005



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Source: MedPAC Report to the Congress: Medicare Payment Policy, March 2006, p. 85.

Rising Premiums and Insurance Administrative Costs

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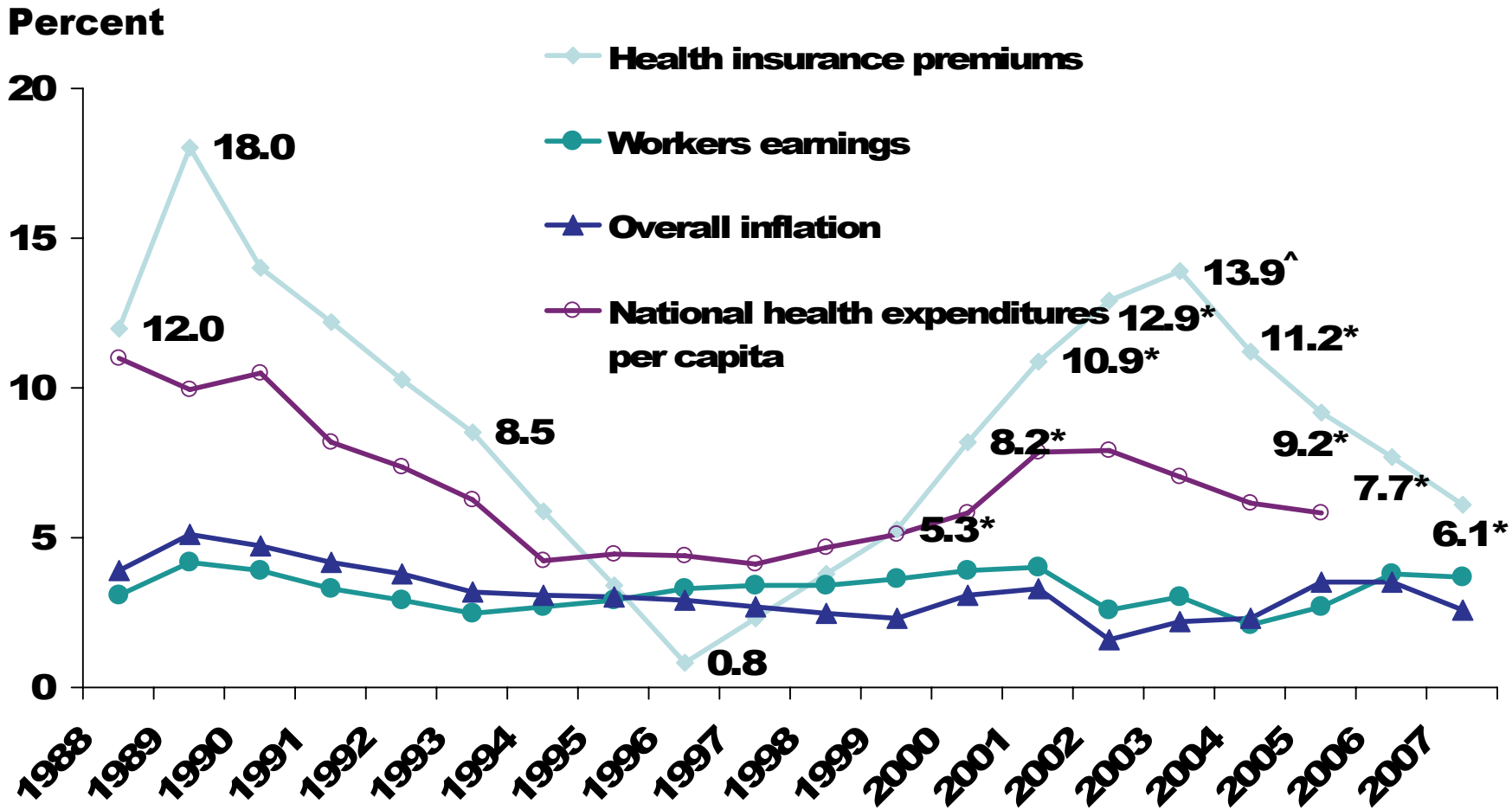
Increases in Health Insurance Premiums Compared with Other Indicators, 1988–2006



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007, and Commonwealth Fund analysis of National Health Expenditures data.
* Estimate is statistically different from the previous year shown at p<0.05.
^ Estimate is statistically different from the previous year shown at p<0.1.
Note: Data on premium increases reflect the cost of health insurance premiums for a family of four. Historical estimates of workers' earnings have been updated to reflect new industry classifications (NAICS).

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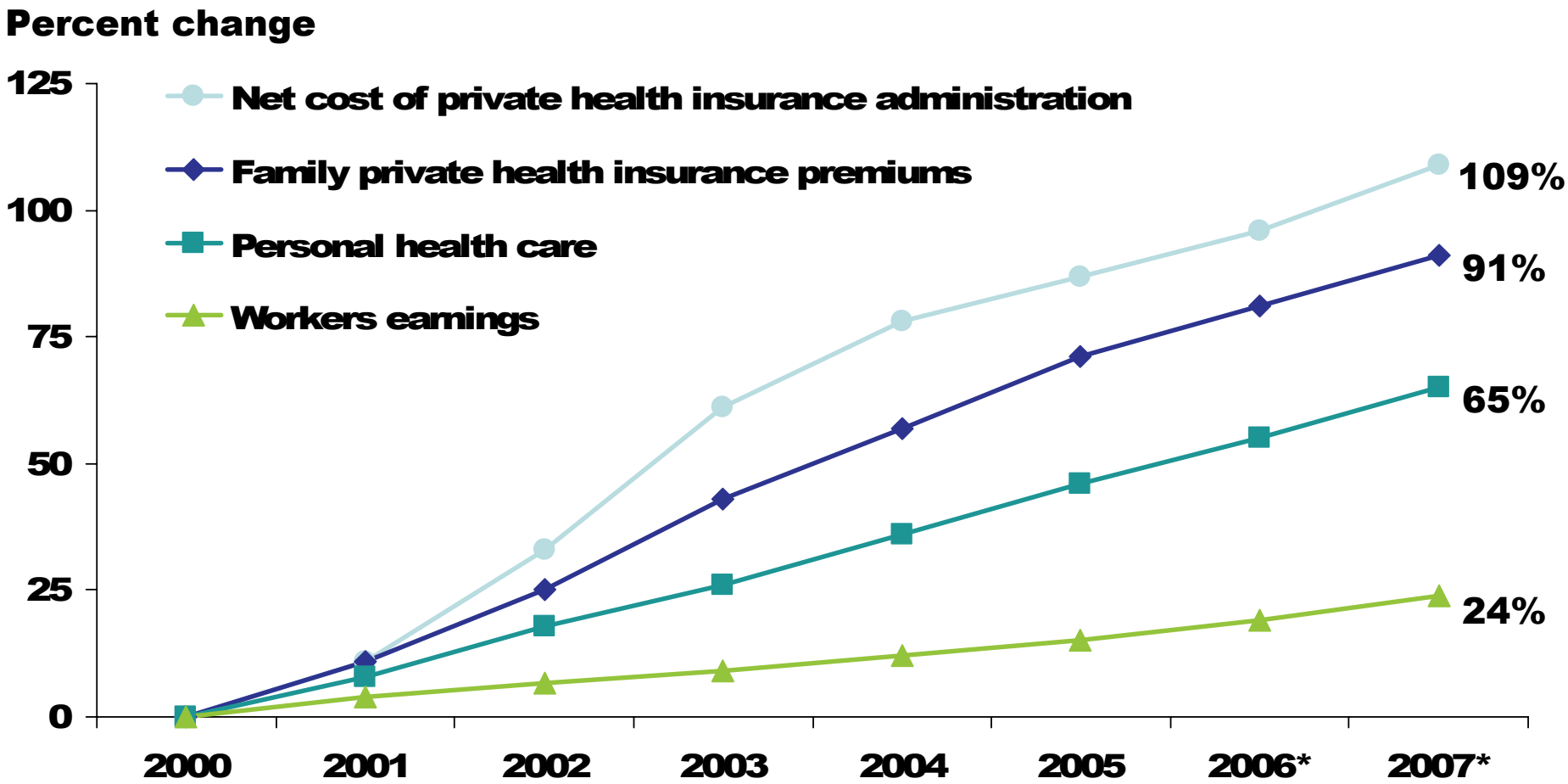
Cumulative Changes in Annual National Health Expenditures and Other Indicators, 2000–2007



Notes: Data on premium increases reflect the cost of health insurance premiums for a family of four/the average premium increase is weighted by covered workers. * 2006 and 2007 private insurance administration and personal health care spending growth rates are projections.

Sources: A. Catlin, C. Cowan, S. Heffler et al., "National Health Spending in 2005: The Slowdown Continues," *Health Affairs*, Jan./Feb. 2007 26(1):143–53; J. A. Poisal, C. Truffer, S. Smith et al., "Health Spending Projections Through 2016: Modest Changes Obscure Part D's Impact," *Health Affairs* Web Exclusive (Feb. 21, 2007):w242–w253; Henry J. Kaiser Family Foundation/Health Research and Educational Trust, *Employer Health Benefits Annual Surveys, 2000–2007* (Washington, D.C.: KFF/HRET).

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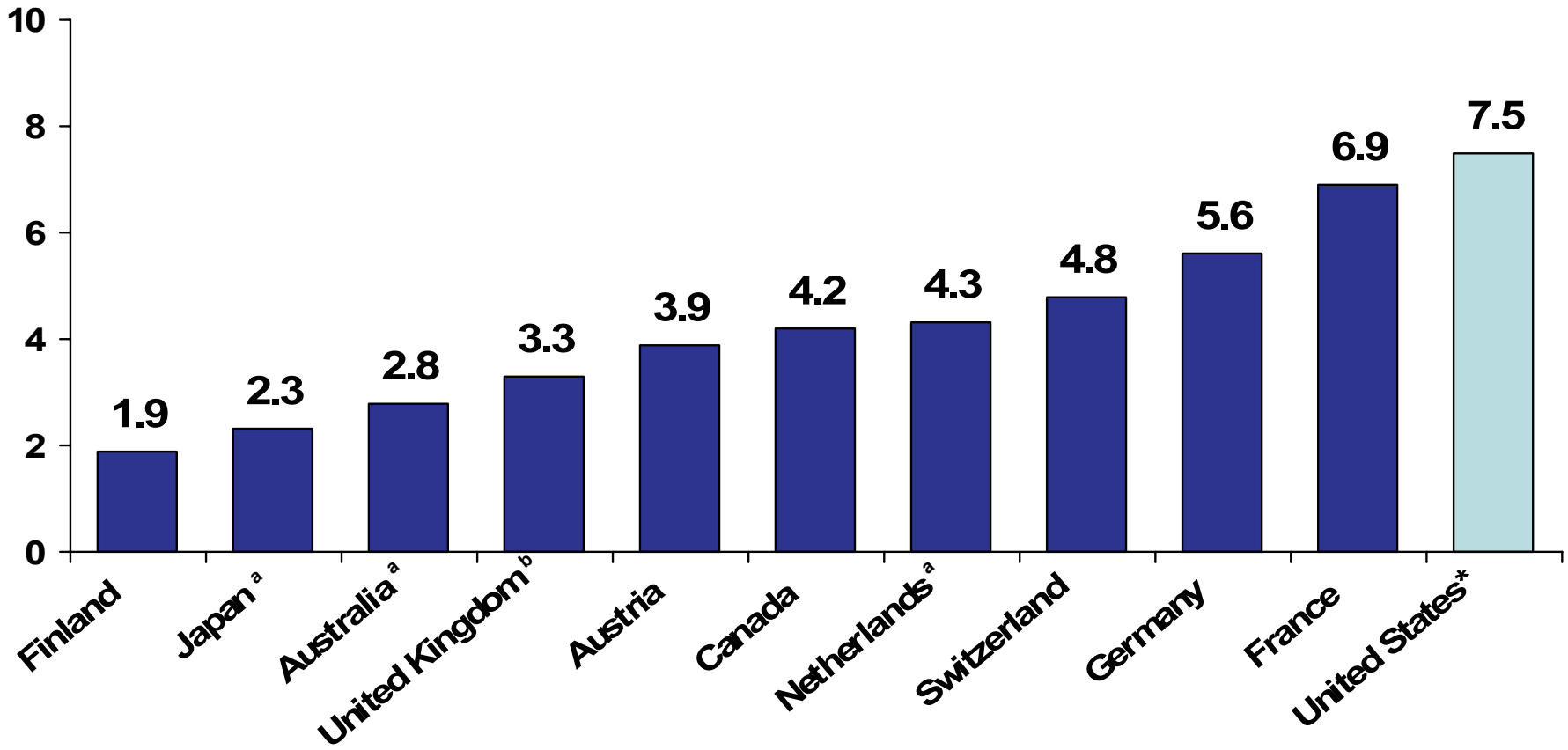
Percentage of National Health Expenditures Spent on Insurance Administration, 2005



[a] 2004 [b] 2001

* Includes claims administration, underwriting, marketing, profits, and other administrative costs; based on premiums minus claims expenses for private insurance.

Data: OECD Health Data 2007, Version 10/2007.

Source: Commonwealth Fund National Scorecard on U.S. Health System Performance, 2008

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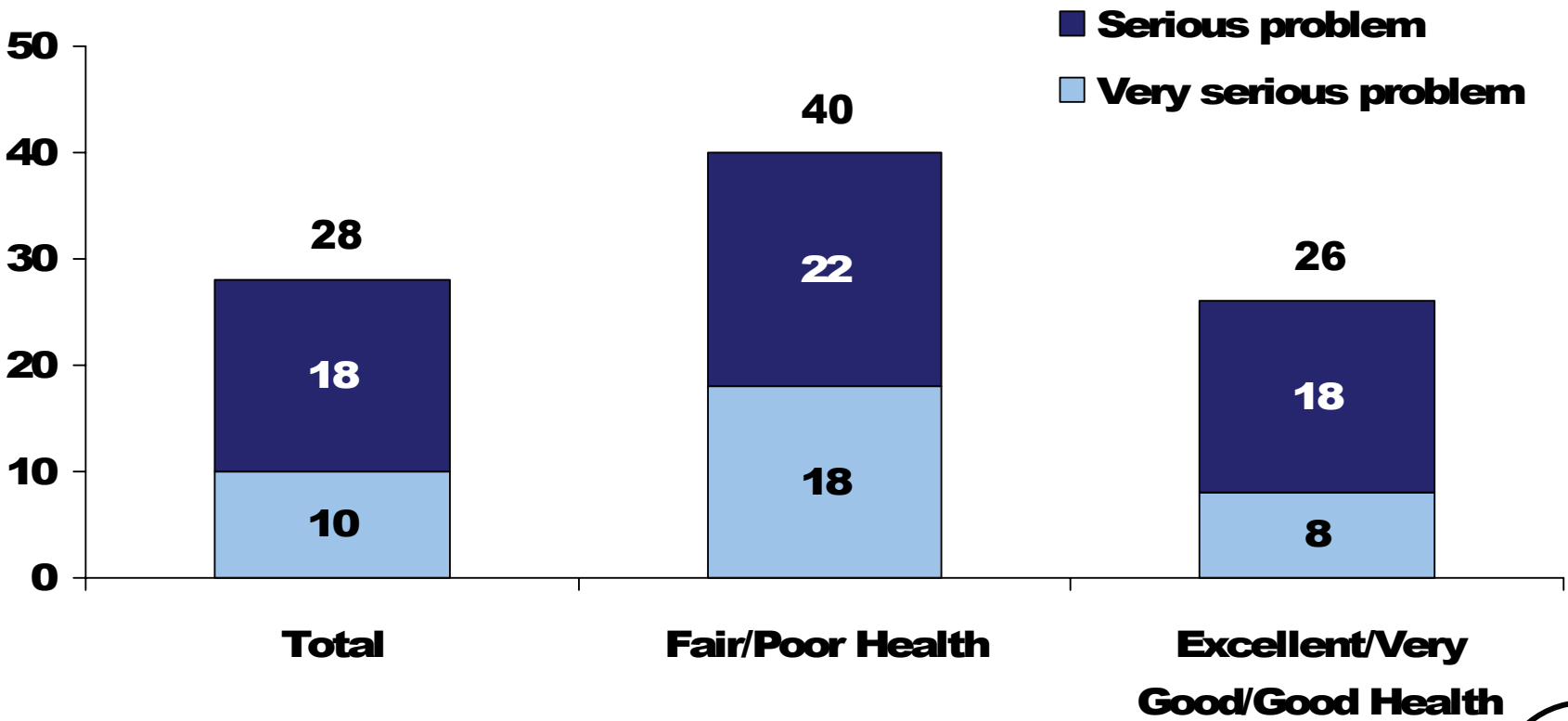
Administrative Hassles Related to Medical Bills and Insurance Are Serious Problems for More Than a Quarter of Adults

Percent reporting serious problems spending time on paperwork or disputes related to medical bills and health insurance in past two years



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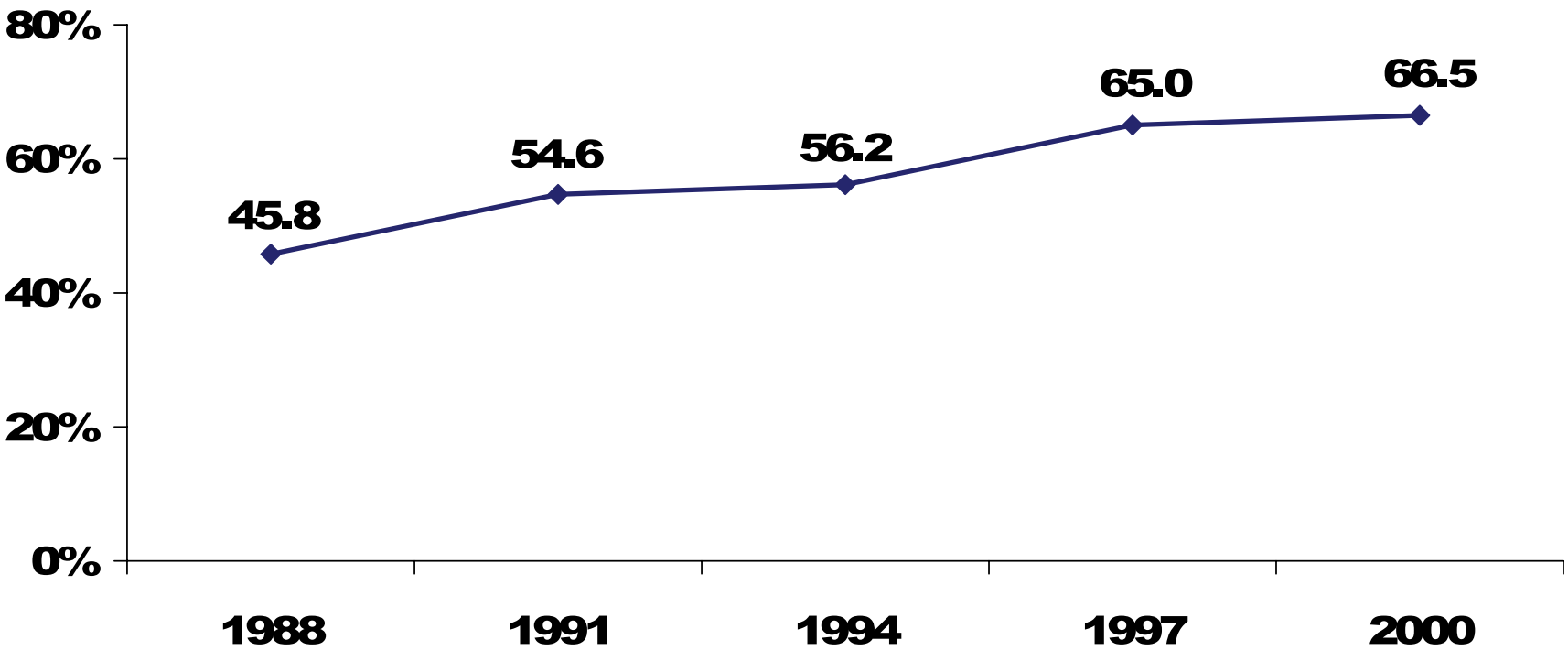
Concentration of Managed Care Enrollment, 1988–2000

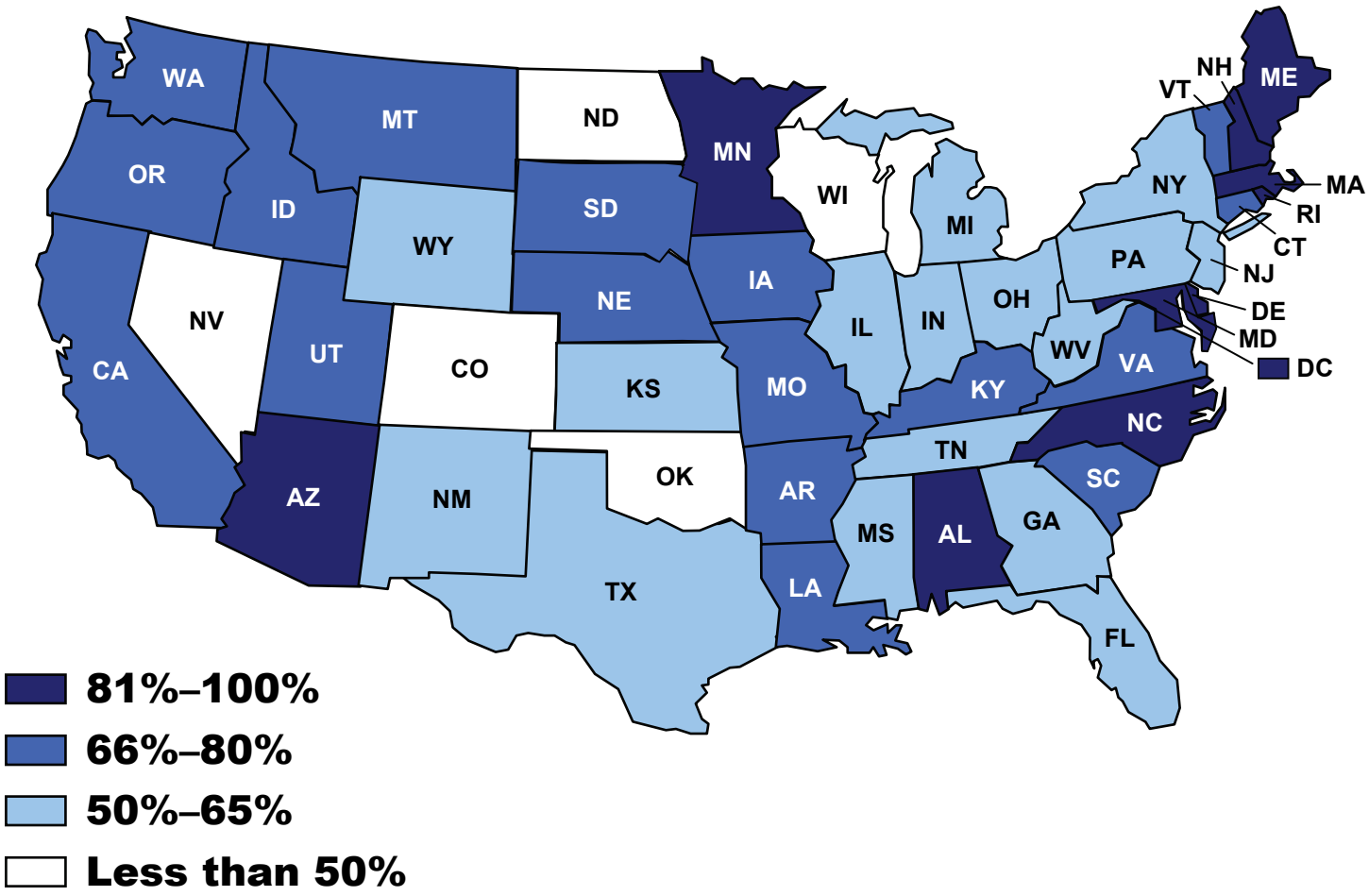
Two-thirds of managed care enrollees are enrolled in the nation's 10 largest managed care firms.



Note: The largest national managed care firms include Blue Cross and Blue Shield plans, Aetna US Healthcare, Kaiser Permanente, United Health, and PacifiCare. HMO enrollment includes enrollees in both traditional HMOs and point-of-service plans.
Source: Centers for Medicare and Medicaid Services, CMS Chart Series, Table 1.17.

THE COMMONWEALTH FUND

Market Share of Three Largest Health Plans, by State, 2002–2003



Note: No data are available for Alaska and Hawaii.
Source: J. C. Robinson, "Consolidation and the Transformation of Competition in Health Insurance," *Health Affairs,* November/December 2004 23(5):11–24.

THE COMMONWEALTH FUND

Operating Earnings Margin in Largest U.S. Health Plans, 2000–2003

Year	WellPoint (excluding Anthem)	Anthem	UnitedHealth Group	Aetna	CIGNA
2000	4.9	8.5	5.7	2.3	3.6
2001	6.6	5.1	6.7	-0.8	8.0
2002	7.1	6.6	8.7	3.2	5.9
2003	8.1	7.8	10.2	7.7	8.9

Note: Operating earnings = earnings before interest and taxes.
Source: J. C. Robinson, "Consolidation and the Transformation of Competition in Health Insurance," *Health Affairs,* November/December 2004 23(5):11–24.

THE COMMONWEALTH FUND

Massachusetts Connector Has Improved Choices and Lowered Premiums

Typical uninsured 37-year-old, pre- and post-reform

	Pre-reform	Post-reform
Monthly premium	$335	$184
Rx coverage	None	$100 deductible
Deductible	$5,000	$2,000

Source: Jon Kingsdale, Executive Director, Commonwealth Health Connector, "Design of Connector as an Element of NHI," July 23, 2008.

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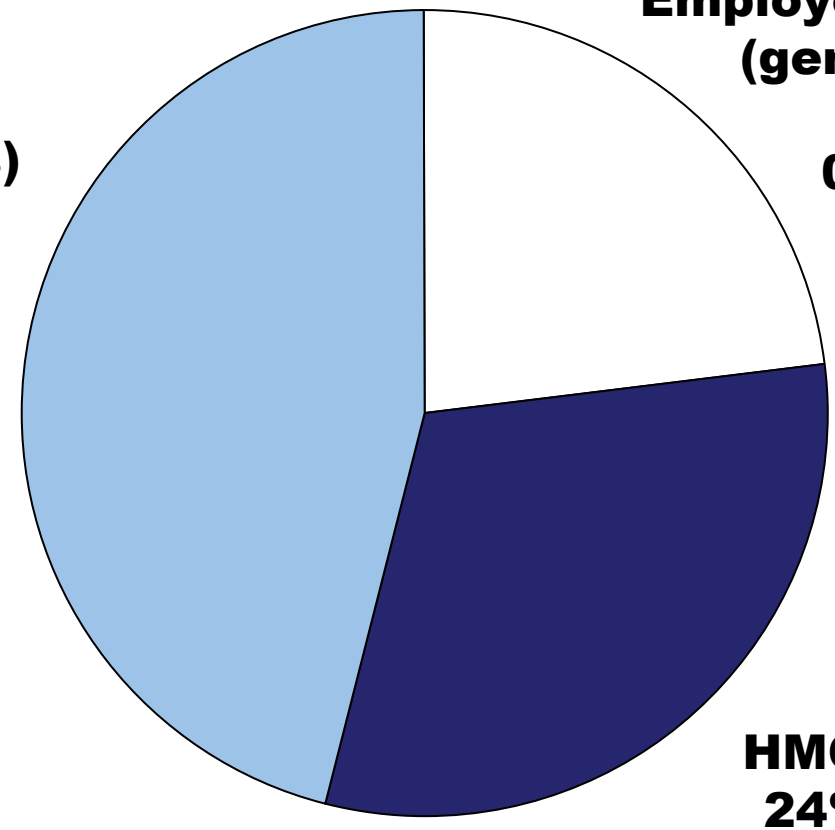
FEHBP Enrollment by Type of Plan



Note: Excludes an estimated 4 million dependents.
Source: Mark Merlis, Personal communication, September 16, 2008.

THE COMMONWEALTH FUND

Rules to Improve Functioning of Insurance Markets

1. A standard benefit adequate is defined and available to all
2. Premiums to the enrollee for a standard plan are affordable regardless of income
3. Enrollees have and use comparable information
4. Marketing practices which mislead or discriminate against the sick are prohibited and strictly enforced
5. Market rules on guaranteed issue and renewal, community rating
6. Risk-adjustment of premiums
7. Insurers compete on the basis of value-added they bring in fostering quality and efficiency
8. Premiums are reasonable and have low administrative overhead

Conclusion

Action is needed to guarantee affordable coverage. This should include:

- **Health insurance premium assistance to low-income and modest-income families who can not afford family premiums that now average over $12,000 even under employer plans.**
- **Strengthening not weakening employer coverage**
- **Setting national rules for the operation of individual health insurance markets**
- **Creating insurance connectors, such as the one in Massachusetts, that make affordable health insurance policies available to those without access to employer coverage**
- **Offering a public plan modeled on Medicare to small businesses and individuals would lower premiums by 30 percent and increase the stability of insurance coverage.**
- **Building on Medicare, Medicaid, and SCHIP to cover older adults, the disabled now in the Medicare two-year waiting period, and low-income adults as well as children. Private insurance markets do not serve these populations well.**