



# Issue Brief

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## **Paying More for Less: Older Adults in the Individual Insurance Market**

### ***Findings from the Commonwealth Fund Survey of Older Adults***

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**ABSTRACT:** The Commonwealth Fund Survey of Older Adults reveals that adults ages 50 to 70 who rely on the individual insurance market for health coverage pay much higher premiums than their counterparts with employer coverage or Medicare. The survey found that in 2004, more than half (54%) of older adults with individual coverage spent \$3,600 or more annually on premiums. A quarter (26%) spent \$6,000 or more a year. In contrast, only 17 percent of older adults with employer coverage and 6 percent of those covered by Medicare spent \$3,600 or more on premiums. Moreover, individual coverage often provides poor access to care and entails high out-of-pocket expenses for older adults, making it a particularly unaffordable option for people who are older, have low incomes, or who have chronic health problems.

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### **Overview**

Most working-age older adults receive health insurance coverage through an employer. But many older adults who do not have access to employer-based coverage seek coverage on the individual market.<sup>1</sup> The Commonwealth Fund Survey of Older Adults, conducted in late 2004, reveals that adults ages 50 to 70 who rely on individual market insurance pay much higher premiums than their counterparts with employer coverage or Medicare.<sup>2</sup> This is because older adults have greater health care needs and are at greater risk of catastrophic illness—characteristics that, in most states, underwriters are allowed to take into consideration when writing individual insurance policies.<sup>3</sup> Yet, despite the fact that older adults with individual coverage pay more in premiums, the survey finds they have far less comprehensive coverage and are more likely to face insurance restrictions and administrative complications.

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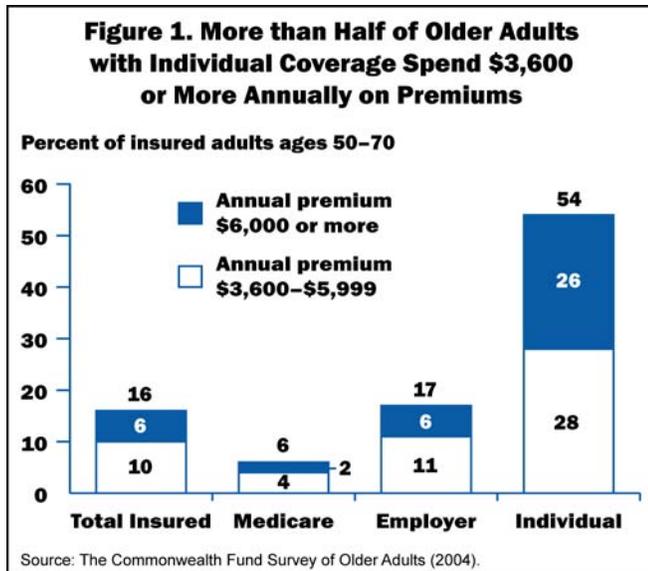
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As a result of gaps in coverage, older adults with individual coverage are significantly more likely than those with employer coverage to report problems accessing needed care and paying medical bills. The extent of such problems is particularly notable since, as a group, those with individual insurance tend to be healthier and wealthier than the average for this age group.

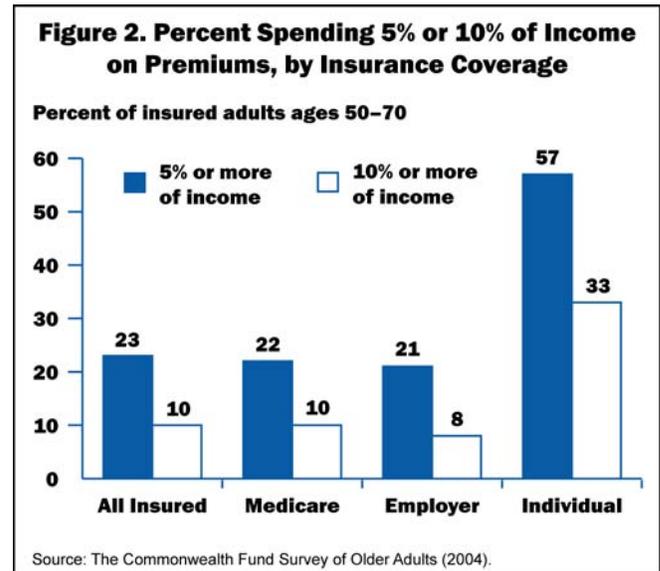
**Higher Premiums**

The survey found that in 2004 more than half (54%) of older adults with coverage on the individual market spent \$300 or more per month on health insurance premiums, or \$3,600 or more annually (Figure 1). A quarter (26%) spent \$500 or more a month, or \$6,000 or more a year. In contrast, only 17 percent of older adults with employer coverage and 6 percent of those covered by Medicare spent \$3,600 or more per year on premiums.



Despite the fact that older adults with individual coverage have somewhat higher incomes than average, nearly three of five (57%) spent 5 percent or more of their income on insurance premiums and a third (33%) spent 10 percent or more (Figure 2).<sup>4</sup> In contrast, among older adults with employer coverage, just 21 percent spent 5 percent

or more of their incomes on premiums and only 8 percent spent 10 percent or more. Older adults of all ages with Medicare allocated nearly the same share of their incomes toward premiums as those with employer coverage.

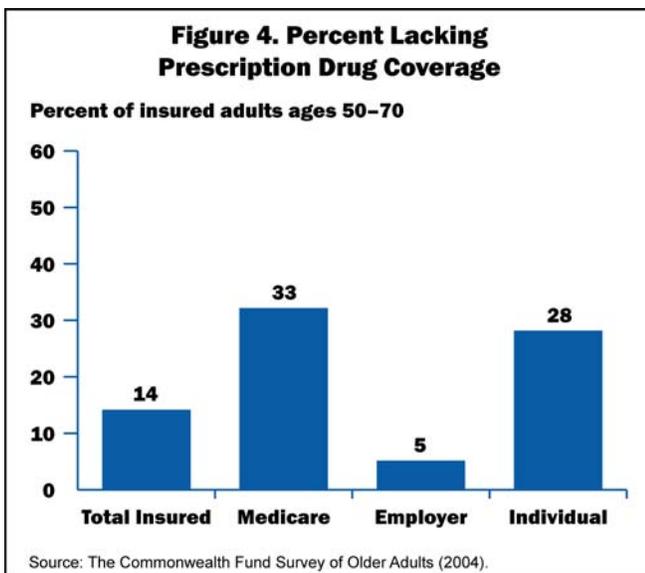
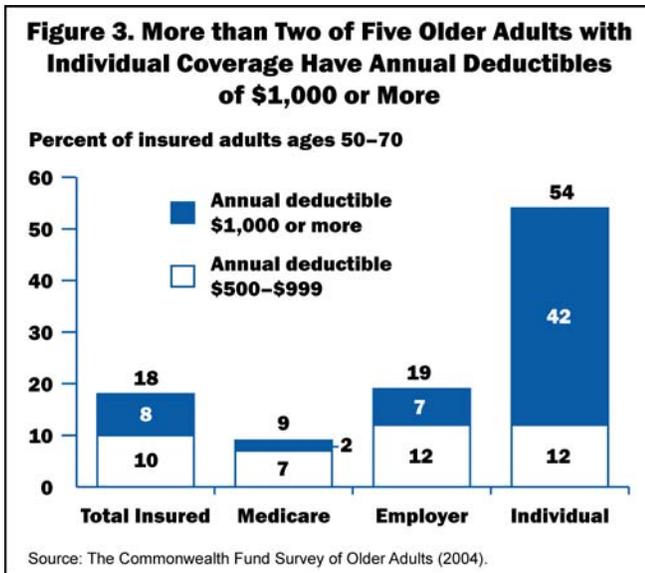


**Higher Deductibles**

Older adults with individual coverage face much higher deductibles than those with employer coverage or Medicare. More than two of five (42%) older adults with individual coverage have deductibles of \$1,000 or higher (Figure 3). In fact, nearly a quarter (24%) of older adults with individual coverage must meet annual deductibles of \$2,000 or more per year (Table 1). Only 7 percent of older adults with employer coverage and just 2 percent of Medicare beneficiaries face deductibles of \$1,000 or more a year (Figure 3).

**Less Prescription Drug Coverage**

Older adults with individual insurance also are much less likely to have coverage for drugs than are those with employer coverage. Nearly 30 percent of older adults with coverage through the individual market lack prescription drug coverage compared with 5 percent of those with employer coverage (Figure 4). Medicare beneficiaries also

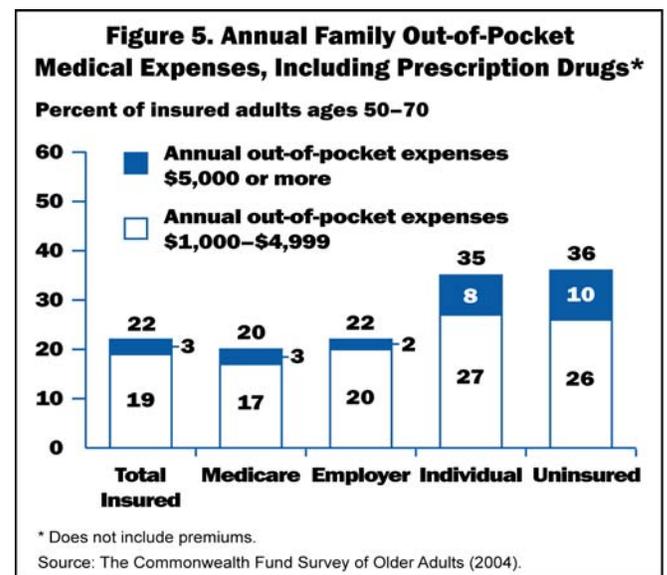


reported high rates of lacking prescription drug coverage. One-third were without coverage in 2004. The new Medicare prescription drug benefit, which takes effect in early 2006, will help increase the percentage of beneficiaries with drug coverage.

**Higher Out-of-Pocket Costs**

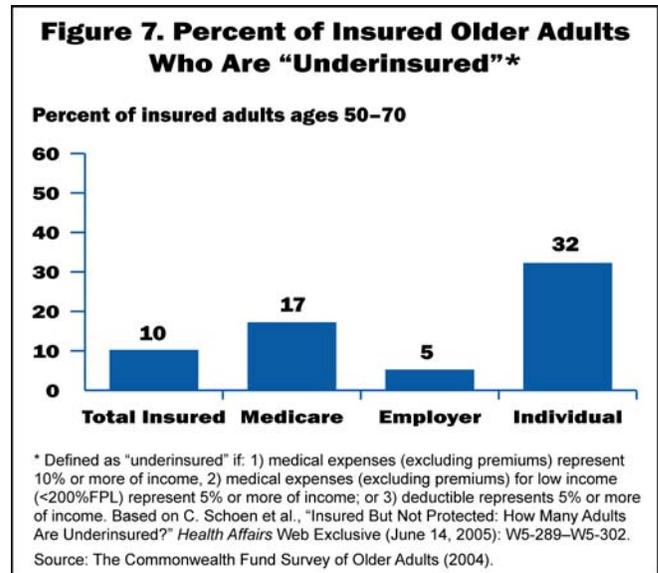
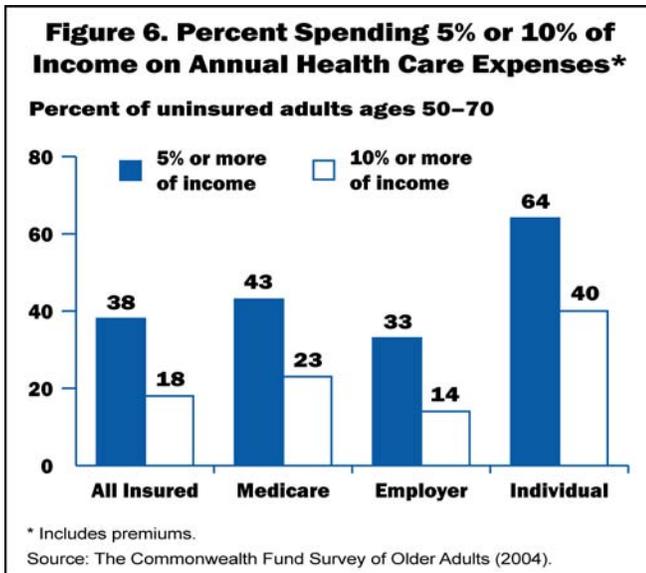
Cost-sharing and gaps in coverage expose older adults with insurance through the individual market to high out-of-pocket costs. On average, older

adults with individual coverage have annual out-of-pocket costs, excluding premiums, that are similar in magnitude to those experienced by uninsured older adults. In the survey, 35 percent of older adults with individual coverage and 36 percent of uninsured older adults spent \$1,000 or more annually on out-of-pocket health costs, including prescription drugs (Figure 5). In contrast, about one of five of those with employer coverage (22%) or Medicare (20%) spent this much.



**Higher Total Costs**

High premiums, high deductibles, and high out-of-pocket costs add up to substantial annual expenditures for older adults with individual coverage. Half (50%) of older adults with individual coverage spent \$5,500 or more a year on the costs of insurance premiums and health care compared with 16 percent of those with employer coverage and 8 percent of Medicare beneficiaries (Table 2). Nearly two-thirds (64%) of older adults with individual coverage spent 5 percent or more of their income on insurance and health care costs and two of five spent 10 percent or more (Figure 6). Such large expenditures as a share of income underscore how this market is not an affordable option for older adults with low incomes.



**Higher Rates of Underinsurance**

Cathy Schoen and colleagues at the Commonwealth Fund developed a measure of “underinsurance” based on whether people have high out-of-pocket costs and high deductibles relative to their incomes.<sup>5</sup> They defined people as underinsured if 1) their medical expenses (excluding premiums) amounted to 10 percent or more of income; 2) their medical expenses (excluding premiums) were 5 percent or more of income and they were in households with incomes of less than 200 percent of poverty; or 3) their health plan deductibles were 5 percent or more of their income. When this measure is applied to insured older adults in the survey, nearly one-third (32%) with coverage on the individual market were underinsured compared with 17 percent of Medicare beneficiaries and just 5 percent of those with employer coverage (Figure 7).

**Worse Access to Care**

High out-of-pocket costs appear to interfere with older adults’ access to the health care system. The survey asked respondents whether in the last 12 months they had not sought medical care because of cost, including not filling a prescription, skipping a recommended medical test or treatment, or not going to a doctor or specialist when necessary.

People who were on average the most exposed to the costs of health care—those who were uninsured or those with coverage through the individual market—were the most likely to report not accessing medical care because of cost. More than half (57%) of uninsured older adults reported going without care because of cost as did nearly a third (32%) of older adults with individual coverage (Figure 8). By comparison, Medicare and employer coverage provided greater access to care: 23 percent of Medicare beneficiaries and 18 percent of

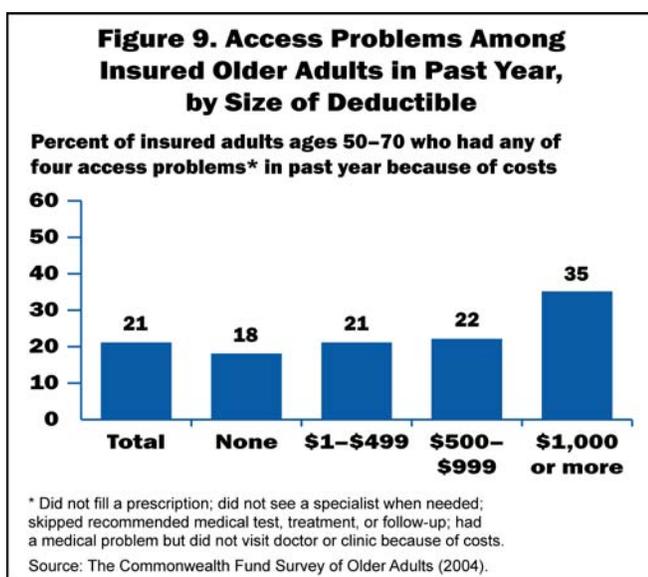
**Figure 8. Lacking Health Insurance or Having Poor Coverage Threatens Access to Care**

	Total Ages 50–70	Medicare	Employer-Based Insurance	Individual Market	Uninsured
<b>Did not fill Rx</b>	<b>15%</b>	<b>18%</b>	<b>12%</b>	<b>14%</b>	<b>30%</b>
<b>Did not see specialist when needed</b>	<b>9</b>	<b>7</b>	<b>7</b>	<b>12</b>	<b>27</b>
<b>Skipped medical test, treatment, or follow-up</b>	<b>11</b>	<b>9</b>	<b>8</b>	<b>18</b>	<b>35</b>
<b>Did not see doctor when sick</b>	<b>11</b>	<b>9</b>	<b>7</b>	<b>15</b>	<b>40</b>
<b>Any of the four access problems</b>	<b>24</b>	<b>23</b>	<b>18</b>	<b>32</b>	<b>57</b>

Source: The Commonwealth Fund Survey of Older Adults (2004).

older adults with employer coverage reported any of these problems.<sup>6</sup>

High deductibles are a particular barrier to obtaining health care. Among older adults with insurance coverage, 35 percent of those who had annual deductibles of \$1,000 or more reported at least one cost-related access problem (Figure 9). In contrast, only about one of five insured adults with annual deductibles of less than \$1,000 said that they had experienced an access problem.<sup>7</sup>

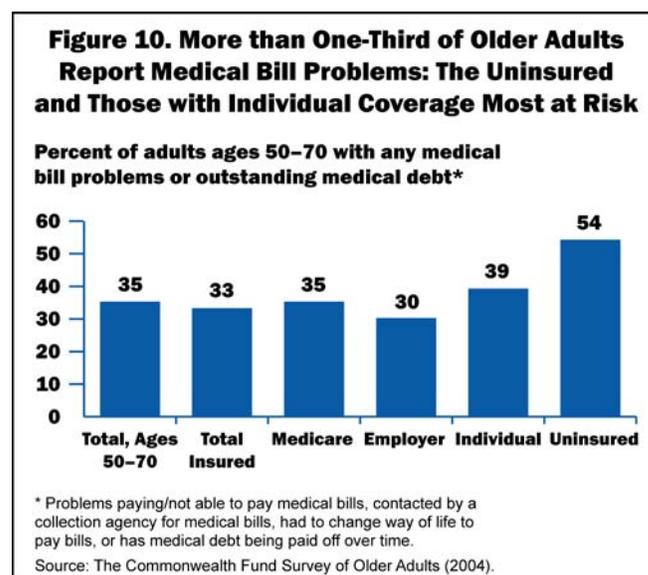


### More Problems Paying Medical Bills

The survey asked older adults about their ability to pay their medical bills in the last 12 months, including whether there were times when they had difficulty or were unable to pay their bills, whether they had been contacted by a collection agency concerning outstanding medical bills, or whether they had to change their life significantly in order to pay their bills. People who reported no medical bill problems in the last 12 months were asked if they were currently paying off medical debt that they had incurred in the last three years.

More than half (54%) of uninsured older adults reported problems with payment of medical bills or said they were coping with accrued debt

(Figure 10). Nearly two of five (39%) older adults with individual coverage reported problems with medical bills and debt compared with 30 percent of those with employer coverage and 35 percent of Medicare beneficiaries.<sup>8</sup> Disabled Medicare beneficiaries under age 65 are particularly vulnerable to medical bill problems since they are poorer, use more health care services, and are more likely to have been uninsured in the years prior to becoming eligible for Medicare. Fifty-seven percent of disabled beneficiaries reported a payment problem or accrued debt compared with 27 percent of beneficiaries 65 and older (data not shown).



### Conclusion

Findings from the Commonwealth Fund Survey of Older Adults indicate that older adults who rely on the individual insurance market for coverage pay high premiums for coverage that often provides poor access to care and entails high out-of-pocket expenses. The high costs make this market a particularly unaffordable option for people who are older, have low incomes, and/or who have chronic health problems.

Older Americans in the individual market today tend to be wealthier and healthier, on average, than others in their age group. Only 12 percent of

older adults with individual coverage are in households with incomes under 200 percent of poverty, half the rate of all older adults.<sup>9</sup> And fewer than one of 10 (9%) say they are in fair or poor health, compared with 22 percent of all older adults. But while those covered by individual insurance have higher incomes than their counterparts, trends indicate that the individual market will become even less affordable in the future. Premiums have been growing at an accelerated rate, even as wages have lagged overall inflation.<sup>10</sup> According to the Agency for Healthcare Research and Quality, the average individual insurance premium paid by adults between ages 55 and 64 rose by 89 percent from 1996 to 2002—three times the rate of growth in premiums paid by adults under age 40.<sup>11</sup>

Despite paying high premiums that continue to rise, older adults in this market are only slightly better protected than those without any form of coverage, the survey shows. New options for older adults lacking access to employer-based coverage—such as the ability to buy in to Medicare before the age of 65—would improve the health and financial security of this age group.

## NOTES

<sup>1</sup> E. C. Ziller, A. F. Coburn, T. D. McBride, C. Andrews, “Patterns of Individual Health Insurance Coverage, 1996–2000,” *Health Affairs* 23 (November/December 2004): 210–221.

<sup>2</sup> For a description of the survey, see the [Methodology](#) box on page 9.

<sup>3</sup> P. F. Short, D. G. Shea, M. P. Powell, “Health Insurance for Americans Approaching Age Sixty-Five: An Analysis of Options for Incremental Reform,” *Journal of Health Politics, Policy and Law* 28 (February 2003): 41–76.

<sup>4</sup> Seventy-eight percent of insured adults ages 50–64 with coverage on the individual market have incomes at 200% of poverty or more while only 68% of all adults ages 50–64 have incomes at that level.

<sup>5</sup> C. Schoen, M. M. Doty, S. R. Collins, A. L. Holmgren, “[Insured But Not Protected: How Many Adults Are Underinsured?](#)” *Health Affairs* Web Exclusive (June 14, 2005): W5-289–W5-302.

<sup>6</sup> Difference between Medicare and individual coverage is not statistically significant.

<sup>7</sup> Differences statistically significant between those with deductibles of less than \$500 and those with deductibles of \$1,000 or more.

<sup>8</sup> Only the difference between uninsured and other coverage sources is statistically significant.

<sup>9</sup> S. R. Collins, K. Davis, C. Schoen et al., *Will You Still Need Me? The Health and Financial Security of Older Americans—Findings from the Commonwealth Fund Survey of Older Adults* (New York: The Commonwealth Fund, June 2005), Table 1, p. 29.

<sup>10</sup> J. Gabel et al., “Health Benefits in 2004: Four Years of Double-Digit Premium Increases Take Their Toll on Coverage,” *Health Affairs* 23 (September/October 2004): 200–209; Bureau of Labor Statistics, Employment Cost Index for Civilian Workers, Wages and Salaries, <http://data.bls.gov>.

<sup>11</sup> D. M. Bernard, *Premiums in the Individual Health Insurance Market for Policyholders Under Age 65, 1996 and 2002*, Medical Expenditure Panel Survey Statistical Brief #72, Agency for Healthcare Research and Quality, March 2005.

**Table 1. Health Insurance Expenses of Older Adults Ages 50 to 70, by Age and Insurance Base: All respondents**

	Total	Ages 50–64	Ages 65–70	Insured			
				Total Insured	Medicare	Employer	Individual
Total in Millions (estimated)	59.08	47.62	11.46	54.49	14.68	32.68	3.65
Percent Distribution	100%	81%	19%	92%	25%	55%	6%
<b>Insurance Premium Expenses</b>							
Monthly premium costs (Respondents who are insured)							
None	19	20	14	19	17	16	3
Less than \$100	29	27	35	29	40	27	14
\$100–\$199	19	18	23	19	19	21	8
\$200–\$299	10	10	9	10	8	11	16
\$300–\$499	10	11	6	10	4	11	28
\$500 or more	6	6	3	6	2	6	26
<i>Spent annually 5% or more of income</i>	23	23	22	23	22	21	57
<i>Spent annually 10% or more of income</i>	10	10	11	10	10	8	33
<b>Annual Deductible per Person</b> (Respondents who are insured)							
No deductible	36	37	35	36	39	33	19
Less than \$500	34	32	41	34	38	37	12
\$500–\$999	10	11	8	10	7	12	12
\$1,000–\$1,999	5	6	3	5	2	5	18
\$2,000 or more	3	4	1	3	—	2	24

Source: The Commonwealth Fund Survey of Older Adults (2004).

**Table 2. Health Care Expenses of Older Adults Ages 50 to 70, by Age and Insurance  
Base: All respondents**

	Total	Ages 50–64	Ages 65–70	Insured			Uninsured	
				Total Insured	Medicare	Employer Individual		
Total in Millions (estimated)	59.08	47.62	11.46	54.49	14.68	32.68	3.65	4.59
Percent Distribution	100%	81%	19%	92%	25%	55%	6%	8%
<b>Prescription Drug Expenses</b>								
Has prescription drug coverage (Respondents who are insured)	85	89	71	85	67	95	72	NA
Takes prescription drugs on a regular basis	70	68	81	73	84	69	59	42
<b>Total Annual Out-of-Pocket Medical Expenses, Including Prescription Drugs</b>								
Less than \$100	23	22	25	22	26	19	15	28
\$100–\$499	36	36	35	36	33	40	30	25
\$500–\$999	16	15	18	16	16	17	17	11
\$1,000–\$4,999	20	20	16	19	17	20	27	26
\$5,000 or more	3	4	2	3	3	2	8	10
<i>Spent annually 5% or more of income</i>	16	16	17	15	21	11	26	29
<i>Spent annually 10% or more of income</i>	7	7	8	6	10	3	11	24
<b>Total Annual Out-of-Pocket Medical Expenses*</b>								
Less than \$500	22	23	18	19	21	16	5	53
\$500–\$999	21	20	24	22	25	21	13	11
\$1,000–\$2,499	18	16	23	19	22	21	4	0
\$3,000–\$5,499	24	24	24	24	23	25	28	26
\$5,500–\$9,999	11	12	7	11	6	12	36	10
\$10,000 or more	3	4	2	4	2	4	14	0
<i>Spent annually 5% or more of income</i>	37	36	41	38	43	33	64	29
<i>Spent annually 10% or more of income</i>	18	18	20	18	23	14	40	24

\* Includes health insurance premiums (for insured only) and medical expenses including prescription drugs.

Source: The Commonwealth Fund Survey of Older Adults (2004).

## APPENDIX. SURVEY METHODOLOGY

The Commonwealth Fund Survey of Older Adults was conducted by International Communications Research from September 14 through November 21, 2004. The survey consisted of 25-minute telephone interviews in either English or Spanish and was conducted among a random, nationally representative sample of 2,007 adults ages 50 to 70 living in the continental United States. The study included 1,591 adults ages 50 to 64 and 416 adults ages 65 to 70.

Statistical results are weighted to make the results representative of all adults ages 50 to 70 in the continental United States. The data are weighted to the U.S. adult population by age, sex, race/ethnicity, education, and geographic region using the 2004 March Supplement of the Current Population Survey. The resulting weighted sample is representative of the approximately 59 million adults ages 50 to 70, including 48 million adults ages 50 to 64 and 11 million adults ages 65 to 70.

The study classified adults by age, annual household income, and insurance status when surveyed. Fifteen percent of adults 50 to 70 did not provide sufficient income data for classification by income or poverty. We asked respondents whether, when surveyed, they had the following types of insurance: Medicare, employer-sponsored, individually purchased, Medicaid, or insurance through any other source (including military or veteran's coverage). Respondents who had none of these insurance sources were classified as uninsured. Although respondents were allowed to report multiple sources of insurance, in this analysis only mutually exclusive insurance categories were allowed. Thus, respondents reporting multiple sources of insurance were classified into one category using a hierarchy. For individuals under 65 years, the hierarchy for insurance was employer, Medicare, Medicaid, individual, or other. For adults 65 years and older with multiple sources of coverage, the principal source of insurance was always Medicare, followed by employer, Medicaid, individual, and other.

The survey has an overall margin of sampling error of  $\pm 2.29$  percentage points at the 95 percent confidence level. For the sample of adults ages 50 to 64 and those ages 65 to 70, the margins of error are  $\pm 2.58$  and  $\pm 4.98$  percentage points, respectively.

The 71.6 percent survey response rate was calculated consistent with standards of the American Association for Public Opinion Research.

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