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findings brief

Bridging the Gap: The Role of Individual Health Insurance Coverage

Making health insurance more affordable to those without employer-based coverage has become an important theme in the current policy debate. Policymakers have pursued a variety of options, including insurance regulation and tax credits to expand the individual health insurance market, to reduce the number of uninsured Americans. But a lack of empirical data and knowledge about the market and its participants has hampered researchers and policymakers' abilities to evaluate the impact of these reforms. In particular, past research on the individual insurance market has not explored patterns of individual coverage over time. Therefore, questions about enrollment and disenrollment patterns and coverage duration with individual insurance have until recently, remained unanswered.

Under a recently completed HCFO grant, Andrew F. Coburn, Ph.D, and Erika Ziller at the University of Southern Maine and Timothy McBride at St. Louis University explored patterns of individual health insurance coverage. Specifically, the researchers studied how long the individually insured maintained their coverage, what sources of coverage were available before and after enrollment in an individual health plan, and the characteristics of those who relied on individual insurance coverage. The study results highlight the heterogeneity of those using this market. Most individual insurance "spells" were characterized by people entering and exiting employer-based coverage, implying that individual health insurance was used primarily to bridge gaps in employer-based coverage. However, an important minority of the individually insured maintained coverage for more than two years, with small business employees and the self-employed having the longest spells. Thus, the findings suggest that the individual market was a stable source of coverage for some who were working but lacked access to employer-based coverage. However, the study indicates that the individual market may be failing some of its policyholders: nearly one-sixth of those exiting an individual insurance plan did so without access to alternative health insurance.

Some have suggested that tax credits for those who purchase individual health insurance could help stabilize the individual market by reducing turnover and increasing the number of people receiving coverage through this market. Surprisingly, more than one-third of the individually insured have incomes less

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than 200 percent of poverty. While this may initially suggest that individual health insurance premiums do not necessarily inhibit low-wage workers from purchasing coverage, it is important to remember that the number of potential purchasers is larger in this group than among those at higher incomes, as low-wage workers typically do not have the same access to employer-based coverage as their higher-wage counterparts. If generous enough, tax credits could increase the affordability of individual insurance among this population, and potentially enable them to stay in the market longer. In addition, generous tax credits would likely attract new entrants into the market. The concern with such tax credit options, however, is that they could significantly undermine the employer-based insurance system.

Coburn and colleagues found that adults aged 35 and younger were least likely to purchase individual insurance. In 1999, 17 percent of young workers were offered health insurance through their employers, yet declined enrollment. For a population of workers who tend to have low-wage positions, it is not surprising finances were reported as the most common reason for declining coverage. It is unclear whether offering tax credits to those who are not offered employer-based coverage would increase their take-up rates for individual health insurance.

The complex rationale behind choosing whether or not to purchase an individual health insurance plan makes it difficult to find a simple policy solution. Understanding the heterogeneity of the population using the individual health insurance market and the dynamics of their participation in the market will inform policy solutions for stabilizing the market and enhancing its functioning as a source of affordable, short and longer-term coverage for those outside the employer-based insurance system.

Background and Data

Estimates for the number of uninsured adults under age 65 in 2004, range from 42 million to 51.5 million. These staggering numbers continue to motivate policymakers to explore policy solutions that will decrease the number of uninsured while limiting the additional burden placed on safety net programs, such as Medicaid. An increasing focus on consumer-driven health care has given rise to an emphasis on individual responsibility in health insurance, increasing the interest in the individual health insurance market. Increasing understanding of those who currently participate in the individual health insurance market allows policymakers to appropriately focus their proposals, and provides insurers the opportunity to design and market their products in a way that limits transitions into and out of the individual market.

Coburn's study relies on data from the 1996-2000 Survey of Income and Program Participation (SIPP) to describe individual insurance coverage patterns. Using these data, researchers analyzed the length of time the individually insured maintained their coverage, the sources of coverage (or lack thereof) both before and after individual plan enrollment, and the characteristics of the utilization population.

The 1996-2000 SIPP began in April 1996, and participating households were interviewed every four months through March 2000, for a total of thirteen interviews over forty-eight months. Respondents were identified as having individual health insurance if they reported having health insurance that was "privately purchased." Coburn acknowledges that although their definition of individual insurance may result in some misclassification, "it is the best definition available through SIPP and most other nationally representative data sets."

The study identified the characteristics associated with individual insurance coverage, such as employment status, age, and self-reported health status. Additionally, the research team took advantage of the longitudinal structure of the SIPP to count individual insurance spells over the survey period, as well as to identify respondents' source of health insurance (if any) before and after having individual coverage. Statistical methods were used to produce estimates of spell durations and to test the relationships between characteristics and duration of individual coverage.

Because insurance regulation varies by state, the researchers used several regulatory measures as control variables. Additionally, measures were taken to ensure that the analyses controlled for potential impacts of the Health Insurance Portability and Accountability Act (HIPAA) of 1996. However, Coburn notes "it is important not to overstate any conclusions about the impact of regulation on individual spell lengths, because these variables were included for control, not explanatory, purposes."

Findings

By analyzing SIPP data to determine the characteristics of individual health insurance purchasers, in combination with a longitudinal analysis of their coverage patterns, Coburn and his colleagues were able to provide a descriptive analysis of the market. Their findings suggest that the individual insurance market is relatively heterogeneous, with most individual-coverage spells bridging gaps in employer-based coverage. This finding supports previous speculation that the individual insurance market is volatile, therefore increasing marketing and administrative costs for the insurance industry.

Characteristics of the Individually Insured

Only 5.9 percent of the survey population reported "privately purchasing" health insurance. Of those privately purchasing health insurance, nearly 74 percent were employed, supporting the theory that people often privately purchase individual insurance to bridge gaps in their employer-based coverage.

Coburn and his colleagues identified certain employment characteristics that were associated with individual insurance:

- Part-time workers were almost twice as likely to have individual insurance as full-time workers;
- Self-employed workers were almost seven times as likely to be individually insured as those who work for others; and
- Nearly three-fourths of the individually insured worked for a business with fewer than twenty-five employees (including the self-employed).

In addition to employment characteristics, several other factors were strongly associated with individual coverage:

- Nearly half of the individually insured were ages 45-64, and people over age 55 were almost three times more likely than those under age 35 to have individual coverage;
- Although two-thirds of the individually insured were married, those who were widowed had the highest rate of individual coverage;
- Asian-Americans had the highest rate of individual coverage at 8 percent;
- More than half of the individually insured had attended college, and more than 90 percent had at least a high school education;
- Those with incomes of less than 200 percent of poverty had the highest rates of individual insurance, however, those with incomes of more than 400 percent of poverty made up almost one-third of the individually insured; and
- Nearly two-thirds of the individually insured were in very good or excellent health, and only 12 percent were in fair or poor health.

Spells of Individual Coverage

Thirteen percent of the survey population had at least one spell of individual insurance coverage during the survey period. Those who had spells of individual coverage most commonly had only one spell, although nearly one-third had two spells, and almost 10 percent had three or more spells during the survey period. These findings indicate that although some purchasers were repeatedly returning to individual coverage, most were less reliant on it.

The fact that nearly half of all spells lasted less than six months further demonstrates that individual insurance was often used to bridge gaps in employer-based coverage. However, those who work for a small business or are self-employed tend to have longer spells. This suggests that the majority of spells were bridging the absence of other coverage, while the self-employed or those employed by small businesses turned to individual coverage because they had few alternative options. Understanding that most individual insurance is not purchased as long-term coverage "lends support to insurance industry claims that marketing and administrative costs are higher than for group coverage", Coborn states.

Entering and Exiting Individual Insurance

Encouragingly, only 15 percent of the individually insured ended up uninsured after exiting their individual plan. Of those who entered individual insurance as uninsured, nearly half gained employer-based coverage upon exiting their individual plans.

Most of those who entered individual insurance coverage from another type of coverage, returned to coverage upon exiting their individual plan:

- Almost 60 percent of those who entered from employer coverage returned to it when exiting their individual coverage; and
- Nearly 80 percent of those who entered from public coverage, such as Medicaid, returned to public coverage upon exiting their individual plan.

Analysis shows that only 9 percent of the self-employed became uninsured after leaving individual coverage, compared with nearly 17 percent of those working for someone else. Coburn suggests, "the self-employed were less willing to drop individual insurance without an alternative source. This could be because those working for someone else anticipated getting coverage from an employer at some point in the near future, possibly after a waiting period."

The findings from this study do not point to a clear direction for policymakers to stabilize and/or strengthen the individual insurance market. Some insurance reforms such as HIPAA have fallen short of expectations. Coburn notes, for example, "people who obtain individual coverage after being uninsured or covered by a public program are not protected by HIPAA." Likewise, proposals for expanding the market through tax credits may stabilize or expand the individual market on the margin, but are not likely to have a significant effect unless they are quite generous.

For more information, contact Andrew Coburn, Ph.D., at andyc@usm.maine.edu.

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Endnotes

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