

## STATISTICAL BRIEF #202

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### **Premiums in the Individual Health Insurance Market for Policyholders under Age 65: 2002 and 2005**

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#### **Introduction**

Health insurance coverage that people buy directly from health insurers is referred to as individual (non-group) health insurance. The individual market is the main source of health insurance for Americans who are not eligible for employer-based private health insurance or public health insurance. In 2005, 4.6 percent of the non-elderly population (12.1 million people) was covered by individual health insurance compared with 66.8 percent (174.0 million people) who were covered by employer-based health insurance at some point during the year. Using data from the 2002 and 2005 Household Component of the Medical Expenditure Panel Survey (MEPS-HC), this Statistical Brief examines the changes in premium levels and the population with individual health insurance from 2002 to 2005. The MEPS-HC is representative of the civilian noninstitutionalized population and therefore enables nationally representative estimates of premium levels in the individual insurance market.

These estimates represent premiums for individual policies held during the first half of 2002 and 2005. The individual health insurance policies discussed in this Statistical Brief provide coverage for hospital and physician services. All differences between estimates discussed in the text are statistically significant at the 0.05 level unless otherwise stated.

#### **Findings**

Table 1 shows the number of policyholders and average premiums for individual health insurance policies in 2002 and 2005. Nationwide, the total number of policyholders was 6.0 million in 2002 and 2005. In both years, single policies accounted for 70 percent and family policies accounted for 30 percent of all policies purchased in the individual health insurance market. In both years, there were 4.1 million policyholders with single policies, and 1.8 million policyholders with family policies.

The average premium for a health insurance policy purchased in the individual market increased by 17.8 percent from \$3,111 in

#### **Highlights**

- Nationwide, the total number of policyholders with individual health insurance was 6 million in both 2002 and 2005. In both years, single policies accounted for 70 percent and family policies accounted for 30 percent of all policies purchased in the individual health insurance market.
- The average premium for a health insurance policy purchased in the individual market increased by 17.8 percent from \$3,111 in 2002 to \$3,664 in 2005. The growth rate in premiums in the individual market was lower compared to the growth rate of premiums in the employer-sponsored group market. During the same period, the average out-of-pocket premiums for health insurance policies purchased in the employer-sponsored market increased by 34.4 percent from \$1,231 in 2002 to \$1,655 in 2005.
- The increase in premiums in the individual market for family policies was larger than the increase in premiums for single policies. The average premium for a family policy increased 25.3 percent from \$4,442 in 2002 to \$5,568 in 2005.
- In general, older purchasers pay higher premiums than younger purchasers, reflecting the relatively higher health care costs that people incur as they get older. In 2005, average premiums for single coverage were \$1,580 for purchasers aged less than 40, \$3,325 for purchasers aged 40 to 54, and \$4,288 for purchasers aged 55 to 64.

2002 to \$3,664 in 2005.<sup>1</sup> The growth rate in premiums in the individual market was lower compared to the growth rate of premiums in the employer-sponsored group market. During the same period, the average out-of-pocket premiums for health insurance policies purchased in the employer-sponsored market increased by 34.4 percent from \$1,231 in 2002 to \$1,655 in 2005. It is important to note that we do not control for differences in covered benefits between policies purchased in the individual market and employer-sponsored insurance. For example, percentage of total expenditures paid out of pocket is higher among people with individual coverage than people with employer-sponsored group coverage. In 2004, people with group coverage paid on average 31.9 percent of total expenditures out-of-pocket versus 55.3 percent among people with individual coverage.<sup>2</sup>

In the individual market, the increase in premiums for family policies was larger than the increase in premiums for single policies. The average premium for family policies increased 25.3 percent from \$4,442 in 2002 to \$5,568 in 2005. The change in average premium for a single policy from \$2,531 in 2002 to \$2,835 in 2005 was not statistically significant.

Unlike group health insurance premiums, which typically are reported as average dollar amounts for single coverage and family coverage, individual premiums typically vary by the age of the purchaser (or in the case of family coverage, by the ages of the family members). Table 2 presents the premiums for single policies by age of policyholder in 2002 and 2005. In 2002, average premiums for single coverage were \$1,661 for purchasers aged less than 40, \$2,767 for purchasers aged 40 to 54, and \$3,703 for purchasers aged 55 to 64. In 2005, average premiums for single coverage were \$1,580 for purchasers aged less than 40, \$3,325 for purchasers aged 40 to 54, and \$4,288 for purchasers aged 55 to 64. From 2002 to 2005, the change in premiums by age among single policies was not statistically significant. In general, older purchasers pay higher premiums than younger purchasers, reflecting the relatively higher health care costs that people incur as they get older.

Table 3 presents the premiums for family policies by age of policyholder in 2002 and 2005. Average premiums for family coverage for policyholders aged less than 45 were \$4,125 in 2002 and \$3,863 in 2005, although the change is not statistically significant. Average premiums for family coverage for policyholders aged less than 45 to 64 increased from \$4,707 in 2002 to \$6,835 in 2005.

There is great variation in benefit and cost-sharing levels as well as the degree of underwriting among policies purchased in the individual health insurance market. This variability in generosity of coverage is reflected in the wide range of premiums. Table 4 presents the distribution of premiums for single policies in 2002 and 2005. The median premium for single coverage was \$1,913, the 90th percentile was \$4,728, and the 10th percentile was \$541 in 2002. In 2005, the median premium for single coverage was \$1,864, the 90th percentile was \$5,870, and the 10th percentile was \$637.

Table 5 presents the distribution of premiums for family policies in 2002 and 2005. The median premium for family coverage was \$4,227, the 90th percentile was \$7,481, and the 10th percentile was \$1,768 in 2002. The median premium for family coverage was \$3,895, the 90th percentile was \$9,203, and the 10th percentile was \$1,330 in 2005.

## Data Source

The analyses in this brief are based upon data from the MEPS 2002 Person Round Plan Public Use File: HC-066, MEPS 2005 Person Round Plan Public Use File: HC-095, and MEPS 2005 Full Year Consolidated Data File: HC-097 which are available at <http://www.meps.ahrq.gov/>.

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<sup>1</sup> We also adjusted for inflation, by inflating premiums for 2002 up to 2005 dollars using the Consumer Price Index for all Urban Consumers (CPI-U) for all items averaged across all U.S. cities. When we express premiums in constant 2005 dollars, we find that there was no change in average premiums in real terms from 2002 to 2005.

<sup>2</sup> J. S. Bathin, P. Cunningham and D. M. Bernard. Financial Burden of Health Care, 2001-2004. Health Affairs. January/February 2008. Volume 27. No. 1. p.1-8.

## About MEPS

MEPS-HC is a nationally representative longitudinal survey that collects detailed information on health care utilization and expenditures, health insurance, and health status, as well as a wide variety of social, demographic, and economic characteristics for the civilian noninstitutionalized population. It is cosponsored by the Agency for Healthcare Research and Quality and the National Center for Health Statistics.

## References

For a detailed description of the MEPS-HC survey and sample design, and methods used to minimize sources on nonsampling error, see the following publications:

Cohen, J. *Design and Methods of the Medical Expenditure Panel Survey Household Component*. MEPS Methodology Report No. 1. AHCPR Pub. No. 97-0026. Rockville, MD: Agency for Health Care Policy and Research, 1997, [http://www.meps.ahrq.gov/mepsweb/data\\_files/publications/mr1/mr1.shtml](http://www.meps.ahrq.gov/mepsweb/data_files/publications/mr1/mr1.shtml)

Cohen, S. *Sample Design of the 1996 Medical Expenditure Panel Survey Household Component*. MEPS Methodology Report No. 2. AHCPR Pub. No. 97-0027. Rockville, MD: Agency for Health Care Policy and Research, 1997, [http://www.meps.ahrq.gov/mepsweb/data\\_files/publications/mr2/mr2.shtml](http://www.meps.ahrq.gov/mepsweb/data_files/publications/mr2/mr2.shtml)

Cohen, S. *Design Strategies and Innovations in the Medical Expenditure Panel Survey Medical Care*. 2003; 4(7): 5-12

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AHRQ welcomes questions and comments from readers of this publication who are interested in obtaining more information about access, cost, use, financing, and quality of health care in the United States. We also invite you to tell us how you are using this Statistical Brief and other MEPS data and tools and to share suggestions on how MEPS products might be enhanced to further meet your needs. Please e-mail us at [mepsdpd@ahrq.gov](mailto:mepsdpd@ahrq.gov) or send a letter to the address below:

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**Table 1. Average premiums and number of policyholders for individual health insurance policies: 2002 and 2005**

	<b>2002</b>	<b>2005</b>
<b>All Policies</b>		
Premium	\$3,111 (131)	\$3,664 (208)
Number of Policyholders in Millions	5.951 (.307)	5.956 (.394)
<b>Single Policies</b>		
Premium	\$2,531 (151)	\$2,835 (177)
Number of Policyholders in Millions	4.145 (.254)	4.149 (.320)
<b>Family Policies</b>		
Premium	\$4,442 (177)	\$5,568 (513)
Number of Policyholders in Millions	1.806 (.147)	1.807 (.188)

**Source:** Center for Financing, Access and Cost Trends, AHRQ, Medical Expenditure Panel Survey—Household Component, 2002 and 2005  
**Note:** Standard errors are in parentheses.

**Table 2. Individual health insurance premiums for single policies by age: 2002 and 2005**

<b>Age category (years)</b>	<b>2002</b>	<b>2005</b>
<40	\$1,661 (183)	\$1,580 (137)
40-54	\$2,767 (254)	\$3,325 (309)
55-64	\$3,703 (356)	\$4,288 (340)

**Source:** Center for Financing, Access and Cost Trends, AHRQ, Medical Expenditure Panel Survey—Household Component, 2002 and 2005  
**Note:** Standard errors are in parentheses.

**Table 3. Individual health insurance premiums for family policies by age: 2002 and 2005**

<b>Age category (years)</b>	<b>2002</b>	<b>2005</b>
<45	\$4,125 (253)	\$3,863 (298)
45-64	\$4,707 (253)	\$6,835 (829)

**Source:** Center for Financing, Access and Cost Trends, AHRQ, Medical Expenditure Panel Survey—Household Component, 2002 and 2005  
**Note:** Standard errors are in parentheses.

**Table 4. Distribution of individual health insurance premiums for single policies: 2002 and 2005**

Percentile	2002	2005
90%	\$4,728 (294)	\$5,870 (805)
75%	\$3,261 (196)	\$3,644 (268)
50%	\$1,913 (147)	\$1,864 (193)
25%	\$990 (76)	\$1,198 (111)
10%	\$541 (74)	\$637 (76)

**Source:** Center for Financing, Access and Cost Trends, AHRQ, Medical Expenditure Panel Survey—Household Component, 2002 and 2005  
Note: Standard errors are in parentheses.

**Table 5. Distribution of individual health insurance premiums for family policies: 2002 and 2005**

Percentile	2002	2005
90%	\$7,481 (242)	\$9,203 (939)
75%	\$5,657 (273)	\$6,552 (400)
50%	\$4,227 (266)	\$3,895 (383)
25%	\$2,397 (185)	\$2,657 (156)
10%	\$1,768 (202)	\$1,330 (319)

**Source:** Center for Financing, Access and Cost Trends, AHRQ, Medical Expenditure Panel Survey—Household Component, 2002 and 2005  
Note: Standard errors are in parentheses.