

An Analysis of the Distribution of Cost-Sharing Levels in Individual and Small-Group Coverage

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See companion Issue Brief at www.hcfo.net/pdf/issuebrief709.pdf

Introduction

As policymakers contemplate health reform proposals that would significantly expand health insurance coverage, it is important to recognize that there is little distributional detail available on the types of coverage and benefit structures currently available and purchased by individuals and small groups. While much is known about the benefits offered in the large group market,¹ the conventional wisdom holds that benefits in the individual and small group market are not as generous, but the details of that coverage are largely unknown. Better understanding the benefit details of existing coverage across all markets is necessary if the public policy goal is to allow Americans who currently have coverage to retain their existing coverage or obtain coverage that is at least as generous.

In this analysis, responses to the America's Health Insurance Plans (AHIP) recent surveys of member health insurance plans on the characteristics of coverage purchased in the small group and individual markets were analyzed to identify the most common benefit structures. The most recent survey of individual coverage was published in December 2007, with data from late 2006 and early 2007.² The data on benefits was based on nearly 2 million single policies and approximately 800,000 family policies in force. Released in March 2009, AHIP's latest survey of small group coverage, from 2008 data, provided information on the benefits of approximately 5 million workers and 4 million dependents.³

According to a subset of responses to AHIP's periodic surveys, there is a broad distribution of deductible, coinsurance, and copayment levels chosen by purchasers of individual and small group coverage. This report uses a subset of policies from both surveys for which detailed distributional data on benefits are available.

Small Group Market

In AHIP's 2008 small group survey, respondents submitting data in the microdata format were asked to provide benefit data at the "case" level—one plan of benefits provided to a single small firm. If a small employer offered employees the choice of two benefit plans, two cases were reported.

Overall, the survey response represented small group benefits for 5,229,934 employees, covering total of 8,867,532 lives including dependents under family plans (see Table 1). A subset of these overall responses was provided in a format that allows detailed distributional analysis. In this "microdata" format there were 255,954 small group cases, representing 2,035,434 employees and 3,582,879 covered lives. Of these, there were 592,091 employees and 1,059,959 covered lives enrolled in Preferred Provider Organization (PPO) plans.

America's Health Insurance Plans (AHIP) is the national association representing nearly 1,300 member companies providing health insurance coverage to more than 200 million Americans. AHIP's member companies offer medical insurance, long-term care insurance, disability income insurance, dental insurance, supplemental insurance, stop-loss insurance and reinsurance to consumers, employers and public purchasers. The Center for Policy and Research at AHIP periodically conducts surveys of member health insurance plans on the characteristics of the coverage purchased in the small group and individual markets.



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Table 1. AHIP 2008 Small Group Survey, by Type of Response

	Overall	Microdata	Microdata PPO
Employees	5,229,934	2,035,434	592,091
Covered Lives	8,867,532	3,582,879	1,059,959

Table 2. AHIP 2006-7 Individual Market Survey, by Type of Response

	Overall	Microdata	Microdata PPO
Single Policies	2,342,938	837,457	585,780
Family Policies	2,173,903	247,400	147,132
Total Policies	4,516,841	1,084,901*	732,912

*44 of these policies did not report whether it was a single or family policy.

Individual Market

In AHIP’s individual market survey from 2006-2007, there were 1,084,901 policies with policy-level detail on the benefit structure (see Table 2). For simplicity in interpreting deductibles, we chose only single (non-family) policies for this analysis. Of the 837,457 single policies, there were 585,780 in the PPO category.

Although the numbers of policies represented in these subsets are considerably smaller than the overall samples, we believe they are sufficiently representative to illustrate the breath of cost-sharing packages in the individual and small group markets. In the small group survey, more than 80 percent of groups had 10 or fewer employees.

Findings

In both surveys, preferred provider organization (PPO) plans represented the most common type of coverage purchased. PPO plans made up nearly 80 percent of coverage in the 2006-2007 individual market survey, and about 50 percent of small group coverage in 2008. According to the individual market survey, the average deductible for preferred PPO plans with deductibles in 2006-2007 was approximately \$1,750; the average deductible in 2008 for small group PPO coverage plans with deductibles was \$1,050.

However, there was a great deal of variation in the deductibles and other types of cost-sharing (including coinsurance percentages and co-payment amounts) in both surveys. In particular, there seem to be concentrations, or modes of coverage, that include deductible and coinsurance or copayment patterns that vary widely from the averages.

Of the 1,059,959 covered lives in AHIP’s small group survey that had a microdata response and were in a PPO, 1,036,496 had a deductible of either \$0 (no deductible), \$250, \$500, \$750, \$1,000, \$1,500, \$2,000, \$2,500, \$3,000 or \$5,000. The remaining 23,463 covered lives in this sample did not have a deductible matching one of these amounts.

Table 3 shows the distribution of covered lives among these deductible modes for small group coverage, and the median cost-sharing levels for coinsurance and co-payments and annual out-of-pocket maximums plans with these deductible amounts. The deductible level represents the plan-wide deductible; some plans have service-specific deductibles. For example, almost three quarters of those in the zero deductible plan had some cost sharing associated with the plan, usually in the form of hospital deductibles or cost sharing. The majority of deductibles were

under \$1,500, with a \$1,000 deductible being the most common. However, more than 2 percent of plans had a deductible of \$5,000.

Table 4 shows the distribution of covered lives among these deductible modes for individual coverage, and the median cost-sharing levels for coinsurance and co-payments and annual out-of-pocket maximums plans with these deductible amounts. Ninety percent of plans have deductibles under \$2,500, with \$500 being the most common deductible. While a number of plans have no deductible, some of those plans may have hospital admission copayments or other cost-sharing.

Conclusion

While these survey results demonstrate a broad distribution of deductible, coinsurance, and copayment levels, some clear patterns emerge. There appears to be some convergence in small group coverage around plans with a \$1,000 to \$1,500 deductible, while individual coverage converges around a \$2,000 to \$2,500 deductible. The median annual out-of-pocket maximum cost sharing amounts for small group coverage converges between \$2,000 and \$3,000, while the median out-of-pocket maximum for individual coverage is higher, in the \$3,000 to \$5,000 range. Primary and specialist copayment amounts are also higher for individual coverage, with median cost sharing ranging from \$25 to \$45 for primary care and \$35 to \$45 for specialist care, compared to median cost sharing ranging from \$15 to \$30 for primary care and \$20 to \$40 for specialist care in the small group market.

The deductibles reported in these surveys of small group and individual coverage diverge significantly from the deductibles offered by larger firms. According to the KFF survey for 2008, 52 percent of covered workers overall had deductibles less than \$500, and another 30 percent faced deductibles between \$500 and \$1,000.⁴

Table 3. Small Group Cost-Sharing Modes, By Deductible Level

Deductible Level (Single)	N (Covered Lives)	Percent of Total Covered Lives	Median Cost-Sharing Amount			
			Coinsurance	Annual Out-of-Pocket Maximum	Primary Copayment	Specialist Copayment
\$0 (no deductible)*	219,699	20.7%	20%	\$2,000	\$15	\$30
\$250	59,507	5.6%	10%	\$1,250	\$15	\$20
\$500	181,846	17.2%	20%	\$2,000	\$20	\$30
\$750	24,129	2.3%	20%	\$3,000	\$20	\$20
\$1,000	247,261	23.3%	20%	\$2,500	\$20	\$30
\$1,500	121,142	11.4%	20%	\$3,000	\$25	\$30
\$2,000	69,326	6.5%	20%	\$3,500	\$25	\$40
\$2,500	56,385	5.3%	20%	\$5,000	\$30	\$30
\$3,000	32,609	3.1%	20%	\$4,000	\$25	\$40
\$5,000	24,592	2.3%	20%	\$7,500	\$30	\$40

Source: America's Health Insurance Plans

*72.6 percent of those in the \$0 deductible plan had some sort of cost sharing arrangement (i.e. annual deductible or copayment) for hospital admissions. The average copayment for a hospital admission was \$333 and the median \$300 in AHIP's 2008 Small Group Survey. According to the KFF/HRET 2008 Annual Survey on Employer Health Benefits, 79 percent of PPOs in their survey had some form of cost sharing for hospital admissions and the average separate deductible was \$354 and average copayment was \$211.

Note: 23,463 covered lives (2.2 percent of the sample) had deductible levels that did not fall into the ten modes represented in this table.

Table 4. Individual Coverage Cost-Sharing Modes, By Deductible Level

Deductible Level (Single)	N (Covered Lives)	Percent of Total Covered Lives	Median Cost-Sharing Amount			
			Co-insurance	Annual Out-of-Pocket Maximum	Primary Copayment	Specialist Copayment
\$0 (no deductible)*	39,128	6.7%	40%	\$7,000	\$35	\$35
\$500	147,570	25.2%	20%	\$3,000	\$20	\$30
\$750	19,910	3.4%	30%	\$4,000	\$35	\$35
\$1,000	99,013	16.9%	20%	\$3,000	\$25	\$40
\$1,500	27,558	4.7%	30%	\$4,000	\$30	\$40
\$2,000	78,179	13.3%	30%	\$5,000	\$45	\$45
\$2,500	70,665	12.1%	30%	\$4,500	\$25	\$40
\$3,000	15,968	2.7%	40%	\$5,500	\$35	\$40
\$5,000	50,074	8.5%	30%	\$7,000	\$35	\$35

Source: America's Health Insurance Plans

*Plans with \$0 deductibles may have other cost-sharing arrangements for services such as hospital care.

Note: 37,715 lives (6.5 percent of the total sample) had deductibles that did not fall into the nine modes represented in this table.

Data Limitations

AHIP's surveys of the individual and small group markets are sent to all AHIP member plans with coverage in those markets. Responses usually include most of the major nationwide commercial plans, a significant number of large single-state plans, and some local or regional plans. While the survey responses represent a wide variety of types of plans and coverage for millions of enrollees, this response may not necessarily be representative. Likewise, the companies that chose to respond in a microdata format, which allows the distributional analysis

presented here, may not comprise a random sample of the large set of responses. Despite these limitations, we believe that the sheer size of the samples likely provides a good illustration of the types of coverage purchased in these markets.

About the Authors

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Endnotes

- 1 The Kaiser Family Foundation (KFF) and the Health Research and Educational Trust (KFF/HRET) conduct an annual survey of employer health benefits, but their data are mostly representative of larger firms.
- 2 AHIP Center for Policy and Research, *Individual Health Insurance 2006-2007: A Comprehensive Survey of Premiums, Availability, and Benefits* (December 2007), available at http://www.ahipresearch.org/pdfs/Individual_Market_Survey_December_2007.pdf.
- 3 AHIP Center for Policy and Research, *Small Group Health Insurance in 2008: A Comprehensive Survey of Premiums, Product Choices, and Benefits* (March 2009), available at www.ahipresearch.org/pdfs/smallgroup-survey.pdf.
- 4 <http://ehbs.kff.org/?page=charts&id=1&sn=13&ch=658>, accessed June 9, 2009.