

Out-of-pocket health-care costs rise for workers with employer coverage

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The 161 million Americans with employer-sponsored health insurance are facing substantial increases in out-of-pocket (OOP) costs, according to a study published today on the *Health Affairs* Web site.

The study, authored by researchers from the National Opinion Research Center (NORC) and Watson Wyatt Worldwide and funded by The Commonwealth Fund, examines trends in the comprehensiveness of employer-sponsored insurance (ESI) from 2004 to 2007. It finds rising rates of underinsurance and unaffordability, particularly for poorer and sicker people.

In 2007, adults with employer coverage faced an average of \$729 annually in OOP costs for medical services, including deductibles and other forms of cost sharing such as copayments and coinsurance. That represents a 34 percent increase from 2004, when the average OOP burden was \$545. Health plans covered a slightly smaller percentage of overall expenses in 2007 than 2004, but growth in overall health spending was the chief culprit behind rising out-of-pocket costs.

"The years from 2004 through 2007 were a period of economic expansion, yet rising health care costs still eroded the value of employer-sponsored coverage. Historically, employees have been asked to shoulder even more of the cost-sharing burden during difficult economic times such as the United States is now experiencing. Hence, it is imperative that health care reform include constraints on health spending, or else health insurance will become unaffordable for low- and middle-income

Americans, and reform itself will be unsustainable," said lead author Jon Gabel, a senior fellow at NORC in Bethesda, Maryland.

The study by Gabel and his colleagues updates earlier studies on ESI and out-of-pocket costs published in 1997, 2000, and 2004. The researchers used simulated bill paying for a standard population of people with employer-based insurance, as if that standard population were enrolled in each insurance plan from a representative sample of employer-based plans. Highlights of their findings include the following:

Out-Of-Pocket Spending Varied Widely Among Low-Cost And High-Cost Workers. The average OOP expense for the 50 percent of workers with the lowest health spending was \$85 in 2007, whereas for the highest-spending 1 percent and 10 percent of employees it was \$8,703 and \$3,364, respectively. Health plans paid for a greater share of spending by adults with chronic conditions, but these individuals also had relatively higher out-of-pocket costs.

A Slight Decline In The Actuarial Value Of ESI. While most of the increase in OOP costs for workers was due to the underlying growth in health care spending, the actuarial value of ESI declined slightly from 2004 to 2007. Overall, ESI paid 81.4 percent of medical bills for all workers in 2004 and 80.1 percent in 2007. This resulted from increases in the percentage of plans with deductibles and in average deductible levels, reflecting the emergence of consumer-directed health plans, the decline in market share for health maintenance organizations (HMOs) and point-of-service (POS) plans, and the increased use of deductibles by preferred provider organizations (PPOs).

Surprisingly, high-deductible health plans coupled with employer contributions to tax-favored savings accounts had the highest actuarial value of all plan types. Overall, these types of plans paid 91.1 percent of medical bills. However, their actuarial value was concentrated among the

half of workers with the lowest health spending. Low-spending employees were able to save nearly all of the \$878 average contribution by the employer for the savings account, but higher-spending employees paid more out of pocket in these plans than did high spenders in other types of plans. HMOs had the next-highest actuarial value, followed by POS plans, PPOs, and high-deductible health plans without employer contributions.

Average actuarial value did not differ significantly among firms of different sizes.

A Deterioration In Rates Of Underinsurance And Affordability. Gabel and coauthors deemed individuals "underinsured" if they would be expected to spend more than 5 percent of their income out of pocket for medical services (excluding premiums). For people with family incomes at 200 percent of the federal poverty level, about 20.3 percent of those with ESI exceeded this threshold in 2007, up from 16.5 percent in 2004. If the threshold were set at 10 percent of income, 8.7 percent of those with family incomes at 200 percent of the FPL would have been underinsured in 2007, up from 5.8 percent in 2004.

"In the United States, if you are sick and earn a modest income, then you are probably underinsured -- even if you have employer-based health coverage," the researchers write. In 2007, among those with family incomes at 200 percent of poverty who were among the top 25 percent in health care spending, the underinsurance rate was 71 percent.

To calculate whether coverage was affordable, the researchers looked at whether OOP spending for both premiums and medical services would exceed 10 percent of income. Gabel and his colleagues found that affordability declined at all incomes levels between 2004 and 2007. For example, about 18 percent of those with family incomes at 200 percent of poverty spent more than 10 percent of their incomes out of pocket in

2007, up from 13 percent in 2004 (see graphic).

Of the increase in total OOP payments for workers between 2004 and 2007, Gabel and his colleagues found that about 57 percent was attributable to higher cost sharing for medical services and 43 percent to higher premium contributions.

"As the nation debates health reform, these findings highlight the need to ensure that workers and their families will have access to affordable health insurance coverage that protects them from high out-of-pocket spending regardless of whether they are healthy or sick," said Commonwealth Fund President Karen Davis.

More information: www.healthaffairs.org

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