Americans Face Rising Health Care Costs

Families USA

Too Great A Burden:

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A REPORT BY
Families USA

April 2009

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This publication is available online at www.familiesusa.org.

Cover design by Nancy Magill

INTRODUCTION

Long before the current economic crisis began, Americans were already straining under the burden of two related trends: shrinking coverage and rising health care costs. Over the last decade, millions of Americans have joined the ranks of the uninsured, and millions more have become underinsured as the value of their coverage has declined. At the same time, health insurance premiums and out-of-pocket costs have risen steadily, and the number of families who are facing unmanageably high health care costs has grown. Left unchecked, health care costs will keep going up, forcing more and more American families into debt—and even into bankruptcy and foreclosure.

To better understand the magnitude of the health care cost crisis, Families USA commissioned The Lewin Group to analyze data from the U.S. Department of Health and Human Services and the U.S. Census Bureau that reveal how many Americans face very high health care costs. This analysis allowed us to determine how many non-elderly people are in families that will spend more than 10 percent of their pre-tax income, and more than 25 percent of their pre-tax income, on health care in 2009.

Our analysis paints a stark picture: Nearly one in four Americans under the age of 65—some 64.4 million people—will spend more than 10 percent of their family income on health care in 2009. The vast majority of these people (82.6 percent) *have health insurance*. And 18.7 million non-elderly Americans—more than three-quarters of whom *have health insurance*—are in families that will spend more than 25 percent of their income on health care in 2009.

This analysis also reveals the rapid growth in the number of people in families with high health care costs over the last nine years. From 2000 to 2009, the number of people in families that spend more than 10 percent of their income on health care will increase by nearly 22.7 million (54.4 percent). Over that same period, the number of people in families that spend more than 25 percent of their income on health care will increase by nearly 7.1 million (60.6 percent).

With the economy faltering and unemployment at its highest rate in decades, millions of Americans are at risk of losing their jobs and, consequently, their health insurance. Many others still have health insurance, but reductions in that coverage are leaving them exposed to higher out-of-pocket costs. For a growing number of Americans, health care costs are truly too great a burden. The need to secure true health reform has never been more urgent: The economic security of American families lies in the balance.

KEY FINDINGS

Millions of Americans Are Affected by High Health Care Costs

- 64.4 million non-elderly Americans are in families that will spend more than 10 percent of their pre-tax income on health care in 2009. That's nearly one in four non-elderly Americans (24.3 percent) (Tables 1 and 2).
- 18.7 million non-elderly Americans are in families that will spend more than 25 percent of their pre-tax income on health care in 2009 (Table 1).

Table 1

People in Families with High Health Care Costs, 2000 to 2009

Share of Family Pre-Tax Income Spent on Health Care	People with High Health Care Costs		Increase, 2000-2009	
	2000	2009	Number	Percent
More than 10 Percent	41,701,000	64,374,000	22,673,000	54.4%
More than 25 Percent	11,647,000	18,710,000	7,063,000	60.6%

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 23 for details.

Table 2

Percent of People in Families with High Health Care Costs, 2009

Share of Family Pre-Tax Income Spent on Health Care	People with High Health Health Care Costs	Percent of Population with High Health Care Costs
More than 10 Percent	64,374,000	24.3%
More than 25 Percent	18,710,000	7.1%

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 23 for details.

Millions of Insured Americans Are Affected

- More than four out of five people (82.6 percent) in families that spend more than 10 percent of their pre-tax income on health care are insured (Table 3).
- 53.2 million non-elderly Americans with insurance are in families that will spend more than 10 percent of their pre-tax income on health care in 2009 (Table 4).
- More than three out of four people (76.4 percent) in families that spend more than 25 percent of their pre-tax income on health care are insured (Table 3).
- 14.3 million Americans with insurance are in families that will spend more than 25 percent of their pre-tax income on health care in 2009 (Table 4).

Table 3

Insurance Status of People in Families with High Health Care Costs, 2009

Share of Family Pre-Tax Income Spent on Health Care	People with High Health Costs		Percent Insured
	Total	With Insurance	
More than 10 Percent	64,374,000	53,155,000	82.6%
More than 25 Percent	18,710,000	14,289,000	76.4%

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 23 for details.

Table 4

Insured People in Families with High Health Care Costs, 2000 to 2009

Share of Family Pre-Tax Income Spent on Health Care	People with High Health Care Costs		Increase, 2000-2009	
	2000	2009	Number	Percent
More than 10 Percent	33,160,000	53,155,000	19,995,000	60.3%
More than 25 Percent	8,449,000	14,289,000	5,840,000	69.1%

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 23 for details.

High Health Care Costs: Middle Class Is Affected

- Nearly two-thirds (63.5 percent) of people in families that will spend more than 10 percent of their pre-tax income on health care in 2009 are from families that earn more than $30,000 per year (Table 5).
- More than one-third (37.1 percent) of people in families that will spend more than 25 percent of their pre-tax income on health care in 2009 are from families that earn more than $30,000 per year (Table 5).

Table 5

Family Income of People in Families with High Health Care Costs, 2009

Family Income	People in Families Spending More than 10 Percent Of Pre-Tax Income on Health Care		People in Families Spending More than 25 Percent Of Pre-Tax Income on Health Care	
	Number	Percent	Number	Percent
> $75,000	9,532,000	14.8%	549,000	2.9%
$30,000-$75,000	31,331,000	48.7%	6,408,000	34.2%
< $30,000	23,511,000	36.5%	11,752,000	62.8%
Total*	**64,374,000**	**100.0%**	**18,710,000**	**100.0%**

* Numbers do not add due to rounding.

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 23 for details.

A Growing Burden: More Americans with High Health Care Costs, 2000 to 2009

- From 2000 to 2009, the number of people in families spending more than 10 percent of their pre-tax income on health care will grow by nearly 22.7 million—an increase of 54.4 percent (Table 1).
- From 2000 to 2009, the number of *insured* people in families spending more than 10 percent of their pre-tax income on health care will grow by nearly 20.0 million—an increase of 60.3 percent (Table 4).
- From 2000 to 2009, the number of people in families spending more than 25 percent of their pre-tax income on health care will grow by nearly 7.1 million—an increase of 60.6 percent (Table 1).
- From 2000 to 2009, the number of *insured* people in families spending more than 25 percent of their pre-tax income on health care will grow by more than 5.8 million—an increase of 69.1 percent (Table 4).

Family Budgets: How Tight Are They?

Health care costs that consume 10 percent or more of a family's pre-tax income represent a significant burden for working families and their already tight budgets. See, for example, this budget for a family of four with a pre-tax annual income of $60,000, which was derived from the Bureau of Labor Statistics Consumer Expenditure Survey (see the Methodology on page 23).

A Typical Family Budget

Gross Annual Income	$ 60,000
Less Taxes (federal, state, and local taxes)	11,050
Disposable Income (gross income minus taxes)	$ 48,950
Annual Expenses	
Housing and Utilities	17,600
Transportation	10,410
Food, Beverages, and Personal Care Items	8,680
Pets, Sports, Entertainment, and Reading Materials	3,350
Education and Miscellaneous Expenses	3,130
Clothing and Footwear	2,110
Personal Insurance (non-health) and Pensions	900
Total Expenses	$ 46,180
Amount Left to Pay for Health Care (disposable income minus expenses)	**$ 2,770**

About this example: Tax estimates are from the Institute on Taxation and Economic Policy. Expenditures were derived from the U.S. Bureau of Labor Statistics Consumer Expenditure Survey.

This family has only $2,770 left after paying for housing, food, and other necessities. The health care expenses that they will need to cover from this $2,770 include health insurance premiums, payments for physician and hospital services (including copayments and deductibles), prescription drugs, over-the-counter medications, and medical supplies.

But what if this family's health care expenses come to more than $2,770? What if these costs add up to $6,000, or 10 percent of their pre-tax income, as happens to so many other American families? As this report shows, 64.4 million Americans are in families that spend more than 10 percent of their income on health care. In this particular example, the family would have to find another $3,230 to cover their health care costs—or go into debt.

	Burden of 10%	Burden of 25%
Dollars Left to Pay For Health Care	$2,770	$2,770
Less Actual Cost Of Health Care	– $ 6,000	– $15,000
SHORTFALL	**– $3,230**	**– $12,230**

Table 6a

People in Families Spending More than 10 Percent of Their Pre-Tax Income on Health Care, 2000 to 2009, by State

State	2000		2009		Increase
	Number	% of Pop.	Number	% of Pop.	
Alabama	728,000	18.7%	1,037,000	26.5%	309,000
Alaska	90,000	14.8%	135,000	21.5%	45,000
Arizona	735,000	16.6%	1,481,000	26.7%	746,000
Arkansas	439,000	19.3%	709,000	29.2%	270,000
California	5,637,000	18.0%	6,862,000	20.7%	1,225,000
Colorado	620,000	16.2%	1,102,000	25.9%	482,000
Connecticut	418,000	14.9%	605,000	19.9%	186,000
Delaware	103,000	14.8%	183,000	24.5%	81,000
District of Columbia	75,000	16.5%	107,000	22.9%	32,000
Florida	2,405,000	18.7%	4,086,000	26.5%	1,681,000
Georgia	1,237,000	17.3%	2,273,000	27.0%	1,037,000
Hawaii	169,000	16.6%	262,000	23.2%	93,000
Idaho	185,000	16.5%	396,000	30.3%	211,000
Illinois	1,926,000	17.5%	2,571,000	22.9%	645,000
Indiana	952,000	18.8%	1,393,000	25.2%	440,000
Iowa	439,000	17.8%	728,000	28.7%	289,000
Kansas	383,000	17.0%	640,000	26.6%	257,000
Kentucky	603,000	17.1%	1,047,000	28.6%	444,000
Louisiana	751,000	20.0%	992,000	24.8%	241,000
Maine	178,000	16.2%	321,000	28.3%	143,000
Maryland	632,000	14.0%	1,046,000	20.5%	415,000
Massachusetts	785,000	14.2%	1,149,000	20.2%	364,000
Michigan	1,424,000	16.1%	2,085,000	23.2%	661,000
Minnesota	603,000	13.8%	1,144,000	24.5%	541,000
Mississippi	401,000	16.4%	740,000	28.8%	339,000
Missouri	844,000	17.2%	1,277,000	25.3%	433,000
Montana	167,000	21.9%	271,000	33.3%	104,000
Nebraska	253,000	17.3%	424,000	28.1%	171,000
Nevada	274,000	15.4%	699,000	30.6%	425,000
New Hampshire	146,000	13.4%	281,000	23.6%	135,000
New Jersey	1,027,000	14.1%	1,465,000	19.1%	438,000
New Mexico	282,000	17.9%	475,000	28.2%	193,000
New York	2,662,000	16.4%	3,469,000	20.8%	807,000
North Carolina	1,097,000	16.3%	2,343,000	29.2%	1,246,000
North Dakota	111,000	21.1%	160,000	29.9%	49,000
Ohio	1,829,000	18.1%	2,280,000	23.0%	450,000
Oklahoma	533,000	18.6%	868,000	28.3%	335,000
Oregon	538,000	17.9%	892,000	27.5%	353,000
Pennsylvania	1,869,000	18.0%	2,328,000	22.1%	460,000
Rhode Island	121,000	14.9%	209,000	22.0%	87,000
South Carolina	545,000	16.4%	1,070,000	28.3%	525,000
South Dakota	110,000	18.4%	214,000	32.2%	104,000
Tennessee	850,000	17.1%	1,360,000	25.5%	510,000
Texas	3,094,000	16.5%	5,577,000	25.8%	2,483,000
Utah	312,000	15.2%	620,000	26.8%	309,000
Vermont	87,000	15.7%	142,000	25.6%	54,000
Virginia	973,000	15.6%	1,631,000	23.6%	658,000
Washington	923,000	17.5%	1,396,000	24.7%	473,000
West Virginia	289,000	19.2%	430,000	28.2%	141,000
Wisconsin	772,000	16.2%	1,268,000	25.9%	495,000
Wyoming	75,000	17.5%	133,000	29.9%	58,000
U.S. Total*	**41,701,000**	**17.0%**	**64,374,000**	**24.3%**	**22,673,000**

* Numbers do not add due to rounding.

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 23 for details.

Table 6b

Insured People in Families Spending More than 10 Percent of Their Pre-Tax Income on Health Care, 2000 to 2009, by State

State	2000		2009		Increase
	Number	% of Insured	Number	% of Insured	
Alabama	600,000	18.2%	896,000	26.7%	296,000
Alaska	68,000	14.3%	109,000	21.8%	42,000
Arizona	558,000	16.0%	1,182,000	27.1%	624,000
Arkansas	345,000	19.0%	585,000	29.8%	240,000
California	4,257,000	17.5%	5,399,000	20.7%	1,142,000
Colorado	489,000	15.8%	918,000	26.6%	429,000
Connecticut	352,000	14.4%	536,000	19.9%	184,000
Delaware	88,000	14.4%	161,000	24.9%	73,000
District of Columbia	62,000	15.8%	95,000	22.7%	33,000
Florida	1,834,000	18.3%	3,152,000	27.3%	1,318,000
Georgia	973,000	16.8%	1,855,000	27.5%	883,000
Hawaii	144,000	16.2%	239,000	23.2%	95,000
Idaho	143,000	16.0%	337,000	30.9%	194,000
Illinois	1,563,000	17.1%	2,182,000	23.1%	618,000
Indiana	796,000	18.6%	1,217,000	25.5%	421,000
Iowa	390,000	17.7%	660,000	29.3%	270,000
Kansas	324,000	16.8%	555,000	27.2%	230,000
Kentucky	494,000	16.7%	889,000	28.9%	395,000
Louisiana	567,000	19.5%	776,000	25.0%	208,000
Maine	149,000	15.7%	288,000	28.6%	139,000
Maryland	509,000	13.4%	876,000	20.5%	367,000
Massachusetts	675,000	13.8%	1,075,000	20.2%	399,000
Michigan	1,201,000	15.7%	1,803,000	23.2%	602,000
Minnesota	533,000	13.5%	1,040,000	24.7%	507,000
Mississippi	309,000	15.6%	580,000	29.0%	271,000
Missouri	718,000	16.9%	1,100,000	25.7%	382,000
Montana	137,000	22.1%	229,000	34.7%	91,000
Nebraska	220,000	17.2%	369,000	28.9%	149,000
Nevada	207,000	14.8%	576,000	31.6%	369,000
New Hampshire	124,000	12.9%	247,000	23.7%	123,000
New Jersey	811,000	13.5%	1,175,000	18.8%	365,000
New Mexico	202,000	17.1%	353,000	28.7%	151,000
New York	2,062,000	15.6%	2,895,000	20.6%	833,000
North Carolina	858,000	15.7%	1,919,000	29.8%	1,061,000
North Dakota	97,000	21.1%	144,000	30.6%	47,000
Ohio	1,541,000	17.7%	1,970,000	23.1%	429,000
Oklahoma	409,000	18.3%	701,000	29.1%	292,000
Oregon	442,000	17.6%	733,000	28.3%	291,000
Pennsylvania	1,600,000	17.6%	2,056,000	22.1%	456,000
Rhode Island	105,000	14.5%	182,000	22.1%	77,000
South Carolina	449,000	16.0%	872,000	28.8%	423,000
South Dakota	95,000	18.3%	192,000	33.0%	97,000
Tennessee	721,000	16.7%	1,126,000	25.6%	404,000
Texas	2,084,000	15.6%	4,036,000	26.4%	1,951,000
Utah	252,000	14.8%	540,000	27.3%	288,000
Vermont	75,000	15.3%	123,000	25.9%	49,000
Virginia	802,000	15.2%	1,362,000	23.9%	560,000
Washington	755,000	17.1%	1,224,000	25.0%	469,000
West Virginia	233,000	18.8%	359,000	28.4%	126,000
Wisconsin	678,000	15.9%	1,156,000	26.2%	478,000
Wyoming	59,000	17.2%	114,000	30.7%	55,000
U.S. Total*	**33,160,000**	**16.5%**	**53,156,000**	**24.5%**	**19,996,000**

* Numbers do not add due to rounding.

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 23 for details.

Table 7a

People in Families Spending More than 25 Percent of Their Pre-Tax Income on Health Care, 2000 to 2009, by State

State	2000		2009		Increase
	Number	% of Pop.	Number	% of Pop.	
Alabama	217,000	5.6%	314,000	8.0%	97,000
Alaska	22,000	3.7%	35,000	5.6%	13,000
Arizona	213,000	4.8%	458,000	8.3%	245,000
Arkansas	141,000	6.2%	238,000	9.8%	97,000
California	1,624,000	5.2%	1,966,000	5.9%	342,000
Colorado	166,000	4.3%	314,000	7.4%	148,000
Connecticut	102,000	3.6%	149,000	4.9%	47,000
Delaware	25,000	3.6%	46,000	6.2%	21,000
District of Columbia	23,000	5.0%	34,000	7.2%	11,000
Florida	710,000	5.5%	1,283,000	8.3%	573,000
Georgia	348,000	4.9%	658,000	7.8%	310,000
Hawaii	46,000	4.5%	73,000	6.4%	27,000
Idaho	50,000	4.5%	121,000	9.3%	71,000
Illinois	507,000	4.6%	693,000	6.2%	186,000
Indiana	249,000	4.9%	382,000	6.9%	133,000
Iowa	114,000	4.6%	206,000	8.1%	91,000
Kansas	104,000	4.6%	184,000	7.6%	80,000
Kentucky	179,000	5.1%	332,000	9.0%	153,000
Louisiana	239,000	6.4%	321,000	8.0%	82,000
Maine	53,000	4.8%	101,000	8.9%	48,000
Maryland	152,000	3.4%	262,000	5.1%	110,000
Massachusetts	201,000	3.6%	295,000	5.2%	94,000
Michigan	379,000	4.3%	562,000	6.2%	183,000
Minnesota	140,000	3.2%	291,000	6.2%	150,000
Mississippi	133,000	5.4%	253,000	9.9%	120,000
Missouri	223,000	4.5%	357,000	7.1%	134,000
Montana	53,000	6.9%	95,000	11.7%	43,000
Nebraska	66,000	4.5%	122,000	8.1%	56,000
Nevada	70,000	3.9%	202,000	8.8%	132,000
New Hampshire	35,000	3.2%	71,000	6.0%	36,000
New Jersey	255,000	3.5%	364,000	4.7%	109,000
New Mexico	91,000	5.8%	159,000	9.5%	69,000
New York	758,000	4.7%	993,000	6.0%	235,000
North Carolina	324,000	4.8%	748,000	9.3%	423,000
North Dakota	32,000	6.1%	50,000	9.4%	18,000
Ohio	484,000	4.8%	615,000	6.2%	131,000
Oklahoma	158,000	5.5%	270,000	8.8%	112,000
Oregon	154,000	5.1%	272,000	8.4%	118,000
Pennsylvania	491,000	4.7%	628,000	6.0%	137,000
Rhode Island	32,000	3.9%	56,000	5.9%	24,000
South Carolina	161,000	4.8%	336,000	8.9%	175,000
South Dakota	30,000	5.0%	67,000	10.1%	38,000
Tennessee	260,000	5.2%	424,000	8.0%	164,000
Texas	916,000	4.9%	1,732,000	8.0%	817,000
Utah	75,000	3.7%	166,000	7.2%	90,000
Vermont	24,000	4.3%	41,000	7.4%	17,000
Virginia	257,000	4.1%	450,000	6.5%	192,000
Washington	254,000	4.8%	406,000	7.2%	152,000
West Virginia	94,000	6.2%	141,000	9.2%	47,000
Wisconsin	196,000	4.1%	337,000	6.9%	141,000
Wyoming	20,000	4.7%	40,000	9.1%	20,000
U.S. Total*	**11,647,000**	**4.7%**	**18,710,000**	**7.1%**	**7,063,000**

* Numbers do not add due to rounding.

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 23 for details.

Table 7b

Insured People in Families Spending More than 25 Percent of Their Pre-Tax Income on Health Care, 2000 to 2009, by State

State	2000		2009		Increase
	Number	% of Insured	Number	% of Insured	
Alabama	165,000	5.0%	252,000	7.5%	87,000
Alaska	15,000	3.3%	26,000	5.2%	11,000
Arizona	146,000	4.2%	339,000	7.8%	193,000
Arkansas	102,000	5.6%	183,000	9.3%	81,000
California	1,111,000	4.6%	1,433,000	5.5%	323,000
Colorado	119,000	3.8%	241,000	7.0%	123,000
Connecticut	79,000	3.2%	125,000	4.6%	46,000
Delaware	20,000	3.3%	38,000	5.8%	18,000
District of Columbia	18,000	4.6%	29,000	6.9%	11,000
Florida	494,000	4.9%	898,000	7.8%	405,000
Georgia	247,000	4.3%	488,000	7.2%	241,000
Hawaii	37,000	4.1%	63,000	6.2%	27,000
Idaho	35,000	3.9%	98,000	9.0%	63,000
Illinois	372,000	4.1%	545,000	5.8%	173,000
Indiana	190,000	4.4%	313,000	6.6%	123,000
Iowa	96,000	4.4%	178,000	7.9%	82,000
Kansas	82,000	4.3%	150,000	7.4%	68,000
Kentucky	136,000	4.6%	265,000	8.6%	129,000
Louisiana	164,000	5.6%	231,000	7.4%	66,000
Maine	41,000	4.4%	87,000	8.6%	46,000
Maryland	111,000	2.9%	200,000	4.7%	89,000
Massachusetts	162,000	3.3%	267,000	5.0%	105,000
Michigan	295,000	3.8%	449,000	5.8%	153,000
Minnesota	117,000	3.0%	252,000	6.0%	136,000
Mississippi	95,000	4.8%	183,000	9.2%	88,000
Missouri	178,000	4.2%	288,000	6.7%	110,000
Montana	41,000	6.5%	77,000	11.7%	36,000
Nebraska	54,000	4.3%	101,000	7.9%	46,000
Nevada	46,000	3.3%	153,000	8.4%	107,000
New Hampshire	27,000	2.8%	58,000	5.6%	31,000
New Jersey	180,000	3.0%	260,000	4.2%	79,000
New Mexico	59,000	5.0%	108,000	8.7%	49,000
New York	534,000	4.0%	773,000	5.5%	239,000
North Carolina	233,000	4.3%	573,000	8.9%	340,000
North Dakota	27,000	5.8%	44,000	9.3%	17,000
Ohio	377,000	4.3%	497,000	5.8%	120,000
Oklahoma	110,000	4.9%	202,000	8.4%	92,000
Oregon	118,000	4.7%	209,000	8.0%	90,000
Pennsylvania	393,000	4.3%	530,000	5.7%	137,000
Rhode Island	26,000	3.6%	46,000	5.5%	20,000
South Carolina	123,000	4.4%	253,000	8.4%	130,000
South Dakota	24,000	4.6%	59,000	10.1%	34,000
Tennessee	209,000	4.8%	326,000	7.4%	117,000
Texas	532,000	4.0%	1,106,000	7.2%	574,000
Utah	55,000	3.2%	136,000	6.9%	81,000
Vermont	19,000	4.0%	33,000	7.0%	14,000
Virginia	196,000	3.7%	347,000	6.1%	152,000
Washington	193,000	4.4%	338,000	6.9%	145,000
West Virginia	71,000	5.7%	110,000	8.7%	39,000
Wisconsin	163,000	3.8%	295,000	6.7%	132,000
Wyoming	14,000	4.2%	33,000	8.8%	19,000
U.S. Total*	**8,449,000**	**4.2%**	**14,288,000**	**6.6%**	**5,839,000**

* Numbers do not add due to rounding.

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 23 for details.

DISCUSSION

Relentless growth in health insurance premiums and out-of-pocket costs has made spending on health care a growing burden over the past decades. For many Americans, this means that health care is consuming an ever-growing share of their family budgets, forcing them to make difficult sacrifices in other areas so they can make ends meet. And for many hard-working families, the burden of these health care costs has become too great to bear.

To determine how many Americans face health care costs in excess of 10 and 25 percent of pre-tax family income in 2000 and 2009, Families USA asked The Lewin Group to analyze data from the Department of Health and Human Services and the Census Bureau. The results are troubling: Nearly 64.4 million people under the age of 65—almost one in four non-elderly Americans—are in families that will spend more than 10 percent of their pre-tax income on health care in 2009 (Tables 1 and 2). More than four out of five (82.6 percent) of these people *have insurance* (Table 3). Just over 18.7 million non-elderly people—more than three-quarters of whom *have insurance*—are in families that will spend more than 25 percent of their income on health care in 2009 (Table 3).

Moreover, the number of families facing high health care costs has grown substantially over the last nine years. From 2000 to 2009, the number of people in families that spend more than 10 percent of their income on health care will rise by nearly 22.7 million (Table 1). The number of people in families spending more than 25 percent of their income on health care will increase by nearly 7.1 million (60.6 percent) between 2000 and 2009 (Table 1). Our findings also indicate that middle class families bear the burden of high health care costs. For example, nearly two-thirds (63.5 percent) of people who will spend more than 10 percent of their pre-tax family income on health care in 2009 are in families that earn more than $30,000 per year (Table 5).

Why Is the Number of People with High Health Care Costs on the Rise?

As this analysis demonstrates, millions of Americans are in families that face high health care costs, and this number has increased substantially in the last nine years. A number of factors are driving this phenomenon. First and foremost, health insurance premiums are increasing. As premiums rise, employers are forced to make tough decisions about the coverage they offer to their employees: Some drop coverage, others increase the share of the premium that employees must pay, and more offer insurance that covers fewer services and/or requires high out-of-pocket costs. This, in turn, means that American families must shoulder a greater proportion of health care costs on their own.

Premiums on the Rise

Much of the growing burden of health care costs comes down to simple economics: As health insurance premiums increase, the burden that these costs place on American families increases as well. And, in the last few years, health insurance premiums have risen substantially. Between 2000 and 2008 alone, the average annual premium for job-based family health coverage doubled, rising from $6,351 to $12,680.[1] During the same period, the average worker's share of annual family premiums rose from $1,656 to $3,354, an increase of nearly 103 percent.[2]

Efforts to slow the pace of premium increases are unlikely to succeed unless they include steps to control underlying health care costs and to limit certain insurance company practices.

Rising Health Care Spending

Much of the increase in health care spending is accounted for by the rising costs and use of services such as prescription drugs and hospital care.[3] For example, from 2000 to 2009, annual spending on prescription drugs more than doubled, rising from $120.6 billion to a projected $244.8 billion.[4] Likewise, spending on hospital services rose from $416.9 billion in 2000 to a projected $789.4 billion in 2009, an increase of nearly 90 percent.[5]

While rising spending on prescription drugs and hospital care accounts for a substantial portion of the increase in underlying health care costs, the growing use of new medical technologies also plays a significant role. Advances in the tools that are used to diagnose and treat medical conditions, including the development of new surgical procedures, biologic drugs, and medical devices, have all improved the quality of care. These new technologies, however, come at a price, with some health care experts estimating that the use of new technology accounts for as much as half of the increase in health care spending.[6]

Together, rising spending on health care services and increased use of new technologies drive up the cost of care provided in the United States. From 2000 to 2009, personal health care expenditures are projected to rise by nearly 70 percent, growing from $4,032 to $6,826.[7] This, in turn, results in higher premiums.

An Insurance Market without Necessary Protections

While underlying health care costs are a significant driver of rising premiums, the weak regulation of insurance companies is a prescription for further increases. Currently, insurance companies are governed by a hodgepodge of state and federal rules. In many states, insurance companies have free rein over how much of each dollar that is collected in premiums is spent on providing care and how much is retained as profit or spent on overhead, such as advertising and marketing (called medical loss ratios). In addition, in some markets, insurers are free to charge people more—or deny coverage altogether—based on age, health status, and a range of other factors.[8] This increases premiums even more for the very people most likely to need comprehensive, affordable health coverage.

The lack of insurance market regulation is compounded by the growing advantage that insurance companies have over American families. A 2008 study found that 94 percent of commercial insurance markets were "highly concentrated" (according to standards used by the U.S. Department of Justice and the Federal Trade Commission), resulting in near-monopoly power among insurance companies. In 44 percent of major metropolitan areas, a single insurance company controls half or more of the market, and in 89 percent of major metropolitan areas, a single insurer controls at least 30 percent of the market.[9] Without appropriate consumer protections and rules to govern the influence and growth of large insurers, premiums are likely to continue their rapid ascent.

What Rising Premiums Mean for Employers

As premiums rise, it becomes more difficult for employers to offer their employees quality, affordable health coverage, and they must make difficult decisions about the coverage that they are able to provide to their employees. For some employers, particularly those that operate small businesses, the cost of health insurance has become too much to bear. Between 2000 and 2008, the total percentage of firms offering health coverage declined by 6 percentage points (from 69 percent of firms offering coverage to 63 percent), with small businesses being the most likely to drop coverage.[10]

While some employers have been forced to cut coverage across the board, others have dropped coverage for specific groups of people or have placed limits on which employees are eligible. Some employers have found that it is no longer financially viable to offer coverage for workers' spouses and children (dependent coverage). Between 2001 and 2005, for example, a loss of dependent coverage accounted for 11 percent of the decline in job-based coverage.[11] In addition, many employers do not offer coverage to

part-time, temporary, or seasonal workers.[12] Others now require that employees work for the company for a period of time before becoming eligible for coverage. In 2008, three out of four employers (75 percent) imposed a waiting period for coverage, with the average waiting period being just over two months.[13]

The vast majority of employers who have continued offering coverage have been forced to shift some portion of rising health care costs onto their workers, usually by increasing the amount that workers are required to pay toward insurance premiums.[14] Others have resorted to "thinning" coverage—offering health insurance that covers fewer services and/or that comes with higher deductibles, copayments, and co-insurance.[15] In addition, insurance coverage is evolving to require more cost-sharing for certain services, such as prescription drugs and hospital care. For example, more than 93 percent of workers are in tiered drug plans that charge more for some drugs than for others, and 75 percent of workers are enrolled in plans that require hospital-specific cost-sharing (e.g., a separate deductible, co-insurance, or copayments).[16]

These trends are likely to continue in coming years, with nearly half (45 percent) of firms saying that they are "very likely" or "somewhat likely" to increase cost-sharing for doctors' visits, 41 percent saying that they are very or somewhat likely to increase deductibles or the amounts that employees pay for prescription drugs, and 40 percent saying that they are very or somewhat likely to raise employees' premium contributions in 2009.[17]

The thinning of coverage and the increasing number of plans that require higher deductibles and cost-sharing reflect a trend toward coverage that shifts financial risk onto families.[18] A range of "consumer-directed" plans have gained popularity among some employers in recent years as a way to hold down costs. Although relatively few people have chosen to participate in these plans (only 8 percent of employees in 2008), 22 percent of companies with more than 1,000 employees and 13 percent of all firms now offer plans that pair high-deductible coverage with tax-sheltered health savings accounts (HSAs).[19]

New trends that shift financial risk onto families have been facilitated by several changes in federal law and regulations that occurred a few years ago. For example, in 2006, employers were given an additional impetus to move to higher deductible plans when Congress passed the Bush Administration's proposal to increase the size of tax shelters for high-deductible plans that were linked to health savings accounts. These plans offer little or no benefit to low-income families, but they do provide a lucrative tax shelter for the wealthy.[20]

In addition, employers that are attempting to rein in costs are turning to programs that make workers directly responsible for their health care costs. In 2007, changes to federal insurance anti-discrimination protections were implemented.[21] These changes allow employers to charge workers more for their health insurance if they do not participate in certain health programs, or just because they have high blood pressure or other indicators of less-than-perfect health.[22] Employers that have chosen to implement these programs have gone so far as to dock the paychecks of workers who are unable to meet standards for cholesterol, blood glucose, blood pressure, and other similar measures.[23]

Consequences for American Families

More families are facing burdensome health care costs, regardless of their insurance status. Rising premiums are only part of this equation. Now, nearly 64.4 million Americans live in families that face health care costs in excess of 10 percent of their pre-tax income. Insurance simply no longer offers the protection that America's families need.

As health care costs consume a growing share of family budgets, more and more Americans report having trouble paying for care. In 2007, 48 million Americans reported having trouble paying medical bills. Of these, 28 million had used up all of their savings to pay their medical bills, 21 million took on substantial credit card debt, and 7.5 million took out a mortgage against their home or other personal loan.[24] Among those with insurance, one in three working-age adults report having trouble paying medical bills or say that they are in the process of paying off medical debt.[25]

The problem is even worse for people who are in plans that have high premiums, that charge hefty cost-sharing, or that offer limited benefits, and for those who have gone for even part of the year without health coverage. In 2007, more than three out of five (61 percent) insured individuals with high health care costs, and people who were uninsured during the year, reported having problems with medical bills, such as difficulty paying bills or being contacted by a collection agency.[26]

When the burden of health care costs becomes too great, the consequences can be catastrophic. Faced with medical debt, families often have no choice but to consider making drastic changes in lifestyle and, eventually, face bankruptcy or home foreclosure. One study found that, in the two years prior to filing for bankruptcy, more than 40 percent of families lost telephone service, approximately one-fifth went without food, and more than one-half went without needed medical or dental care because of the

costs associated with this care.[27] When no options remain, bankruptcy often becomes the last resort for families. From the beginning of 2000 through June 2007 alone, 5 million American families filed for bankruptcy following a serious medical problem.[28] Moreover, economists estimate that 16 times as many families are on the brink of financial troubles that are dire enough to benefit from filing for bankruptcy.[29] In all, approximately half of bankruptcies are due, at least in part, to medical expenses.[30]

Recent data also confirm the link between medical debt and housing insecurity. Nearly half (49 percent) of home foreclosures in 2006 were caused, at least in part, by financial issues stemming from a medical problem.[31] Another study found that more than one-quarter (27 percent) of people with medical debt experienced housing insecurity, including the inability to qualify for a mortgage, trouble making rent payments, and eviction.[32] Housing problems were most prevalent among individuals with larger medical debts (debt in excess of $5,000), and the likelihood of facing housing insecurity increased the longer a debt went unpaid.[33]

CONCLUSION

With a growing share of middle-class families spending more than 10 percent—or even more than 25 percent—of their income on health care, rising costs are putting millions of families at risk. If nothing is done to bring the cost of health care under control, an ever-larger strain will be placed on the budgets of working families. The results are likely to be catastrophic. Inaction is no longer an option. Our leaders in Washington, D.C. and in the states must take meaningful action to achieve health reform that extends access to quality, affordable coverage while bringing costs under control.

Drowning in Debt: Americans Facing High Health Care Costs

With rising health care costs and thinning coverage, families are paying more out of pocket for their health care. Millions of people have taken on significant financial risks to pay for their medical care. Too often, however, these risks do not pay off, and many families find themselves shouldering the heavy burden of medical debt. More than two out of five non-elderly adults—41 percent—have had trouble paying their health care bills, are paying off accrued medical debt, or both.[34] High medical costs and medical debt can compromise a family's access to health care and undermine its economic security.

No Guarantee: Coverage without Adequate Protection

- One out of three insured adults (33 percent) is in the process of paying off medical debt and/or reports having trouble paying medical bills.[35] The situation is even more troubling for individuals with inadequate insurance (the "underinsured"). More than three out of five underinsured adults (61 percent) report having problems paying their medical bills and/or having accrued medical debt.[36]
- About 78 percent of those with private insurance and medical debt work full-time.[37]
- Two-thirds of privately insured adults with medical debt have household incomes between $20,000 and $75,000.[38]

Thinning Benefits: People Bear the Burden

- Thinner benefit packages mean that people have to pay more to obtain basic health care services. Americans with job-based insurance pay nearly a third (32 percent) of their total medical bills out of pocket, while those in the individual health insurance market pay for more than half (55 percent) of their health expenses out of pocket.[39]
- Plans that do not cover necessary services, such as prescription drugs, put Americans at risk for having unreasonably high health care costs. For example, among non-elderly insured adults without prescription drug or dental coverage, 44 percent report having problems with medical bills and/or medical debt.[40]

- People enrolled in health plans that place a limit on the total value of health services that can be covered were much more likely to have problems with medical bills and/or medical debt as people enrolled in plans without a dollar limit on coverage (43 percent versus 27 percent).[41]
- Plans with high deductibles are burdensome for American families. More than half of adults (53 percent) enrolled in plans with annual deductibles equal to or more than 5 percent of their annual income reported having problems with medical bills and/or medical debt.[42]
- People diagnosed with a chronic illness may discover too late that their insurance does not cover their care. For example, among cancer patients with health insurance, 23 percent report that their plan paid less than expected for a medical bill.[43]
- The problems that American families face due to thinning coverage are likely to grow. Over the next year, 45 percent of employers that offer health insurance, report that they are “very likely” or “somewhat likely” to increase employees’ cost-sharing for doctor visits, 41 percent report that they are “very likely” or “somewhat likely” to increase employees’ deductibles, and 41 percent report that they are “very likely” or “somewhat likely” to increase the amount that employees pay for prescription drugs.[44]

Cost: Barrier to Access

- More than one in three adults (35 percent) with uninterrupted health insurance reported going without needed care due to cost: These adults didn’t fill a prescription; did not see a specialist when necessary; skipped recommended tests, treatments, or follow-up care; or didn’t go to the doctor when there was a medical problem.[45]
- People with inadequate insurance are even more likely to go without needed care. Three in five underinsured adults (60 percent) reported that they went without needed care because of cost.[46]
- More than one in four cancer patients (27 percent) delayed or went without care because of the cost.[47]

- Medical debt also poses barriers to access. Insured adults who report having medical debt are nearly five times more likely than insured adults without medical debt to postpone medical care due to cost (28 percent versus 6 percent).[48]
- Insured people *with* medical debt are nearly three times as likely to go without a needed prescription as those *without* medical debt (24 percent versus 9 percent).[49]
- Health care providers are using more aggressive billing and debt collection practices, which has made it difficult for people with medical debt to obtain care. Increasingly, providers are requiring payment for services at the time they are provided, which deters people who cannot afford the cost of care or forces people to pay with credit cards.[50]

At Risk: Medical Costs Undermine Financial Security

- Insurance coverage doesn't guarantee protection against having to take substantial financial risks to pay for care. Among insured adults with medical bill problems or medical debt, 33 percent used up all of their savings to pay medical bills, 30 percent took on credit card debt, and 10 percent took out a second mortgage or personal loan.[51]
- Nearly 29 percent of low- and middle-income households with credit card debt reported that medical expenses contributed to their current level of credit card debt.[52]
- When medical debt becomes too great to bear, the consequences can be catastrophic. Legal action, such as seizure of wages, assets, and property, may be taken against people with unpaid medical bills.[53]
- Bankruptcy is often the last resort for families with high medical costs. About half of all personal bankruptcy cases are due, at least in part, to medical reasons. [54] Between 2000 and June 2007, approximately 5 million families filed for bankruptcy after experiencing a serious medical problem.[55] And, among those whose illness led to bankruptcy, more than three in four *had insurance* at the onset of the illness.[56]

- Most people who report having medical debt on their credit reports say that their credit has been damaged because of it.[57] Damaged credit can make it difficult or impossible to secure and maintain housing, to get a job, to buy a car, to obtain utilities, and to meet other needs.[58]

Medical Debt Leads to Housing Insecurity

- Nearly half (49 percent) of home foreclosures in 2006 were caused, at least in part, by financial issues stemming from a medical problem.[59]
- One study found that more than one-quarter (27 percent) of people with medical debt experienced housing insecurity. Of these:
  - 11 percent were unable to qualify for a mortgage, and 7 percent were turned down from renting a home or apartment;
  - 10 percent were unable to make rent or mortgage payments;
  - 5 percent were forced to move to less expensive housing;
  - 2 percent were evicted; and
  - 2 percent were homeless because of medical debt.[60]
- More than half (52 percent) of people with medical debt of at least $5,000 reported having a housing problem. A substantial share of people (12 percent) with debt of less than $500 also reported having housing problems that resulted from medical debt.[61]

ENDNOTES

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METHODOLOGY

To measure the financial burden of health care spending, Families USA asked The Lewin Group to produce national and state-level estimates of the number of people in families whose out-of-pocket health expenses exceed 10 and 25 percent of their pre-tax income. In these analyses, health expenses included both direct health spending and spending on health insurance premiums.

Direct out-of-pocket spending includes all payments for health services that were not covered by public or private insurance. For people with insurance, this includes payments for services that are not covered by their insurance plan, as well as deductibles and co-payments. It also includes bills for health services that patients are unable to pay and that are written off by providers as charity care and/or bad debt. Premiums include the amount of employee contributions for coverage under employer health plans, premiums for individual insurance, and any premiums paid under public health insurance programs such as the Children's Health Insurance Program (CHIP).

These estimates of the high financial burden of health care were developed using The Lewin Group's Health Benefits Simulation Model (HBSM). HBSM is a micro-simulation model of the United States health care system. The model is based on the Medical Expenditures Panel Survey (MEPS) data for 2002-2005, which were updated to reflect projections of health spending through 2009. The MEPS provides data on the distribution of health spending by type of service and by source of payment across families of various demographic and economic groups. These data allow for the identification of people in families that spend in excess of various percentages of family income.

The HBSM calculates premium amounts for each policyholder in the MEPS data. Private health insurance premiums are estimated based upon the type of insurance (i.e., large group, small group, and individual market) using the range of rating practices that are permitted in each state. This includes community rating, age rating, and rating bands. Experience rating was based upon reported health expenditures for workers assigned to the model's "synthetic firms." We also estimate premiums for self-funded plans based upon the health services utilization for people assigned to each firm.[1]

The data used in the HBSM model were updated to 2009 based upon the health spending projections that were developed by the Office of the Actuary of the Center for Medicare and Medicaid Services (CMS). These data provide estimates of the levels of health spending by source of payment, including out-of-pocket expenditures and private health insurance spending for several years, including 2000 through 2009. Other sources were used to estimate the level of charity care, including published

hospital data. In addition, the model uses U.S. Census Bureau projections of population and the Bureau of Labor Statistics (BLS) estimates of income growth. Age-specific population counts were controlled to population estimates from the 2008 Current Population Survey (CPS).

Unfortunately, the MEPS is not designed to be disaggregated by state of residence. The HBSM was therefore enhanced with additional data on the demographic and income composition of the population in each state, and with CMS data on health spending by state. This was accomplished by "re-weighting" the MEPS results based on the distribution of people by demographic characteristic, source of insurance, and income level in each state, as reported in the CPS data. Health spending levels were also adjusted to reflect CMS data on differences in health spending levels by state. The re-weighted estimates of health care burden reflect differences in the economic and demographic characteristics of each state's population, insurance coverage levels, and health spending levels across states.

Family Budget

Families USA used data from the Institute on Taxation and Economic Policy and the U.S. Bureau of Labor Statistics Consumer Expenditure Survey to calculate the budget for a family of four with an annual gross income of $60,000.

■ Family Tax Burden

In order to estimate federal, state, and local taxes for the family presented in the example, we asked the Institute on Taxation and Economic Policy (ITEP) to use its microsimulation tax model to determine the state and local tax burden for the family, which we defined as a two-parent, two-child household that owns its own home and earns $60,000 annually.

The ITEP model uses data from government sources, such as the Internal Revenue Service and the U.S. Census Bureau, to calculate, by income, a family's total tax burden, including federal, state, and local taxes. The model estimates federal and state personal income taxes, sales and excise taxes, corporate income taxes, state and local property taxes, and other state and local taxes. These calculations are similar to those produced by the congressional Joint Committee on Taxation, the U.S. Treasury Department, and the Congressional Budget Office, except that the ITEP model includes state and local taxes and can calculate federal taxes on a state-by-state basis. For our purposes, we asked ITEP to include only direct taxes on people, including federal income and payroll taxes, averages of state and local income taxes, and averages of state and local property taxes on owner-occupied homes and personal property.

Nationwide, ITEP estimated the average of these federal, state, and local taxes on our hypothetical family in 2007 to be approximately $11,050 (18.4 percent of income). Therefore, the after-tax income of our family is $48,950.

Family Expenses

We then used data from the BLS Consumer Expenditure Survey (available online at http://www.bls.gov/cex/) to determine our hypothetical family's spending on household necessities. This survey, which began in 1999, tracks both the major and minor components of annual household spending, including food, housing, clothing, and transportation costs.

The BLS Consumer Expenditure Survey lists the average annual expenditures for four-person households by gross income. Because our hypothetical family has a gross income of $60,000, we performed this analysis using two-year data from Table 39 of the 2006-2007 survey for the $50,000-$69,999 income bracket for a family size of four. In order to accurately pinpoint the appropriate level of expenditures for our hypothetical family, we adjusted the data presented in the BLS survey using the following methodology:

- We used BLS survey data on the $50,000-$69,999 income bracket to calculate what percent of total spending an average family allocates to each budget category (e.g. food, housing, and transportation).
- Since FICA taxes were accounted for in both the ITEP model and the BLS data, we subtracted the ITEP estimated FICA amount from the BLS budget data and recalculated the percentages that the family would spend on each budget item.
- Then, because of the large number of budget items, we collapsed some of the smaller budget categories into larger ones. For example, under the category "Groceries," we included the spending totals from both the "Food" and "Personal Care Items" categories. More information on our budget categories is available upon request.
- Lastly, we determined our hypothetical family budget by multiplying the family's after-tax income by the percent of total spending an average family in their income bracket allocates to each of the major budget categories.

[1] For further information, see *The Health Benefits Simulation Model (HBSM): Methodology and Assumptions,* available online at http://www.lewin.com/content/Files/HBSMSummary.pdf.

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