Prospects for Change in the Individual Health Insurance Market

At least 45 million Americans are uninsured. Most are employed but either work for firms that don’t offer insurance or can’t afford the plan that’s offered. Individual health insurance may be an option.

- **Individual health insurance is the only coverage option for consumers who are not eligible for employer-sponsored or public insurance.** But only a small fraction of these consumers purchase individual insurance, and the number has been declining steadily for the past 15 years.

- **The main reason for declining purchases of individual health insurance is rising premiums.** Premiums for standard coverage increased at least 45 percent between 1996 and 2003. Other barriers include consumers’ perceptions that it is difficult to get information about individual health insurance, that they have alternative sources of insurance, and that medical care is not efficacious.

- **Insurers worry that they will sell individual insurance to too many consumers in poor health.** If state laws allow, insurers refuse coverage to individuals they think will have high medical costs, or they charge different prices to individuals with different health risks.

- **Insurers want more consumers to purchase individual health insurance so that they can expand market share and better manage risk.** To attract purchasers, some insurers offer “niche” insurance plans (e.g., for low-income enrollees or for college students) or low-cost plans with restricted benefits.

- **Public policy may determine the future of the individual insurance market.** Current policy approaches are designed to make individual insurance more attractive: They include offering tax credits to low-income workers who purchase individual insurance, giving tax deductions for premiums on plans with high deductibles and health savings accounts, and subsidized high-risk pools. But if health care costs continue to rise, the value of these subsidies will erode. In addition, other analyses conducted by the authors suggest that these tax credits will have little effect.

This fact sheet is based on:

