



# ISSUE BRIEF

## GENDER RATING IN THE INDIVIDUAL MARKET

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Most Californians obtain health care coverage through their employers, but some purchase coverage independently through the individual health insurance market. Among those insured by health maintenance organizations, about two percent are covered through the individual market.

### Sharing Risk

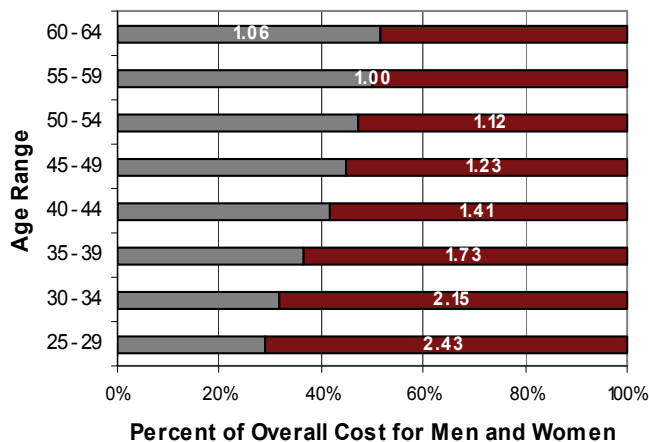
The price of health insurance for plan members is established based on expected health care costs. Health insurance premiums are based on a number of factors, including age, geographic location, family size, health status and gender. These factors help ensure that premiums are individually tailored to each consumer to promote a more diverse and affordable marketplace. Since people use health care services differently, they are charged premiums appropriate to their expected risk. This is done in most other insurance markets as well, like automobile and life insurance.

### Gender Differences in Cost and Utilization

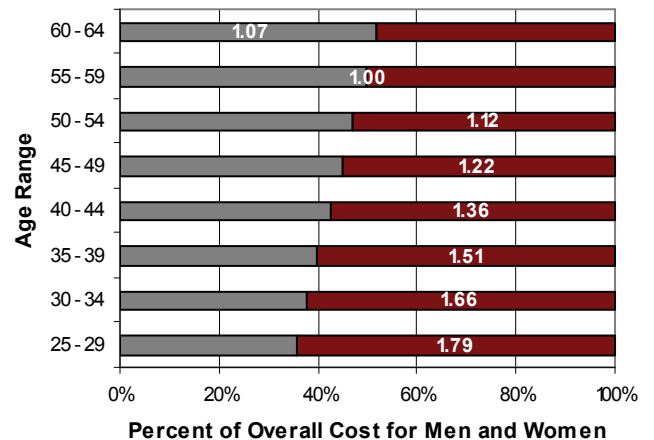
Gender is used as one of the factors in setting premium costs because men and women utilize health care services differently. At younger ages, women use more health care services than men. As men and women age, the difference declines. At older ages, men have been shown to increase their use of services, surpassing what it costs to treat women. These utilizations are reflected in the cost of health care premiums in the individual market.

Data shows that health care costs for women range from 20 percent to 80 percent higher for women under 50, depending on their age, for coverage that excludes maternity coverage. For coverage that includes maternity, costs are 20 percent higher to two and a half times as high. In the charts below, the overall costs of care for men and women are broken down<sup>1</sup>. The ratio describes how many times more one gender costs than the other. For example, for care which excludes maternity coverage, expected health care costs for a typical 32 year old woman would be 1.66 times the health care cost for a typical 32 year-old man.

Expected Health Care Costs for Men and Women  
(including maternity benefits)



Expected Health Care Costs for Men and Women  
(excluding maternity benefits)



## Consequences of Community Rating

Some states have moved toward a system of “community rating” by reducing or eliminating the flexibility insurers have to match premiums to expected utilization. In reality, community rating leads to higher cost health-care for everyone by eliminating or minimizing the factors that health plans can use to price policies.

By requiring everyone be charged a similar price, it becomes more expensive for lower risk individuals to participate in the insurance market. Lower risk individuals are very price sensitive and significant shifts in premium costs may lead to the healthy individuals (those who have a lower expected utilization of care) to leave the risk pool altogether, leaving a more costly population behind, and thus, increasing costs further.

Lower premiums help keep the healthy enrolled in this market and, in effect, subsidize the costs of those with higher health costs. Community rating, thus, presents a real risk of premium increases for many enrollees.

## Value of the Individual Market

In California, as the cost of living soars above the national average, the cost for health coverage continues to be competitive. The price of individual coverage, for instance, falls just below the national average despite rapidly escalating medical costs. This contributes to the reason why California has the highest individual enrollment in the nation at 2.6 million. Nationally, approximately 89 percent of applicants undergoing medical underwriting were offered coverage<sup>2</sup>.

## Future Discussions

The issue of rising health care costs is important and must be addressed as a part of the larger health care reform discussion. The fact that about 6.4 million Californians are without health care coverage today heightens the challenges policymakers face when designing a workable solution. All Californians should have access to high-quality, affordable health care coverage and one way this is made possible is through offering individuals plans appropriate to their expected use of care. Rising costs have consistently been a top concern for all health care stakeholders and curbing these costs must be a national priority.

## SOURCES:

<sup>1</sup> Expected health care costs for men and women: 2008 Milliman Health Cost Guidelines-Commercial Rating Structure™, Milliman, Inc.

<sup>2</sup> America’s Health Insurance Plans. “Individual Health Insurance 2006-07: A Comprehensive Survey of Premiums, Availability, and Benefits.” December 2007. Accessed March 2009 at [http://www.ahipresearch.org/pdfs/Individual\\_Market\\_Survey\\_December\\_2007.pdf](http://www.ahipresearch.org/pdfs/Individual_Market_Survey_December_2007.pdf)

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