Too Great A Burden:

America's Families at Risk

A REPORT BY

Families USA

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INTRODUCTION

Health care costs have become a growing burden for America's families, as premiums and out-of-pocket expenses continue to rise at alarming rates. Left unchecked, health care costs will keep going up, forcing more and more American families into debt—and even into bankruptcy. According to public opinion polls, health care is now the number one domestic priority. At the same time, pressure on policymakers to take decisive action is expected to grow. In 2008, voters will head to the polls seeking, among other things, to see that the cost of care is brought under control.

In order to understand how high health care costs affect American families, Families USA commissioned The Lewin Group to analyze data from the U.S. Department of Health and Human Services and the Census Bureau. 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 how many will spend more than 25 percent of their pre-tax income, on health care costs in 2008.

Our analysis paints a stark picture: Nearly one out of four Americans under the age of 65—61.6 million people—is in a family that will spend more than 10 percent of its pre-tax income on health care costs in 2008. Shockingly, the vast majority of these people (82.4 percent) *have health insurance*. And 17.8 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 pre-tax income on health care costs in 2008.

This analysis also reveals the growth in the number of people in families with high health care costs over the last eight years. Between 2000 and 2008, the number of people who are in families that spend more than 10 percent of their pre-tax income on health care will have increased by nearly 19.9 million. Over that same period, the number of people in families that spend more than 25 percent of their pre-tax income on health care will have increased by nearly 6.2 million.

As more families join the ranks of those with high health care costs, a transformation is occurring in the way health reform is viewed by the American public. For decades, efforts to reform health care have been motivated by altruism. Now, with millions more families facing high health costs, reforming health care has become an issue of self-interest. When Americans cast their ballots in 2008, they are likely to vote for candidates who promise to bring down health care costs.

KEY FINDINGS

Millions of Americans Are Affected by High Health Care Costs

- Nearly one out of four non-elderly Americans—61.6 million—is in a family that will spend more than 10 percent of its pre-tax income on health care costs in 2008 (Table 2).
- 17.8 million Americans are in families that will spend more than 25 percent of their pre-tax income on health care costs in 2008 (Table 1).

A Growing Burden: More Americans with High Health Care Costs, 2000 to 2008

- In 2000, 41.7 million non-elderly Americans were in families that spent more than 10 percent of their pre-tax income on health care costs (Table 1).
- Between 2000 and 2008, the number of people in families spending more than 10 percent of their pre-tax income on health care costs will have grown by nearly 19.9 million (Table 1).
- In 2000, 11.6 million Americans were in families that spent more than 25 percent of their pre-tax income on health care costs (Table 1).
- Between 2000 and 2008, the number of people in families spending more than 25 percent of their pre-tax income on health care costs will have increased by 6.2 million (Table 1).

Table 1

People in Families with High Health Care Costs, 2000 to 2008

Share of Family Pre-Tax Income Spent on Health Care	2000	2008	Increase
More than 10 Percent	41,701,000	61,586,000	19,885,000
More than 25 Percent	11,647,000	17,808,000	6,162,000

Note: Numbers do not add due to rounding.

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 18 for details.

Table 2

Percent of Non-Elderly People in Families with High Health Care Costs, 2008

Share of Family Pre-Tax Income Spent on Health Care	People with High Health Care Costs	Total Non-Elderly U.S. Population	Percent of Population with High Health Care Costs
More than 10 Percent	61,586,000	264,907,000	23.2%
More than 25 Percent	17,808,000	264,907,000	6.7%

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 18 for details.

Millions of Insured Americans Are Affected

- More than four out of five people (82.4 percent) in families spending more than 10 percent of their pre-tax income on health care costs *are insured* (Table 3).
- 50.7 million non-elderly Americans *with insurance* are in families that will spend more than 10 percent of their pre-tax income on health care costs in 2008 (Table 4).
- More than three out of four people (75.8 percent) in families spending more than 25 percent of their pre-tax income on health care costs *are insured* (Table 3).
- 13.5 million Americans *with insurance* are in families that will spend more than 25 percent of their pre-tax income on health care costs in 2008 (Table 4).

Table 3

Insurance Status of People in Families with High Health Care Costs, 2008

Share of Family Pre-Tax Income Spent on Health Care	People with High Health Care Costs		Percent Insured
	With Insurance	Total	
More than 10 Percent	50,722,000	61,586,000	82.4%
More than 25 Percent	13,500,000	17,808,000	75.8%

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 18 for details.

Table 4

Insured People in Families with High Health Care Costs, 2000 to 2008

Share of Family Pre-Tax Income Spent on Health Care	2000	2008	Increase
More than 10 Percent	33,160,000	50,722,000	17,562,000
More than 25 Percent	8,449,000	13,500,000	5,051,000

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 18 for details.

High Health Costs: A Middle-Class Problem

- Nearly half (48.5 percent) of people in families that will spend more than 10 percent of their pre-tax income on health care costs in 2008 are from families earning between $30,000 and $75,000 per year (Table 5).
- Nearly one-third (32.6 percent) of people in families that will spend more than 25 percent of their pre-tax income on health care costs in 2008 are from families earning between $30,000 and $75,000 per year (Table 5).

Table 5

Family Income of People in Families with High Health Care Costs, 2008

	Spending More than 10 Percent Of Pre-Tax Income on Health Care		Spending More than 25 Percent Of Pre-Tax Income on Health Care	
Family Income	Number	Percent	Number	Percent
> $75,000	8,705,000	14.1%	487,000	2.7%
$30,000-$75,000	29,879,000	48.5%	5,813,000	32.6%
< $30,000	23,001,000	37.3%	11,509,000	64.6%
Total	**61,586,000**	**100.0%**	**17,808,000**	**100.0%**

Note: Numbers do not add due to rounding.

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 18 for details.

Family Budgets: How Tight Are They?

Health care costs that equal 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 gross annual income of $60,000.

A Typical Family Budget	
Gross Annual Income	$ 60,000
Less Taxes (federal, state, and local taxes)	11,160
Disposable Income (gross income minus taxes)	$ 48,840
Annual Expenses	
Housing and Utilities	16,680
Transportation	10,940
Food, Beverages, and Personal Care Items	9,650
Pets, Sports, Entertainment, and Reading Materials	2,660
Education and Miscellaneous Expenses	2,530
Clothing and Footwear	2,310
Personal Insurance (non-health) and Pensions	1,080
Less Total Expenses	$ 45,850
Amount Left to Pay for Health Care (disposable income minus expenses)	**$ 2,990**

About this example: The Institute on Taxation and Economic Policy supplied the tax burden for this illustration. Expenditures were derived from the U.S. Bureau of Labor Statistics. For details, see the Methodology on page 18.

This family has only $2,990 left after paying for housing, food, and other necessities. The health care expenses they will need to cover with this $2,990 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 $2,990? What if these costs add up to $6,000—10 percent of their pre-tax income—as happens to so many American families? As this report shows, 61.6 million Americans are in families that will spend more than 10 percent of their income on health care costs in 2008. In this particular example, the family would have to find another $3,010 to cover their health care costs—or go into debt.

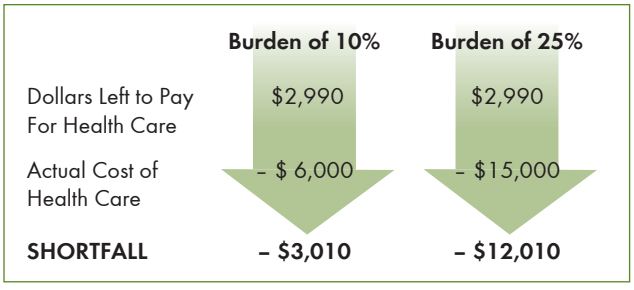

Table 6a

Non-Elderly People in Families Spending More than 10 Percent of Their Pre-Tax Income on Health Care Costs, 2000 to 2008, by State

State	2000		2008		Increase
	Number	% of Pop.	Number	% of Pop.	
Alabama	728,000	18.7%	998,000	25.3%	270,000
Alaska	90,000	14.8%	129,000	20.5%	39,000
Arizona	735,000	16.6%	1,397,000	25.5%	662,000
Arkansas	439,000	19.3%	680,000	27.9%	241,000
California	5,637,000	18.0%	6,555,000	19.8%	918,000
Colorado	620,000	16.2%	1,054,000	24.8%	434,000
Connecticut	418,000	14.9%	582,000	19.1%	163,000
Delaware	103,000	14.8%	175,000	23.5%	73,000
District of Columbia	75,000	16.5%	104,000	21.9%	29,000
Florida	2,405,000	18.7%	3,873,000	25.3%	1,468,000
Georgia	1,237,000	17.3%	2,164,000	25.8%	927,000
Hawaii	169,000	16.6%	252,000	22.2%	83,000
Idaho	185,000	16.5%	376,000	28.9%	191,000
Illinois	1,926,000	17.5%	2,472,000	21.9%	546,000
Indiana	952,000	18.8%	1,337,000	24.1%	385,000
Iowa	439,000	17.8%	701,000	27.5%	262,000
Kansas	383,000	17.0%	615,000	25.4%	232,000
Kentucky	603,000	17.1%	1,006,000	27.3%	403,000
Louisiana	751,000	20.0%	954,000	23.7%	204,000
Maine	178,000	16.2%	309,000	27.1%	130,000
Maryland	632,000	14.0%	999,000	19.6%	368,000
Massachusetts	785,000	14.2%	1,106,000	19.3%	321,000
Michigan	1,424,000	16.1%	2,004,000	22.2%	580,000
Minnesota	603,000	13.8%	1,093,000	23.4%	490,000
Mississippi	401,000	16.4%	712,000	27.6%	311,000
Missouri	844,000	17.2%	1,225,000	24.2%	382,000
Montana	167,000	21.9%	260,000	31.8%	93,000
Nebraska	253,000	17.3%	408,000	26.8%	155,000
Nevada	274,000	15.4%	657,000	29.2%	383,000
New Hampshire	146,000	13.4%	268,000	22.6%	122,000
New Jersey	1,027,000	14.1%	1,406,000	18.2%	379,000
New Mexico	282,000	17.9%	456,000	27.0%	174,000
New York	2,662,000	16.4%	3,342,000	19.9%	681,000
North Carolina	1,097,000	16.3%	2,230,000	27.9%	1,133,000
North Dakota	111,000	21.1%	155,000	28.6%	43,000
Ohio	1,829,000	18.1%	2,195,000	22.0%	365,000
Oklahoma	533,000	18.6%	834,000	27.1%	302,000
Oregon	538,000	17.9%	852,000	26.3%	313,000
Pennsylvania	1,869,000	18.0%	2,240,000	21.1%	371,000
Rhode Island	121,000	14.9%	200,000	21.1%	79,000
South Carolina	545,000	16.4%	1,025,000	27.0%	480,000
South Dakota	110,000	18.4%	206,000	30.8%	96,000
Tennessee	850,000	17.1%	1,301,000	24.4%	451,000
Texas	3,094,000	16.5%	5,300,000	24.7%	2,206,000
Utah	312,000	15.2%	590,000	25.6%	278,000
Vermont	87,000	15.7%	136,000	24.5%	49,000
Virginia	973,000	15.6%	1,557,000	22.6%	584,000
Washington	923,000	17.5%	1,333,000	23.6%	410,000
West Virginia	289,000	19.2%	415,000	26.9%	126,000
Wisconsin	772,000	16.2%	1,216,000	24.8%	443,000
Wyoming	75,000	17.5%	128,000	28.6%	53,000
U.S. Total	**41,701,000**	**17.0%**	**61,586,000**	**23.2%**	**19,885,000**

Note: Numbers do not add due to rounding.

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 18 for details.

Table 6b

Non-Elderly People in Families Spending More than 25 Percent of Their Pre-Tax Income on Health Care Costs, 2000 to 2008, by State

State	2000		2008		Increase
	Number	% of Pop.	Number	% of Pop.	
Alabama	217,000	5.6%	300,000	7.6%	84,000
Alaska	22,000	3.7%	33,000	5.3%	11,000
Arizona	213,000	4.8%	430,000	7.9%	217,000
Arkansas	141,000	6.2%	227,000	9.3%	86,000
California	1,624,000	5.2%	1,868,000	5.6%	245,000
Colorado	166,000	4.3%	299,000	7.0%	133,000
Connecticut	102,000	3.6%	143,000	4.7%	41,000
Delaware	25,000	3.6%	44,000	5.9%	19,000
District of Columbia	23,000	5.0%	33,000	6.9%	10,000
Florida	710,000	5.5%	1,210,000	7.9%	501,000
Georgia	348,000	4.9%	623,000	7.4%	275,000
Hawaii	46,000	4.5%	70,000	6.1%	23,000
Idaho	50,000	4.5%	115,000	8.8%	65,000
Illinois	507,000	4.6%	662,000	5.9%	156,000
Indiana	249,000	4.9%	365,000	6.6%	116,000
Iowa	114,000	4.6%	197,000	7.7%	83,000
Kansas	104,000	4.6%	176,000	7.3%	72,000
Kentucky	179,000	5.1%	317,000	8.6%	138,000
Louisiana	239,000	6.4%	307,000	7.6%	68,000
Maine	53,000	4.8%	96,000	8.4%	44,000
Maryland	152,000	3.4%	249,000	4.9%	97,000
Massachusetts	201,000	3.6%	282,000	4.9%	81,000
Michigan	379,000	4.3%	537,000	5.9%	158,000
Minnesota	140,000	3.2%	276,000	5.9%	136,000
Mississippi	133,000	5.4%	242,000	9.4%	110,000
Missouri	223,000	4.5%	341,000	6.7%	118,000
Montana	53,000	6.9%	91,000	11.1%	38,000
Nebraska	66,000	4.5%	117,000	7.7%	51,000
Nevada	70,000	3.9%	189,000	8.4%	119,000
New Hampshire	35,000	3.2%	68,000	5.7%	33,000
New Jersey	255,000	3.5%	348,000	4.5%	93,000
New Mexico	91,000	5.8%	152,000	9.0%	62,000
New York	758,000	4.7%	952,000	5.7%	194,000
North Carolina	324,000	4.8%	708,000	8.9%	384,000
North Dakota	32,000	6.1%	48,000	8.9%	16,000
Ohio	484,000	4.8%	589,000	5.9%	105,000
Oklahoma	158,000	5.5%	259,000	8.4%	101,000
Oregon	154,000	5.1%	258,000	8.0%	104,000
Pennsylvania	491,000	4.7%	601,000	5.7%	110,000
Rhode Island	32,000	3.9%	53,000	5.6%	22,000
South Carolina	161,000	4.8%	320,000	8.4%	159,000
South Dakota	30,000	5.0%	65,000	9.6%	35,000
Tennessee	260,000	5.2%	403,000	7.6%	144,000
Texas	916,000	4.9%	1,638,000	7.6%	723,000
Utah	75,000	3.7%	157,000	6.8%	81,000
Vermont	24,000	4.3%	39,000	7.0%	15,000
Virginia	257,000	4.1%	427,000	6.2%	170,000
Washington	254,000	4.8%	386,000	6.8%	132,000
West Virginia	94,000	6.2%	135,000	8.8%	42,000
Wisconsin	196,000	4.1%	322,000	6.6%	126,000
Wyoming	20,000	4.7%	39,000	8.6%	18,000
U.S. Total	**11,647,000**	**4.7%**	**17,808,000**	**6.7%**	**6,162,000**

Note: Numbers do not add due to rounding.

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 18 for details.

Table 7a

Non-Elderly Insured People in Families Spending More than 10 Percent of Their Pre-Tax Income on Health Care Costs, 2000 to 2008, by State

State	2000		2008		Increase
	Number	% of Pop.	Number	% of Pop.	
Alabama	600,000	18.2%	850,000	25.5%	250,000
Alaska	68,000	14.3%	102,000	20.8%	34,000
Arizona	558,000	16.0%	1,115,000	25.9%	557,000
Arkansas	345,000	19.0%	555,000	28.4%	210,000
California	4,257,000	17.5%	5,064,000	19.7%	806,000
Colorado	489,000	15.8%	871,000	25.4%	383,000
Connecticut	352,000	14.4%	503,000	19.0%	151,000
Delaware	88,000	14.4%	156,000	23.7%	68,000
District of Columbia	62,000	15.8%	88,000	21.6%	26,000
Florida	1,834,000	18.3%	3,087,000	25.9%	1,252,000
Georgia	973,000	16.8%	1,783,000	26.2%	810,000
Hawaii	144,000	16.2%	221,000	22.2%	76,000
Idaho	143,000	16.0%	307,000	29.7%	164,000
Illinois	1,563,000	17.1%	2,067,000	22.0%	504,000
Indiana	796,000	18.6%	1,147,000	24.4%	350,000
Iowa	390,000	17.7%	638,000	28.0%	248,000
Kansas	324,000	16.8%	537,000	25.9%	213,000
Kentucky	494,000	16.7%	855,000	27.6%	361,000
Louisiana	567,000	19.5%	744,000	23.8%	177,000
Maine	149,000	15.7%	269,000	27.3%	119,000
Maryland	509,000	13.4%	838,000	19.5%	329,000
Massachusetts	675,000	13.8%	975,000	19.2%	300,000
Michigan	1,201,000	15.7%	1,740,000	22.2%	539,000
Minnesota	533,000	13.5%	994,000	23.6%	462,000
Mississippi	309,000	15.6%	577,000	27.6%	268,000
Missouri	718,000	16.9%	1,073,000	24.5%	356,000
Montana	137,000	22.1%	221,000	33.1%	83,000
Nebraska	220,000	17.2%	365,000	27.4%	145,000
Nevada	207,000	14.8%	532,000	30.3%	326,000
New Hampshire	124,000	12.9%	237,000	22.7%	113,000
New Jersey	811,000	13.5%	1,151,000	18.0%	340,000
New Mexico	202,000	17.1%	345,000	27.3%	143,000
New York	2,062,000	15.6%	2,675,000	19.6%	613,000
North Carolina	858,000	15.7%	1,837,000	28.4%	978,000
North Dakota	97,000	21.1%	138,000	29.3%	41,000
Ohio	1,541,000	17.7%	1,891,000	22.0%	350,000
Oklahoma	409,000	18.3%	669,000	27.8%	260,000
Oregon	442,000	17.6%	724,000	26.8%	282,000
Pennsylvania	1,600,000	17.6%	1,952,000	21.1%	352,000
Rhode Island	105,000	14.5%	178,000	21.1%	73,000
South Carolina	449,000	16.0%	878,000	27.3%	429,000
South Dakota	95,000	18.3%	184,000	31.6%	88,000
Tennessee	721,000	16.7%	1,133,000	24.4%	412,000
Texas	2,084,000	15.6%	3,842,000	25.1%	1,758,000
Utah	252,000	14.8%	501,000	26.1%	248,000
Vermont	75,000	15.3%	120,000	24.7%	46,000
Virginia	802,000	15.2%	1,325,000	22.8%	523,000
Washington	755,000	17.1%	1,125,000	23.9%	370,000
West Virginia	233,000	18.8%	346,000	27.1%	113,000
Wisconsin	678,000	15.9%	1,096,000	25.1%	418,000
Wyoming	59,000	17.2%	105,000	29.6%	46,000
U.S. Total	**33,160,000**	**16.5%**	**50,722,000**	**23.4%**	**17,562,000**

Note: Numbers do not add due to rounding.

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 18 for details.

Table 7b

Non-Elderly Insured People in Families Spending More than 25 Percent of Their Pre-Tax Income on Health Care Costs, 2000 to 2008, by State

State	2000		2008		Increase
	Number	% of Pop.	Number	% of Pop.	
Alabama	165,000	5.0%	235,000	7.0%	70,000
Alaska	15,000	3.3%	24,000	4.9%	8,000
Arizona	146,000	4.2%	317,000	7.3%	170,000
Arkansas	102,000	5.6%	172,000	8.8%	69,000
California	1,111,000	4.6%	1,321,000	5.1%	210,000
Colorado	119,000	3.8%	226,000	6.6%	108,000
Connecticut	79,000	3.2%	115,000	4.3%	36,000
Delaware	20,000	3.3%	37,000	5.6%	17,000
District of Columbia	18,000	4.6%	26,000	6.4%	8,000
Florida	494,000	4.9%	883,000	7.4%	390,000
Georgia	247,000	4.3%	467,000	6.9%	220,000
Hawaii	37,000	4.1%	57,000	5.7%	20,000
Idaho	35,000	3.9%	87,000	8.4%	52,000
Illinois	372,000	4.1%	508,000	5.4%	136,000
Indiana	190,000	4.4%	289,000	6.1%	99,000
Iowa	96,000	4.4%	172,000	7.5%	76,000
Kansas	82,000	4.3%	145,000	7.0%	63,000
Kentucky	136,000	4.6%	254,000	8.2%	117,000
Louisiana	164,000	5.6%	219,000	7.0%	55,000
Maine	41,000	4.4%	79,000	8.1%	38,000
Maryland	111,000	2.9%	189,000	4.4%	79,000
Massachusetts	162,000	3.3%	233,000	4.6%	71,000
Michigan	295,000	3.8%	430,000	5.5%	135,000
Minnesota	117,000	3.0%	240,000	5.7%	123,000
Mississippi	95,000	4.8%	183,000	8.8%	88,000
Missouri	178,000	4.2%	281,000	6.4%	103,000
Montana	41,000	6.5%	74,000	11.0%	33,000
Nebraska	54,000	4.3%	100,000	7.5%	46,000
Nevada	46,000	3.3%	139,000	7.9%	93,000
New Hampshire	27,000	2.8%	56,000	5.3%	28,000
New Jersey	180,000	3.0%	255,000	4.0%	74,000
New Mexico	59,000	5.0%	105,000	8.3%	46,000
New York	534,000	4.0%	694,000	5.1%	160,000
North Carolina	233,000	4.3%	545,000	8.4%	312,000
North Dakota	27,000	5.8%	41,000	8.8%	15,000
Ohio	377,000	4.3%	473,000	5.5%	96,000
Oklahoma	110,000	4.9%	190,000	7.9%	80,000
Oregon	118,000	4.7%	207,000	7.7%	89,000
Pennsylvania	393,000	4.3%	496,000	5.4%	103,000
Rhode Island	26,000	3.6%	45,000	5.3%	19,000
South Carolina	123,000	4.4%	258,000	8.0%	135,000
South Dakota	24,000	4.6%	55,000	9.5%	31,000
Tennessee	209,000	4.8%	333,000	7.2%	124,000
Texas	532,000	4.0%	1,040,000	6.8%	508,000
Utah	55,000	3.2%	123,000	6.4%	68,000
Vermont	19,000	4.0%	33,000	6.7%	13,000
Virginia	196,000	3.7%	338,000	5.8%	142,000
Washington	193,000	4.4%	303,000	6.4%	110,000
West Virginia	71,000	5.7%	105,000	8.3%	34,000
Wisconsin	163,000	3.8%	276,000	6.3%	113,000
Wyoming	14,000	4.2%	29,000	8.3%	15,000
U.S. Total	**8,449,000**	**4.2%**	**13,500,000**	**6.2%**	**5,051,000**

Note: Numbers do not add due to rounding.

Source: Estimates prepared by The Lewin Group for Families USA. See the Methodology on page 18 for details.

DISCUSSION

Over the past eight years, relentless growth in health insurance premiums and out-of-pocket costs has made spending on health care a growing burden. 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 2008, Families USA asked The Lewin Group to analyze data from the U.S. Department of Health and Human Services and the U.S. Census Bureau. The results are troubling: 61.6 million people—nearly one out of four non-elderly Americans—are in families that will spend more than 10 percent of their pre-tax income on health care costs in 2008 (Tables 1 and 2). More than four out of five (82.4 percent) of these people *have insurance* (Table 3). What's more, 17.8 million people—three-quarters of whom *have insurance*—are in families that will spend more than 25 percent of their pre-tax income on health care costs in 2008 (Table 3).

In addition, the number of families facing high health care costs has grown substantially over the last eight years. Between 2000 and 2008, the number of people in families that spend more than 10 percent of their pre-tax income on health care will have risen by nearly 19.9 million (Table 1). The number of people in families spending more than 25 percent of their pre-tax income on health care costs will have increased by 6.2 million between 2000 and 2008 (Table 1). Our findings also indicate that middle class families bear the burden of these high health care costs. For example, nearly half (48.5 percent) of the people in families that will spend more than 10 percent of family income on health care costs in 2008 are in families that earn between $30,000 and $75,000 a year (Table 5).

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

As our analysis demonstrates, millions of Americans are in families that face high health care costs, and this number has increased substantially over the last eight years. A number of factors have driven 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.

Premiums on the Rise

As health insurance premiums increase, so too does the burden these costs impose on American families. And, in the last few years, health insurance premiums have risen substantially. Between 2000 and 2007 alone, the average annual premium for job-based family health coverage rose from $6,351 to $12,106, an increase of more than 90 percent.[1] During the same period, the average worker's share of annual family premiums rose from $1,656 to $3,281, an increase of more than 98 percent.[2]

Two primary factors, rising health care costs and insurance company practices, account for the lion's share of premium increases.

Rising Health Care Costs

Much of the increase in underlying health care costs is accounted for by rising spending on services such as prescription drugs and hospital care.[3] For example, annual spending on prescription drugs more than doubled from 2000 to 2008, rising from $120.8 billion to a projected $247.6 billion.[4] Likewise, spending on hospital services rose from $417.0 billion in 2000 to a projected $747.2 billion in 2008, an increase of nearly 80 percent.[5]

While rising spending on prescription drugs and hospital care account 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 used to diagnose and treat medical conditions, including the development of new surgical procedures, biologic drugs, and medical devices, have all improved health care. These high-tech procedures, however, come at a price; some health care experts estimate 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 have driven up the cost of care provided in the U.S. Between 2000 and 2008, the amount we spend per person each year on health care is projected to grow by nearly two-thirds (64.4 percent), increasing from $4,034 to $6,631.[7] This, in turn, results in higher premiums.

An Insurance Market without Necessary Protections

While underlying health care costs are the largest cause of rising premiums, the growing advantage that insurance companies have over American families also plays a role in premium increases. A 2007 study found that there were more than

400 insurance company mergers in the last 12 years, resulting in near-monopoly power among insurance companies. In nearly two-thirds of major metropolitan areas, a single insurance company controls at least half of the market, and in 96 percent of metropolitan areas, a single insurer controls at least 30 percent of the market.[8]

The near-monopoly power of insurance companies, coupled with little or no regulation of insurers, is a prescription for rising premiums. Currently, insurance companies are governed by a hodgepodge of state and federal rules. In many states, insurance companies have free reign over how much of each dollar they collect in premiums is spent on providing care and how much is retained as profit or spent on overhead, such as advertising and marketing. 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.[9] This increases premiums even more for the very people most likely to need comprehensive, affordable health coverage. 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 increase, it becomes more difficult for employers to offer their employees quality, affordable health coverage. Faced with the growing burden of health care costs, employers must make difficult decisions about the coverage 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 2007, the total number of firms offering health coverage declined by 9 percentage points (from 69 percent of firms to 60 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 placed limits on which employees are eligible. Some employers, for example, have found that it is no longer financially viable to offer coverage for workers' spouses and children (dependent coverage). Between 2001 and 2005, 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 2007, 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 of the burden 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 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 95 percent of people with job-based coverage are now required to pay hospital-specific cost-sharing, and more than 90 percent are in tiered drug plans that charge more for some drugs than for others.[16]

These trends are likely to continue in coming years, with nearly half (45 percent) of firms saying they are "very likely" or "somewhat likely" to raise employees' premium contributions, 42 percent saying they are very or somewhat likely to increase cost-sharing for doctor's visits, and 37 percent saying they are very or somewhat likely to raise deductibles in 2008.[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 employers in recent years as a way to hold down costs. Although relatively few people have chosen to participate in these plans (only 5 percent of employees in 2007), 18 percent of companies with more than 1,000 employees and 10 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 changes in federal law and regulations that have been promoted by the current Administration. For example, in 2006, employers were given an additional impetus to move to higher deductible plans when Congress passed the Administration's proposal to increase the size of tax shelters for high-deductible plans 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 wealthiest Americans.[20]

In addition, employers attempting to rein in costs are turning to programs that make workers directly responsible for their health care costs. In 2007, the Administration issued rules that amend federal insurance anti-discrimination protections.[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. Employers that have implemented these programs have gone so far as to dock the paychecks of workers who are unable to meet standards for cholesterol, blood pressure, and other similar measures.[22]

Consequences for American Families

More families than ever are facing burdensome health care costs, regardless of their insurance status. Rising premiums are only part of this equation. Now, 50.7 million insured Americans live in families that face health care costs that exceed 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, many families are forced to look for new ways to pay for care. With the majority of doctors' offices and hospitals now accepting payment by credit card, paying for health services via credit card is becoming increasingly common. In 2001 alone, for example, Visa reports that Americans charged $19.5 billion in health care services to Visa cards.[23] In addition, credit cards and loans marketed specifically for the purchase of medical care are becoming more common. Currently, there are at least nine separate lenders that offer medical credit cards and loans.[24] Cards such as the HELPcard and the CareCredit card allow people to get the health services they need, but these cards often come with terms and conditions that can trip up all but the most cautious consumer. While introductory offers may promise low interest rates, these rates often skyrocket when the introductory period ends or one late payment is made (see "Compounding the Problem: Medical Credit Card Debt" on page 15).

Given rising costs and an increased reliance on credit to pay for medical care, it comes as no surprise that a growing share of Americans reports having trouble with medical bills. More than one in four people with insurance reports having trouble paying medical bills or is in the process of paying off medical debt.[25] The problem is even worse for people who are in health plans that have high premiums, that charge hefty cost-sharing, or that offer limited benefits.[26] Moreover, people in families that spend a higher percentage of their income on health care are more likely to suffer from problems with medical bills and medical debt. A 2003 study found that nearly half (46 percent) of insured families with high health care costs reported being contacted by a collection agency regarding medical bills in the last year, and more than one-third (35 percent) took drastic measures, such as re-mortgaging their home or running up credit card debt, to pay medical bills.[27]

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 drastic changes in lifestyle and, eventually, bankruptcy. 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 that care.[28] When no options remain, bankruptcy is often the last resort for families. Since 2000, 5 million American families have filed for bankruptcy following a serious medical problem.[29] In all, approximately half of bankruptcies are due, at least in part, to medical expenses.[30]

Compounding the Problem: Medical Credit Card Debt

Families with high health care costs and tight budgets are turning to credit cards to finance their health care needs. This trend is driven in part by the rising number of providers—hospitals, pharmacists, and physicians—who not only accept credit cards, but who also offer medical-specific credit cards to their patients.

The following chart highlights the terms and conditions of three medical-specific credit cards:

Credit Card Company And Plan Name	Promotional Interest Rate	Interest Rate (APR)	Default Interest Rate (Delinquency APR)
Aetna's Healthy Living Visa, Preferred Accounts Plan	No Interest for 12 Billing Cycles	15.99%	29.99%
CareCredit, No Interest Promotional Plan	No Interest for 3, 12, or 18 Months	22.98%	28.99%
The HELP Card	Not Applicable	22.74%[a]	29.74%[b]

[a] The interest rate is the prime interest rate plus 14.99%. At the time this report was written, the prime interest rate was 7.75%. Total interest cannot be less than 22.99% and is not to exceed 29.99%.

[b] The interest rate is the prime interest rate plus 21.99%. At the time this report was written, the prime interest rate was 7.75%. Total interest is not to exceed 29.99%.

Credit card companies profit most when people are unable to pay off their balance in full. In 2005, credit card companies generated more than $25-$30 billion in revenue from basic customer transactions, in which the balance is paid in full each month. However, companies made more than twice that amount—$79 billion—from interest and late fee revenues.[31]

CONCLUSION

With a growing share of middle-class families spending more than 10 percent—or even more than 25 percent—of their pre-tax income on health care, rising costs are putting millions of families at risk. A vicious circle is at play here: Rising health care costs and a lack of health insurance regulation drive premiums up; these premium increases, in turn, force employers to shift costs to their employees; and families pay the price.

If nothing is done to bring the cost of health care under control, even more strain will be placed on the budgets of working families. The results are likely to be catastrophic. In 2008, the American public will have the opportunity to pick candidates that they believe offer concrete, credible plans to bring health care costs under control.

A Pound of Flesh: 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 had to make significant financial sacrifices to pay for their medical care. Too often, however, these sacrifices are not enough, and many families find themselves shouldering heavy medical debt. More than a third of non-elderly adults—34 percent—have had trouble paying their health care bills, are paying off accrued medical debt, or both.[32] 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

- More than three out of five adults who report having problems paying their medical bills had insurance at the time they incurred their debt.[33]
- 78 percent of those with private insurance and medical debt work full-time.[34]
- Two-thirds of privately insured adults with medical debt have household incomes between $20,000 and $75,000.[35]

Thinning Benefits: Individuals Bear the Burden

- Thinner benefit plans mean that people have to pay more to obtain basic health care services. Among Americans who have trouble paying their medical bills, 85 percent report that the bills included doctor bills, 62 percent report that the bills included lab fees, and 56 report that the bills included prescription drugs.[36]
- Plans with high deductibles are burdensome for American families. Half of adults enrolled in plans that have a yearly deductible of $500 or more struggle to pay medical costs.[37]
- Higher out-of-pocket costs are driven, in part, by the rising number of services that are excluded from coverage. Those with medical debt were less likely to have prescription drug coverage, dental coverage, vision benefits, or mental health coverage than were others with private coverage.[38] For example, among non-elderly insured adults without prescription drug coverage, 48 percent report having problems with medical bills or medical debt.[39]
- People who had reached the limit of what their insurance companies would pay for a specific service or illness were more than twice as likely to have problems paying their medical bills, have medical debt, or both as people who had not reached the coverage limit (65 percent versus 30 percent).[40]

Cost: A Barrier to Access

- People with medical debt are more likely to delay or forgo care. More than three times as many adults with medical debt or medical bill problems went without needed care because of costs compared to adults without medical debt or medical bill problems (63 percent versus 19 percent).[41] Insured adults who report having medical debt are four times more likely than insured adults without medical debt to postpone medical care due to cost.[42]
- Insured people with medical debt are more than twice as likely to go without a needed prescription as those without debt (24 percent versus 9 percent).[43]
- Health care providers are using more aggressive billing and debt collection practices, which have also made it difficult for people with medical debt to obtain care. Increasingly, providers are requiring payment for services at the time they are provided, deterring people who cannot afford the cost of care or forcing people to pay with credit cards.[44]

Families at Risk: Medical Costs Undermine Financial Security

- Of all adults who report having medical bill problems or medical debt, 39 percent used up all of their savings to pay medical bills.[45]
- More than a third (35 percent) of insured people with high health care costs had to take substantial financial risks—such as running up high levels of credit card debt or taking out a loan or a mortgage against their home—to pay medical bills.[46]
- 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.[47]
- 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 costs.[48] Since 2000, approximately 5 million families have filed for bankruptcy after experiencing a serious medical problem.[49] And, among those whose illness led to bankruptcy, more than three in four had insurance at the onset of the illness.[50]

Medical Debt Affects People's Well-Being

- People with medical debt reported that their debt caused "significant stress, anxiety, and feelings of hopelessness." They also identified their medical debt as a source of "embarrassment and shame," despite the fact that they had no control over the medical event that caused their financial distress.[51]

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 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 deductible and copayment amounts. It also includes bills for health care 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).

The estimates of the high financial burdens of health care were developed using The Lewin Group's Health Benefits Simulation Model (HBSM). HBSM is a micro-simulation model of the U.S. health care system. The model is based on the Medical Expenditure Panel Survey (MEPS) data for 1999-2001, which were updated to reflect projections of health spending through 2008. The MEPS provides data on the distribution of health spending by type of service and source of payment across families of various demographic and economic groups. These data allow for the identification of people in families with spending in excess of various percentages of family income.

The data were updated to 2008 using government sources such as those from the Office of the Actuary of the Centers for Medicare and Medicaid Services (CMS) and current MEPS data. The data provide estimates of the levels of health spending by source of payment, including out-of-pocket expenditures and private insurance health spending for several years, including 2000 through 2008. Other sources were used to estimate the level of charity care, including published hospital data. In addition, the model uses CMS projections of population and income growth. Age-specific population counts were adjusted to reflect population estimates generated as part of the analysis of the uninsured.

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 Current Population Survey (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 for our hypothetical family in 2005 to be 18.6 percent of income. Therefore, the after-tax income of our family is $48,840.

Family Expenses

We then used data from the Bureau of Labor Statistics (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 data from Table 39 of the 2005 survey for the $50,000-$69,999 income bracket. 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 percentage 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. 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.

ENDNOTES

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[13] Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2007 Annual Survey*, op. cit.

[14] According to Families USA calculations based on data from Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2000 Annual Survey*, op. cit., and Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2007 Annual Survey*, op. cit., between 2000 and 2007, the employee share of insurance premiums increased by more than 98 percent.

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