How Consumers Shop for Health Insurance: Lessons for Exchange Designers

Lynn Quincy
May 14, 2012

Yes, THAT Consumer Reports
An Empowered Consumer Is Central to Realizing the Goals of the ACA

To successfully attract consumers, manage their expectations, and allow them to make a meaningful choice among health plan options, Exchange designers must start with a nuanced understanding of how consumers actually shop for health insurance.

Three CU studies revealed how consumers really shop

<table>
<thead>
<tr>
<th>Study Examined:</th>
<th>When:</th>
<th>Locations: Mid-sized cities in...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pages 1-4 of new health insurance disclosure</td>
<td>Sept-Oct 2010</td>
<td>IA, NH, CA, OH</td>
</tr>
<tr>
<td>“Coverage Facts Label” (pages 5-6)</td>
<td>May 2011</td>
<td>MO, NY</td>
</tr>
<tr>
<td>Actuarial Value Concepts</td>
<td>May 2011</td>
<td>CO, MD</td>
</tr>
</tbody>
</table>

Participants were evenly divided between men/women; uninsured/insured (non-group). A variety of education levels, ages (26-64), and race/ethnic background, and prior familiarity with health insurance.
Lesson #1:

Abandon the image of a careful shopper capable of weighing the myriad costs and benefits of their health insurance options.
Lesson #2: Consumers Dread Shopping for Health Insurance

I think medical insurance is probably one of the hardest things for me that I shop for. And I think it’s one of the hardest things to figure out what’s covered.


Lesson #3: Consumers Doubt the Value/Purpose of Health Insurance

- Many view health insurance as pre-paid health care, rather than insurance.
- Doesn’t seem like a good value if they don’t expect to use much health care next year

**Note:** This is different from the notion that “I’m young and invincible.” Rests on a skewed notion of what insurance is.
Lesson #4: Consumers Want a Good “Value”

Universal concerns:
• What’s covered?
• How much is it going to cost me?

Sometimes:
• Is my doctor in the plan?
• Does this plan have good quality providers?

Consumers don’t want the lowest cost plan, they want the best value plan they can afford.

Lesson #5: Consumers Can’t Calculate Value

Consumers can not use traditional health plan materials to figure out the key health plan features they care about.

There are myriad reasons but essentially:
- Health plans are complex contracts
- The cognitive load is overwhelming
Lesson #6: Consumers are confused by cost-sharing terms

This is the **area of greatest confusion**.

Consumers don’t know the **vocabulary**: deductible, coinsurance, benefit maximum, allowed amount, out-of-pocket maximum.

Consumers don’t understand the **concepts**: Note that these complex concepts must often be **combined** to derive patient costs for services (do copays count towards the deductible? do they count towards the out-of-pocket maximum?)

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**Sophisticated computation skills are required**

```
Is this a pharmacy expense?

Have I met the medical deductible?

Pay full amount

Have I met the annual Out-of-pocket Max?

Subject to any annual benefit limits?

More calcs

Pay nothing
```

```
Have I met the pharmacy deductible?

Pay full amount
```

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12
Which would you choose?

<table>
<thead>
<tr>
<th>Health Plan A</th>
<th>or</th>
<th>Health Plan B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terms:</td>
<td></td>
<td>Terms:</td>
</tr>
<tr>
<td>εκπεστέου είναι</td>
<td>$1,000 \cdot \eta$</td>
<td>εκπεστέου είναι</td>
</tr>
<tr>
<td>$4,000 \cdot \eta$</td>
<td>$5,000 \cdot \eta$</td>
<td>μητρότητα δεν είναι</td>
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<tr>
<td>μητρότητα δεν είναι</td>
<td>$1,000 \cdot \eta$</td>
<td>καλύπτονται</td>
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<td></td>
<td>$5,000 \cdot \eta$</td>
<td>óριο</td>
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</table>

Lesson #7: Some medical coverage terms are also confusing

- What is the difference between primary and preventive care?
- What are specialty drugs?
- How does a diagnostic test differ from a screening?
Lesson #8: Consumers need a “mental map” to navigate a complex topic like insurance

- If this “map” or framework is missing, decisions aids like glossaries or well-designed disclosures can do little to help consumers—there is nothing for them to attach the information to.

- If they have prior experience with health insurance, consumers view new information through that lens. Example: Copays counted towards the deductible in my old plan so this plan probably works the same way.

If they don’t have prior experience with health insurance...

... consumers will use other experiences – like car insurance.

Moderator: So let’s say [you] had a really bad year and you had two accidents... you think each time you're going to have to pay that deductible?

Participant: Yeah, because it’s just like an accident in a car. If I crash my car 10 times I [would have to keep paying the deductible] ...it’ll be a loss for the insurance company just having a one-time deductible.
Lesson #9: Providing clarity is insufficient; information must also be trusted

- Trust levels are very low for health insurers. Even when consumers have a good grasp of the information in front of them, they often don’t trust their analysis. Participants told us they worry about the “fine print” because health insurers are “tricky.”

- If consumers don’t trust the information, they won’t use it.

Failure to Address Consumer Confusion has Grave Consequences

- Consumers find themselves underinsured, too often leading to medical bankruptcy
- Under-insured consumers act like uninsured consumers – they delay getting care
- Inability to effectively compare plans undermines the health plan marketplace
- Strains customer help lines
Sidebar: Findings from Consumer Behavior Research

Consumers have a finite capacity to process information.

When the cognitive load is too great, it causes stress and dread. Consumer may avoid the task.

Consumer will take cognitive short-cuts, looking for a way to simplify the task (for example, shopping by brand.)

Valuable options may be incorrectly eliminated when consumers proceed this way.


Helping Consumers Shop for Coverage

- Assume consumers will use cognitive short-cuts to “get through” the task of shopping for coverage.
- Exchanges should provide short-cuts to help consumers to make an informed choice:
  - Strong measures of network adequacy
  - Actuarial Value Tiers
  - Coverage Facts Labels
  - Other summary measures of coverage
Helping Consumers Shop for Coverage, con’t

- Convey the value and purpose of insurance in a compelling way
- Provide health insurance education using a multi-layered, “just-in-time” approach
- Showing what the plan would pay for a serious illness improves consumer clarity and provides a cognitive short cut

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### Coverage Examples

**About these Coverage Examples:**
These examples show how this plan might cover medical care in three situations. Use these examples to see, in general, how much insurance protection you might get from different plans.

### Having a baby (normal delivery)

- **First office visit** $100
- **Laboratory tests** $50
- **Routine obstetric care** $2,000
- **Hospital charges (surgery)** $4,500
- **Hospital charges (baby)** $1,500
- **Anesthesia** $1,500
- **Cesarean section** $300
- **Vaccines, other preventive** $200

**Total** $10,000

**You pay:**
- **Deductibles** $0
- **Co-pays** $0
- **Co-insurance** $0
- **Limits or exclusions** $10,000

**Total** $10,000

### Treating breast cancer (radiology, chemotherapy, radiation)

- **Amount owed to providers:**
  - $90,000
  - $500,000
  - $2,000,000
- **You pay:**
  - $3,000

**Sample care costs:**
- **Office visits & procedures** $4,000
- **Radiology** $4,000
- **Laboratory tests** $2,000
- **Hospital charges** $5,000
- **Inpatient medical care** $500
- **Outpatient surgery** $5,000
- **Chemotherapy** $64,000
- **Radiotherapy** $13,000
- **Prescriptions (oral)** $100
- **Pharmacy** $2,000
- **Mental health** $1,200

**Total** $19,400

**You pay:**
- **Deductibles** $2,500
- **Co-pays** $200
- **Co-insurance** $0
- **Limits or exclusions** $500

**Total** $3,200

### Managing diabetes (insulin maintenance of existing condition)

- **Amount owed to providers:**
  - $7,800
  - $6,800
  - $1,000
- **You pay:**
  - $7,800

**Sample care costs:**
- **Office visits & procedures** $900
- **Laboratory tests** $300
- **Medical equipment & supplies** $400
- **Pharmacy** $6,500

**Total** $7,800

**You pay:**
- **Deductibles** $300
- **Co-pays** $200
- **Co-insurance** $400
- **Limits or exclusions** $40

**Total** $1,000

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*This is not a cost estimator.*

Don’t use these examples to estimate your actual costs under this plan. The actual care you receive will be different from these examples, and the cost of that care also will be different.

See the next page for important information about these examples.
A Movie Break...

Helping Consumers Shop for Coverage, con’t

- Provide health insurance education using a multi-layered, “just-in-time” approach
  - Roll-over explanations
  - Very short videos (accommodates different learning styles)
  - Access to live assistance
  - Consumer test everything!
  - Realize that we have a lot more to learn about how to improve consumer’s health insurance literacy
Sample screen shot from Center for the Study of Services / Consumers' CHECKBOOK Health Plan Chooser tool. Used with permission.

<table>
<thead>
<tr>
<th>Select to</th>
<th>Plan Name</th>
<th>Plan Type</th>
<th>Tier</th>
<th>Yearly Premium Minus Any Government Assistance</th>
<th>Health-Care Costs YOU Pay</th>
<th>Combined Total Cost</th>
<th>Most You Could Pay in a Year</th>
<th>Overall Quality Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>①</td>
<td>ADP CUHMP</td>
<td>CDHP</td>
<td>Silver</td>
<td>$1,415</td>
<td>$385</td>
<td>$2,200</td>
<td>$9,340</td>
<td>★★★★★</td>
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<td>②</td>
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<td>Silver</td>
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<td>★★★★</td>
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<tr>
<td>③</td>
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<td>HDHP</td>
<td>Silver</td>
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<td>$764</td>
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<td>★★★★</td>
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<td>HMO</td>
<td>Bronze</td>
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<td>$333</td>
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<tr>
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<td>Aetna HealthFund CDHP</td>
<td>CDHP</td>
<td>Silver</td>
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<td>$93</td>
<td>$3,120</td>
<td>$10,050</td>
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<tr>
<td>⑥</td>
<td>Mail Handlers HDHP</td>
<td>HDHP</td>
<td>Silver</td>
<td>$2,104</td>
<td>$976</td>
<td>$3,080</td>
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<td>CareFirst BlueChoice-MI</td>
<td>HMO</td>
<td>Bronze</td>
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<td>$1,107</td>
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<td>HMO</td>
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<td>$1,346</td>
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<td>★★★★</td>
</tr>
</tbody>
</table>

Sample screen shot from Center for the Study of Services / Consumers' CHECKBOOK Health Plan Chooser tool. Used with permission.
Helping Consumers Shop for Coverage, con’t

☐ Avoid jargon (allowed amount, benefit limit, preferred/non-preferred etc.) Use terms that are familiar to most consumers. Substitute terms will have to be tested.

☐ Avoid percentages.
Helping Consumers Shop for Coverage, con’t

Provide a manageable number of choices.
- Provide “good” (vetted) choices
- Provide great “choice architecture” to help consumers navigate these choices
- Even Better: reduce the number of features that can vary between plans (Massachusetts)

The research is very clear: Given the cognitive difficulty of evaluating their choices, consumers don’t want an unlimited number of health insurance choices.

Helping Consumers Shop for Coverage, con’t

- Cultivate an image as a trusted source for information
- Manage consumer expectations – don’t oversell
- Partner with trusted entities
- Merit consumer trust:
  - vet health plans well,
  - strive for stability in offerings
  - invest in good communications,
  - test communications with consumers, and
  - engage in these activities over the long run
Could Actuarial Value Measures Help Consumers?

Actuarial Value is a measure of the financial protection provided by a health plan.

<table>
<thead>
<tr>
<th>ACTUARIAL VALUE</th>
<th>Medical Spending Paid By Health Plan, for a defined set of services, across a standard population</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Medical Spending, for a defined set of services, across a standard population</td>
<td></td>
</tr>
</tbody>
</table>

What “actuarial value” is not

- A predictor of what out-of-pocket costs will be for any individual
- A precise measure of the extent of coverage under a health plan – different plan designs can achieve the same AV:

<table>
<thead>
<tr>
<th></th>
<th>Plan 1</th>
<th>Plan 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Value</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>Deductible</td>
<td>$1,500</td>
<td>$1,900</td>
</tr>
<tr>
<td>Max Out-of-Pocket</td>
<td>$5,950</td>
<td>$2,975</td>
</tr>
</tbody>
</table>
The 2014 ACA reforms rely heavily on Actuarial Value Concepts

Individual and Small Group Plans arrayed into “Metal” tiers:

<table>
<thead>
<tr>
<th>Metal Tier</th>
<th>Actuarial Value Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Platinum</td>
<td>90% More Coverage</td>
</tr>
<tr>
<td>Gold</td>
<td>80%</td>
</tr>
<tr>
<td>Silver</td>
<td>70%</td>
</tr>
<tr>
<td>Bronze</td>
<td>60% Less Coverage</td>
</tr>
</tbody>
</table>

Testing Results: is it useful to provide Actuarial Value to consumers?

- Metal Tiers – yes
- Absolute Amount of Actuarial Value - maybe:
  - Addresses a big need identified by consumers (value)
  - Only “conventional” variations tested. Study provides direction for what a consumer-friendly version might look like.
  - Better versions should be tested.
  - Actuarial value is unfamiliar, but other disclosures indicate that consumers can learn.
Consumers can learn to use sophisticated numeric benchmarks.

Could actuarial value become a widely understood benchmark?

What About Quality Measures?

Shopping for coverage is the gateway to quality information:

- Provider quality
- Plan quality
- Value determinations that weigh quality measures against other health plan information

- If gathering information about coverage (highest priority) is too difficult, even well designed quality measures may be ignored
Things to note

- Coverage concerns trump quality concerns
- Provider quality measures trump plan quality measures
- Consumers look to provider quality information not necessarily to optimize care, but to avoid the risks associated with below-average care

Source for last bullet: Improving Quality Health Care: The Role of Consumer Engagement, October 2007

Thank you!

Please email Lynn Quincy with any questions:

lquincy “at” consumer.org
### Bibliography

**Guide to SBC Testing Studies**

<table>
<thead>
<tr>
<th>Study Topic</th>
<th>When</th>
<th>Whose Study</th>
<th>Link to study</th>
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