MEMORANDUM

TO: Federal Trade Commission (FTC)
FROM: Hannah Hong, MPH Candidate at the *Columbia Mailman School of Public Health
RE: Re-designing of insurance marketplace
Date: 28 April, 2015

Executive Summary

While the enactment of the Affordable Care Act (ACA) is well on its way to ensure that all U.S. citizens are covered by some form of health insurance, the federal and state exchange marketplaces that were introduced to facilitate this process have proven to be more complicated to consumers than anticipated. The initial rollout of the marketplaces was carried out by two fatal stages—the first involving several website crashes and the second involving technical issues with determining tax credit eligibility [9]. Despite these issues, people now generally have a way of choosing health insurance from a wide variety of options; however, the concern has shifted from obtaining insurance to choosing the right one. Decision- making in terms of health insurance is an important component to reducing overall U.S. healthcare expenditures. Guiding consumers in selecting the most beneficial, cost- effective health insurance can help prevent overspending and over-utilization of care, markedly reducing how much the U.S. spends in the long run on healthcare overall.

Problem

The current system in which health insurance plans are presented to U.S. citizens is ironically too comprehensive and complex. The issue begins deep within the construct of healthcare itself, the language and terminology used to describe the system is too difficult for the modern-day American to comprehend. According to a national survey conducted by the Kaiser Family Foundation (KFF), 72% of those who already had health insurance knew what a deductible was, and of those without insurance only 53% could define the term [6]. The ACA currently requires all insurance exchanges to provide a summary of benefits and coverage to the consumer. But, the language in which this information is to be constructed is not specified by the ACA nor when it should be presented during the enrollment process. While the ACA's standardization of insurance coverage levels through "metallic tiers" may seem like a more organized method to help consumers choose a plan more efficiently, these arbitrary guidelines and therefore, surplus of plan combinations can in effect limit the consumer's economic rationale and cause them to miss the more important details behind the cost-benefit analyses of their deductibles and premiums [4,9].

Goal

It is vital that a clearer, more streamlined health insurance exchange is re-designed and implemented for the American consumer to better understand the language that falls behind healthcare and know how to choose the correct plan. Because the ACA places most of the burden on states to regulate these marketplace exchanges and meet the minimum standard for insurance policies, a more effective online system must be modeled that states can implement to help consumers make enhanced logical decisions when choosing a health plan. After stratifying the survey by age and education level, the KFF found that those who scored lowest on health insurance awareness were primarily younger adults, those who had not attended college, and the uninsured [4]. It is evident that those who will be gaining insurance under the ACA also have the least amount of

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knowledge on health insurance. These individuals will undoubtedly require more guidance in choosing the proper plan. The FTC must push for alternatives that will serve the consumer both in the short-term in choosing a plan and the long-term in avoiding excess healthcare expenditures. Through creative input, collaboration, and the reorganization of data, the FTC can maximize the efficiency of the current insurance exchange in place, and therefore, help revolutionize the way in which our current healthcare system operates.

Policy Alternatives

1) Alter the visual presentation of insurance plans on the federal exchange

It is advised that these insurance plans be presented in a way that does not further bias the decision of the consumer. The ACA has been able to simplify the healthcare selection process much more than before after the implementation of the four-tiered metal system. However, some suggest that these tiers make consumers more prone to choosing whatever is most visually appealing as opposed to digesting the data behind the label [9]. The layout of the federal marketplace should shift from a focus on these tiers to the deductible and premiums directly involving payments made by the consumer. Careful behavioral research can be conducted to see what measures are most appealing and important to the consumer, and then used to better present the information to minimize error in high-stake decisions, as Minnesota and California have done with "plan helpers" in their state-based exchanges [ibid]. Various consumer studies have also shown that options listed at the top or presented as more valuable were more prone to being selected first [1,5]. The layout could be designed in way that initially groups plans more specifically beyond the tier system through further stratification by payor-type, such as HMOs and PPOs, then by benefits and costs. Based on groups, the plans would be presented either on a region map, a circular "pie-chart" representation, or even through an interactive revolving scrolling mechanism, such as left-to-right "parallax" scrolling or a circular carousel [10,7].

As the U.S. Centers for Medicare & Medicaid Services is responsible for the operations of healthcare.gov, the responsibility for rolling out this initiative would fall under their guidance. This recommendation seems to be politically feasible as there seems to be only benefits to all players—federal, state, and consumer, in making the online exchanges more accessible to and easily understood by everyone. While cost-feasible, as the exchange would essentially only be reorganized requiring no further administrative costs, in terms of technicality there are limits. With the large number of plans that are made available for the consumer to choose from, it proves difficult to display them in way that does not place one particular plan at the top over the other, and is still inclusive of all plans.

2) Streamline plans for consumers using algorithmic technology

The execution of a questionnaire- based portal platform utilizing an algorithm directly based off consumer responses could help facilitate the decision-making process for the consumer. Each plan listed on the exchange would still meet the transparency and disclosure requirements made by the ACA; however, the way in which the consumer would reach that specific plan would differ. Since the most difficult part in choosing a plan based on deductible and premium payments is based on how often a patient may need to utilize care, the consumer can answer a series of questions estimating how often they have made visits to their primary care physician, emergency room, etc. in the past year. Questions being asked would vary from straight-forward "How many doctor visits did you make in the past year" to scenario-type questions that would make the consumer, who may not be as familiar with healthcare terminology, more comfortable in answering honestly. Along with inputting other non- discriminatory information, the system can use an algorithm to calculate the top options for that consumer, instead of simply listing each plan the consumer falls eligible under.

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Again, the responsibility would fall under the U.S. Centers for Medicare & Medicaid Services along with the partnering of other information systems organizations. While both technical and cost feasible, as algorithms can easily be computed by the proper expertise and would be transposed onto an already existing online system eliminating the need for higher administrative costs, politically there may be a disadvantage if this algorithm could potentially reduce competition between insurance companies, therefore decreasing market efficiency and increasing costs [3]. Furthermore, questions concerning the accuracy of the algorithm itself might arise and whether it can truly determine the best option for the consumer with the limited information it has been provided. The public may also fear that this information could leak to insurance companies who could then potentially use it to adversely select its beneficiaries; however, because the exchange is only used to help consumers find insurance plans, not enroll them in one, and the information being disclosed is non- discriminatory and not saved into the system, this issue can be avoided.

3) Encourage states to further standardize and limit insurance plan options

The countless number of plan combinations and broad standardization made by insurance companies under the umbrella of the ACA's tier system places an even further decision-making burden on the consumer. The law does not, on the other hand, prohibit any additional standardization or consolidation of these tiered plans by states themselves [11]. States that have not yet already, need to take a greater initiative to establish their own markets and in doing so, further standardize and limit the number of insurance plans to help consumers make more economically sound decisions. Behavioral research economists have even revealed that having too many alternatives can weaken this decision-making capability [8]. For example, specifically the ACA does not standardize the types of benefits provided by each insurance. States can follow a standardization model such as ones carried out by California and New York where in-network costs including deductibles, maximum out-of-pocket benefits and cost-sharing are fixed and allow consumers to more easily compare OOP costs across coverage levels. States can also work to limit the number of plans in general per tier to two or three as Connecticut or Kentucky, or as in California, limit the number of different arrangements an insurer creates with covered benefits and cost-sharing [2].

State governments and their agencies responsible for monitoring their insurance marketplaces would be held accountable in rolling out this alternative, in addition to the insurance companies providing coverage to respective regions. Because this option has already been implemented in a limited number of states, the technicality is feasible. However, smaller issues arise in terms of politics and cost as both are interrelated. One of the concerns is that by limiting the number of insurance choices, insurance agencies may find it more difficult in getting consumers to use the marketplace in the first place. This would then impact costs as they fluctuate depending on how many consumers are in the market. Furthermore, the public may feel as if the government is playing too large of a role in restricting their consumer autonomy. Ironically however, the marketplace exchanges have been created for the sole purpose of giving the American consumer increased freedom towards less-biased choices.

Recommendation

Alter the visual presentation of insurance plans on the federal exchange

As the FTC is the power advocate for both consumers and competition, it is most feasible for the agency to pursue an agenda that most directly interacts with the consumer. Furthermore, if successfully carried out, the new design can serve as a model for other states, thus incentivizing them to initiate their own insurance marketplace, if have not already. It is recommended that the FTC to carry out an approach which will:

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- Facilitate further behavioral economic research on the healthcare consumer looking not only at what they look for in a plan when making a decision and the reasoning behind their choices, but also at their overall shopping experience
- Encourage state collaboration to share information on state- specific audiences to highlight plans most relevant to the consumer
- Incorporate "plan helpers" on the federal exchange that will help consumers tailor their options to best fit their need
- Re-design the federal exchange so that plans are further stratified and grouped by payor, then benefits and costs for more consolidated presentation
- Convey plans based on a non-biased, non-linear presentation by:
    - Region mapping, portraying plans with providers closest to the consumer
    - Circular "pie-charts" that may remove biased preferences for plans not evidence-based in being "top" at the list over others
- Incorporate more computer graphic technology such as:
    - "Parallax scrolling": The background image moves slower than the foreground image, enhancing consumer shopping experience through easier plan comparison and therefore, improved decision-making [10]
    - "Circular carousels": Moving the plans in an interactive, 3D "carousel" eliminating any hierarchical order for insurance plan preference [7]

By strengthening the design and enhancing the consumer experience of the federal exchange, the consumers will not only be more willing to participate in these marketplaces, thus facilitating competition and driving down costs, but also be able to make a more rational decision in choosing an insurance plan that is most optimal.

References

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