

### **Executive summary**

In 2010 the Affordable Care Act legislated the creation of the health insurance exchanges. While these exchanges and the accompanying mandate and subsidy provisions have greatly increased health insurance coverage, they have also introduced a new problem: how to help exchange users to choose the insurance plan which best meets their needs. Issues of health insurance literacy, new access to a large number of health insurance plans, and uncertainty about health needs are central to this problem. As new individuals turn to the exchanges for health insurance and as current exchange users look for plans which better meet their needs, this problem will become more widely contemplated. Additionally, making suboptimal plan choices could result in individuals paying more in insurance costs than needed or having too little protection against risk. This memo reviews the problem and concludes that improving customer health insurance literacy is the best alternative at the present time.

### **Problem**

With the passage of the Affordable Care Act (ACA) in 2010, the United States moved toward expanded health insurance coverage. One of the main provisions of the ACA is the creation of health insurance exchanges in which individuals, families and small businesses can purchase private health insurance. Other complementary provisions include the individual mandate under which individuals must prove health insurance coverage or face a fine on their annual tax return and the federal subsidization of private health insurance plans for individuals with incomes less than 400% of the federal poverty level (1).

The initial rollout of the exchanges was not smooth. Most of the technical glitches have since been remedied (2) and have now given way to the larger challenge of ensuring individuals are purchasing the optimal insurance for their circumstances at the lowest price. This problem is complex and not as easily remedied as the prior technical issues. Discerning which plan is best for each individual is not possible given the uncertainty inherent in risk prediction. Neither the consumer nor expert can definitively state which plan will offer the optimal balance of risk reduction and cost. As insurance preference is based on willingness to take risk, its utility is impossible to quantify for each individual. Further, insurance is based on estimation of future health expenditures for which forecasts are less than certain. As a result, designing policy to enable customers to choose insurance plans which meet their needs requires operating in a space of uncertainty.

As more previously uninsured people begin using the exchanges, more individuals are at risk of choosing suboptimal plans. Additionally, as individuals who have been using the exchanges find their current plans are not meeting their expectations or needs and become dissatisfied, they will return to the exchanges to switch plans. As a result, the need for provisions to assist individuals using the exchanges in picking the best health insurance for them will only grow over time. While the ACA has meant that more Americans have health insurance, its enactment has brought into focus a new dilemma: how does an individual choose the right health insurance?

There are two primary aspects to the problem of choosing health insurance; lack of health insurance knowledge and uncertainty. The former can be addressed but the latter is intractable. Health insurance literacy within the United States is low (3). A study by the Kaiser Foundation found that only 52% of the representative sample of Americans answered 7 out of 10 questions about insurance correctly (4). Even discounting the two questions requiring mathematical calculations, this low rate of understanding is troubling as exchanges are asking individuals to make important decisions on a topic they do not fully grasp (5). While the exchange websites do define terms, and further explanation is easy to access on the internet, there is a significant concern that comprehension is lacking.

Many Americans have had insurance in one form or another in the past and this insurance has shielded them from accurate knowledge of the full cost of their healthcare. This state, known as moral hazard in economics, may cause individuals to incorrectly estimate their medical costs and hence not choose a proper plan (6). Individuals who were not previously insured may have an analogous problem estimating their potential health experiences. As they have not been insured, they may have been under-utilizing health services and hence cannot properly forecast what their future use will look like.

Another concern is the plethora of plans within the market place. This flooding of the market can aggravate the insurance literacy issue as consumers can be overwhelmed by large quantities of complex, confusing information from which they are being asked to make important decisions. As the exchanges are public, government markets selling private goods, regulating their wares is complex. They could be left to market forces but given that the market has been artificially created by the government, this option must be scrutinized. Some attempts have been made to aid consumers in making their health insurance decisions. All exchanges have mechanisms for consumers to call a hotline for help and for contacting navigators who can walk individuals through the process of enrolling. While these mechanisms are helpful, they do not remedy the issue that individuals may not understand health insurance nor their options well enough to choose the plan which most appropriately meets their need.

All exchanges currently categorized their plans based on coverage of essential health benefits, known to many as the metallurgical categories. States have added onto this frame work (7). One additional step taken by some states is to limit the number of plans a given company can offer in a given geographical region or plan type. Another strategy is known as standardized benefit designs in which markets require that plans meet predefine deductibles, out-of-pocket maximums and in-network cost-sharing. The final popular strategy enacted by states is meaningful difference standards in which one insurance company may only offer plans which are significantly different from other plans they offer in a given insurance level or geographical area, avoiding the flooding of the market (7). Some states have combined two of these strategies in an effort to aid their consumers.

One of the popular ideas put forward to aid consumers is to change the information displayed on market place interface. A randomized control trial was conducted by Politi et al in 2015 to test uninsured individual's health insurance selection in given three displays of health insurance information; plain language, participant selected information, and narrative condition. This study found no statistically significant difference in confidence of choice, knowledge of the plans nor stratification in selection between the three display methods (8). As such, this option will not be considered in this memo. Further, tweaking of interface would not require policy change and hence is not within the scope of this memo.

Current policies are being rolled out in an ad-hoc style at the state level as well as in the federally run exchanges. There is a great deal of uncertainty in the market structure currently, with a case regarding subsidies to individuals who use the federally facilitated market places as opposed to state exchanges being heard by the Supreme Court (9).

## **Goal**

The principle objective of any policies relating to the insurance exchanges is to maximize the number of exchange users who are getting health insurance which meet their needs. This must be achieved while ensuring that users do not spend more than is necessary for this coverage.

## **Policy alternatives to address the problem**

Three potential solutions to the problem outlined above are demand side intervention, supply side adjustment and to allow the states to continue to make adjustments as they see fit.

#### Demand side – Improving consume health insurance literacy

One policy intervention would be to address the lack insurance literacy of Americans. This should address issues revolving around individuals not being able to accurately gauge their health care costs and insurance needs. As the federal government is providing subsidies to a certain subset of exchange users, it could mandate that users who receive subsidized health insurance complete an online tutorial on health insurance, with comprehension checks and an instrument to help estimate healthcare costs. This would be akin to the Loan Entrance Counseling for students receiving federal loans for higher education (10). This could be implemented by the federal government partnering with state exchanges where applicable. It could be rolled out in short order to compliment the current exchange online sign-up process, making it technically feasible. While mandating entrance type counseling for all exchange users would likely not be acceptable politically, the analogy to educational loans makes it likely that it would be acceptable as a condition to benefit financially from the program. However, implementation of this alternative might be difficult, potentially requiring legislative action as opposed to adjustments which could be undertaken at the implementer level.

#### Supply side – Limit the number of plans

Limiting the number of plans in the exchanges through national level policy, issues of consumers being overwhelmed or not being able to differentiate between plans could be reduced. This would result in individuals choosing the optimal plan with more ease. This could be achieved through any of the mechanisms currently in place in states, namely, limiting the number of plans each insurer may market in the exchange, standardizing benefits or adopting meaningful difference standards (7). While employing all three would seem ideal, some markets suffer from a lack of plans, making overly limiting the exchanges potentially problematic. Hence, one strategy would have to be selected. Standardizing benefits would be most likely to be agreeable as it does not limit entry into markets but rather ensures that plans are able to be compared in an “apple-to-apple” fashion(7). Additionally, the metal levels currently in use could be modified to remove the inherent hierarchical connotations, which have been seen as problematic (11). This alternative could be easily rolled out as at least six states already are employing standardized benefits in their exchanges (7) and 32 states are currently operating under healthcare.gov (12). While insurance companies may balk at being asked to adjust their policies based on government requirements, this precedence is already established under the ACA. Through nationalizing the limiting of plans in exchanges, the current problematic condition that users in different states have different experiences which result in different likelihood of choosing the best plan for them, can be corrected.

#### Leave it to the States

A third alternative is to leave exchange related decisions to the states, where state exchanges exist, and to Health and Human Services Department, the federal implementer, in other cases. This is how the system is currently operating and hence will not cost money. Given that the subsidization of insurance purchased through federally facilitated exchanges is currently under review by the Supreme Court, there is much uncertainty regarding who will implement exchanges in the future (9). There is also a great deal of fear of reopening an aspect of the ACA which might require legislative action, making leaving exchange decisions to the state preferable to proponents for the ACA. State level assessment of exchange needs may also result in an optimal balance of limiting the number of plans while still ensuring there is enough choice within the market. Through defaulting to the states,

there would be differences in implementation which is both problematic for fairness reasons but in line with the US federalist tradition.

### Recommendation

The preferred solution at the present time would be to address demand side information issues. This alternative allows for consumers to be better prepared to make important health insurance decisions without limiting their options. Through increasing health insurance literacy and allowing individuals to explore their health insurance needs, this policy can help to nudge consumers in the optimal direction with the hope that more individuals will choose health insurance plans which best meet their needs. This will be implemented by the federal government in coordination with state exchanges. Its analogous structure to the Department of Education's Loan Entrance Counselling will make it technically feasible to implement and acceptable politically and socially. This solution also will not be impacted by any changes to the market structure which may result from the Supreme Court ruling, making it optimal in this time of uncertainty.

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