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RE: Health Care Workshop, Project No. P131207

Executive Summary

Over the last several decades, the United States healthcare market has grown rapidly, with prices skyrocketing above those of any other OECD country. With the passing of the Patient Protection and Affordable Care Act (ACA), there is new hope that millions of previously uninsured Americans will be able to purchase comprehensive coverage at a reasonable price. Much of this positive change depends on the online portals known as health insurance exchanges. These web-based marketplaces are essential to the continued spread of health care coverage.

While technical issues plagued the first rounds of online enrollment, 6.7 million Americans have purchased health plans on the exchanges and this number is expected to grow.[1] The act of purchasing health care is complex and individuals must be able to utilize the exchanges with confidence. The smooth operation, accessibility, and transparency of the exchanges must be ensured as the demand rises or else billions of dollars will be lost due to inefficiency and human error. Currently, any policies that help consumers make the right choice vary from state-to-state. In order to improve the insurance purchasing process for all Americans, it is advisable that the Federal Trade Commission establishes Federal guidelines for the insurance exchanges.

Problem

Health insurance is now available for purchase to millions of Americans through health insurance exchanges yet, despite the benefits of this online platform, consumers still face issues navigating and selecting the best insurance package. There are many factors that may influence a consumer's ability to select the appropriate health insurance plan regardless of the method of purchase; the multitude of plans, discerning the meaningful difference between plans, understanding technical terms, and fighting biases and habits inherent in selecting products. The web exchanges present an opportunity to streamline all of these issues and to simplify purchasing in a way never before possible.

At present, federal regulation of exchanges is underdeveloped. Several states (11 and the District of Columbia) have implemented a variety of policies to address some of the aforementioned complications around purchasing insurance; namely, the number of policies has been restricted, standard benefits have been established,

[1] Levitt, Larry. "Why Health Insurance Literacy Matters." *JAMA* 313.6 (2015): 555-556

and rules about meaningful differences between plan iterations have been required.[2] Behavioral scientists, too, have called for changes in the layout of exchanges and the connotative plan names (gold, silver, bronze).[3] And little work has been done to build cost calculators that may help consumers estimate their out-of-pocket expenses and plan ahead in terms of individual needs.

Goal

The objective of a federal policy to regulate the insurance exchanges is to maximize people's ability to navigate the exchanges and ultimately purchase the insurance best suited to their needs. Maximizing the consumers' ability to select health insurance will address the current navigation and selection challenges that face those who would purchase insurance through the exchanges. Presented here are three policy alternatives that can address this goal.

Policy Alternatives

Scale-up Current State-Instituted Plan Regulations

One way to address the problem is to limit the number of plans from which consumers may select and to regulate how much those plans can vary from each other. Further, requirements can be set for benefits such that no insurer can put out a plan that excludes certain benefits. Policies like these, that attempt to address access by regulating the number of options a consumer must wade through, exist in 11 states and the District of Columbia.[4]

If these regulating policies were scaled-up to the federal level, all plans would be subject to the same guidelines: there would be a limited number of plans allowed, minimum benefits would be established, and "meaningful difference" standards would be required. The National Association of Insurance Commissioners (NAIC) in concert with the Centers for Medicare and Medicaid (CMS) would be the parties responsible for setting guidelines and enforcing compliance from insurers.

While this alternative is technically feasible, in that it is a solid proposition and would have clearly defined limits, in practice, the policy would take a lot of coordinated organization, which could be a constraint. It may be difficult to standardize plans across the nation's exchanges especially since not all states have accepted expanded Medicaid. This existing variation would make plan standardization difficult. Further, the value acceptability is difficult to gauge due to the pressure for market competition. Market competition has been an issue since

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[2] Monahan, Christine H., Sarah J. Dash, Kevin W. Lucia, and Sabrina Corlette. *Realizing Health Reform's Potential: What States Are Doing to Simplify Health Plan Choice in the Insurance Marketplaces*. Publication. Vol. 34. N.p.: Commonwealth Find, 2013. Print. Ser. 1720.

[3] Ubel, Peter A., M.D., David A. Comerford, Ph.D., and Eric Johnson, Ph.D. "Healthcare.gov 3.0 -- Behavioral Economics and Insurance Exchanges." *New England Journal of Medicine* 372 (2015): 695-98. 19 Feb. 2015. Web.

[4] Monahan, Christine H., Sarah J. Dash, Kevin W. Lucia, and Sabrina Corlette. *Realizing Health Reform's Potential: What States Are Doing to Simplify Health Plan Choice in the Insurance Marketplaces*. Publication. Vol. 34. N.p.: Commonwealth Find, 2013. Print. Ser. 1720.

the ACA was proposed and no doubt, limiting the number of plans would cause concern among the states already resisting the law.

Reformat Website and Standardize Language/Labels

Outside of the policy community, behavioral scientists have analyzed the language and structure of the health exchanges and found several areas where consumer choice is likely being advised by plan form, rather than plan function. A policy that addresses the labeling choices and physical layout of the exchange could help consumers navigate through the multitude of options without prejudice.

A policy that addresses the patterns of choice would need to remove the connotative labels from health plans such as gold, silver, and bronze. In addition, studies show that consumers make different choices based on whether payments are shown by month or by week; therefore, the policy would need to standardize language across all states and plans as well as create viewing options that allow consumers to select pricing by month or week.[5]

This policy effort would need to be coordinated with CMS and with a think tank of behavioral scientists that have experience with the subject of selection. The policy would require value acceptability between the researchers and the regulators. While traditional behavioral studies show that people often make choices depending on option placement[6], regulators may be hesitant to see this as an essential part of insurance purchasing behavior. Private insurers may be unwilling to label their plans identically to their competitor's'. Technically, implementing standards could be very difficult unless there were also plan limitations, as in the previous policy alternative. Simply addressing layout may not be effective unless volume is also limited.

Develop and Require Cost Calculating Tool

Few states have any navigation tool that allows consumers to view an estimate of what their out-of-pocket costs may look like on any given plan. This is noteworthy given that a recent Kaiser study reveals 51% of consumers do not know how to calculate their out-of-pocket costs.[7] There is enormous potential for negative impact if millions of families are unable to predict how much their new health coverage will cost them; a result, which ultimately undermines the positive effect that having comprehensive health insurance is meant to have.

Developing a tool that would allow consumers to calculate their out-of-pocket costs would likely be technically feasible and have high value acceptability. The technology that is required to make these arithmetic calculations already exists on other web accounting platforms and it would not require much work to apply the

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[5] Ubel, Peter A., M.D., David A. Comerford, Ph.D., and Eric Johnson, Ph.D. "Healthcare.gov 3.0 -- Behavioral Economics and Insurance Exchanges." *New England Journal of Medicine* 372 (2015): 695-98. 19 Feb. 2015. Web.

[6] Ibid.

[7] Norton, Mira, Liz Hamel, and Mollyann Brodie. *Assessing Americans' Familiarity with Health Insurance Terms and Concepts*. Rep. Henry J. Kaiser Family Foundation, 11 Nov. 2014. Web. 20 Apr. 2015.

coding to insurance exchanges. CMS and the FTC should oversee this policy and the implementation of consumer calculators. There will likely be very little political resistance to this policy as it is in everyone's best interest for consumers to make informed decisions about their health care coverage in the new marketplace. Insurers could potentially be resistant to this policy as well as states that currently object to the exchanges in general.

Recommendation

Develop and Require Cost-Calculating Tool

I recommend to develop and require a cost-calculating tool on the health insurance exchanges. Selecting this policy as a priority has a large potential for positive impact. In creating a tool to calculate out-of-pocket costs, there is also a potential to address some of the other aspects of insurance choice that affects consumers: sheer volume of choice and language. A web tool that can organize choice based on estimated out-of-pocket costs could also serve as a filter for too many plans that do not have enough meaningful variation. Further, the tool could be built to reframe labels away from connotative terms like the medals (gold, silver, and bronze).

A policy that develops and requires a cost-calculator across all exchanges may be a bit complicated to implement and may have some high up-front costs but the benefit will be long-lasting and meaningful as it allows millions of families to make an informed decision about their health plan purchases.