New study shows that more than half of consumers will choose a health-care plan that costs too much

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Right now, many consumers are signing up for healthcare via the new health insurance exchanges set up by the federal and state governments. Using simulated exchanges modeled on the design of the actual exchanges, alarming new research from Columbia Business School suggests that more than 80% of consumers may be unable to make a clear–eyed estimate of their needs and will unknowingly choose a higher cost plan than needed.

"Consumers' failure to identify the most appropriate plan has considerable consequences on both their pocketbooks as well as the cost of the overall system," says Professor Eric Johnson, co–author of the report and co–director of Columbia Business School's Center for Decision Sciences. "If consumers can't identify the most cost–efficient plan for their needs, the exchanges will fail to produce competitive pressures on healthcare providers and bring down costs across the board, one of the main advantages of relying upon choice and markets."

Johnson, a noted expert in the area of consumer behavior and how it applies to public policy, has spent the last year advising several state health exchange systems on their designs and structure as a member of an advisory board run by Pacific Business Group on Health.

The research, published in *PLOS ONE* and titled Can Consumers Make Affordable Care Affordable? The Value of Choice Architecture, conducted six experiments asking people of varying education levels to choose the most cost–effective policy using websites modeled on the current exchanges. The results lead to some startling conclusions, including:

- The average consumer stands to lose on average $611—roughly half a week's salary for a family making $42,000 per year—by failing to choose the most cost-effective option for their needs.
- Because the federal government will subsidize many policies, American taxpayers could pay an additional $9 billion for consumer's mistakes in choosing more costly plans.
- Surprisingly, providing monetary incentives alone did not improve outcomes. Participants were offered $1 for every correct answer and entrance into a lottery that pays one winner $200, yet 79% of participants still chose the wrong plan, inadvertently adding $419 to the cost of their health insurance.

Johnson cautioned against misuse of the research: "Amid the political heat around the healthcare law, there's going to be a great propensity for some politicians to jump on this study and misinterpret these results. This research presents no empirical evidence that in any way is an argument for or against the Affordable Care Act itself. Instead, this is research about the difficulties and complexities in creating the actual delivery systems, which is being done in both blue and red states."

Prescriptions to Improve Outcomes

Through the research, Johnson and his colleagues identified several mechanisms that significantly improved outcomes for the consumer. These include:

- Estimate First; Peruse the Plans Second: Estimating your medical services before choosing a plan increases your chances of choosing the best plan.

- Educate: Including the use of 'just-in-time' education: tutorial links and pop-ups that explain basic terms like "deductibles" that might not be known to new buyers, increase your chances of choosing the best plan.
- Implement smart tools: Adding a calculator to the process improves your chances of choosing the right plan and reduces the size of errors by over $216.
- Implement other "smart defaults": Including a tool that defaults to the most cost-effective plan drastically improves a participant's chances at selecting the most cost-effective plan by 20%. Together, calculators and defaults reduce the average mistake saving consumers and the government $453.
- Limit the number of choices: Exchanges that limit their amount of choices in healthcare plans will help to avoid confusion among consumers (Utah offers 99 healthcare options for participants).

"Designers of the exchanges should take heart and know that they can significantly improve consumer performance by implementing some easy, straightforward tools such as just–in–time education, smart defaults, and cost calculators."

More information: The paper, Can Consumers Make Affordable Care Affordable? The Value of Choice Architecture, was authored by Eric J. Johnson, The Norman Eig Professor of Business Marketing at Columbia Business School; Ran Hassin, Hebrew University of Jerusalem; Tom Baker, University of Pennsylvania Law School; Allison T. Bajger, Columbia University; and Galen Treuer, University of Miami. Download the full report at papers.ssrn.com/sol3/papers.cf … ?abstract_id=2291598