

Behavioral economists: Health insurance complexity leads to costly mistakes

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If you dread the annual ritual of choosing a health insurance plan, you are not alone. While insurance exchanges were designed to benefit consumers by offering more plan choices, for many people, selecting a health plan is a source of confusion and stress.

In a new *JAMA* Viewpoint, Carnegie Mellon University behavioral economists Saurabh Bhargava and George Loewenstein highlight the complexity Americans face when it comes to making health insurance decisions, discuss recent research on the mistakes consumers make when choosing between [plans](#) and describe the serious financial consequences of these [poor choices](#).

"While there has been a trend in health reform towards greater plan choice, recent research suggests that most consumers don't choose plans that are financially sensible. In our own work, in which we analyzed the plan choices of over 20,000 employees at a Fortune 100 firm, we found that a majority of employees chose health plans that were inferior to other available plans, regardless of their eventual health outcomes. These poor plan choices led to average over-spending equivalent to paying an additional 41% in plan premiums. These mistakes are of first-order importance," said Bhargava, assistant professor of economics in the Department of Social and Decision Sciences.

Bhargava and Loewenstein argue that people can't make sense of [health insurance](#) in part because plans vary on plan features they don't understand, such as deductible, co-payment, co-insurance and out-of-

pocket spending limits. Consumers trying to make an informed choice between plans must evaluate the tradeoff between these cost-sharing features and the overall cost - or the premium - of each plan after carefully considering their health needs for the next year. Plans also differ on other dimensions such as which doctors are included in-network and the reputation of the insurer.

The Affordable Care Act (ACA) provided Americans a large range of health care insurance options to choose from to help them find a plan fitting their needs and to encourage beneficial competition among insurers. The online exchanges also introduced a number of measures to help consumers make plan choices. Yet, in another line of research summarized in their viewpoint, the authors find that the metal tiers used to categorize plans (e.g., "bronze" and "silver") don't help consumers choose the best plan, and may even worsen their decisions.

Bhargava and Loewenstein point out that the costs of financially poor choice in the ACA are significant and have received far less attention than other features of the exchange. They offer a simple example illustrating how choosing the wrong plan can have dire financial consequences. Under the ACA last year, a healthy, childless couple aged 40 years in Pittsburgh, Pa. would have had a choice of 54 plans ranging in annual premiums from \$3,648 to \$10,584. Suppose the couple narrowed their choice set to the least expensive plans from each of the four primary metal tiers (Bronze, Silver, Gold and Platinum), so that they now faced a more manageable decision across 4 plans. If the couple accurately anticipated needing little medical care, the best option, the Bronze plan, would result in \$3,648 of total spending, which includes their premium and out-of pocket costs. However, had they instead chosen a Platinum plan, they would have been faced with more than double the costs, at \$8,748.

On the other hand, if the couple anticipated a relatively poor year of

health exceeding the spending limits set by the ACA (e.g., they required a short hospital stay) the couple would face total costs ranging from \$11,184, had they chosen a Gold plan, to \$17,292 had they instead chosen the Silver plan. In this way, the authors suggest, the choice of plan can significantly influence a consumer's costs and these potential differences in costs also apply to those eligible for the ACA's premium tax credits.

Bhargava and Loewenstein argue in the *JAMA* piece that improving consumer choices, and reducing the anxiety associated with open enrollment and subsequent use of health care, may demand more than improving the manner in which choices are presented. While decision-aides, such as cost-calculators, have promise to improve choices, they assert that a superior strategy for improving consumer choices and encouraging insurer competition, would be to encourage the fundamental simplification of [health](#) insurance plans.

"The ACA deals with the problem of consumer misunderstanding by requiring insurance companies to publish standardized and simplified information about insurance plans. However, presenting simplified information about something that is inherently complex introduces a risk of 'smoothing over' real complexities. A better approach would be to require insurance companies to offer truly simplified insurance products that consumers are capable of understanding," said Loewenstein, the Herbert A. Simon University Professor of Economics and Psychology.

More information: Read the JAMA Viewpoint, Choosing a Health Insurance Plan: Complexity and Consequences:

jama.jamanetwork.com/article.a...px?articleid=2475470

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