Check the Label: Helping Consumers Shop for Individual Health Coverage

California HealthCare Foundation

ISSUE BRIEF

Introduction

Californians face a major financial decision when they select health coverage for themselves and their families in the individual market. In attempting to identify the best choice, they encounter an array of complex information. Most of the plan descriptions come from the insurers' or brokers' sales literature, raising issues of consumer confidence. Many insurers offer a large number of plans with different benefits, exclusions, and costs, making direct comparisons difficult. In fact, a San Franciscan looking for individual insurance currently has at least 109 options, ranging from comprehensive to very basic coverage. Such choices are proliferating; in 2001, there were only about a third as many options.

Millions of Californians are affected by the difficulty of selecting their own coverage. The state's individual health insurance market serves about 2.9 million people. In addition, it is the primary potential source of coverage for a large proportion of the state's 6.6 million uninsured. Consumers in the individual market face particular challenges. Lacking employer assistance, many struggle to afford insurance and must directly confront trade-offs between upfront premiums and costs incurred when they receive care. Furthermore, medical underwriting required by insurers prevents many consumers from qualifying for coverage at all.[1] But even among those who might reasonably afford coverage and meet underwriting standards, many hesitate to move forward with a purchase that has expensive and poorly understood implications for them. As a consequence, these uninsured Californians increase their risk for both health and financial difficulties.

The California HealthCare Foundation (CHCF) funded research to examine the difficulties people encounter in choosing individual health insurance, and to assess the usefulness of presenting coverage information that allows more direct comparison of cost and overall value. Specifically, CHCF commissioned the design and consumer testing of a standardized reporting format called "Coverage Facts." The HSM Group, a market research firm, conducted six focus groups in Concord, Fremont, Irvine, Los Angeles, and Sacramento to test consumer responses to the Coverage Facts approach. The 57 participants had three things in common:

- They had shopped for individual insurance within the last two years;
- They had incomes above 300 percent of the federal poverty level; and
- They were not currently enrolled in employment-based or public insurance.

This issue brief describes the findings of that qualitative research and discusses the implications for policymakers, regulators, and insurers.

Inspired by a Can of Soup

Just as the "Nutrition Facts" label on a soup can provides a standardized, reliable analysis of what consumers are about to eat, the Coverage Facts label would present health insurance products according to standardized measures of value. In addition to premiums and major benefits

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Coverage Facts

Individually Purchased Health Insurance, 2006

PLAN B (HMO)	
Monthly Premium	$**306**
Percent of Expense Paid by Insurance	**85**%
Annual Out-of-Pocket Expense (OOP)	
If your health is average	$**493**
Your Total Annual Cost (Premium + OOP)	
If your health is average	$**4,165**
Benefit Levels	
Annual Deductible	$0
Out-of-Pocket Maximum	$3,000
Office Visit Copay	$40
Rx Copay (generic/brand name)	$15/$25
Rx Brand Name Deductible	$100
Lifetime Maximum	Unlimited
Preventive Care	$40
Outpatient Surgery	$250
Maternity	yes
Inpatient Cost-Sharing	$1,500*
Emergency Room Visit	$100

*Inpatient deductible of $1,500 per calendar year.

information, the prototype labels include three related measures of value:

1. **Percent of expense paid by insurance.** An estimate of the average share of consumers' costs that would be paid by insurance versus out of pocket. For example, Plan B would cover 85 percent, while Plan F would pay only 43 percent. (See labels, page 3.)

2. **Annual out-of-pocket expense.** An estimate of the costs incurred at the point of service for consumers with average health care needs.[2] For example, out-of-pocket expenses would average $493 for enrollees in Plan B, an HMO, but would average $2,383 in Plan F, a high-deductible PPO.

3. **Total annual cost.** The sum of the annual premium plus out-of-pocket expenses.

Findings

Two major themes emerged from the research. Consumers want standardized information that enables them to make direct "apples to apples" comparisons across key benefit and cost dimensions. At the same time, they want assurance that the information is complete, accurate, and that insurers are required to deliver what they promise. Specific findings from the consumer focus groups include:

Product comparisons. Consumers said they want to make product comparisons more easily, and many were pleased by the standardized layout of the "Coverage Facts" because it facilitates side-by-side comparison. Some participants said the labels would help them narrow their choices or make a decision. One said: "I would eliminate what I don't want immediately, and I would focus on what I want a lot more quickly."

Value measures. Consumers found the value measures (see Figure 1 on page 3) useful. After the deductible, they ranked the percent of expense paid by insurance as their most important consideration. Some said they used the value measures to think through the trade-offs: "You scan across and you see [$142] is the cheapest [premium]… but then there's the high deductible and the percent [paid by insurance] is not very high… so you start reevaluating."

Complexity. Consumers recognized the complexity of insurance coverage and referred often to the importance of the "fine print" and "exclusions." They wanted to understand what they were buying and some requested additional details. A lack of confidence in the accuracy of plan descriptions and concerns about making the wrong choice or not understanding what was being covered were cited by consumers as reasons why they did not have insurance.

Issues of trust. Issues of trust pervaded the participants' attitudes about choosing health insurance. Many were concerned that insurers intentionally obscured consumer

Coverage Facts

Individually Purchased Health Insurance, 2006

	PLAN A (HMO)	PLAN B (HMO)	PLAN C (HMO)	PLAN D (PPO)	PLAN E (HSA)	PLAN F (PPO)
Monthly Premium	$276	$306	$347	$407	$142	$175
Percent of Expense Paid by Insurance	82%	85%	69%	60%	54%	43%
Annual Out-of-Pocket Expense (OOP)						
If your health is average	$585	$493	$994	$1,669	$1,944	$2,383
Your Total Annual Cost (Premium + OOP)						
If your health is average	$3,897	$4,165	$5,158	$6,553	$3,648	$4,483
Benefit Levels						
Annual Deductible	$0	$0	$1,500	$500	$2,750	$2,400
Out-of-Pocket Maximum	$3,000	$3,000	$3,000	$5,000	$2,750	$3,200
Office Visit Copay	$25	$40	$10	30%*	0% after ded	30%*
Rx Copay (generic/brand name)	$10/$30	$15/$25	$10/$30	$10/$30	0% after ded	30% after ded
Rx Brand Name Deductible	$250	$100	$150	$250	Integrated*	Integrated†
Lifetime Maximum	Unlimited	Unlimited	Unlimited	$5 million	$5 million	$6 million
Preventive Care	$25	$40	$10	30%*	$20†	$35‡
Outpatient Surgery	$250	$250	$250*	30% after ded†	0% after ded	30% after ded
Maternity	yes	yes	yes	yes	Not covered	yes
Inpatient Cost Sharing	$250/day*	$1,500*	$250*	30% after ded†	0% after ded	30% after ded
Emergency Room Visit	20%†	$100	$50	$100 copay + 30%	0% after ded	$75 + 30% after ded

*Up to four days, then no charge. †Your share of the negotiated rate.

*Inpatient deductible of $1,500 per calendar year.

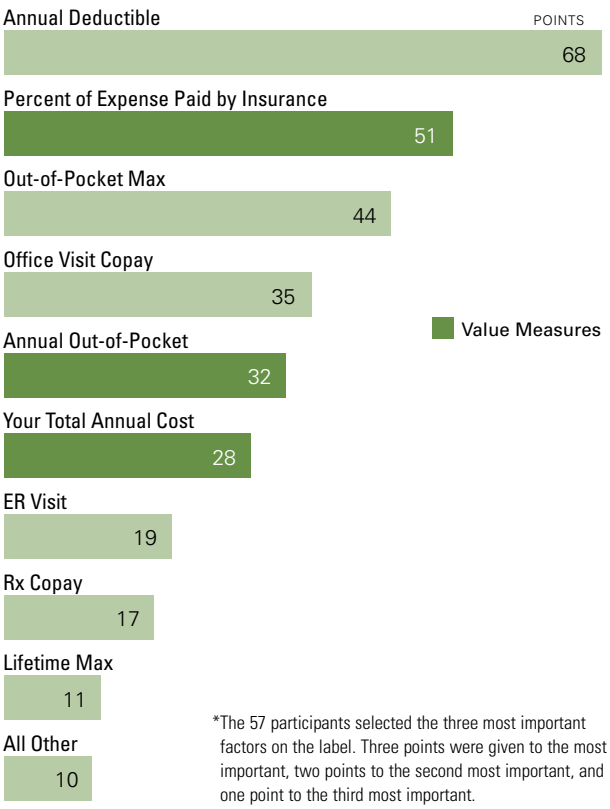
*Only inpatient hospitalization and outpatient surgery subject to deductible.

*Your share of negotiated rate (deductible waived). †Your share of the negotiated rate after deductible is met.

*Prescription drugs are subject to the general deductible. †Deductible waived for up to $200 of preventive care/year.

*Your share of negotiated rate (deductible waived). †Prescription drugs are subject to the general deductible. ‡Deductible waived.

Figure 1. Consumer Ranking* of Label Elements



*The 57 participants selected the three most important factors on the label. Three points were given to the most important, two points to the second most important, and one point to the third most important.

Source: The HSM Group, CHCF-funded focus group research, December 2007 and May 2008.

obligations to pay for care—through exclusions, fine print, or complex configurations. Some believed that the coverage might not be there for them when and if they really needed it. Participants voiced distrust of carriers and brokers to accurately quote rates and describe benefits. They wanted assurance that the products had been fairly and fully depicted.

Seal of approval. Consumers said they want the product information to reflect the endorsement of a trusted, independent body that would assure thorough, accurate product descriptions and hold health insurance carriers accountable to fulfill coverage promises. As one participant put it, "The key would be who would be putting this out." Consumers most often said that the Coverage Facts should be published by California insurance regulators or by a nonprofit foundation. Many responded positively to the "nutrition label" format because they said it implied validity and approval.

Starting point for shopping. Participants had been unable to locate existing resources to help them evaluate their insurance options. Several major broker sites provide side-by-side comparisons of products from different carriers; a feature to sort plans by premium; customer ratings; and premium quotes that do not require extensive personal information. Yet, most participants were unaware of these online resources, and many described negative experiences seeking information online.

Conclusion

Standardized reporting and value measures could assist consumers in understanding their options and selecting coverage that best fits their budgets and their needs. Further, a "seal of approval" accompanying Coverage Facts labels could bolster consumer confidence that the products they were considering would provide the benefits described.

To bring the Coverage Facts prototypes into an actual reporting system would require additional testing, refinement, and resources. In particular, any methodology for assigning actuarial values to health insurance products would need to be fully developed and vetted. Many questions would arise in that process; for example, how would out-of-network care be handled, and should value measures be estimated for different consumer use levels? With more than 100 individual insurance products sold in California today and many others under development, maintaining value measures would be an ongoing and costly effort.

These findings offer insights for policymakers, regulators, and stakeholders concerned about the standards for benefit comprehensiveness and transparency to which health plans should be held. Consumers considering the purchase of health insurance through California's individual market say that greater clarity about the value of alternative options would help them compare and choose. Because lack of confidence prevents some consumers from exploring and buying individual coverage, helping consumers assess their options has the potential to align with health plan business interests and coverage expansion policy goals as well.

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Acknowledgment

The National Opinion Research Center's work to assess the value of California individual health insurance products provided the basis for prototype coverage labels.

Endnotes

1. For details on medical underwriting of individual health insurance, see the California Department of Insurance Web site. www.insurance.ca.gov/0100-consumers/0070-health-issues/ind-health-insurance-underwriting-ab-356.cfm
2. Out-of-pocket spending estimates are based on service use patterns for non-elderly enrollees of commercial plans; most of these people were not required to pass a medical exam. The relatively healthy population covered through the individual market would likely incur lower out-of-pocket costs for each product than those presented in the prototype labels.