

Public Understanding of Basic Health Insurance Concepts on the Eve of Health Reform

Linda J. Blumberg, Sharon K. Long, Genevieve M. Kenney, and Dana Goin

At a Glance

- The groups targeted by the Marketplaces—particularly the currently uninsured—often do not fully understand basic health insurance terms.
- Within the target population, understanding is significantly lower among younger, Hispanic and nonwhite, and lower-income adults.

A central objective of the Affordable Care Act (ACA) is to reduce the number of Americans without health insurance. Providing the opportunity to purchase private insurance through the new health insurance Marketplaces (also called Exchanges) is one of the major ways in which this goal is to be achieved.

The people most likely to enroll in Marketplace-based coverage—those the ACA Marketplaces are specifically designed to help—are nonelderly adults with incomes above the national Medicaid-eligibility cutoff (138 percent of the federal poverty level, or FPL) who are currently uninsured or are purchasing individual coverage. Many qualify for Marketplace subsidies because they are not eligible to buy health insurance through an employer or other group coverage or because their available employer-sponsored coverage is unaffordable.

The new Marketplaces will offer a multitude of choices with differing costs and benefits, although all will include coverage within ACA-defined categories of essential health benefits. This brief focuses on how well the target population understands the concepts they will confront as they make their insurance choices.

Plenty of information will be available to them. States and the federal government will be providing a great deal of information on the multiple options available through the Marketplaces. Insurance agents, brokers, navigators, in-person assistants, and call center personnel will also be deeply involved in providing support to potential consumers. But insurance is a complex product, particularly for those without prior experience purchasing coverage. If consumers do not understand basic insurance concepts, they will find it hard to make the choices that best suit themselves and their families.

Focus of the Analysis

In June–July 2013, the Health Reform Monitoring Survey (HRMS) asked respondents how confident they were in their understanding of the following health insurance terms: premiums, deductibles, co-payments, coinsurance, maximum annual out-of-pocket spending limits, provider networks, covered services, annual limits on services, and excluded services. This brief focuses on nonelderly adults with incomes above 138 percent of FPL. Those with incomes between 138 and 400 percent of FPL are potentially eligible for financial assistance with the purchase of Marketplace-

based coverage. Those with incomes above 400 percent of FPL will buy coverage entirely with their own funds.¹

What We Found

Among the groups targeted by the Marketplaces, basic health insurance terms are poorly understood. Only 39.9 percent feel very or somewhat confident that they understand all the insurance terms the survey asked them about (table 1). Only 43.8 percent say they feel confident that they understand all five terms related to costs (premiums, co-payments, etc.) and 50.0 percent say they understand all four terms related to access to care and benefits (provider network, covered services, etc.). Almost two-thirds (60.1 percent) of those most likely to use the Marketplaces to purchase coverage say they are not too confident or not at all confident in their understanding of at least one concept related to health insurance.

Table 1. Level of Confidence in Understanding of Basic Insurance Terms, among Consumers Most Likely to Use Health Insurance Exchanges (percent)

	Full exchange target population	Exchange Target Population by Current Coverage Status		
Insurance term		Nongroup	Uninsured	
Confidence in understanding of all insurance terms listed				
Very or somewhat confident with all terms	39.9	53.5	31.2	***
Not too confident or not at all confident with at least one term	62.1	46.5	68.8	***
Very or somewhat confident in understanding of:				
<i>Terms related to costs</i>	43.8	58.4	34.3	***
Premium	64.1	83.0	51.9	***
Deductible	69.4	83.8	60.1	***
Co-payments	72.4	86.4	63.3	***
Coinsurance	51.8	67.8	41.5	***
Maximum annual out-of-pocket spending	62.4	78.9	51.7	***
<i>Terms related to access to care and benefits</i>	50.0	64.5	40.5	***
Provider network	64.1	82.0	52.4	***
Covered services	65.4	79.7	56.2	***
Annual limits on services	61.3	76.2	51.7	***
Non-covered or excluded services	59.9	74.8	50.3	***
Sample size	1,069	475	594	

Source: Health Reform Monitoring Survey, quarter 2 2013.

Note: The exchange target population is nonelderly adults with family income above 138% of the federal poverty level who either had nongroup coverage or were uninsured at the time of the survey.

*** Estimate differs significantly from the nongroup estimate at the 0.01 level, using two-tailed tests.

Understanding of basic insurance terms is particularly low among the currently uninsured. Confidence in understanding these terms is much higher among those in the Marketplace target population who are currently purchasing nongroup coverage (53.5 percent) relative to those who are currently uninsured (31.2 percent). Some concepts are better understood than others, but the currently uninsured have uniformly lower confidence in their understanding of each insurance term than those currently purchasing individual coverage.

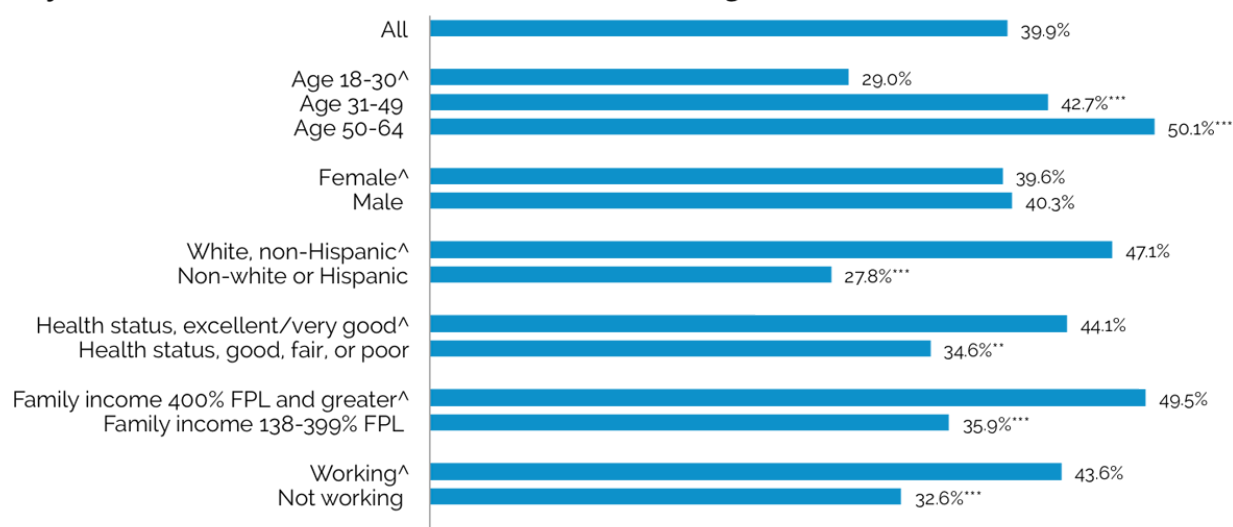
Among those in the Marketplaces' target population, "co-payments" is the health insurance term they are most confident about; almost three-quarters (72.4 percent) are very or somewhat confident in their understanding of it (44.3 percent are very confident and 28.1 percent are somewhat confident; data not shown). For the currently uninsured, the share that is very or somewhat confident about "co-payments" drops to 63.3 percent (with 36.2 percent very confident and 27.1 percent somewhat confident; data not shown). These relatively high levels of confidence likely reflect the term's frequent use in discussions between consumers and health care providers.

"Premium"—the sticker price of a health insurance policy—is not as clearly understood as co-payments: 64.1 percent of the target population say they are very or somewhat confident they understand the term. This perhaps-surprisingly low number stems from the significant difference between the uninsured and those with nongroup insurance (51.9 percent versus 83.0 percent saying they are very or somewhat confident).

The lowest levels of understanding were for "coinsurance" (with 41.5 percent of the uninsured and 67.8 percent of those with nongroup coverage very or somewhat confident) and "excluded services" (50.3 percent of the uninsured and 74.8 percent of those with nongroup coverage very or somewhat confident).

Levels of understanding differ substantially by age, race/ethnicity, work status, and income (figure 1). While respondents' confidence in their understanding of all nine health insurance terms is low across all these subgroups, confidence is higher among older adults, those with higher incomes, those who are working, and those who are non-Hispanic white. Relative to older adults age 50 to 64, for example, young adults age 18 to 30 are 21.1 percentage points less likely to feel confident that they understand all nine terms (29.0 percent versus 50.1 percent). Young adults also feel less confident than older adults in their understanding of each of the nine insurance terms (not shown). Overall, the gap in understanding health insurance concepts between nonwhite and Hispanic adults and those who are non-Hispanic white is almost 20 percentage points, with just 27.8 percent of nonwhite or Hispanic respondents saying they feel confident that they understand all nine terms. For each of the nine terms asked about, no more than 60.2 percent of nonwhite or Hispanic adults were either very or somewhat confident in their understanding of it (not shown).

Figure 1. Share of Consumers Most Likely to Use Health Insurance Exchanges Who Are Very or Somewhat Confident in Their Understanding of Basic Insurance Terms



Source: Health Reform Monitoring Survey, quarter 2 2013.

Notes: The exchange target population is nonelderly adults with family income above 138% of the federal poverty level who either had nongroup coverage or were uninsured at the time of the survey. Health status is self-reported. Basic insurance terms include premium, deductible, co-payments, coinsurance, maximum annual out-of-pocket spending, provider network, covered services, annual limits on services, and excluded services.

/ Estimate differs significantly from the reference group, denoted by [^], at the 0.05/0.01 level, using two-tailed tests.

What It Means

Almost two out of three adults specifically targeted for enrollment in the new health insurance Marketplaces (60.1 percent) report gaps in their understanding of basic insurance concepts, including co-payments, premiums, deductibles, coinsurance, and provider networks. And these estimates likely overstate consumers' actual understanding for two reasons. First, according to a recent study (Loewenstein et al. 2013), consumers understand less than they think they do. Second, the HRMS probably underrepresents low- and moderate-income adults with low literacy levels.

Not surprisingly, those who already have nongroup coverage feel more confident than those who are uninsured about their understanding of basic health insurance terms. However, since almost half of this group is not too confident or not at all confident about their understanding of at least one term, they could certainly benefit from additional education on insurance coverage to help them be more effective Marketplace users. The fact that these people have already purchased a nongroup policy does not guarantee either that they have the plan that best suits their needs among the options available before the ACA, or that they will be able to make the best choices for themselves when faced with the new options available through the Marketplaces.

Currently uninsured individuals require significantly more education: just 31.2 percent feel very or somewhat confident in their understanding of basic health insurance terms. This large knowledge gap likely reflects the fact that many of these people have had very little exposure to private health insurance.

The analysis presented here highlights certain groups that stand to benefit most from assistance in assessing and choosing among the alternative plans available in the new health insurance marketplaces. Although knowledge gaps appear for all groups, understanding of insurance concepts is lowest for the uninsured and for those in the Marketplaces' target population who are

under 30, not working, in racial and ethnic minority groups, and who have incomes between 138 and 400 percent of FPL.

Those responsible for giving potential Marketplace clients the necessary information to make informed choices—web sites, navigators, in-person assistors, call center operators, brokers, and agents—need to keep in mind that consumer understanding of the terms being used is low. Thus, monitoring the adequacy of consumer assistance efforts to address these knowledge gaps is crucial, particularly in the 27 states relying on a federally facilitated marketplace (where funds for navigators in 2014 are much more limited than for the state-based Marketplaces). *Assistors of all types need to be trained to explain even the most basic insurance concepts to best help potential applicants through the Marketplace enrollment process.*

Reference

Loewenstein, George, Joelle Y. Friedman, Barbara McGill, Sarah Ahmad, Suzanne Linck, Stacey Sinkula, John Beshears, James J. Choi, Jonathan Kolstad, David Laibson, Brigitte C. Madrian, John A. List, and Kevin G. Volpp. 2013. “Consumers’ Misunderstanding of Health Insurance.” *Journal of Health Economics* 32(5): 850–62.

About the Series

This brief is part of a series drawing on the Health Reform Monitoring Survey (HRMS), a quarterly survey of the nonelderly population that is exploring the value of cutting-edge Internet-based survey methods to monitor the Affordable Care Act (ACA) before data from federal government surveys are available. The briefs provide information on health insurance coverage, access to and use of health care, health care affordability, and self-reported health status, as well as timely data on important implementation issues under the ACA. Funding for the core HRMS is provided by the Robert Wood Johnson Foundation, the Ford Foundation, and the Urban Institute.

For more information on the HRMS and for other briefs in this series, visit www.urban.org/hrms.

About the Authors

Linda J. Blumberg and Sharon K. Long are senior fellows, Genevieve M. Kenney is codirector and senior fellow, and Dana Goin is a research assistant in the Urban Institute’s Health Policy Center.

The authors gratefully acknowledge the suggestions and assistance of Fiona Blackshaw, John Holahan, Michael Karpman, Stephen Zuckerman, and Felicity Skidmore.

Note

¹ Most lower-income respondents will be eligible for Medicaid and thus not be required to shop for coverage. In states that do not expand Medicaid under the ACA, families with incomes over the federal poverty level (\$23,550 for a family of four in 2013) will be eligible for subsidized coverage in the Marketplace if their incomes do not exceed 400 percent of FPL and they lack access to affordable, adequate employer-based coverage. In addition, legal immigrants with incomes below 138 percent of FPL who are not eligible for Medicaid coverage could be eligible for subsidized Marketplace coverage.