

Consumer Choice of Health Plan Decision Support Rules for Health Exchanges: Issue Brief #2

Cost at Time of Care Calculator

Include a cost at time of care calculator. Use a calculator to provide consumers with their cost at time of care given the plan's covered benefits and the consumer's expected medical services use. Combine this cost with the plan's premium net of any tax credit to provide a total cost estimate.

IMPLEMENTATION

Cost calculator inputs: Query consumers about their expected use of medical services in the User Preferences section (Figure 1a). These questions should:

- **Be a core step** in the plan selection process, rather than positioned separately in a “toolkit”.
- **Be fully explained** to consumers. Explaining how the calculators work (e.g., how cost at time of care is estimated) helps consumers understand plan costs and identify high value health plans (Johnson et al., 2012).
- **Ask about levels of expected use**, rather than specific conditions. This can help address consumers' concerns about privacy and how their information is used (e.g., misperceptions that it will be used to deny coverage or determine premium rates).
- **Distinguish use of medical services and prescription drugs.** Many consumers have distinct patterns of usage for medical services versus prescription drugs.
- **Not use defaults** (i.e., pre-selected answers), unless there is sufficient information to estimate each consumer's expected usage (Goldstein et al., 2008). Consumers may retain defaults even when they are not a good fit. Because the expected use questions drive the calculators, consumers retaining ill-fitting defaults may see plan costs that are not good estimates for their expected use, and this may lead to poor plan choices.

Calculating costs: Calculate estimated costs for each plan.

- **Cost at time of care:** Query consumers about their expected services use by asking them to match their expected use to typical yearly use profiles. For example, the yearly use profiles can be drawn from a generalizable claims distribution dataset – the profiles are based on consumption of services along the population distribution (e.g., 25th, 50th, and 75th percentiles). Create a basket of services (e.g., number of office visits, diagnostic tests, hospitalizations, etc.) that is typical of consumers at a given percentile.¹ Determine the cost for the basket of services using prevailing market-area unit costs. Combine this with plans' rules about coverage and cost-sharing to provide an estimated cost at time of care for each plan.²
- **Total cost:** Sum cost at time of care and premium (net of any tax credit) to provide a total cost for each plan.

¹ This approach assumes no benefit-design impact – that is, utilization demand is not influenced by cost-sharing as the consumer is declaring their expected medical care needs in the upcoming year.

² Depending upon the benefit design complexity, various assumptions are adopted in the set of cost calculator rules (e.g., family members' costs that accumulate to individual versus aggregate out-of-pocket maximums).

Displaying costs: Display calculated costs in the Plan Comparison section (Figure 1b). The cost display should:

- **Emphasize total cost** (i.e., premium minus any tax credits plus cost at time of care) because it is a threshold dimension for many consumers and it allows straightforward comparisons of costs across plans.
- **Be intuitive** (e.g., a vertical cost display mimicking a grade-school math problem set-up) to help consumers understand how total cost is calculated.
- **Be clear that these are not absolute or guaranteed costs**, but are intended instead to give consumers an estimate of the relative differences in costs across plans. Educate consumers that this is not a budgeting tool.
- **Allow sensitivity analyses** that enable consumers to explore “what-if” scenarios, such as alternative utilization profiles or tax credit amounts. This can help interested consumers understand: 1) their potential cost-sharing obligation if considerable medical services are needed, and 2) their potential premium costs if income varies.

Figure 1. a) User Preferences questions assessing expected medical services use. b) Plan Comparison display of total cost and cost components.

User Preferences: Cost Calculator Inputs

3. Your Cost at Time of Care
The following information will be used to show you your estimated costs when you get medical services for each of the available medical plans.

Medication Use
Choose the one category that best describes the prescription drug use you expect for next year. For a family, choose the category that best describes the family member who will probably need the most services. One prescription lasts 30 days. For details see [Medication Use](#).

- Level 1 **No health problems or brief illness** requires about 2 prescriptions during the year.
- Level 2 **Medication for a moderate health problem** requires about 5-7 prescriptions during the year.
- Level 3 **Regular, ongoing medication needs** requires at least 1 prescription each month and sometimes 2 prescriptions each month.
- Level 4 **Multiple prescriptions used daily** requires more than 30 prescriptions during the year.

Medical Service Use
Choose the one category that best describes the medical service use you expect for the next year. For a family, choose the category that best describes the family member who will probably need the most services. For details see [Medical Services Use](#).

- Level 1 **No health problems or a well-controlled condition** requires 2 doctor office visits, including a regular check-up, and several lab tests during the year.
- Level 2 **Moderate health problem** requires regular doctor care to watch or control a problem; 5-6 doctor office visits and regular tests or treatments during the year.
- Level 3 **Significant health event or problem** requires monthly doctor office visits, outpatient treatment and a number of lab, x-ray or other services, like therapy, during the year.
- Level 4 **Serious and costly problem or condition** requires a hospital stay and considerable outpatient care for the problem (or for expected care like pregnancy); about 20 doctor office visits and a large number of tests or treatments during the year.

Plan Comparison: Cost Display

	Zenith HMO	Summit HMO
	GOLD	GOLD
Your Cost		
Yearly premium	\$7,440	\$6,900
Yearly premium tax credit	-\$2,124	-\$2,124
Yearly cost at time of Service	\$25	\$70
Yearly total cost	\$5,341	\$4,846

RATIONALE

Reduce decision complexity: If cost calculators are included, consumers do not need to understand an insurance product’s cost-sharing elements to compare health plan costs. Instead, the decision is simplified by presenting consumers with a single, easy-to-compare total cost number for each plan. This frees up limited cognitive attention and allows consumers to consider other plan dimensions (e.g., quality ratings, rules to see a doctor). Because cost calculators reduce the required levels of mathematical skills **and** plan comprehension, they may be especially helpful for consumers with low numeracy and low health insurance literacy.³

Emphasize important dimensions: Our research indicates that consumers commonly cite cost as the most important dimension. For many consumers, cost is a threshold attribute that determines whether they will consider a given plan. Thus, total cost should be emphasized in the Plan Comparison display. Give less emphasis to cost-sharing elements (e.g., deductible, coinsurance, copay) because consumers often overweight this information – ascribing greater costs than would be realized given their expected medical services use (Abaluck & Gruber, 2011; Johnson et al., 2012).

³ In the absence of a cost calculator, metals tier can be used as a rough proxy for total cost. However, this substitution may be misleading in some cases: if there is a lot of variability between possible benefit structures within a metals tier, there may be instances in which plans from different tiers are more similar and plans from higher tiers are more cost-effective for certain consumers than plans from lower tiers (Krughoff et al., 2012; Lore et al., 2012).

Communicate difficult concepts: Many consumers are unfamiliar with health insurance terminology (Quincy, 2012); our research indicates that many consumers struggle to understand the differences among plans across metals tiers and product types. Cost calculators can help illustrate these differences by communicating how plans compare on total cost and its components (i.e., premium and cost at time of care). Cost calculators synthesize multiple difficult-to-understand plan dimensions into a single number, which may be especially helpful for vulnerable populations.

Encourage eligible consumers to consider cost sharing reduction (CSR) plans. Our research indicates that, although consumers consider both total cost **and** covered services to be important plan dimensions, many consumers believe they must choose between the two. Silver tier CSR plans' combination of better coverage and subsidized prices are likely to be attractive to many eligible consumers, if these benefits are communicated clearly. Sorting plans by total cost highlights silver CSR plans' special cost savings and may make it easier for eligible consumers to recognize their value. Again, this may be especially important for vulnerable populations.

RESEARCH EVIDENCE

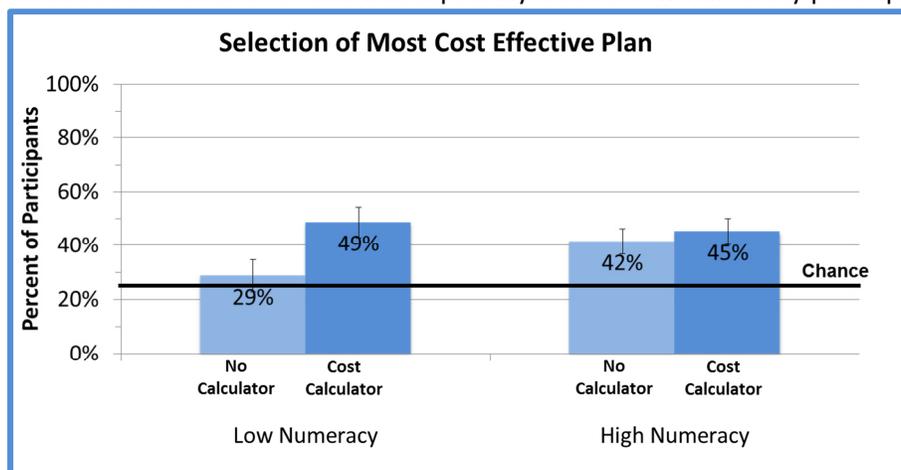
Research indicates that study participants choose more cost-effective plans when a cost at time of care calculator is included in plan choice (Johnson et al., 2012).

In a study conducted at Columbia University, participants used an online plan choice decision support tool to select a health plan. Participants were randomly assigned to a decision support tool that did or did not include a cost at time of care calculator.

When the tool did **not** include a cost calculator (i.e., cost dimensions were not summarized and participants had to convert benefits coverage into expected costs), odds were equal to or worse than random chance that participants chose a less expensive plan. When the tool **did** include a cost calculator, participants performed much better: they were more likely to choose the most cost effective plan and overweighted plans' cost-sharing elements less.

Participants with lower numeracy skills were particularly helped by cost calculators. Although low-numeracy participants were less likely to choose a cost effective plan, their decision-making improved markedly when a cost calculator was included – the proportion of low-numeracy participants who chose the right plan doubled (Chart 1).

Chart 1. Participants were more likely to choose plans that were cost-effective when a cost at time of care calculator was included in Plan Choice. This was especially true for low-numeracy participants.



REFERENCES

For more information or other recommendations for plan choice decision support, including additional issue briefs and an in-depth report, visit <http://www.pbgh.org/exchange-plan-choice> or contact Ted von Glahn (tglahn@pbgh.org).

Abaluck, J., & Gruber, J. (2011). Choice inconsistencies among the elderly: Evidence from plan choice in the Medicare Part D program. *American Economic Review*, *101*, 1180-1210.

Goldstein, D. G., Johnson, E. J., Herrmann, A., & Heitmann, M. (2008). Nudge your customers toward better choices. *Harvard Business Review*, *86*(12), 99-105.

Johnson, E. J., Hassin, R., Baker, T., Bajger, A., & Treuer, G. (2012). *Can consumers make affordable care affordable? The value of choice architecture*. Manuscript submitted for publication.

Quincy, L. (2012, January). What's behind the door? Consumers' difficulties selecting health plans. (Health Policy Brief). Yonkers, NY: Consumers Union.