



Consumer Mistakes in ObamaCare Exchanges May Cost Taxpayers \$9B

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Published August 21, 2013
FOXBusiness

With just over one month until the Affordable Care Act's health-care exchanges roll out, new research from Columbia University shows the law's subsidies do not incentivize consumers to pick their health-care wisely. What's more, consumers picking the wrong plan will cost taxpayers—to the tune of about \$9 billion per year.

In his study, "Can Consumers Make Affordable Care Affordable? The Value Choice of Architecture" Columbia Professor Eric Johnson and his co-authors conducted six different experiments, asking consumers to choose the most cost-effective policy, using Websites modeled on current exchanges.

Without any interventions, the respondents show bias and outweighed out-of-pocket expenses and deductibles. They were asked to imagine buying insurance for themselves, plus a partner and one child, and were given the anticipated number of doctor visits and out-of-pocket health costs per year.

What's more, financial incentives didn't help to improve performance, and consumers didn't realize they were performing poorly. Performance did improve with a "smart" default being pre-marked for them, and the study says doing so helped consumer choices improve significantly. These factors could save taxpayers up to \$10 billion annually, the study says.

The study was conducted under Institutional Review Board at Columbia University, and tested 815 different subjects, and an additional 76 MBA students. Nearly 70% of the time, consumers chose the wrong plan (67%) and even highly-trained MBA students at Columbia chose the wrong plan 27% of the time. This improved when consumers crunched the numbers, Johnson says, but overall it points to a glaring issue within the ACA's exchanges and subsidy programs—consumers are not incentivized to pick the proper plans.

“Consumers were almost picking randomly,” Johnson says. “They don’t have the right math skills or mental model to figure out which was the cheapest policy. One of the reasons that is really important is because if you believe exchanges will get people to pick the best policy, and the most affordable policy—this seems it will be hard for that to happen.”

The Subsidy Issue

It is in the best interest of everyone to align beneficial scenarios for taxpayers, enrollees and insurance providers, says Devon Herrick, National Center for Policy Analysis senior economist. But the exchanges in the new law do the opposite, Herrick says.

“By design, the exchanges try to shape enrollee’s decisions by creating parameters about what can be sold, and the subsidies available,” he says. “Some of these incentives are perverse. In the exchanges, the federal subsidy is based on the second-cheapest Benchmark Silver plan. But that still provides workers with an incentive to, in some cases, over insure because their cost of doing so is so low.”

Under the law, those up to 400% of the federal poverty level annually will be eligible for subsidies to help cover the cost of care.

“Also, in the exchange, individuals will not make the same trade-offs about cost and quality they would if they were paying their own premiums,” Herrick says. “One example is that the Congressional Budget Office assumes the average benefit package sold in the exchanges will be more comprehensive than individuals have historically selected when purchasing coverage in the individual market. The result will be higher costs for taxpayers.”

And therein lies the issue with the government determining health-care plans, says Michael Cannon, Cato Institute director of Health Policy Studies.

“People make the wrong decisions all the time—but having the government determine what kind of health plan you need doesn’t work well. Instead of encouraging consumers to make better decisions, ObamaCare just causes taxpayers to bear the cost,” he says.

How to Improve the Math

In Johnson’s research, when consumers were not educated or prompted to choose the best option, they made mistakes of about \$533, or 10% of the cost of the cheapest policy. This compared to errors of about \$77 when both the “default option” and calculator were available.

“They have to know how to calculate the formula,” he says. “By designing the exchanges well, people can do a much better job.”

Johnson, who has attracted attention from the government for his research, says including calculators for consumers in state and federal exchanges would be a major boost and incentive to pick the proper plans.

“If consumers don’t do the math, they tend to overweigh out-of-pocket costs,” he says. “Those are just the dollars you see [spent at the doctor’s office] but not the dollars being deducted from your paycheck in the premiums.”