



A Little Knowledge Is a Risky Thing: Wide Gap in What People Think They Know About Health Insurance and What They Actually Know

BY KATHRYN A. PAEZ AND CORETTA J. MALLERY

Under the 2010 Affordable Care Act (ACA), millions of Americans gained health coverage in 2014 through Medicaid or subsidized private coverage in state and federal insurance marketplaces. Coverage is key to accessing affordable, high-quality care, but consumers who struggle to understand how health insurance works and how to estimate out-of-pocket costs are at risk of going without needed care even if they are covered.¹ While about three out of four Americans aged 22-64 believe they know how to use health insurance, only about one in five could correctly calculate how much they owed for a routine doctor visit, according to new findings from a 2013 national survey by the American Institutes for Research (AIR) designed to measure health insurance literacy. Generally, younger people, those who use fewer health care services, minorities, people with lower incomes and those with less education have more difficulties navigating health insurance. Assessing health insurance literacy can help identify what health insurance aspects pose the greatest problems for consumers, which groups need more assistance to enroll and use benefits, and what topics and skills consumer-counseling efforts should focus on. The findings that older people and those who use more services have higher levels of health insurance literacy suggest that people learn about health insurance by doing, so creating tools that simulate real-life examples of how to use insurance are likely to be most effective.

What is Health Insurance Literacy?

Health insurance is among the most complicated and costly products that consumers buy. Lacking health insurance-related knowledge and skills—or health insurance

literacy—puts people at risk of choosing an insurance product that could fail to provide needed benefits or protect them financially. Health insurance literacy has been defined as “the degree to which individuals have the knowledge, ability, and confidence to find and evaluate information about health plans, select the best plan for their own—or their families’—financial and health circumstances, and use the plan once enrolled.”²

Under the ACA, millions of Americans in 2014 gained health coverage—many for the first time—through Medicaid or by purchasing private coverage in the new federal or state health insurance marketplaces. During annual open enrollment, people can sign up for coverage or change their health plan for the coming year—open enrollment in the marketplaces for 2015 coverage runs from Nov. 15, 2014, through Feb. 15, 2015.

Measuring Health Insurance Literacy

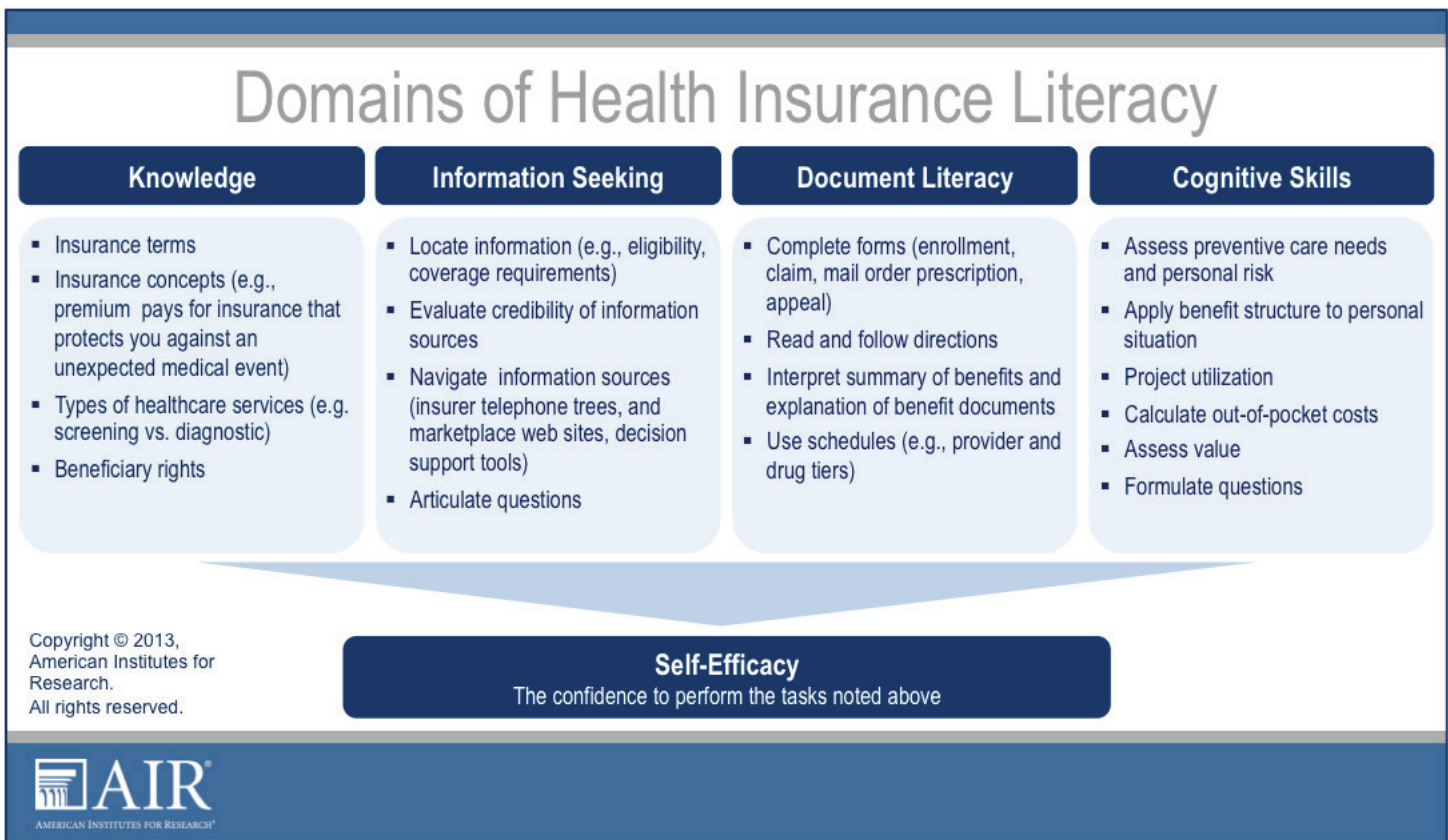
While most Americans believe they have the knowledge and skills to choose and use health insurance, many do not, according to the nationally representative AIR Health Insurance Literacy Survey³ (see Data Source). The June 2013 survey of 828 people aged 22-64 who were uninsured, privately insured or had Medicaid coverage examined the following four major areas of health insurance literacy (see Exhibit 1):

- Knowledge of health insurance terms and concepts, types of healthcare services and enrollee rights.
- Information-seeking skills, including finding information, evaluating credibility of sources and articulating questions.

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Exhibit 1. Domains of Health Insurance Literacy



- Document literacy, including completing forms, reading and following directions, and interpreting summary-of-benefit and explanation-of-benefit documents.
- Reasoning skills, including assessing personal health risk and need for preventive care, projecting health care utilization, and calculating out-of-pocket costs.

Confidence in Choosing and Using a Health Plan

More than half of all people surveyed were moderately or very confident in their ability to choose and use a health plan that is best for their family, but their actual knowledge was less. Overall, people got an average of 60 percent of knowledge and skills items correct. While most people could identify common insurance terms, such as an appeal (80%) and premium (81%), far fewer could identify more complicated insurance concepts, such as step therapy (37%) or medically necessary (60%).

Because many people believe they know more than they do about health insurance, they may not fully understand

their options before committing to a particular health plan for an entire year, or they may have an unpleasant surprise when they use health care services and end up owing a larger amount out of pocket than expected.

Understanding Plan Type and Calculating Cost Sharing

When comparing and selecting health plans, 61 percent of people said they were moderately or very confident that they could choose the best health plan for themselves. However, consumers had a weak grasp of different plan types. About half could identify general characteristics of a health maintenance organization (HMO)—for example, “you may need a referral to see a specialist.” And, only 23 percent could identify characteristics of a preferred provider organization (PPO)—for example, “you may have to pay a percentage of the bill.”

Being able to pinpoint the exact differences among plan types may not be critical for consumers, but they do need

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to understand that provider networks differ in size and rules for in-network and out-of-network coverage vary among plans.

Three out of four people said they were moderately or very confident that they have the knowledge to use health insurance. However, only 20 percent could accurately calculate how much they would pay for a visit to an in-network doctor when presented with a cost-sharing scenario that included a copayment, deductible and coinsurance (see Exhibit 2).

Knowing What's Covered and Where to Get Help

The ACA took steps to reduce the complexity of shopping for health insurance, including requiring plans to use plain language to describe benefits and coverage—known as the uniform summary of benefits and coverage, or SBC. The law also provided funding for “navigators” to assist consumers when applying for coverage and choosing a health plan in the marketplaces.

Despite these efforts, knowing what's important when choosing a health plan, how to use benefits and where to turn for help can still be challenging. For example, when comparing plans, most people (79%) were moderately or very likely to check which hospitals and physician are covered in each plan, but a sizeable minority (21%) was only somewhat or not at all likely to consider this basic plan characteristic when selecting coverage. Likewise, more than two out of five people (42%) were not at all or only somewhat likely to check what their plan will and will not cover before getting health services. And, only slightly more than half of people were moderately or very likely to “look to member services to tell you what medical services your health plan covers.”

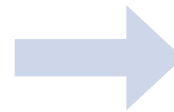
Skills Differ by Age, Care Use, Race, Income, Education

When considering age, race, income, education and health care use, problems understanding health insurance terms, plan types and how to calculate cost sharing were more pronounced. Generally younger people were less health-insurance literate—for example, people aged 22 to 34 got an average of 55 percent of knowledge and skills items correct compared with 63 percent for people aged 55 to 64 (see Exhibit 3).

Exhibit 2. Calculating Out-of-Pocket Costs

Early in January, Robert visits an in-network doctor to get a wart removed from his foot. The bill for this visit is \$530, which is the member rate the doctor agreed to charge his health plan for that service. Robert has a \$30 co-pay, a \$100 deductible, and 20% coinsurance that apply for this visit. His co-pay does not count toward the deductible. How much will Robert pay for the visit?

1. \$130
2. \$210
3. \$236
4. Not sure



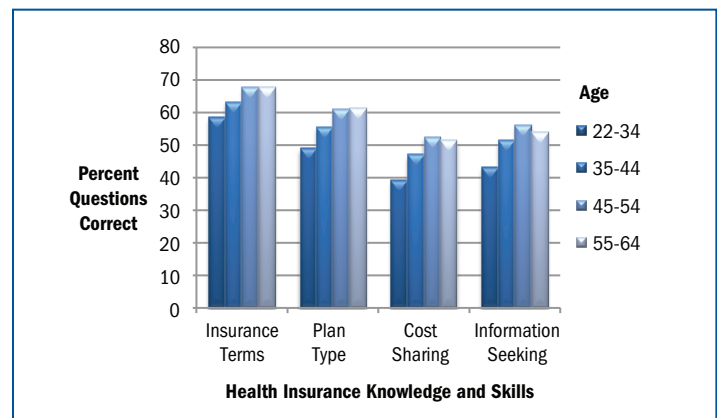
The correct answer is No. 2; 20.6% of respondents answered correctly.

Note: The question indicates that the deductible, copay and coinsurance all apply. The steps to calculate the correct answer are as follows:

1) subtract the deductible and co-pay from the total charge: $\$530 - \$100 - \$30 = \400 ; 2) calculate the coinsurance: 20% of $\$400 = \80 ; 3) total the deductible, copay and coinsurance to determine the amount the consumer owes— $\$100 + \$30 + \$80 = \210 .

Source: 2013 American Institutes for Research Health Insurance Literacy Survey

Exhibit 3. Health Insurance Knowledge and Skills Increase with Age



Source: 2013 American Institutes for Research Health Insurance Literacy Survey

Likewise, people who use health care less frequently had more difficulties. People without a visit to a physician in the past year on average got 49 percent of the knowledge and skills items correct, while those who saw a doctor a few times a year scored 64 percent (see Exhibit 4).

Health insurance knowledge and skills also varied greatly by race, with blacks and Hispanics on average having less knowledge about health insurance (see Exhibit 5). Knowledge and skills also decreased with income and education—for example, people with annual incomes of less than \$25,000 on average got 45 percent of

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knowledge and skills items correct, while those with incomes of \$75,000 or more got 67 percent correct (see Exhibit 6). The same held true for education, with people with less than a high school degree scoring an average of 32 percent on the knowledge and skills items, while people with a bachelor's degree or higher scored 68 percent (see Exhibit 7).

The findings make sense that younger people, those who use care less frequently, minorities, people with lower incomes and those with less education have less knowledge about health insurance because all of these groups are more likely to be uninsured.⁴ And, they are the people most likely to use the health insurance marketplaces.

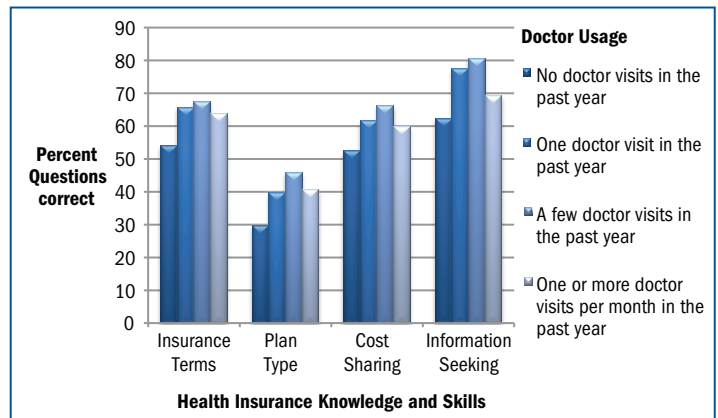
Implications

Choosing and using a health insurance plan can be daunting, especially for people with little experience with the health care system and health insurance. According to the 2013 AIR Health Insurance Literacy Survey, many Americans are unprepared to make informed choices when selecting and using health plans—especially younger people, minorities, people with lower incomes and those with less education.

At the same time, health insurance and benefit structures are becoming even more complex. As mentioned previously, consumers likely don't need to know the exact differences between an HMO and PPO, but they do need to consider important health plan characteristics—such as patient cost sharing, which hospitals and doctors are in network, and the rules for out-of-network coverage—when choosing a plan. (See Exhibit 8 for a list of key consumer considerations when choosing a health plan.)

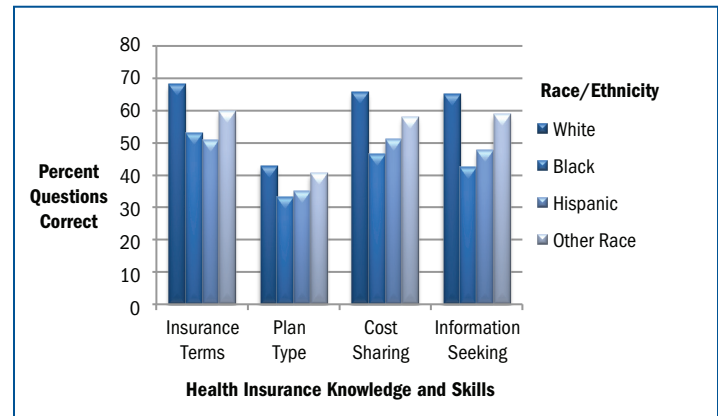
For the health insurance marketplaces to work, people need to be able to make informed choices about which plan is best for them from both health and financial perspectives and then use their benefits knowledgeably. An additional challenge is that many of the people using the marketplaces are at the greatest risk of lacking health insurance literacy because they tend to be young, low income, black or Hispanic, and less educated—all groups that are more likely to have lacked health insurance historically. Without efforts to increase health insurance knowledge and skills, many insured people will remain at risk of forgoing needed care if they don't understand how their health insurance works or how to estimate out-of-pocket costs.

Exhibit 4. Health Insurance Knowledge and Skills Increase with Health Care Use



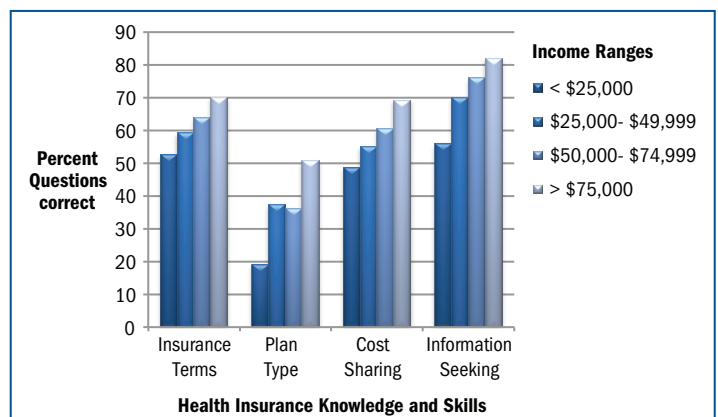
Source: 2013 American Institutes for Research Health Insurance Literacy Survey

Exhibit 5. Health Insurance Knowledge and Skills Are Greater Among Whites



Source: 2013 American Institutes for Research Health Insurance Literacy Survey

Exhibit 6. Health Insurance Knowledge and Skills Increase with Income

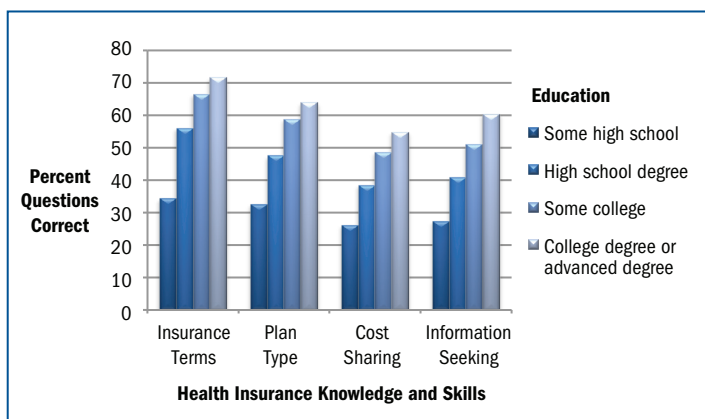


Source: 2013 American Institutes for Research Health Insurance Literacy Survey

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Exhibit 7. Health Insurance Knowledge and Skills Increase with Education



Source: 2013 American Institutes for Research Health Insurance Literacy Survey

The findings that older people and those who use more services have higher levels of health insurance literacy suggest that people learn about health insurance by doing. Creating tools that simulate real-life examples of how to use insurance are likely to be most effective in improving health insurance literacy. For the least health-insurance literate, such efforts might include face-to-face counseling focused on real-life scenarios that illustrate key aspects of choosing and using health insurance. At a minimum, counseling efforts could stress that once people are enrolled, they should contact their health plan member services department to get questions answered.

Data Source

This Issue Brief uses data from the 2013 AIR Health Insurance Literacy Survey, a probability sample of 828 people aged 22-64 who were uninsured, privately insured or had Medicaid. Conducted in June 2013 with a 55 percent response rate, the survey was used to validate the American Institute for Research's Health Insurance Literacy Measure© (HILM), which consists of 21 self-report questions assessing self-confidence and behaviors associated with choosing and using health insurance. The HILM was validated with 18 objective, multiple-choice questions assessing understanding of health insurance terms and concepts, ability to correctly interpret summary of benefit and coverage tables, explanation of benefits statements and calculate out-of-pocket cost from coverage scenarios. The data from the objective measure are presented in this Issue Brief as percent of correct responses to the following four categories: health insurance terms, plan type, cost sharing and information seeking. For a full description of the measure, see Paez, Kathryn A., et al., "Development of the Health Insurance Literacy Measure (HILM): Conceptualizing and Measuring Consumer Ability to Choose and Use Private Health Insurance," *Journal of Health Communication*, Vol. 19, Supplement 2 (October 2014).

Notes

- ¹ Dorn, Stan, *Implementing National Health Reform: A Five-Part Strategy for Reaching the Eligible Uninsured*, Urban Institute, Washington, D.C. (May 2011); and Morgan, Robert O., et al., "Does Poorer Familiarity with Medicare Translate into Worse Access to Health Care?" *Journal of the American Geriatrics Society*, Vol. 56, No. 11 (November, 2008).
- ² Quincy, Lynn, *Measuring Health Insurance Literacy: A Call to Action*, Consumers Union, University of Maryland College Park and the American Institutes for Research, Washington, D.C. (February 2012); and American Institutes for Research, *Developing a Measure of Health Insurance Literacy: Understanding Consumers' Ability to Choose and Use Insurance*, Washington, D.C. (Feb. 19, 2013).
- ³ Paez, Kathryn A., et al., "Development of the Health Insurance Literacy Measure (HILM): Conceptualizing and Measuring Consumer Ability to Choose and Use Private Health Insurance," *Journal of Health Communication*, Vol. 19, Supplement 2 (October 2014).
- ⁴ U.S. Census Bureau, *Current Population Survey, Health Insurance Coverage Status and Type of Coverage by Selected Characteristics: 2013*, http://www.census.gov/hhes/www/cpstables/032014/health/h01_000.htm (accessed on Sept. 30, 2014).

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Exhibit 8. Consumer Checklist for Choosing a Health Insurance Plan

- ✓ Take time to read each health plan's summary of benefits and coverage (SBC). Think about what medical services you and your family routinely use to make sure those services are covered. Preventive services, such as an annual physical or a flu shot, usually are covered 100 percent without any out-of-pocket costs to you.
- ✓ If you don't understand health insurance terms or the SBC, get help. A glossary of health insurance terms is available at www.healthcare.gov. Talk to a marketplace navigator or assister or call the health plan to get answers. Don't assume you know everything about health insurance, ask questions.
- ✓ Carefully look at the cost-choice trade-offs before choosing a plan. Lower premiums generally mean less provider choice and more out-of-pocket costs when you receive care.
- ✓ If you want to keep your doctors or prefer a certain hospital, make sure they are in-network providers or you usually will have to pay more or all of the cost of your care.
- ✓ If you have a major illness or injury, will the health plan you chose protect you financially? Can you afford to pay a \$5,000 deductible if you need to be hospitalized, or would you rather pay a higher monthly premium and have a lower deductible?
- ✓ Estimate your family's out-of-pocket costs for the year—for example, how many prescription drugs does your family routinely use? Do you or your family have any chronic conditions that require regular doctor's visits or other services?
- ✓ If the plans you are considering have deductibles, make sure you understand what counts toward the deductible. Often, copayments for physician visits, prescription drugs and other services don't count toward the deductible.
- ✓ To help estimate your out-of-pocket costs, use an online calculator to estimate what deductibles, copayments (a fixed-dollar amount for a service) and coinsurance (a percentage of the total cost of a service) you will have to pay before the health plan pays for your care.
- ✓ Make sure you understand the rules for out-of-network coverage. Once insured, check to make sure the providers you want to use are in-network or expect to pay more.
- ✓ Once insured, don't assume your doctor knows the details of your coverage. Call your health plan member services to ensure you understand what's covered. Member services may be able to recommend a lower-cost provider that offers the same or better quality services.

Source: American Institutes for Research