California HealthCare Foundation

# Insurance Markets

## Ready or Not: Consumers Face New Health Insurance Choices

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Trends & Analysis

### Introduction

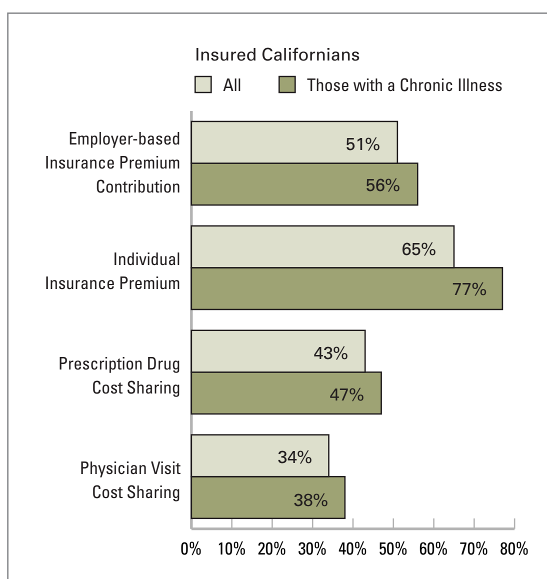
Not long ago, most working Californians, at least those working for large or midsize companies, could expect a standard health care benefits package. Typically, workers were offered comprehensive benefits and low out-of-pocket costs, sometimes with a restricted network of providers. Today, the choices are more complicated — and more expensive. In recent years, most companies have asked their employees to share more of the costs of their health coverage. Consumers, as a result, have had to make more decisions about their medical care.

Two recent surveys of Californians — one of adults and one of chronically ill adults — conducted by Harris Interactive Inc.® for the California HealthCare Foundation examined the impact of these health-benefit trends. This report highlights key findings from these surveys. It underscores the difficult choices facing the chronically ill, particularly those with lower incomes, who are paying more of their own health care costs.

### Patients Pay the Piper

To partially offset rising health insurance premiums, employers have increased employees' share of company-sponsored health-plan costs. Many California consumers have seen both their premium contributions and out-of-pocket costs at the point of care increase in the past year (see Figure 1).

**Figure 1. Insured Californians Who Have Experienced Cost-sharing Increases in the Past Year**




These increases have led significant numbers of consumers — especially those with lower incomes and those with greater health care needs — to reduce their use of health care services. Among all insured Californians, the response to increased cost-sharing was relatively small: one in six (17 percent) of those whose out-of-pocket costs for physician office visits increased in the past year postponed or skipped a visit to a doctor as a direct result of the increase (see Table 1). Among those whose prescription drug costs increased in the past

**Table 1. Behavior Changes as a Result of Increases in Cost Sharing, Insured Californians and Insured Californians with a Chronic Illness**

| | INSURED CALIFORNIANS | | | | | |
|---|---|---|---|---|---|---|
| | | Those with a Chronic Illness, by Income Level | | | | |
| BEHAVIOR | All | All | <$25,000 | $25,000 to ≤ $50,000 | $50,000 to ≤ $100,000 | $100,000+ |
| **Physician visits**<br>Postpone or skip a visit to the doctor | 17% | 29% | 46% | 33% | 24% | 17% |
| Switch to a different doctor | 7% | 3% | 5% | 4% | 2% | 5% |
| No change in behavior | 69% | 69% | 50% | 63% | 75% | 81% |
| **Prescription drugs**<br>Ask doctor for a generic medication or a less expensive alternative to an existing medication | 47% | 41% | 40% | 51% | 39% | 33% |
| Did not fill a prescription | 9% | 16% | 29% | 22% | 11% | 12% |
| No change in behavior | 38% | 46% | 44% | 37% | 49% | 51% |

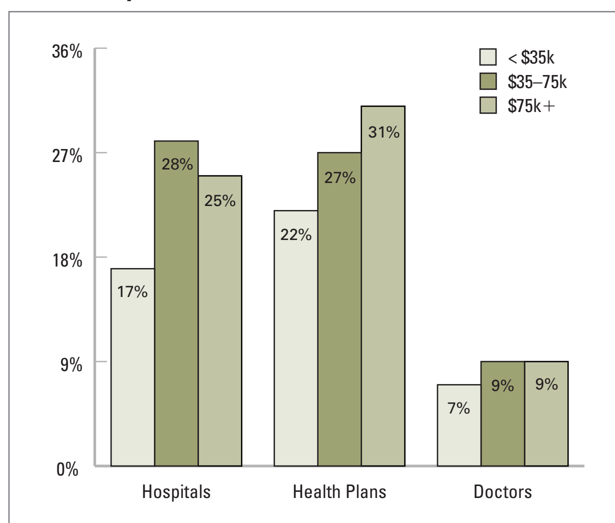
year, nine percent responded by not getting a prescription filled. However, the chronically ill are much more likely than Californians overall to postpone or skip a doctor visit or to fail to fill a prescription after a cost-sharing increase. And the response of the low-income (<$25,000 annual household income) chronically ill was dramatic—this group was almost three times as likely as insured Californians overall to postpone or skip a visit and more than three times as likely to fail to fill a prescription.

## Quality Ratings: Not Ready for Prime Time?

Many consumers are taking a more active role in their own health care decision making, and with good reason. As employers pass along more of their health care costs to employees—often providing incentives to select less expensive drugs and lower cost providers—consumers must assess certain cost-quality trade-offs. To do so, they need information that compares the relative cost and quality of their health care options.

However, consumer use of quality ratings, which give them an objective way to evaluate their choices, is not yet widespread. Relatively few Californians have seen or used ratings of doctors, hospitals, or health plans in the past year (see Figure 2). Despite the availability of new information regarding patient safety and satisfaction with plans and providers, most Californians do not believe there are big differences in the quality of care offered by the doctors, hospitals, and health plans in their area (see Table 2).

**Figure 2. Californians Who Have Seen Information that Rates Plans and Providers in their Community, by Annual Household Income**



Lower-income consumers are somewhat less likely than others to see quality ratings and less likely to discern quality differences among the health care choices available to them. The health care industry's emphasis on Web-based distribution of health care information may account for this, since the lower income group is less likely to be online.

**Table 2. Californians Who Believe Big Differences in Quality Exist Among Plans and Providers in their Area**

| | CALIFORNIANS | | | |
|---|---|---|---|---|
| PLAN/ PROVIDER | All | Income Level < $35,000 | $35 to 75,000 | $75,000+ |
| Hospitals | 35% | 25% | 36% | 41% |
| Health plans | 38% | 28% | 42% | 46% |
| Family doctors | 34% | 30% | 39% | 35% |
| Specialists | 36% | 29% | 41% | 37% |

## Understanding the New Rules of the Game

California embraced HMOs many years before managed care became the dominant benefit model in the rest of the nation. The relatively simple cost-sharing devices, such as copayments, long used by HMOs, are giving way to more complex mechanisms, such as coinsurance and tiering. These new requirements make it more difficult for consumers to assess the financial consequences of treatment decisions, such as their use of a given specialist or drug. Currently, most insured Californians know at least a fair amount about their plan's restrictions. However, knowledge of health plan restrictions falls sharply as income decreases: 33 percent of Californians with household incomes of $75,000 or more per year say they know a great deal about their health plan's restrictions, compared with only 15 percent of those making less than $35,000 annually (see Table 3). Californians with lower incomes also express less confidence in their ability to make health benefit decisions based on their knowledge of common health insurance terms (see Table 4). Consumers are most familiar with the terms copayment and deductible, and least familiar with coinsurance (the percentage of a claim paid by the patient, usually 20 percent) and formulary (the list of approved prescription drugs that a health plan will cover).

**Table 3. Insured Californians' Assessment of Knowledge About their Health Plans' Restrictions**

| | INSURED CALIFORNIANS | | | |
|---|---|---|---|---|
| KNOWLEDGE LEVEL | All | Income Level < $35,000 | $35 to 75,000 | $75,000+ |
| A great deal | 26% | 15% | 27% | 33% |
| A fair amount | 44% | 40% | 46% | 45% |
| Very little | 23% | 32% | 22% | 17% |
| Nothing at all | 6% | 10% | 3% | 6% |

**Table 4. Insured Californians Who Are Very Confident in their Ability to Make Health Benefit Decisions Based on their Understanding of Common Health Insurance Terms**

| | INSURED CALIFORNIANS | | | |
|---|---|---|---|---|
| TERM | All | Income Level < $35,000 | $35 to 75,000 | $75,000+ |
| Copayment | 49% | 33% | 51% | 57% |
| Deductible | 46% | 31% | 49% | 55% |
| Premium | 43% | 27% | 44% | 53% |
| Out-of-pocket maximum | 41% | 23% | 45% | 52% |
| Coinsurance | 31% | 23% | 30% | 37% |
| Formulary | 21% | 15% | 21% | 24% |

## Change Brings Anxiety

Greater exposure to rising health care costs has increased Californians' anxiety about paying for care. The proportion of California consumers who are very or somewhat concerned about paying expensive medical bills not covered by insurance has risen from 32 percent in 1997 to 43 percent in 2002 (see Table 5). The proportion worried that they will be unable to afford medical care when needed has also grown significantly since 1997. In contrast, concern about discontinuation of employer-sponsored health coverage has remained stable. Apparently, most workers consider it unlikely that their employers would drop such an important benefit. But this finding also may reflect changes in the nature of insurance itself. In the past, many plans, especially managed care plans, offered comprehensive coverage with low out-of-pocket costs. The trend toward higher out-of-pocket costs may help restrain further premium increases (and presumably ensure continued coverage) but leaves consumers more exposed to — and concerned about — financial barriers to care.

**Table 5. Californians Who Are Very or Somewhat Concerned About Paying for Care**

| AREA OF CONCERN | 1997 | 2002 |
|---|---|---|
| Health insurance becoming too expensive | 49% | 45% |
| Paying expensive medical bills not covered by insurance | 32% | 43% |
| Loss of health insurance for children | 44% | 42% |
| Inability to get required health care when ill due to excessive cost | 32% | 41% |
| Losing health insurance coverage due to job loss | 44% | 38% |
| Substantial cut backs of benefits under current health plan | 44% | 38% |
| Employer discontinuing health benefits | 28% | 29% |
| Increases in employer's health care costs are limiting wage increases | 31% | 28% |

## Conclusion

Financial barriers to care are no longer limited to those without health insurance. Recent health benefit trends have increased insured Californians' exposure to health care costs. Long a concern of policymakers and business executives, the rising costs of care and the growing complexity of health plan coverage have become a concern of millions of consumers as well. Higher out-of-pocket costs disproportionately impact the chronically ill, especially the low-income chronically ill, who are much more likely than others to forgo care as a result of increased cost sharing. Public policymakers as well as employers should be aware of the risks of cost containment efforts, and find ways to minimize them.

As their share of medical expenses increases, consumers must be better informed about the cost and quality of their health care options. Many of the options intended to increase consumer choice and accountability — such as tiered plans that increase the consumer's costs for using more expensive providers or medications — require considerable sophistication on the part of consumers. Most insured Californians say they know at least a fair amount about their plan's restrictions, but few have used available information resources to compare the quality of their health care options. To help employees make good choices, companies should consider more extensive consumer education efforts, including the use of quality ratings of providers and plans.

## Methods

A representative sample of 1,000 Californians 18 or older participated in a 20-minute telephone survey between October 24 and November 18, 2002. The survey data were weighted by gender, age, race, education, and health insurance status to reflect the demographic composition of the California population using the March 2002 Current Population Survey.

Results for chronically ill Californians are based on a 20-minute Internet survey conducted between November 26 and December 9, 2002. The survey was self-administered online to a sample of 3,465 California residents 18 or older who have a chronic health condition. The initial sample was drawn from the Harris Poll Online[sm] panel. Respondents were categorized as chronically ill if, due to a health condition that has lasted, or is expected to last, at least 12 months, they met at least one of the following criteria:

- Currently need or use a prescription drug;
- Need or use more medical care, mental health care, or other health services than usual for their age group;
- Are limited in their ability to do things most people their age can do;
- Need or get special therapy, such as physical, occupational, or speech therapy; or
- Need or get treatment or counseling for a mental or emotional problem.

The screening questions were asked in both the telephone survey of California adults and the Internet survey of Californians with a chronic illness. The demographic profile of adults with a chronic condition obtained from the initial telephone survey of all adult Californians was used to weight the data from the Internet survey. Data from the Internet survey were also adjusted to reflect the population of Internet users.

### FOR MORE INFORMATION

Additional information from this study is available at www.chcf.org. A companion Trends and Analysis report, titled "Health Benefit Costs: Employers Share the Pain," focuses on trends in employer-sponsored health insurance and is also available at www.chcf.org.

Future editions will identify trends in California's insurance markets, analyze regulatory and policy issues, and provide industry updates. Analyses will be posted as they become available at the California HealthCare Foundation's Web site at www.chcf.org.

The California HealthCare Foundation's program area on Health Insurance Markets and the Uninsured seeks to improve the functioning of California's health insurance markets, particularly the small group and individual markets, and to expand coverage to the uninsured. For information on the work of Health Insurance Markets and the Uninsured, contact us at **insurance@chcf.org**.

California HealthCare Foundation | 476 Ninth Street, Oakland, CA 94607 | tel: 510.238.1040 | fax: 510.238.1388 | www.chcf.org