Journal of Health Economics 56 (2017) 71–86

Contents lists available at ScienceDirect

Journal of Health Economics

journal homepage: www.elsevier.com/locate/econbase

Do individuals respond to cost-sharing subsidies in their selections of marketplace health insurance plans?☆

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ARTICLE INFO

Article history:
Received 31 January 2017
Received in revised form
16 September 2017
Accepted 18 September 2017
Available online 20 September 2017

Keywords:
Health Insurance
Health Insurance Literacy
Cost Sharing
Affordable Care Act

ABSTRACT

The Affordable Care Act (ACA) provides assistance to low-income consumers through both premium subsidies and cost-sharing reductions (CSRs). Low-income consumers' lack of health insurance literacy or information regarding CSRs may lead them to not take-up CSR benefits for which they are eligible. We use administrative data from 2014 to 2016 on roughly 22 million health insurance plan choices of low-income individuals enrolled in ACA Marketplace coverage to assess whether they behave in a manner consistent with being aware of the availability of CSRs. We take advantage of discontinuous changes in the schedule of CSR benefits to show that consumers are highly sensitive to the value of CSRs when selecting insurance plans and that a very low percentage select dominated plans. These findings suggest that CSR subsidies are salient to consumers and that the program is well designed to account for any lack of health insurance literacy among the low-income population it serves.

1. Introduction

The 2010 Affordable Care Act (ACA) established Marketplaces in which individuals and families can purchase health insurance coverage. In order to help make the purchase of health insurance affordable to low-income consumers, the law made available two types of subsidies—Advanced Premium Tax Credits (APTCs) and cost-sharing reductions (CSRs). APTCs reduce the premium cost of insurance and CSRs reduce the amount of cost sharing (e.g., deductibles and co-insurance) faced by consumers. Both type subsidies are means tested—APTCs are available to individuals with family incomes up to 400% of the Federal Poverty Line (FPL) and CSRs are available up to 250% of FPL. While APTCs can be used to purchase any Marketplace plan, CSRs are only available if consumers select certain plans.

Reducing the cost sharing faced by low-income consumers is an objective of the ACA because of a concern that, absent such reductions, low-income consumers facing high deductibles or other facets of cost-sharing would forgo needed care. Research on the impact of cost-sharing on use of care has found that high deductibles lead to lower spending on health care, but also can lead to lower spending on valuable care such as preventive care (Buntin et al., 2011; Brot-Goldberg et al., 2017).

A large body of literature has documented both the incomplete take-up of social benefits (for reviews, see Currie, 2006; Finn and Goodship, 2014) and of low-cost health insurance (Baicker et al., 2012). Moreover, the take up of tax credits targeted towards low-income individuals, such as the Earned Income Tax Credit, has also been found to be incomplete (Bhargava and Manoli, 2015). Low take-up of benefits has been attributed to low program awareness and understanding, choice overload and complexity, and stigma (Currie, 2006; Bhargava and Manoli, 2015; Baicker et al., 2012). Other studies have documented a substantial lack of health insurance literacy with a majority of U.S. consumers lacking a

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http://dx.doi.org/10.1016/j.jhealeco.2017.09.008
0167-6296/

basic understanding of health insurance (Loewenstein et al., 2013), including enrollees in ACA Marketplaces (Pollitz et al., 2016). In addition, studies have found large shares of privately insured workers choosing dominated plans, especially among those with a poor understanding of insurance (Handel, 2013; Bhargava et al., 2017b). These literatures suggest that low-income consumers purchasing insurance through the ACA Marketplaces, many of whom were new to private insurance, may be unaware of the CSR subsidies, may not understand the value of these subsidies, and therefore may not take up these benefits.

This paper seeks to determine whether low-income consumers who purchased health insurance though the ACA Marketplaces behaved in a manner that suggests that they both understood and valued CSR subsidies. In addition, we determine the extent to which these low-income consumers were mistakenly forgoing CSRs and instead purchased dominated plans – that is, plans that have both higher premiums and lower actuarial values – as has been found among privately insured and higher income individuals (Handel, 2013; Bhargava et al., 2017b).

To address these questions, we use administrative data on the 2014, 2015, and 2016 enrollment and plan choices of roughly 22 million low-income individuals who purchased health insurance in states that used the Federal portal, HealthCare.gov. We take advantage of discontinuous changes in the schedule of CSR benefits and employ a sharp regression discontinuity (RD) design in order to identify the plausibly causal effects of the value of CSRs on the take-up of these benefits.

We find that consumers are highly sensitive to the level of CSR benefits when selecting plans. At the point in the income distribution where individuals become eligible for CSR subsidized plans (and the actuarial value of plans discontinuously increases from 70 percent to 73 percent), we observe a 10 percentage point increase in the take-up of these benefits among consumers purchasing ACA Marketplace health plans. Similarly, when the actuarial value of CSR subsidized plans discontinuously increases from 73 percent to 87 percent), we observe a 16 percentage point increase in the take-up of these benefits; when the actuarial value of CSR subsidized plans discontinuously increases from 87 percent to 94 percent, we observe a 4 percentage point increase in take-up. We see no evidence that CSRs influence the extensive margin, that is, the decision to purchase health insurance through the ACA Marketplaces. Finally, we observe that only a very small percentage of consumers – 1.5% – forgo their cost-sharing subsidies and select dominated plans. These findings suggest that CSRs are salient to consumers and that the program is well designed to account for any lack of health insurance literacy among the low-income population it serves.

The paper proceeds as follows. In section 2, we review the literature on health insurance literacy and on the salience and take-up of social benefits and health insurance. In section 3, we describe how the ACA premium subsidies and CSRs are calculated and applied in the Marketplaces. In section 4, we discuss the administrative data we use and in section 5 we discuss the methods we use in our analysis. In section 6, we present our results. Finally, in section 7, we interpret these results in light of the literature on the salience and take-up of benefits and provide some concluding remarks.

2. Literature review

There are three areas of literature in economics that are related to the question of whether the ACA subsidy program to reduce cost sharing was well understood and valued by low-income consumers. These include the literatures on the take-up of social programs by eligible individuals, the salience of tax rates and tax credits, and health insurance literacy. These literatures suggest that the value of CSRs might not be well understood by consumers, which in turn may lead them to forgo these subsidies and perhaps to select dominated plans when purchasing health insurance through the ACA Marketplaces.

Participation in social insurance in the U.S. has been found both to be incomplete and to vary considerably across programs (Currie, 2006). These low rates of participation have been found for health programs including Medicaid (Cutler and Gruber, 1996; Currie and Gruber, 1996; Gruber, 2003) and the State Children's Health Insurance Program (Lo Sasso and Buchmueller, 2004), the Earned Income Tax Credit (EITC; Bhargava and Manoli, 2015; Manoli and Turner, 2014), the Supplemental Nutrition Assistance Program/Food Stamps (Daponte et al., 1999) and Unemployment Insurance (Ebenstein and Stange, 2010). Low take-up of social benefits has also been documented in the U.K. and in other developed countries (Finn and Goodship, 2014).

Individuals have also been found to misperceive their tax rates. Salience of taxes on goods has been found to be very low in the case of sales taxes (where the tax is not included in posted price; Chetty et al., 2009) or in the case of automated toll collection (Finkelstein, 2009). Tax credits, such as the EITC, are also misunderstood, with different claiming behavior being dependent upon what information is provided to the individual (Chetty and Saez 2013; Chetty et al., 2013; Bhargava and Manoli, 2015; Manoli and Turner, 2014; Guyton et al., 2016).

Health insurance literacy has also been found to be very low among U.S. consumers. Surveys by Loewenstein et al. (2013) and by Norton et al. (2014) found low levels of comprehension of basic insurance features such as deductibles, copayments, and coinsurance, especially among low-income individuals. In surveys, insurance brokers also report very low levels of health insurance literacy among consumers seeking to purchase ACA Marketplace insurance (Pollitz et al., 2016). Individuals also have been found to have trouble selecting plans that would minimize their potential spending in both hypothetical situations (Bhargava et al., 2017a; Johnson et al., 2013; Barnes et al., 2015, 2016) and actual situations (Abaluck and Gruber 2011; Heiss et al., 2013; Handel and Kolstad, 2015). Even among consumers receiving health insurance from employers, studies have found that dominated health insurance plans are selected at high rates (Handel, 2013; Sinaiko and Hirth, 2011; Bhargava et al., 2017b), especially among consumers with low health insurance literacy (Bhargava et al., 2017a, 2017b).

The incomplete take-up of social benefits and health programs and low rates of health insurance literacy have been attributed to a number of factors. These include stigma (Moffitt, 1983; Ketsche et al., 2007; Manchester and Mumford, 2010), program complexity (Bhargava and Lowenstein, 2015; Congdon et al., 2009; Bhargava and Manoli, 2015), transaction costs or inconvenience (Ebenstein and Stange, 2010), and low program awareness and understanding (Daponte et al., 1999; Bhargava and Manoli, 2015; Currie, 2006; Baicker et al., 2012). Schmitz and Ziebarth (2017) find that the salience of cost information affects consumers' choice of health insurance plans in Germany.

These literatures, taken together, suggest that low-income consumers purchasing insurance through the ACA Marketplaces, many of whom were new to private insurance, may be unaware of the CSR subsidies, may not understand the value of these subsidies, and therefore may not take up these benefits.

3. ACA premium subsidies and cost sharing reductions

In this section we summarize the two primary mechanisms by which the Federal government subsidizes health insurance purchased through the ACA Marketplaces — premium tax credits and cost-sharing reductions (CSRs).