

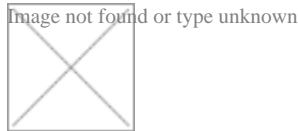


Weekly Checkup

Inability to Understand Health Insurance Costs Consumers Hundreds of Dollars

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Most people have a difficult time fully understanding their health insurance coverage, resulting in financial loss. The inability to accurately evaluate the various cost-sharing mechanisms leads many people to select a financially-dominated insurance plan—a plan which, given the premium and cost-sharing amounts, is economically suboptimal. For instance, spending \$625 more in annual premium costs for a \$500 lower deductible is economically irrational; yet, as shown below, the majority of people make that kind of mistake. A recent [report](#) analyzes the costs which result from these suboptimal choices. While people consider many factors besides cost when selecting health insurance, most of these preference differences were eliminated in this study and the problem persisted: 55 percent chose a financially-dominated plan.^[1] The average savings which could be achieved by switching from various dominated plans are shown.



^[1] Study only evaluated employees from a single large firm offering insurance from one company with all plans offering the same network coverage and all employees purchasing self-only coverage. This firm allows employees to build their plan by selecting the deductible, coinsurance, copayment, and maximum out-of-pocket amounts, for a total of 48 different plan options. <http://www.nber.org/papers/w21160>