Getting Specific About the Financial Security Aspects of Health Insurance

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Allison K. Hoffman, *Health Care Spending and Financial Security After the Affordable Care Act*, **N.C.L. Rev.** (forthcoming), available at SSRN.

Too often, discussions about health insurance coverage are one-dimensional, and focus solely on whether someone has coverage (good) or not (bad). Having health insurance coverage is undeniably a good thing and an important policy goal. However, as Professor Hoffman's article points out, simply focusing on health insurance coverage, without examining the type of protection it provides, gives us an incomplete picture of an individual's protection against health-related financial risks.

One of the primary goals of health insurance, after all, is to protect individuals from the financial insecurity that can result from medical spending. What is perhaps less obvious to the casual observer is that health insurance can provide very different levels of protection against financial insecurity depending on the plan's premiums, cost-sharing structure, and coverage terms. In her article, Professor Hoffman first provides a taxonomy of the types of financial risk health insurance could attempt to reduce. She then uses stylized examples of three health insurance consumers to examine how various forms of post-ACA coverage provide financial security. Her examination leads to some surprising results.

The types of financial security identified include: low baseline spending (where premiums for coverage are low); low variability in spending (where spending on covered benefits is not widely variable from year to year); no catastrophic risk (where variable spending is within an individual's capacity to absorb while maintaining a decent income level and living standards); and transparency (where an individual is aware of the range of possible spending under her health insurance policy).

The article then examines how three different types of health care consumers will fare under the ACA's regulatory structure, using currently available cost estimates and median income levels to flesh out the examples. The first consumer is one who purchases average silver-level coverage on the individual market. This consumer is well protected against catastrophic risk, but faces potentially high baseline costs and some variability in spending. The second consumer is one covered by an employer-sponsored plan. As Hoffman points out, individuals covered by employer plans have historically been well protected against nearly all types of financial risk. She also acknowledges that the ACA provides no guarantees that such protections will continue. It's likely that employer-provided coverage will continue to provide low baseline spending, but going forward it may subject individuals to increasing amounts of variability and catastrophic risk. Finally, the article examines a retiree with Medicare and Medigap coverage. The retiree example is particularly interesting, as it illustrates that an individual with only Medicare coverage will benefit from low baseline spending but face significant variability and catastrophic risk. By electing Medigap coverage, however, the retiree can shift into a high baseline spending model that involves low variable spending and low catastrophic risk.

As I read through the analysis of various types of risk protection in each market segment, I couldn't help but think that perhaps we need not be concerned about the variation present because of the ability post-ACA for many individuals to move between market segments. For example, if your employer offers you a lousy plan that doesn't provide you with the financial protection you require, you can simply buy coverage on the individual market. Hoffman easily handles this concern, by explaining that moving between markets (1) is not always possible (an individual can't simply opt in to employer-provided coverage if none is offered) and (2) requires the individual to be fully aware of the financial risk

protection of various forms of health insurance and to make a rational decision on the basis thereof. Given what we know about how people make complex decisions, she is right to suggest that the type of high-level analysis and decisionmaking is not likely to be the norm.

The article concludes by attempting the difficult task of trying to make sense of this mixed-model of health insurance as financial security. My own sense is that the inconsistent approach to the financial security aspects of health insurance were likely driven by the varied political forces at play in the lead up to the ACA. But regardless of why we ended up with these divergent models of financial security, the article provides an important contribution to all who are interested in health policy. It is not enough to focus on whether an individual has or does not have health coverage. In order to evaluate whether health reform satisfies our policy goals, we must first have an understanding of what we want health insurance to do, and what risks we want it to protect against, and evaluate outcomes within that framework. Hoffman's article not only draws attention to this important issue, it also gives policymakers important areas for monitoring and further study by identifying potential sources of financial insecurity among the insured.

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