



# Coverage When It Counts

How much protection does health insurance offer  
and how can consumers know?

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## Executive Summary

What does it mean to be adequately insured? A growing body of research documents both health-related and financial problems that can arise when health insurance doesn't cover enough. Rates of medical debt are growing, chiefly among the insured.<sup>1</sup> One in five privately insured Americans with chronic conditions live in families with medical bill problems—an increase from 16 percent in 2003.<sup>2</sup> When out-of-pocket spending for medical care exceeds just 2.5 percent of income—less for low-income persons—financial burdens on families become substantial.<sup>3</sup> Studies show that the underinsured and uninsured face similar problems accessing medical care and managing financial burdens.<sup>4</sup>

Knowing whether insurance provides adequate coverage can be a challenge. Health insurance policies are complex products, highly variable in their design, and key information about how coverage works is not always disclosed during marketing. Further, health insurance promises protection against future, unknown events. Consumers who are healthy today can find it difficult to anticipate future medical problems and costs and harder still to evaluate how insurance might cover those needs.

The protection health insurance offers today is highly dependent on the policy purchased. An insured person who becomes seriously ill might have to pay thousands, or tens of thousands, of dollars out-of-pocket for needed care. For many consumers that range represents the difference between health security and financial catastrophe. Consumers compare the prices of health insurance policies, but cannot always reliably tell if they are comparing like products. The affordability of health insurance premiums cannot be considered independently of the adequacy of coverage health insurance provides. At a minimum, the difference in protection health insurance offers should be readily available for all to see.

Health insurance should be transparent, so that consumers know what they are getting in a market filled with options that are not always equal. Many urge that consumers value this plan choice and that choice is vital to efficient competition in health insurance markets. Yet, economists teach that well functioning markets require transparent information so that both buyers and sellers can understand and evaluate options. That's why health insurance transparency and coverage adequacy go hand in hand.

This paper summarizes findings of two reports studying the adequacy and transparency of health insurance in Massachusetts and California.<sup>5</sup> Those reports suggest a new method for developing benchmarks to illustrate types and costs of medical care under a variety of scenarios, and for evaluating insurance protection using these benchmarks. Using simulated claims scenarios for different types of patients we analyzed the content of coverage under a variety of health insurance policies sold to individuals and small employers in Massachusetts and California and estimated out-of-pocket costs for care that patients might face. We also reviewed the transparency and accessibility of information that consumers would need to understand how coverage works.

We recommend developing standardized health plan comparison tools—patterned on the U.S. Food and Drug Administration nutrition label, but for health insurance—that could help consumers appreciate the kinds of medical events for which health insurance may be needed and relative levels of protection provided under different policies.