

Understanding Cost Sharing in Health Insurance

Why it exists, how it's determined, and what it means for affordability

Q: What Is Cost Sharing?

Cost sharing refers to the portion of medical costs that consumers pay out-of-pocket when they receive health care services. It includes **deductibles**, **copayments**, and **coinsurance**, and is a core feature of nearly all health insurance products.



Q: What is Required by the ACA for Cost Sharing?

The Affordable Care Act established key protections:

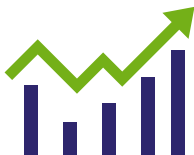
- **Limits on out-of-pocket maximums:** For 2025, the limit is \$9,450 for individuals and \$18,900 for families (Marketplace plans).
- **No cost sharing for preventive services:** Includes vaccines, screenings, and annual checkups.
- **Standardized plan tiers:** Bronze, Silver, Gold, and Platinum plans are categorized by actuarial value, creating clear expectations for consumer costs and coverage generosity.
- **Cost-sharing reductions (CSRs):** Available to lower-income enrollees to reduce deductibles and out-of-pocket costs.



Q: How Is Cost Sharing Developed?

Health plans develop cost sharing structures as part of their plan design process. These decisions are informed by:

- **Actuarial value requirements:** Plans must meet specific coverage levels (e.g., 60%, 70%, 80%, 90%) as defined by the Affordable Care Act (ACA).
- **State and federal rules:** Regulators set limits on annual out-of-pocket costs and prohibit cost sharing for certain preventive services.
- **Utilization trends:** Cost sharing is calibrated to encourage appropriate use of care while discouraging unnecessary or low-value services.
- **Premium-cost tradeoffs:** Lower cost sharing typically results in higher monthly premiums, while higher cost sharing reduces upfront premiums.



Q: Why Is Cost Sharing Used?

Consumer cost sharing serves important purposes:

- **Encourages value-conscious care decisions:** When consumers share in the cost, they're more likely to ask about prices and avoid unnecessary services.
- **Controls premiums:** Plans with higher cost sharing tend to have lower monthly premiums, which helps maintain affordability for a broader population.
- **Aligns incentives:** Sharing costs helps ensure that health care dollars are used efficiently across the system.



Q: Why Doesn't Capping or Eliminating Cost Sharing Reduce Total Health Costs?

Proposals to cap or eliminate cost sharing may appear to help consumers, but they can have unintended consequences:

- **Higher premiums:** Lowering or eliminating cost sharing shifts costs to the plan, which must then raise premiums to cover higher expected utilization.
- **Overutilization risk:** Without cost sharing, consumers may seek more services, including low-value or unnecessary care, driving up total system costs.
- **Hidden costs for employers and taxpayers:** In employer-sponsored and public programs, the cost burden simply shifts to other payers rather than disappearing.
- **No impact on provider pricing:** Cost sharing limits do not address the underlying drivers of health care spending, such as hospital and drug prices.
- **Inapplicable to a majority of insureds:** 90% of unsubsidized individual purchasers and more than two-thirds of small and mid-size group members in Massachusetts are enrolled in a High Deductible Health Plan (HDHP). In exchange for lower monthly premiums, members agree to pay a certain amount out of pocket - \$1,600 in 2025 - before insurance coverage begins. Notably, HDHPs are governed by federal law and states have no authority to regulate them or exclude services from cost sharing.



Conclusion

While consumer protections and affordability guardrails are essential, cost sharing remains a critical tool for promoting smarter health care consumption and controlling systemwide costs. Efforts to make health care more affordable should focus on underlying cost drivers, not just shifting who pays the bill.