Consumer Decisions on Health Insurance Exchanges

Keith Marzilli Ericson

February 24, 2015

Boston University and NBER
www.practicingeconomist.com

BOSTON UNIVERSITY

Consumer Decisions on HIX

- Price Sensitivity: Varies by Age
- Standardization and Plan Generosity
- Valuing (and Observing?) Networks
- Renewal Decisions and Defaults

BOSTON UNIVERSITY

Learning from Pre-ACA HIX

- Massachusetts HIX

- Result of state reform
- Guaranteed issue, modified community rating
- 2007-2013: no risk adjustment, no subsidies (separate subsidized plans)

- Medicare Part D

- Rx drug insurance for elderly, 2006+
- Guaranteed issue, community rating
- Risk adjustment, subsidies

BOSTON UNIVERSITY

Consumer Price Sensitivity on Mass. HIX

- How do consumers substitute among plans when insurers raise premiums?
  - Determines how insurers set price markups
- Result: big gain to being the cheapest plan
  - Equivalent to $300-$550/year premium decrease
    - Consistent with heuristic “choose the cheapest”; cheapest plan is listed first
  - Competition at bottom of the market may be quite different from top of the market

BOSTON UNIVERSITY

Ericson and Starc. 2012. "Heuristics and Heterogeneity in Health Insurance Exchanges”. *American Economic Review*

Consumer Price Sensitivity on Mass. HIX

- Over/under age 45: older half as price sensitive
  - … because sicker, richer, or relationship w/doctor
  - Result: insurers want higher markups for older
- Limiting age-based pricing links prices of old/young
  - Leads to transfers from young to old
  - Also lowers insurers profits by ≈$300 pp/year
    - Why? Insurers price to *marginal* consumer, who is young and inexpensive
  - Raises consumer surplus by ≈$600 pp/year

BOSTON UNIVERSITY

Ericson and Starc. Forthcoming. "Pricing Regulation and Imperfect Competition". *Review of Economics and Statistics*

Standardization and Plan Generosity

- Arranging plans in tiers helps consumer compare
  - Non-neutral names: “gold” is a recommendation
- Hard to compare within tier
  - Is a $250 increase in deductible worth a 5% decrease in coinsurance?
- Massachusetts, 2010: Standardized cost sharing parameters within tier

BOSTON UNIVERSITY

Ericson and Starc. 2013. "How Product Standardization Affects Choice”. *NBER WP.*

Choice Process: Pre-Standardization

Account Login • En Español • Help • Contact U

HealthConnector

Home | Find Insurance | Health Care Reform | About Us | SEARCH

Overview • Find a Plan • FAQ

✔ Step 1: Eligibility ✔ Step 2: Provide information ✔ Step 3: Choose type of plan Step 4: Compare plans Step 5: Confirm your plan Step 6: Enroll

Find Insurance: *Individuals & Families*

STEP 4 OF 6 - COMPARE PLANS (OVERVIEW)

Click "View Plan" to see details. You can also compare up to 3 plans at a time. Check the box next to the plans you want to compare. Then click "Compare Selected Plans."

Compare Selected Plans

Tier	Plan	Premium*	Deductible	Co-Payments			Hospital Stay	Doctors You Can See	Choose Plan
				Doctor	RX	ER			
B	☑ *Fallon Community Health Plan* FCHP Direct Care	$586.00	$2,000/$4,000	$25	$15 / $50 / $100	$200	$500 per admission after deductible	Find Doctor	View Plan
B	☐ *Neighborhood Health Plan* NHPThree Select	$636.22	$2,000/$4,000	$25	$15 after Rx deductible / 50% co-insurance after Rx deductible / 50% co-insurance after Rx deductible	$100 after deductible	20% co-insurance after deductible	Find Doctor	View Plan
B	☐ *Harvard Pilgrim Health Care* Harvard Pilgrim Core Coverage 1750	$641.71	$1,750/$3,500	$25 copay up to 3 medical care office visits per individual (or 6 per family); next visits are subject to the deductible; then 20% co-insurance thereafter	$15 / 50% co-insurance after Rx deductible / 50% co-insurance after Rx deductible	$250	20% co-insurance after deductible	Find Doctor	View Plan
B	☐ *Fallon Community Health Plan* FCHP Select Care	$676.00	$2,000/$4,000	$25	$15 / $50 / $100	$200	$500 per admission after deductible	Find Doctor	View Plan
B	☐ *Tufts Health Plan* Advantage HMO Select 2000 (Limited choice of doctors & hospitals)	$676.73	$2,000/$4,000	$40	$20 after Rx deductible / $50 after Rx deductible / $75 after Rx deductible	$200	$0 after deductible	Find Doctor	View Plan
B	☐ *Blue Cross Blue Shield of Massachusetts* HMO Blue Basic Value	$689.15	$250 per plan year/$500 per plan year	$25	$15 / 50% co-insurance after Rx deductible / 50% co-insurance after Rx deductible	$200	35% co-insurance after deductible	Find Doctor	View Plan
S	☐ *Tufts Health Plan* Advantage HMO Select 750 (Limited choice of doctors &	$810.93	$750/$1,500	$15	$10 after Rx deductible / $30 after Rx deductible / $45 after	$200	$0 after deductible	Find Doctor	View Plan

BOSTON UNIVERSITY

Choice Process: Post-Standardization

You've selected

Benefits package
- ☑ Bronze
- ☑ Silver
- ☑ Gold

Narrow by provider

Search for your doctor...

Only show plans that include your doctor, nurse practitioner, hospital or health center.

Narrow by monthly cost

- Less than $300 (5)
- $301 - $400 (12)
- $401 - $500 (17)
- $501 - $600 (8)
- $601 - $700 (2)
- Greater than $700 (3)

Narrow by insurance carrier

- BMC HealthNet Plan (8)
- Blue Cross Blue Shield of Massachusetts (8)
- CeltiCare (8)
- Fallon Community Health Plan (11)
- Harvard Pilgrim Health Care (8)
- Neighborhood Health Plan (8)
- Tufts Health Plan (8)

Show Plans. Then choose up to 3 to compare. Click **Continue** at bottom.

	Monthly Cost	Annual Deductible	Annual Out of Pocket Max.	Doctor Visit	Generic Rx	Emergency Room	Hospital Stay
Bronze Low Benefits Package 8 plans available Show Plans | About Bronze Low	as low as **$271**	STANDARD BENEFITS FOR ALL BRONZE LOW PLANS					
		$2,000 (ind.) $4,000 (fam.)	$5,000 (ind.) $10,000 (fam.)	annual deductible, then $25 copay	annual deductible, then $15 copay	annual deductible, then $100 copay	annual deductible, then 20% co-insurance
Bronze Medium Benefits Package 8 plans available Show Plans | About Bronze Medium	as low as **$296**	STANDARD BENEFITS FOR ALL BRONZE MEDIUM PLANS					
		$2,000 (ind.) $4,000 (fam.)	$5,000 (ind.) $10,000 (fam.)	$30 copay	$10 copay	annual deductible, then $150 copay	annual deductible, then $500 copay
Bronze High Benefits Package 8 plans available Show Plans | About Bronze High	as low as **$298**	STANDARD BENEFITS FOR ALL BRONZE HIGH PLANS					
		$250 (ind.) $500 (fam.)	$5,000 (ind.) $10,000 (fam.)	$25 copay	$15 copay	$150 copay	annual deductible, then 35% co-insurance
Silver Low Benefits Package 8 plans available Show Plans | About Silver Low	as low as **$394**	STANDARD BENEFITS FOR ALL SILVER LOW PLANS					
		$1,000 (ind.) $2,000 (fam.)	$2,000 (ind.) $4,000 (fam.)	$20 copay	$15 copay	annual deductible, then $100 copay	annual deductible, then no copay
Silver High Benefits Package 8 plans available Show Plans | About Silver High	as low as **$412**	STANDARD BENEFITS FOR ALL SILVER HIGH PLANS					
		None	$2,000 (ind.) $4,000 (fam.)	$25 copay	$15 copay	$100 copay	$500 copay
Gold Benefits Package 7 plans available Show Plans | About Gold	as low as **$493**	STANDARD BENEFITS FOR ALL GOLD PLANS					
		None	None	$20 copay	$15 copay	$75 copay	$150 copay

Continue

BOSTON UNIVERSITY

Choice Process: Post-Standardization

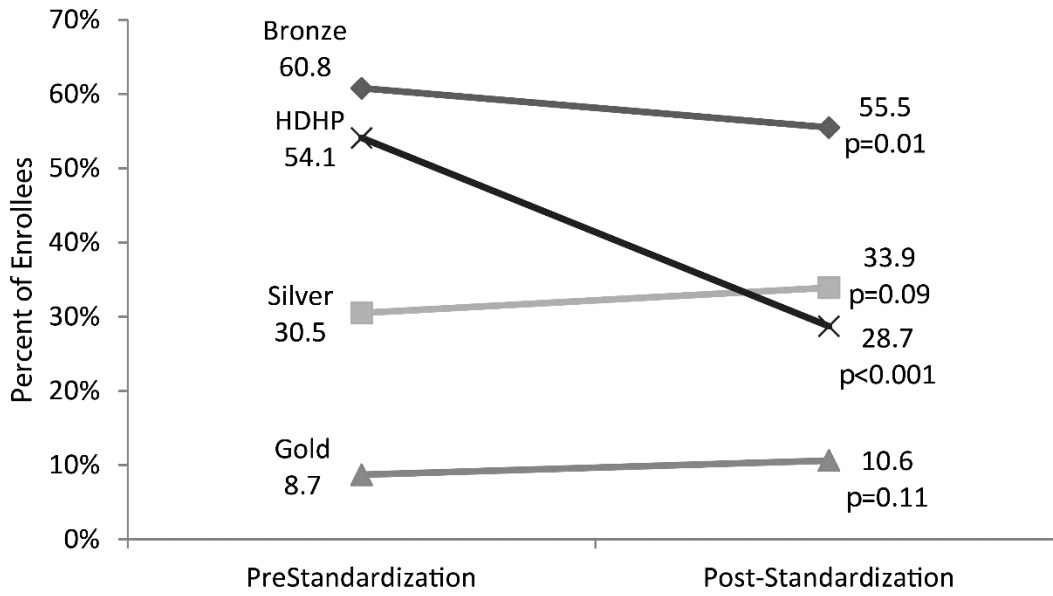
Show Plans. Then choose up to 3 to compare. Click **Continue** at bottom.

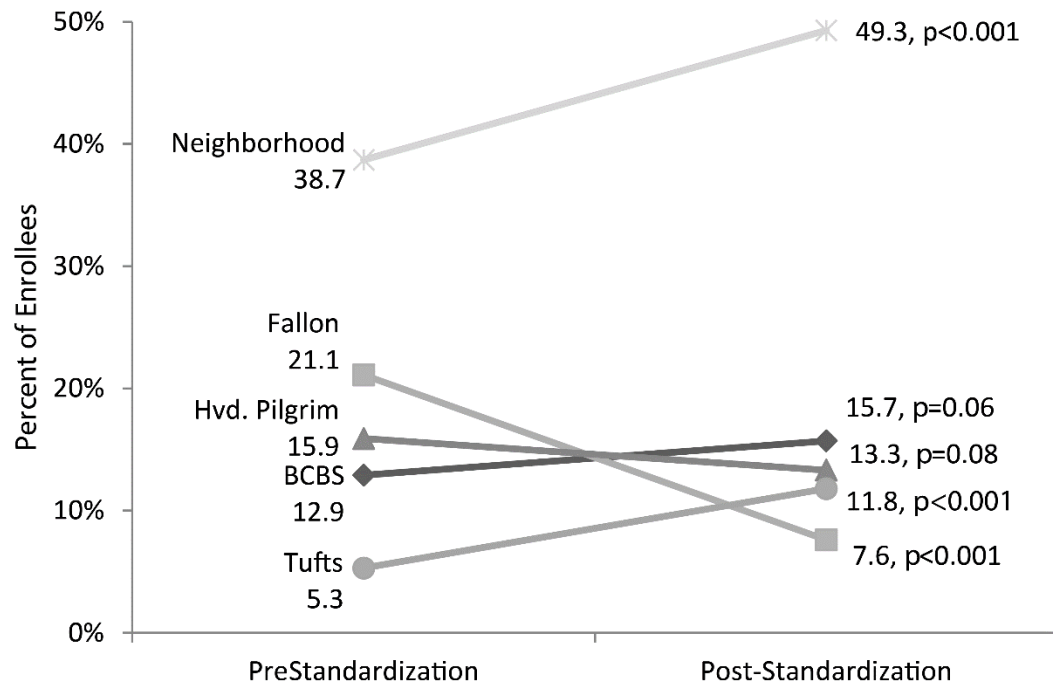
	Monthly Cost	Annual Deductible	Annual Out of Pocket Max.	Doctor Visit	Generic Rx	Emergency Room	Hospital Stay
Bronze Low Benefits Package 8 plans available Hide Plans | About Bronze Low	as low as **$271**	STANDARD BENEFITS FOR ALL BRONZE LOW PLANS					
		$2,000 (ind.) $4,000 (fam.)	$5,000 (ind.) $10,000 (fam.)	annual deductible, then $25 copay	annual deductible, then $15 copay	annual deductible, then $100 copay	annual deductible, then 20% co-insurance
HealthNet Plan	$270.51	↑	↑	↑	↑	↑	↑
CELTICARE	$273.84	↑	↑	↑	↑	↑	↑
Neighborhood Health Plan	$292.60	↑	↑	↑	↑	↑	↑
TUFTS Health Plan	$348.98	↑	↑	↑	↑	↑	↑
fallon community (SMALLER NETWORK)	$354.00	↑	↑	↑	↑	↑	↑
Harvard Pilgrim Health Care	$394.69	↑	↑	↑	↑	↑	↑
fallon community	$402.00	↑	↑	↑	↑	↑	↑
MASSACHUSETTS	$404.84	↑	↑	↑	↑	↑	↑
Bronze Medium Benefits Package 8 plans available	as low as **$296**	STANDARD BENEFITS FOR ALL BRONZE MEDIUM PLANS					
		$2,000 (ind.) $4,000 (fam.)	$5,000 (ind.) $10,000 (fam.)	$30 copay	$10 copay	annual deductible, then $150	annual deductible, then $500

BOSTON UNIVERSITY

Result of Standardization

- More generous plans chosen.
- Tier became more important in decisions
- Little change in price sensitivity
- Major shift in brand choices
- Made consumers better off





BOSTON UNIVERSITY

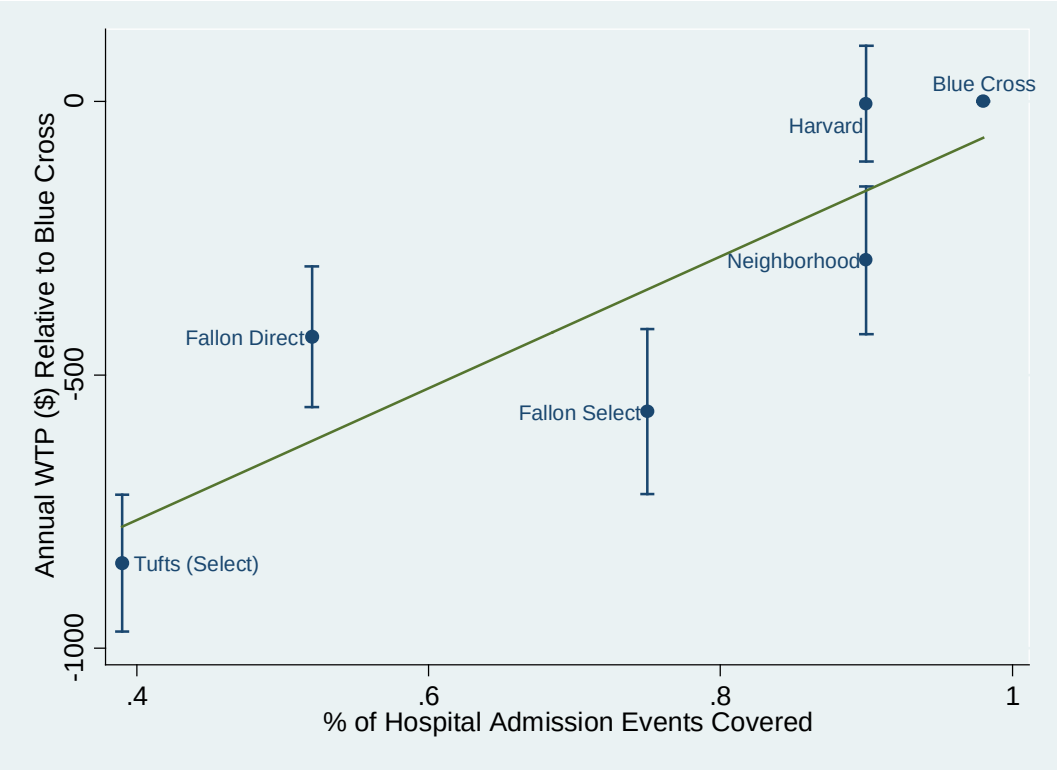
Networks

- How do consumers value provider coverage network?
  - Hard to observe network (many doctors, hospitals)
  - **No** direct choice evidence until now
- Massachusetts HIX 2009-2010
  - Had useful search tool
  - Measure network breadth by % of *all* hospital admissions statewide that would be covered by insurer
  - Measure willingness to pay from plan choices

BOSTON UNIVERSITY

Networks

- Consumers willing to pay for broader network
  - It varies by age
  - $750/year for 30 year olds, $1500/year for 60 year olds
- Hard to distinguish different networks *within* brand
- Don't know much about contexts with opaque network info
  - Or unfamiliar brands



BOSTON UNIVERSITY

Ericson and Starc. Forthcoming. "Measuring Consumer Valuation of Limited Provider Networks". *American Econ. Rev.*

Inertia in Plan Choice: Defaults Matter

Medicare Part D

- Initial assignment default:
  - Low Income Subsidy (LIS) recipients assigned to plan below threshold
  - Matters in year 1 and beyond
- Automatic switching default
  - If firm raises price in year 2, LIS switched to cheape plan
  - High income enrollees have to actively switch

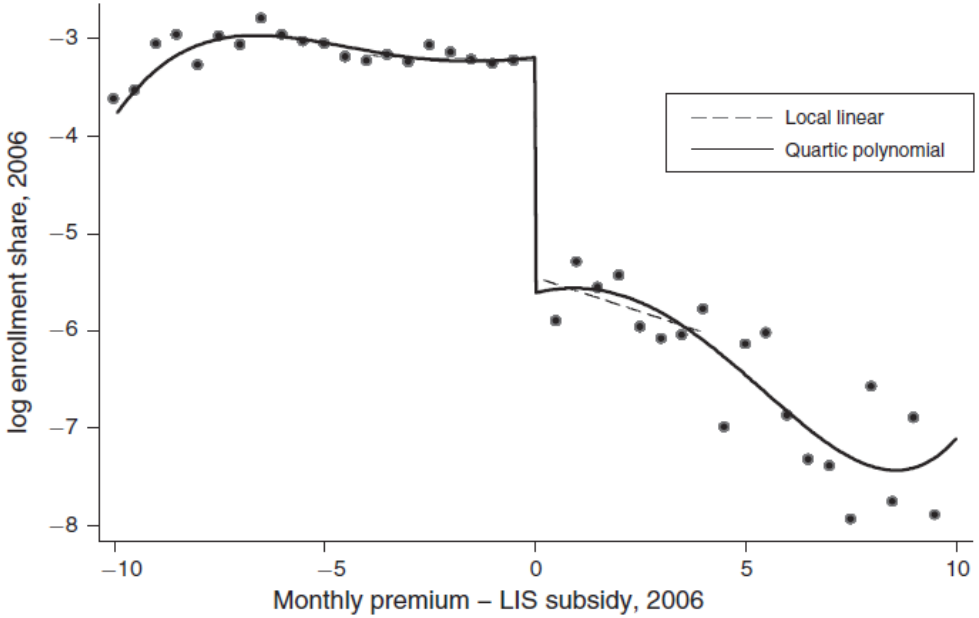


FIGURE 3. THE EFFECT OF 2006 BENCHMARK STATUS ON 2006 ENROLLMENT

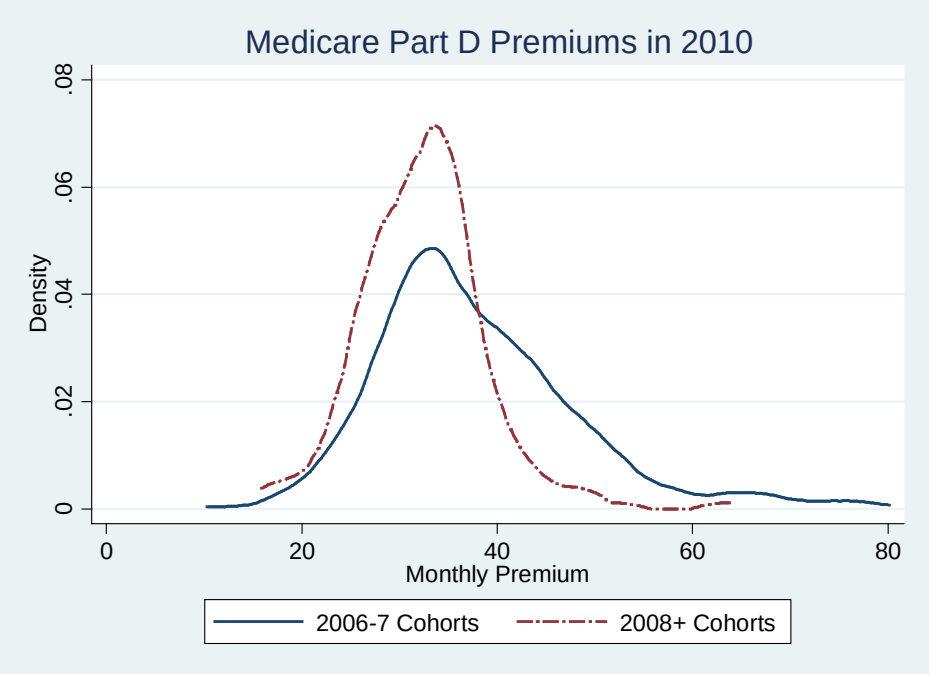
Notes: Dots are local averages with a bin size of $0.50. Dashed lines are predictions from local linear regressions with bandwidth of $4. Solid lines are predictions from regressions with a quartic polynomial with a bandwidth of $10.

BOSTON UNIVERSITY

Ericson. 2014. "Consumer Inertia and Firm Pricing in Medicare Part D ". *AEJ Policy.*

Inertia in Plan Choice: Defaults Matter

- Insurers respond by using "invest-then-harvest" pricing
  - Offer low prices in early years, capture enrollees
  - Costly to switch
  - Raise prices in later years
- Result: unnecessary churn between plans, lower investment in enrollee health



Result: Older plans are 20% more expensive than equivalent newly introduced plans
(weighted by enrollment)

BOSTON UNIVERSITY

Ericson. 2014. "Consumer Inertia and Firm Pricing in Medicare Part D ". *AEJ Policy.*

Consumer Decision-Making on HIX

- HIXs: more choice but difficult choices
- HIX design can help consumers
  - Defaults
  - Recommendations
  - Standardization for comparison
  - *Employers played this role in employer-sponsored insurance*
- More work: consumers and provider networks, including disclosure of network info

BOSTON UNIVERSITY