

Thoughts on Parente & Feldman

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A Quick Sniff-Test on the Uninsurance Reduction Estimates

- About half the uninsured don't pay any federal income tax \Rightarrow no effect from SOTU07
- Another quarter might have about 10% marginal income tax rate \Rightarrow value of the deduction (for single) is \$750
 - If a health plan costs \$3000 this is a 25% discount
 - If we assume a relatively generous elasticity of 2 then this translates into 50% increase in coverage for this group – or about 3.4 million people
- If the remaining quarter of the uninsured have a marginal tax rate of 15% \Rightarrow value of deduction = \$1125
 - Using the \$3000 health plan cost this represents a 38% discount
 - Again assuming the relatively generous elasticity of 2 this leads to another 5 million insured

The Bottom Line on the Estimates

- (On the one hand) The estimates of uninsurance reductions seem awfully high
- (On the other hand) A reduction of 8-9 million uninsured is nothing to sneeze at (though that estimate still probably is too high)
 - A ~30% drop in uninsurance would be a welcome outcome to everyone...
 - except those who have to pay for it (us)

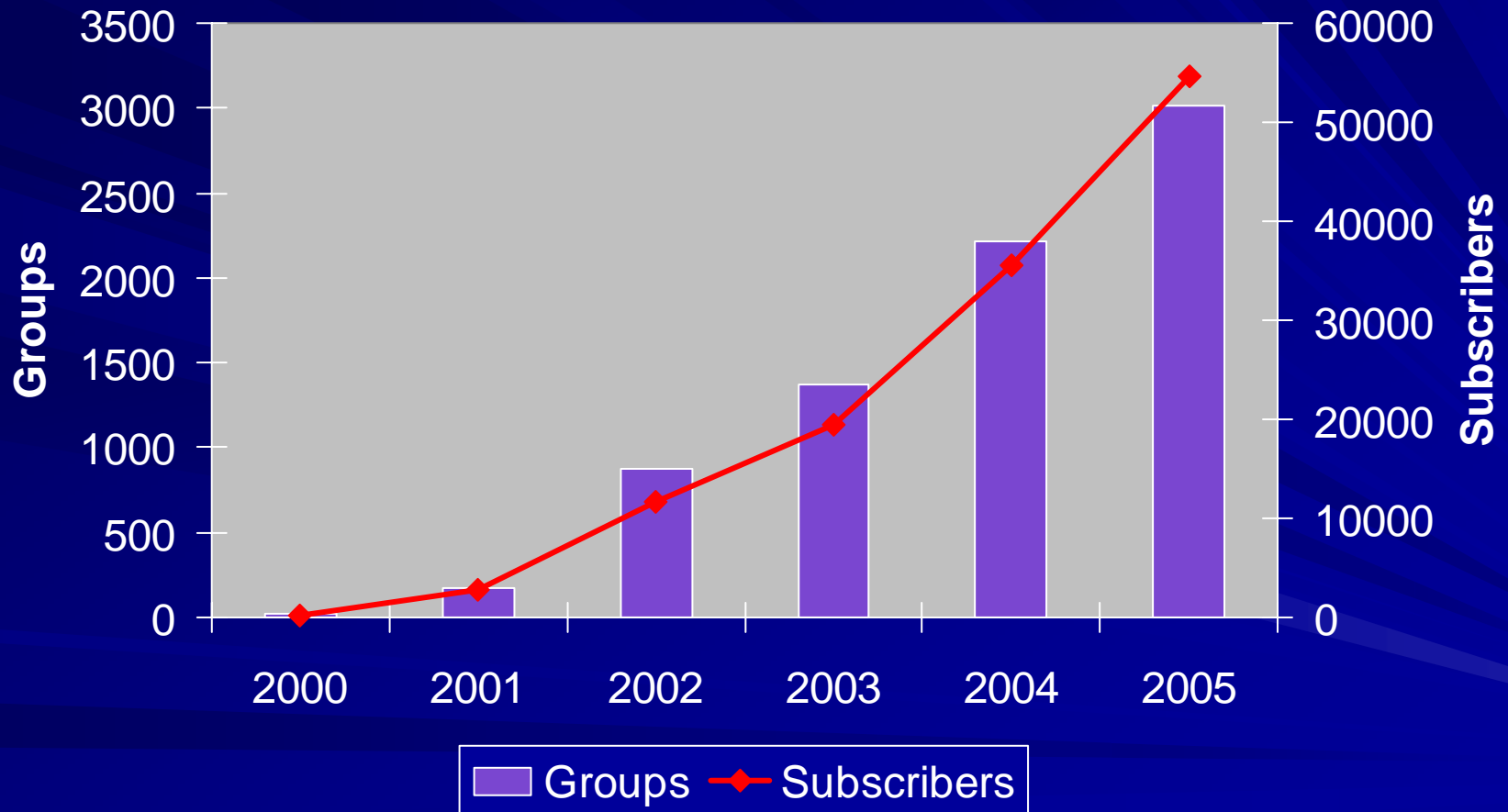
Not Implausible that Many of the Uninsured Would Enroll in CDHPs

- This would certainly have profound implications for the market for CDHPs and potentially by extension health care expenditure trends(?)
 - An open question: What's the sensitivity of spending to CDHP features?
- As much of the enrollment would come from the non-group market (though far from all, given the implications of the tax policy changes on the group market) the assumption about a “national market” needs to be considered
 - How are newly resurgent state regulations being discussed in the states going to impact insurance outcomes

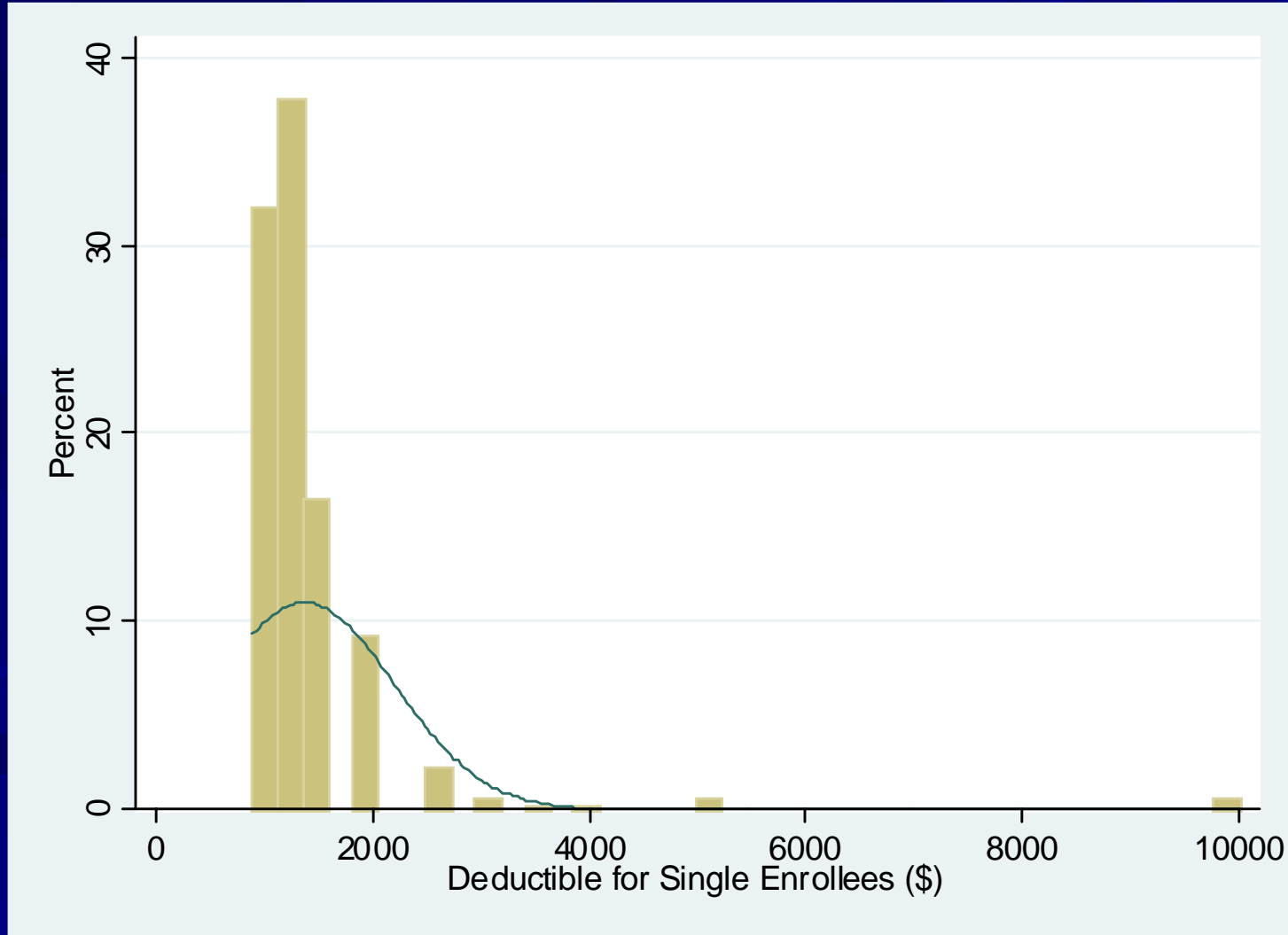
To Attempt to Answer the First Question: A Unique Setting

- A health insurance company that has been selling CDHPs since 2000 mainly in the small group market
- Insurer sells products exclusively as total replacement so the most obvious form of selection is not a concern (though there are still more subtle forms of selection possible)
- Data covering 2000-2006
 - 4614 employers
 - 71,812 employees with 38,972 observed for more than 1 year

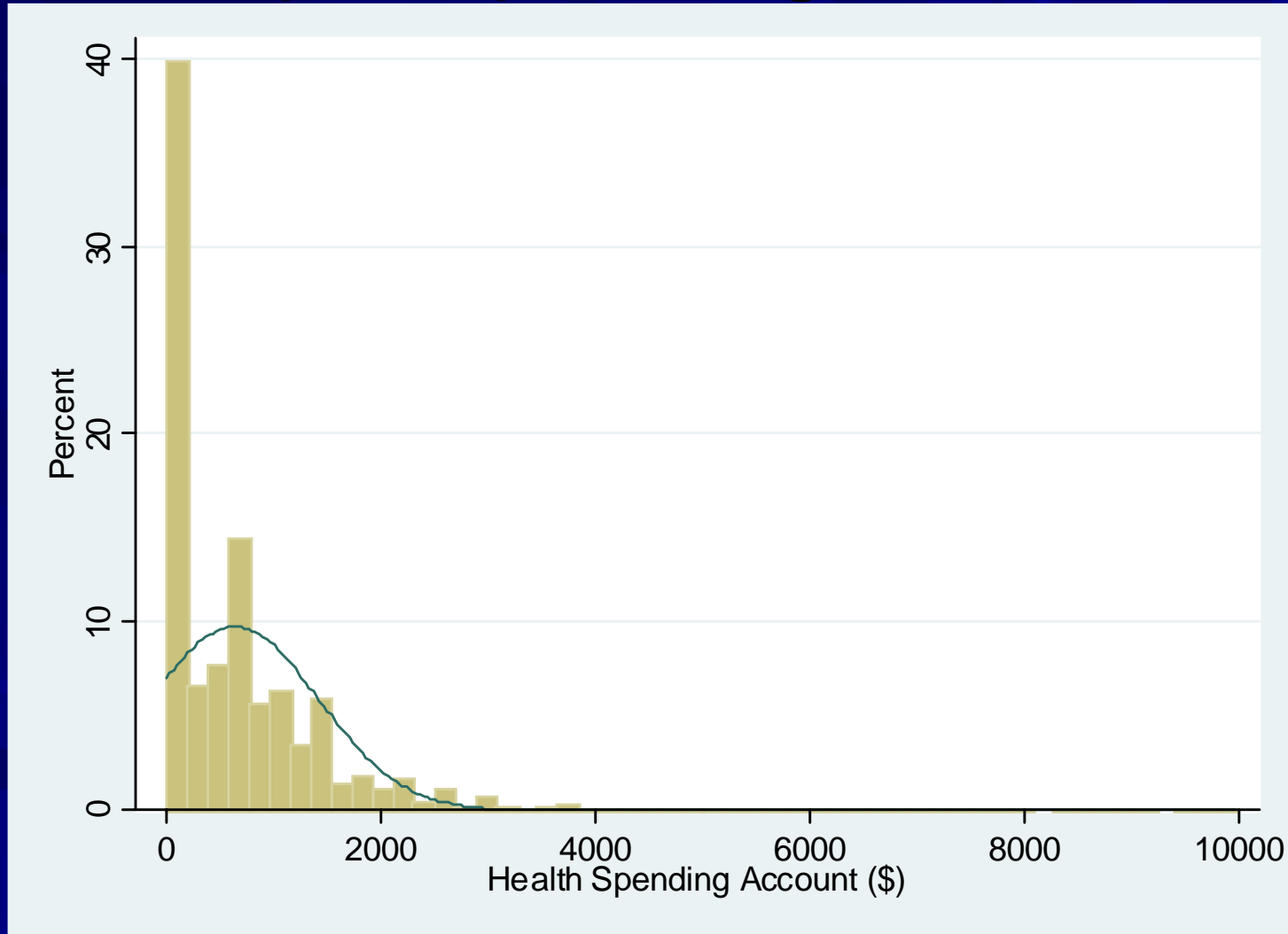
Company has Experienced Marked Growth in Enrollment over 6 Years



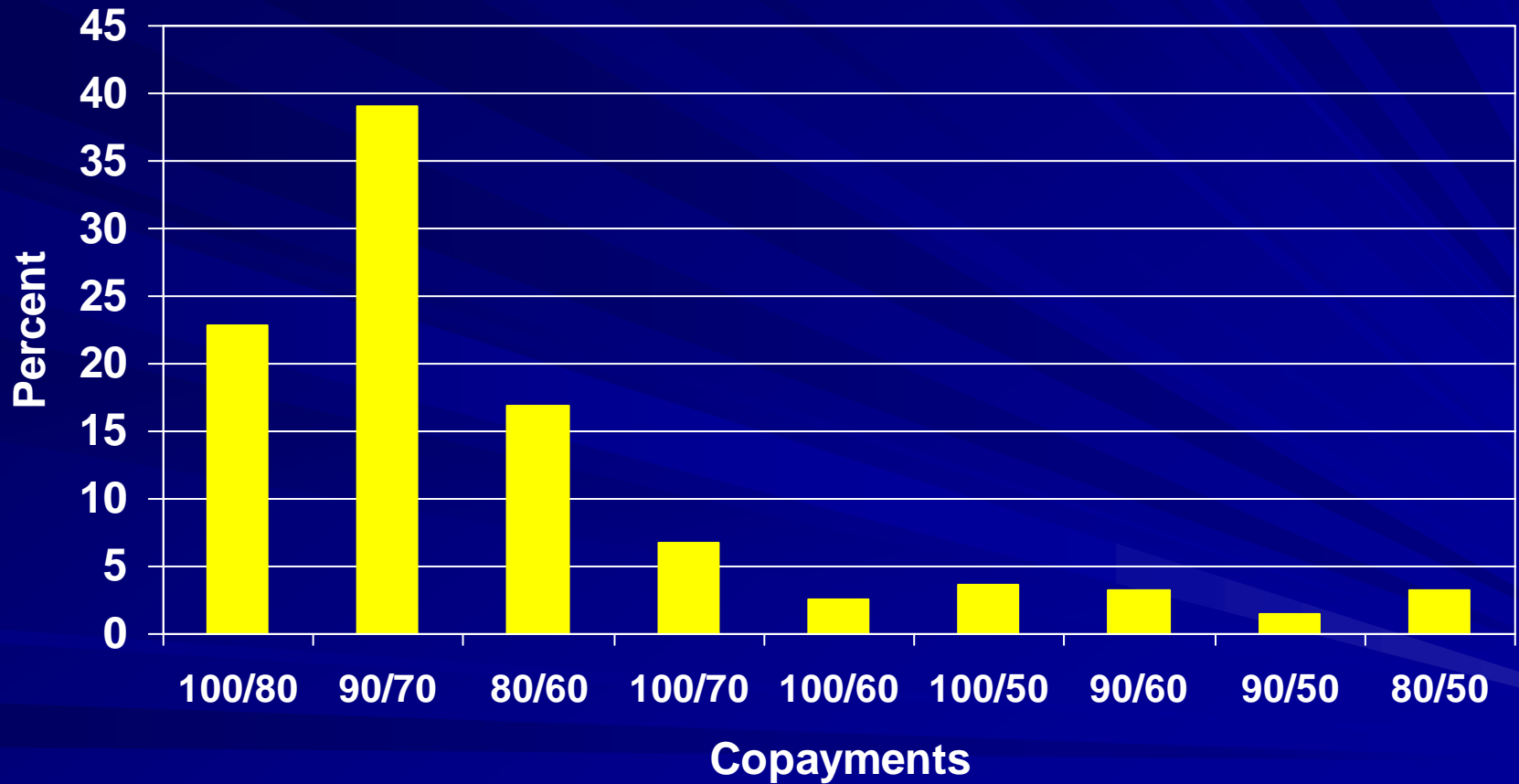
Plan Characteristic Vary Across Groups: Deductibles



Plan Characteristic Vary Across Groups: Spending Accounts



Plan Characteristic Vary Across Groups: Copayments



Descriptive Statistics

	Mean (Standard Dev)
Spending Account	\$752 (726)
“Donut hole”	\$1,246 (1,262)
Deductible	\$1,998 (1,272)
Total spending	\$4,743 (16,541)
Total OOP spend	\$854 (2,556)

Some Preliminary Results

- Each additional dollar in the spending account leads to an additional \$3 of health care spending and an additional 56 cents of out-of-pocket spending
- Each additional dollar in the “doughnut hole” leads to 57 cents fewer health care spending and an additional 9 cents of spending out-of-pocket

Summary Comments on Spending Patterns Under CDHP

- Early results point to the importance & potential promise these new cost sharing arrangements
- Total health care spending is responsive to spending account level (elasticity $\sim .47$) and donut hole amount (elasticity $\sim -.15$)
- (But more work is needed...)

State Non-Group Market Regulations

- In several states it is not possible to purchase an HSA in the non-group market
- Moreover, more states are entertaining community rating/guaranteed issues regulations which would jack up the costs of insurance policies for most potential enrollees
 - State “minimum benefit package” requirements could also wreak havoc with CDHP enrollment