

Consumer Response to a National Marketplace for Individual Insurance

Stephen T Parente, Roger Feldman
University of Minnesota

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Overview

- Policy Proposal
- ARCOLA Simulation Model
- National Simulation Steps
- Results
- Implications

Policy Proposal

Since 2005, Congressman John Shadegg (R-AZ) has proposed that individual health insurance be offered nationally instead of in state-specific markets.

The University of Minnesota was awarded a contract to study the likely effect of a national market on take-up of individual health insurance coverage.

The research objective is to simulate the impact of having a national market for individual (non-group) coverage and provide advice to policymakers regarding the strengths and weaknesses of such a proposal.

'ARCOLA' Simulation Model

- ARCOLA simulates national health plan take-up from policy proposals in the individual and group markets
- Unique combination of attributes:
 - Based on conditional logit model of health plan choice with data from 4 large employers
 - Includes HRA and HSA plans
 - Choice model includes measures of chronic illness burden at contract level
- Can simulate effects of policy changes:
 - Premium modifications by tax deduction or credit
 - Full or select individual mandates
 - State and national market differences

National Market Simulation

- **Background:** Our model predicted take-up of HSA plans in the individual market quite accurately (Feldman, Parente et al., 2005)
- **Population:** adults in the MEPS who are aged 19-64 and are not students, not covered by public insurance, and not eligible for coverage under someone else's ESI policy
- **Baseline uninsured & turned down:** 32.3 million people nationally

National Market Simulation Steps

1. Create a synthetic version of the MEPS that assigns people to states based on demographics
2. Identify minimum, moderate and maximum marginal impact of state regulations on individual-market premiums
 - Community rating
 - Guaranteed issue
 - Any willing provider
 - Mandated insurance benefits
3. Develop initial set of scenarios for policy
 - Scenario 1: Competition among 5 largest states
 - Scenario 2: Competition among all 50 states
 - Scenario 3: Competition within regions

Health Insurance Regulations

- *Mandates* require insurers to cover particular services or providers
- *Guaranteed issue* laws require insurers to sell insurance to all potential customers
- *Community rating* requires insurers to limit premium differences across individuals
- *Any willing provider* (AWP) laws restrict insurers' ability to exclude providers from their networks

Literature Review

- We reviewed studies of the *individual* insurance market
- We could not find any studies that used ideal ‘dif-in-dif’ research design
- Other papers looked at the effects of regulations on premiums only for people who held insurance – we ruled these out
- Only 4 studies met our criteria: 3 working papers and one peer-reviewed study by Hadley and Reschovsky (Inquiry, 2003)

Effects of Regulations

| Regulation | Minimum Increase | Midpoint Increase | Maximum Increase |
|-------------------|-------------------------|--------------------------|-------------------------|
| Guaranteed Issue | 0 | 57% | 114% |
| Community Rating | 0 | 17.3% | 34.6% |
| AWP | 1.5% | 6.75% | 12% |
| Mandates | .4% per mandate | .65% per mandate | .9% per mandate |

Simulation Step #4

- Select 'target state' in which person can buy insurance
- Remove the effect of regulations in home state from premiums and add the effect of regulations in target state
 - In general, target state will have fewer regulations and lower premium
 - Exceptions: (1) target and home state are the same; (2) high-cost person with community rating in home state may lose advantage of community rating in target state
- Simulate the net effect of removing regulations on health insurance take-up

Details & Assumptions

- Premium data:
 - HSA from ehealthinsurance.com for HSAs
 - HRA from composite of 3 of our employers
 - Kaiser/Commonwealth for all other plan designs
- State-specific premium inflators/deflators derived from Musco et al. AHIP report on individual health insurance
- Individual market premiums were experience rated for age and gender (except community rated states)
- Small group market (<250 employees) premiums were adjusted by state-specific regulatory effects
- Employee premiums in large firms were tax-adjusted
- HSA premiums include a \$1K/\$2K investment in accounts

Scenario 1: Competition among 5 largest States

| | Status Quo | Scenario 1 | | | | | |
|--------------|------------|-------------------------------------|----|-------------|------|-------------|------|
| | | Least Regulated Top 5 State - Texas | | | | | |
| | | Minimum | | Moderate | | Maximum | |
| Individual | | | | | | | |
| HSA | 4,655,291 | 10,337 | 0% | 812,972 | 17% | 1,289,019 | 28% |
| PPO High | 7,515,552 | 27,115 | 0% | 2,479,808 | 33% | 4,450,141 | 59% |
| PPO Low | 180,379 | (267) | 0% | (22,772) | -13% | (30,916) | -17% |
| PPO Medium | 1,534,799 | 687 | 0% | 16,995 | 1% | 8,908 | 1% |
| Uninsured | 28,848,310 | (37,872) | 0% | (3,287,002) | -11% | (5,717,152) | -20% |
| Group Market | | | | | | | |
| HMO | 5,505,466 | (6,159) | 0% | (762,628) | -14% | (1,143,619) | -21% |
| HRA | 6,166,134 | (2,984) | 0% | (269,016) | -4% | (438,955) | -7% |
| HSA Offered | 307,298 | (482) | 0% | (56,901) | -19% | (77,608) | -25% |
| HSA No-offer | 11,088 | 48 | 0% | 10,485 | 95% | 25,041 | 226% |
| PPO High | 16,535,831 | 8,487 | 0% | 1,308,780 | 8% | 1,827,254 | 11% |
| PPO Low | 665,950 | (862) | 0% | (161,976) | -24% | (220,539) | -33% |
| PPO Medium | 53,470,814 | 12,840 | 0% | 1,926,239 | 4% | 2,434,256 | 5% |
| Turned Down | 3,530,681 | (10,888) | 0% | (1,994,983) | -57% | (2,405,829) | -68% |

| | Within Sample | National |
|------------------------------|---------------|------------|
| Minimum Insurance Estimate: | 48,759 | 69,445 |
| Moderate Insurance Estimate: | 5,281,985 | 7,522,827 |
| Maximum Insurance Estimate: | 8,122,981 | 11,569,095 |

Scenario 2: Competition among States

| | Status Quo | Scenario 2 | | | | | |
|--------------|------------|---------------------------------|------|-------------|------|-------------|------|
| | | Least Regulated State - Alabama | | | | | |
| | | Minimum | | Moderate | | Maximum | |
| Individual | | | | | | | |
| HSA | 4,655,291 | 345,512 | 7% | 1,390,604 | 30% | 1,690,744 | 36% |
| PPO High | 7,515,552 | 973,979 | 13% | 4,560,713 | 61% | 7,411,603 | 99% |
| PPO Low | 180,379 | (10,515) | -6% | (37,603) | -21% | (52,379) | -29% |
| PPO Medium | 1,534,799 | 36,214 | 2% | 42,742 | 3% | 28,632 | 2% |
| Uninsured | 28,848,310 | (1,345,190) | -5% | (5,956,457) | -21% | (9,078,600) | -31% |
| Group Market | | | | | | | |
| HMO | 5,505,466 | (220,241) | -4% | (1,114,650) | -20% | (1,529,468) | -28% |
| HRA | 6,166,134 | (96,537) | -2% | (454,184) | -7% | (660,064) | -11% |
| HSA Offered | 307,298 | (19,005) | -6% | (81,630) | -27% | (103,864) | -34% |
| HSA No-offer | 11,088 | 2,522 | 23% | 19,898 | 179% | 43,230 | 390% |
| PPO High | 16,535,831 | 376,588 | 2% | 1,792,964 | 11% | 2,343,582 | 14% |
| PPO Low | 665,950 | (42,910) | -6% | (214,315) | -32% | (272,079) | -41% |
| PPO Medium | 53,470,814 | 613,956 | 1% | 2,551,739 | 5% | 3,022,911 | 6% |
| Turned Down | 3,530,681 | (614,374) | -17% | (2,499,822) | -71% | (2,844,248) | -81% |

| | Within Sample | National |
|------------------------------|---------------|------------|
| Minimum Insurance Estimate: | 1,959,564 | 2,790,894 |
| Moderate Insurance Estimate: | 8,456,279 | 12,043,791 |
| Maximum Insurance Estimate: | 11,922,847 | 16,981,025 |

Scenario 3: Competition among States in 4 Regions

| | | Scenario 3 | | | | | | |
|--------------|--------------|--|-------------|----------|-------------|---------|-------------|------|
| | | Least Regulated State in 4 Regions - AL,AZ,NE,NH | | | | | | |
| | Status Quo | Mininum | | Moderate | | Maximum | | |
| Indiviudal | | | | | | | | |
| | HSA | 4,655,291 | 273,357 | 6% | 1,230,693 | 26% | 1,557,056 | 33% |
| | PPO High | 7,515,552 | 807,254 | 11% | 4,221,135 | 56% | 6,868,237 | 91% |
| | PPO Low | 180,379 | (9,175) | -5% | (35,815) | -20% | (49,615) | -28% |
| | PPO Medium | 1,534,799 | 33,600 | 2% | 37,436 | 2% | 22,584 | 1% |
| | Uninsured | 28,848,310 | (1,105,036) | -4% | (5,453,448) | -19% | (8,398,262) | -29% |
| Group Market | | | | | | | | |
| | HMO | 5,505,466 | (140,557) | -3% | (994,350) | -18% | (1,408,263) | -26% |
| | HRA | 6,166,134 | (75,582) | -1% | (406,888) | -7% | (605,391) | -10% |
| | HSA Offered | 307,298 | (11,331) | -4% | (74,750) | -24% | (97,600) | -32% |
| | HSA No-offer | 11,088 | 1,936 | 17% | 17,437 | 157% | 37,968 | 342% |
| | PPO High | 16,535,831 | 196,143 | 1% | 1,624,974 | 10% | 2,182,670 | 13% |
| | PPO Low | 665,950 | (20,858) | -3% | (194,308) | -29% | (255,140) | -38% |
| | PPO Medium | 53,470,814 | 323,772 | 1% | 2,364,368 | 4% | 2,893,495 | 5% |
| | Turned Down | 3,530,681 | (273,524) | -8% | (2,336,483) | -66% | (2,747,738) | -78% |

| | Within Sample | National |
|------------------------------|---------------|------------|
| Mininum Insurance Estimate: | 1,378,559 | 1,963,403 |
| Moderate Insurance Estimate: | 7,789,931 | 11,094,751 |
| Maximum Insurance Estimate: | 11,146,000 | 15,874,606 |

Implications

- Largest insurance take-up is competition among all 50 states with one winner
- Most pragmatic scenario, with good impact, is one winner in each regional market
- No way to assess impact of such a migration on provider access or quality of care
- Significant opportunity to reduce the number of uninsured in each scenario

Thank You

For more information:

Go to www.ehealthplan.org