ACM Conference “Impact Assessment of Interventions of Competition and Consumer Authorities” November 16, 2016

institute of Health Policy & Management

Information frictions and adverse selection: Policy interventions in health insurance markets

Lessons for the Netherlands?

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Key message paper

- Policies to enhance consumer choice may reduce welfare because these may exacerbate adverse selection
- Risk-adjustment may counteract negative welfare effect
- Improving consumer choice and risk-adjustment are complementary policies, which can mitigate both adverse selection and suboptimal choice
- Risk adjustment is most effective if the benefits of risk protection are low (e.g. due to low risk aversion) relative to the mean and variance of costs

Relevance for the Netherlands

- Insurance settings US and NL are quite similar
- US (empirical setting HKS-paper):
  - choice between high-deductible plan and full coverage plan
  - community-rated premiums, same benefits package and provider network
  - 15% chooses high deductible plan whereas 60% would have been financially better off with such a plan ex-post
  - evidence of substantial consumer inertia
- NL (mandatory basic insurance):
  - choice between voluntary deductible and full coverage plans
  - community-rated premiums, same benefits package and provider network
  - 11% chooses highest deductible whereas 50% would have been financially better of ex-post (Van Winssen et al. 2016)
  - evidence of substantial consumer inertia (Croes et al. 2017)

Implications for the Netherlands

- HKS show that in the stylized US setting:
  - enhancing consumer choice may result in substantial welfare loss because of adverse selection
  - risk adjustment is likely to have a strong mitigating impact
  - but stylized setting → perfect competition, no moral hazard
- Implications for the Dutch setting:
  - enhancing consumer information may increase uptake of VD
  - this may result in welfare loss due to adverse selection
  - but this welfare loss may be effectively mitigated by:
    - the presence of (sophisticated) risk adjustment
    - the relatively low deductible (500 euro vs 6000 dollar)
  - and counteracted by welfare gain due to:
    - a reinforcement of competition (current premium discounts for VD plans are too low, i.e. VD enrollees are profitable)
    - a reduction of moral hazard

Policy lessons for the Netherlands

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- Policies to enhance consumer choice are likely to increase welfare in the Dutch context

- Policies to improve risk adjustment are likely to reinforce this welfare enhancing effect, but to a limited extent