

When health insurance costs rise slightly, people still shop around

March 22 2012, By Laura Bailey



(Medical Xpress) -- Even a \$10 increase in premiums can drive people to a different health care plan. That's good news for health care reform, which relies heavily on competition and consumer response to pricing.

A new study by the University of Michigan looked at only the Medicare population. Younger people who aren't eligible for Medicare are even more likely to shop around if prices or premiums in benefit plans increase, said Richard Hirth, professor at the U-M School of Public [Health](#) and study co-author. Tom Buchmueller of the U-M Ross School of Business and SPH, is the lead author. Other co-authors include Kyle Grazier of UM-SPH and Edward Okeke, formerly a doctoral student at U-M-SPH.

Under health reform, formally called the [Patient Protection and Affordable Care Act](#), people can select from a menu of health plans offered in their state's insurance exchange. The study findings suggest that insurers might have to price premiums very competitively to woo plan participants.

"Competition may be substantial," said Hirth, who is also the research director for the U-M Center on Value Based Insurance Design. "Based on our estimates, if an insurer tries to impose a large increase, it would see its market share decline 1-2 percent for every 1 percent increase in its premiums."

Researchers found that large price increases could drastically reduce a plan's market share. For U-M retirees, researchers found that only a \$10 increase in premiums led to a 2 to 3 percent decrease in a plan's market share.

For the study, researchers took advantage of a "natural experiment" that occurred when U-M changed the premium contribution for employees who retired after a certain date, which resulted in one group that paid premiums and one that didn't. Researchers examined four years of data around the cut-off date for facing the new premiums and found that many U-M retirees who chose the most expensive and flexible plan when they didn't have premiums chose less comprehensive and less expensive coverage when faced with premiums.

The U-M retiree benefit plans are supplemental to Medicare and cover costs that Medicare does not, such as deductibles, co-payments and prescription medicines.

The study is particularly valuable because researchers know little about how Medicare recipients respond to benefit plan prices, but the decisions of retirees and the elderly is expected to have a big impact on [health](#)

[reform](#).

One issue regulators must keep in mind is information overload. U-M retirees in the study could choose from about six plans. However, if the state insurance exchanges offer many more options than that, they will need to structure the information about plans in a way that makes comparison shopping easy, the researchers said.

More information: The paper, "The price sensitivity of Medicare beneficiaries: A regression discontinuity approach," will appear in the journal *Health Economics*. View it online at:

onlinelibrary.wiley.com/doi/10.1002/hec.1814/full

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