

How Preferences and Attitudes Shape Health Insurance Decisions

THE PROBLEM

Concerted efforts to extend offers of private or public health insurance coverage to uninsured people often yield mixed results, with lower-than-expected numbers of individuals taking up these offers. Without definitive answers as to why some people opt for coverage and others don't—even when subsidized—policymakers often assume cost must be the only reason. Crafting policy that increases coverage requires knowing how people value health insurance.

New research funded by the Economic Research Initiative on the Uninsured (ERIU) at the University of Michigan uses several measures of individual preferences for coverage to shed new light into how uninsured people value health insurance. In "Health Insurance Enrollment Decisions: Understanding the Role of Preferences for Coverage," economists Alan Monheit of the University of Medicine and Dentistry of New Jersey and Jessica Primoff Vistnes of the Agency for Healthcare Research and Quality suggest that not only are individuals who think they don't need health insurance more likely to be uninsured, they are both less likely to seek jobs that provide health insurance and to acquire employment-based coverage even when it is offered.

Individuals' risk-taking attitudes and their perceptions of the value of health insurance drive decisions on whether to seek jobs that offer health insurance and to take up available coverage. Virtually all surveys reveal that those less likely to take up coverage include low wage workers with low education levels, young adults, Hispanic workers, and workers in smaller firms. Such individuals may be revealing that they do not value the coverage available, at the price offered, as highly as something else that they did buy with their limited funds.

The authors conclude that increasing the percentage of people with health insurance in a voluntary system may require targeted public education efforts touting the value of health insurance coverage, along with subsidies to overcome some people's low desire for health insurance coverage.

THE FACTS

>**Up to one-third of adults who are uninsured all year report weak preferences for health insurance.** About 32 percent of the full-year uninsured (versus 20 percent of the full-year insured) say they strongly or somewhat agree with the statement "Health insurance is not worth the money it costs," and 18 percent (versus 7 percent of the insured) believe they are healthy enough and don't need coverage. Roughly 30 percent of the full-year uninsured consider themselves risk-takers, compared with 20 percent of those insured all year.

>**Preferences for health insurance coverage appear to influence job choice.** Workers reporting weak or uncertain preferences for health insurance are less likely to obtain job offers with insurance. For example, less than two-thirds of single workers with weak or uncertain preferences obtain jobs with health insurance compared to nearly 80 percent of those with strong preferences. This result bolsters previous research suggesting some people engage in job selection based on preferences for health insurance.

>**Preferences for coverage also appear to influence enrollment decisions.** Workers with weak or uncertain preferences for health insurance are less likely to enroll in coverage offered through their employers. For example, only 79 percent of married couples with at least one working spouse with weak or uncertain preferences enroll in offered coverage, compared to 94 percent of married couples where both spouses report strong preferences for coverage.

POLICY PERSPECTIVE

Economic theory of choice is based on the twin concepts of willingness and ability to pay, but policies to expand coverage typically focus only on ability to pay. An individual's perception of the value of health insurance goes beyond a narrow definition of its cost. We need to pay more attention to willingness to pay, or preferences. In addition to reducing the cost of health insurance, we could encourage voluntary enrollment in health insurance by raising awareness about the purpose of health insurance and the risks individuals face. Young people in particular are more likely to say they don't need insurance or that it isn't worth the cost. In crafting policy solutions, we shouldn't forget that in addition to affordability, information gaps and misperceptions are other barriers to coverage.

– Catherine McLaughlin, Ph.D.
Professor at the University of Michigan and Director of ERIU

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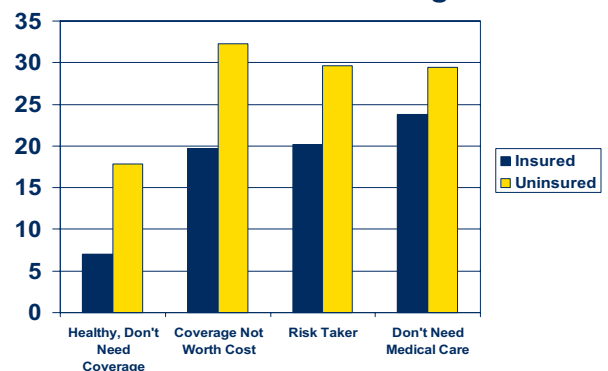
The University of Michigan
555 South Forest Street
Third Floor
Ann Arbor, MI 48104-2531

T 734-936-9842

F 734-998-6341

www.umich.edu/eriu

Preferences and Coverage



Q&A with Alan Monheit, Ph.D.

Alan Monheit, Professor in the School of Public Health at the University of Medicine and Dentistry of New Jersey, has spent his career examining the relationship between employment and health insurance coverage and other health care issues. Former director of the Division of Social and Economic Research at the U.S. Agency for Healthcare Research and Quality, Monheit recently co-authored the paper, "Health Insurance Enrollment Decisions: Understanding the Role of Preferences for Coverage."

Q: *What does your work show about the reasons people are uninsured?*

A: We estimate about one-fifth of those who are uninsured all year in 2000 believe they are healthy enough and don't need coverage. In contrast, only seven percent of those insured all year report such weak preferences for coverage. Other measures of weak preferences for health insurance show about a third of persons uninsured throughout 2000 report 'health insurance is not worth the cost,' while roughly 30 percent of persons uninsured all year consider themselves to be 'risk takers.' In contrast, only a fifth of persons insured all year report such preferences. Thus we have some empirical sense that these attitudes regarding health status, the cost of health insurance, or risk-taking behavior are correlated with insurance status.

Q: *How does the lack of insight in this area muddy policy efforts?*

A: One focus, for example, in debates over extending health insurance is whether to do it in a voluntary system or mandate health insurance benefits. If workers differ in their valuation of health insurance, a mandate – such as an employer mandate or state mandated benefits – is going to make those workers who have weaker preferences for health insurance and stronger preferences for wages worse off. As a result, a mandate may not be efficient policy. Meanwhile, a voluntary system – such as extending tax credits or small group and individual insurance reforms – alone may not be successful. We argue for using other factors, such as educational efforts, that would not only inform people about the availability of a program, but provide people with basic information about the value of health insurance.

Q: *What are the key messages to policymakers from this research?*

A: Two things: First, weak preferences for coverage could, in fact, reflect problems of affordability. Secondly, the policy mechanism used should take into account the role of individuals' preferences for health insurance. Mandated approaches may in fact have unintended consequences by reducing the welfare of individuals who don't value health insurance. On the other hand, voluntary approaches may require creating financial incentives and additional information on the value of health insurance to individuals.

Q: *What's the next step in research to build on this?*

A: The next logical step is trying to figure out how much you would have to compensate individuals in order to overcome their weak preferences for coverage. We've come up with some preliminary estimates that suggest the kind of subsidy necessary for individuals to overcome the loss in welfare that is associated with weak preferences for coverage. That's a logical extension.

For text of the full interview and paper, or a summary of the findings, data, and methods, visit ERIU's website at <http://www.umich.edu/~eriu/research/monheit.html>.

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The views in this Research Highlight are those of the authors and no official endorsement by the Agency for Healthcare Research and Quality or the Department of Health and Human Services is intended or should be inferred. Dr. Vistnes received no funding for her participation in the project.

Funded by The Robert Wood Johnson Foundation, ERIU is a five-year program shedding new light on the causes and consequences of lack of coverage, and the crucial role that health insurance plays in shaping the U.S. labor market. The Foundation does not endorse the findings of this or other independent research projects.

UPCOMING

This Research Highlight is the ninth in a series of research-based policy documents that address current questions and issues related to the health care coverage debate. The next Research Highlight will examine how rising health insurance premiums affect coverage rates.