

Health Insurance decision: a theoretical and experimental investigation

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- 1 Motivation
- 2 Theoretical Setting
 - The model
 - Predictions
- 3 Experimental design
 - Experimental setting
 - The design
 - Elicitation of preferences
 - Health insurance decision
- 4 Results
 - Sample description
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- Welfare implications of health insurance reforms (e.g. Affordable Care Act in 2010 in the US)
- Knowing the appropriate lever to increase health insurance coverage

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What are the economic determinants of (health) insurance coverage?

- Risk aversion (Mossin 1968)
- Income (Mossin 1968)
- Price (Hoy 1981)

Baiker et al. (2012), Finkelstein et al. (2019) :

- Risk averse, low-income, EUT maximizers
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- Lab experiment : Prospect theory is better able to explain health insurance decisions than EUT

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Van Wilgenburg Phd thesis (2018) :

- Prospect theory : risk aversion in the loss domain and probability weighting function in the financial domain + subjective distribution of medical expenses
- WTP for health insurance : remaining unexplained residual

Health insurance has consequences in the :

- financial domain
- health domain
 - through better access to care (Finkelstein et al. 2012, Kim and Koh, 2018)

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- Correlation aversion (a.k.a. state dependence)

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 - Correlation aversion measure : Gyrde-Hanson (2016), Finkelstein (2013), Attema et al. (2019) among others

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Do these determinants explain health insurance decisions ?

Theoretical investigation :

- EUT framework
- Bi-variate model : health and wealth
- Health insurance decision

Experimental investigation :

- Lab experiment
- Measure of health insurance determinants (health preference relative to wealth, risk aversion and correlation aversion) as well as treatment and insurance decisions
- Very early stage

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- Expected utility maximizer
- A given disease occurs with probability p and lowers the individual health state

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- Individuals receive a fixed indemnity (I) in exchange for a premium : pl

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- Choose treatment intensity to know how much will be spent if found sick → treatment cost (T)
- More effective treatment is more expensive

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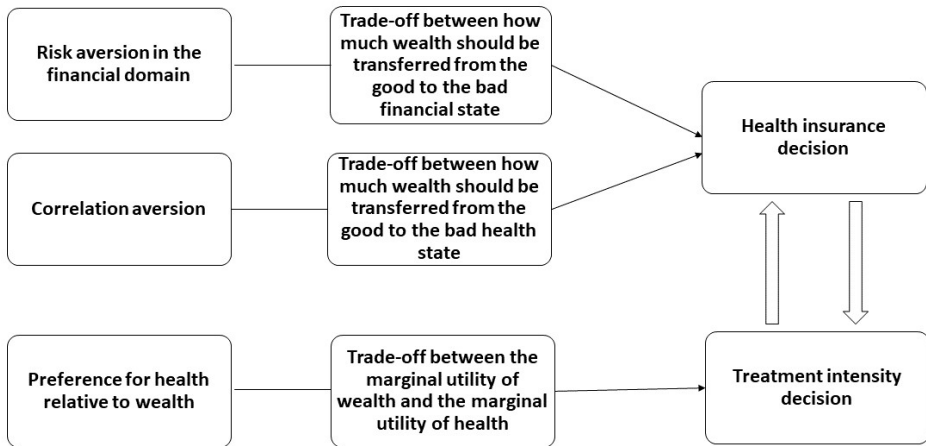
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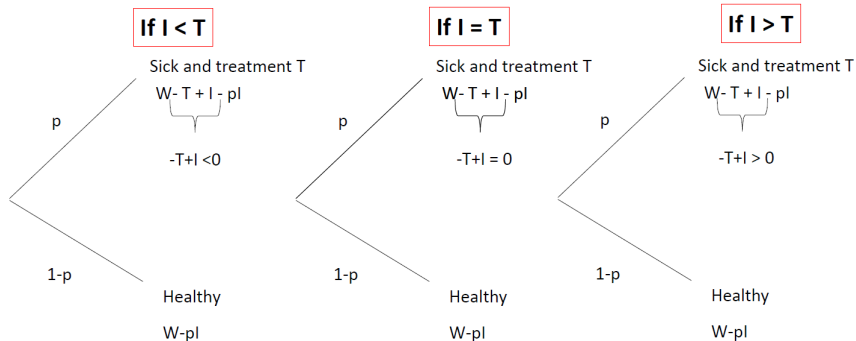
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- $I = 0$ to $I > T$



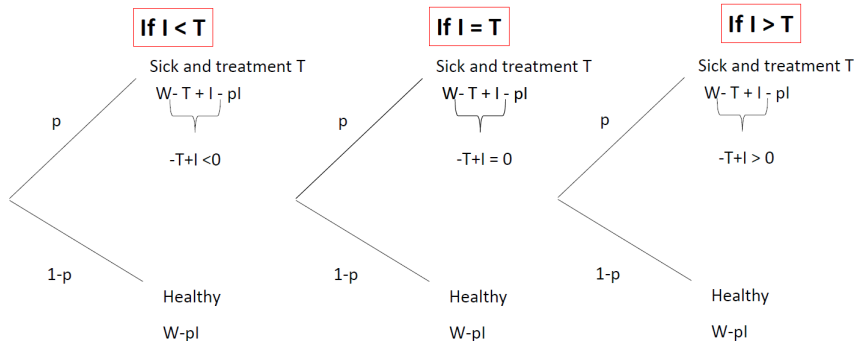
If the individual chooses a treatment



Risk neutral individual :

- Correlation neutral

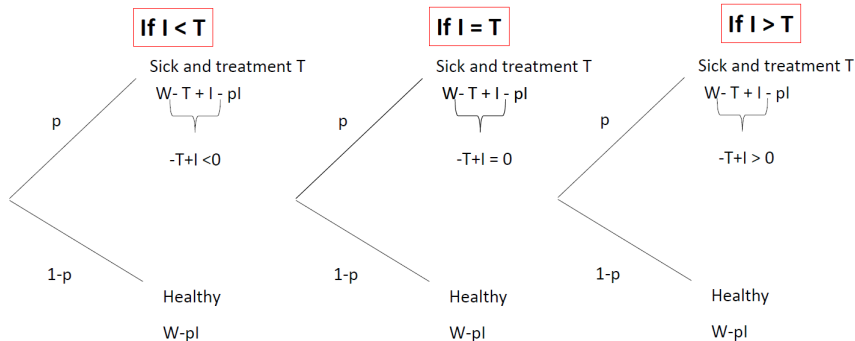
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Risk neutral individual :

- Correlation neutral \rightarrow **Indifferent**

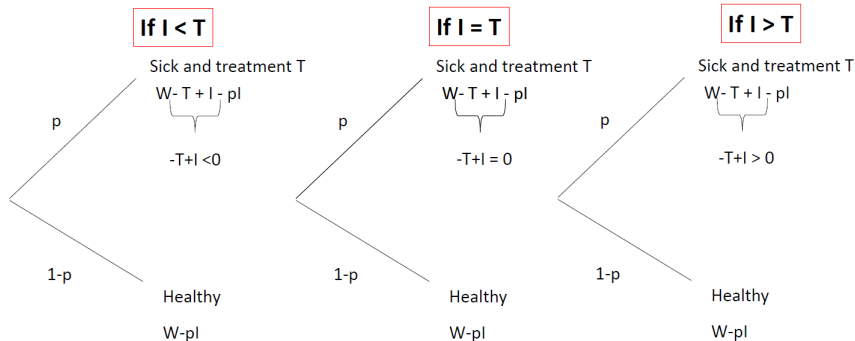
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Risk neutral individual :

- Correlation neutral \rightarrow **Indifferent**
- Correlation averse

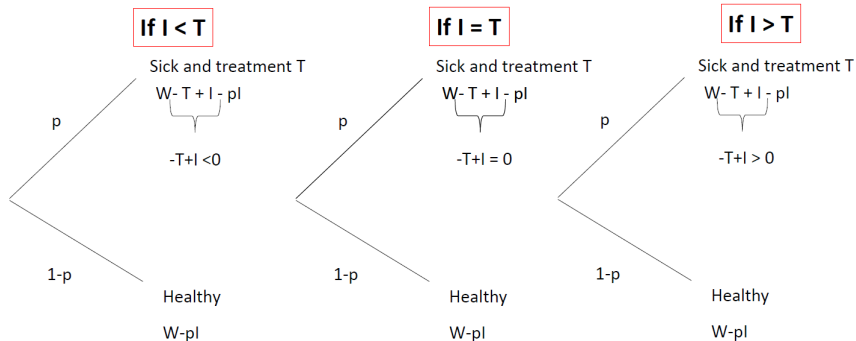
If the individual chooses a treatment



Risk neutral individual :

- Correlation neutral \rightarrow **Indifferent**
- Correlation averse \rightarrow **$I > T$**

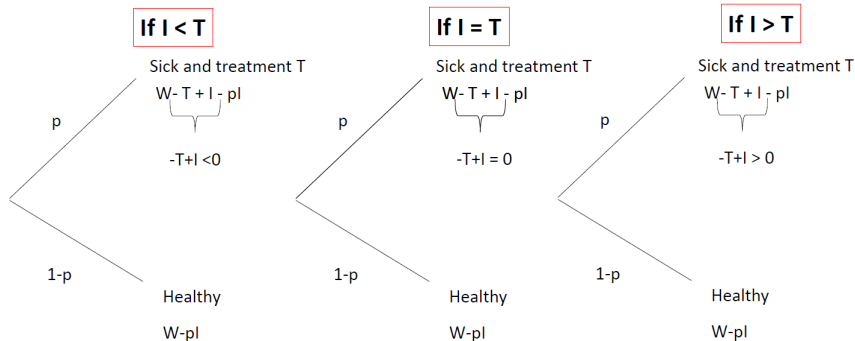
If the individual chooses a treatment



Risk neutral individual :

- Correlation neutral \rightarrow **Indifferent**
- Correlation averse \rightarrow **$I > T$**
- Correlation seeker

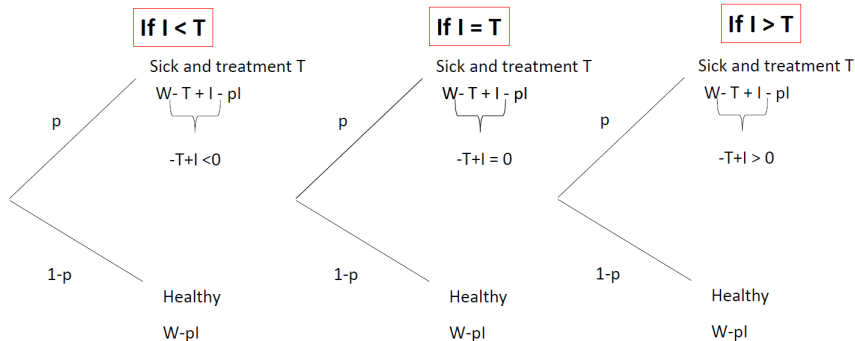
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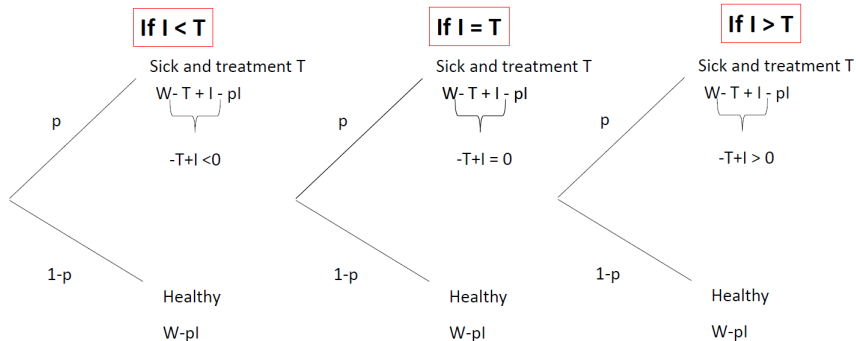
If the individual chooses a treatment



Risk neutral individual :

- Correlation neutral \rightarrow **Indifferent**
- Correlation averse \rightarrow **$I > T$**
- Correlation seeker \rightarrow **$I < T \rightarrow I = 0$**

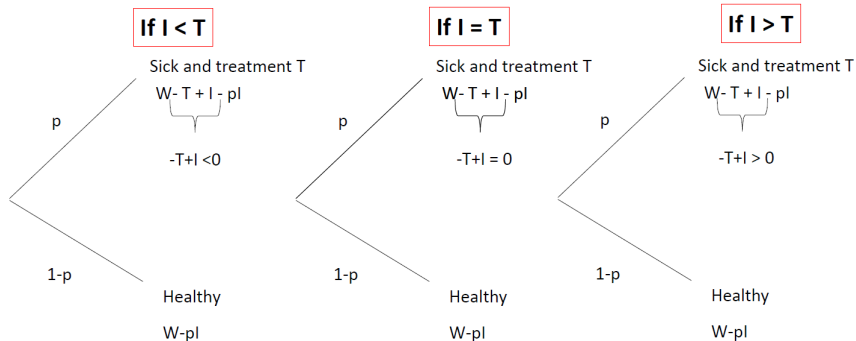
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Risk averse individual :

- Correlation neutral

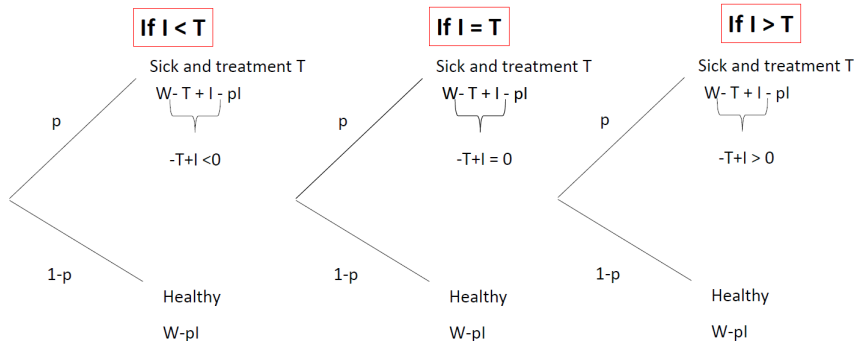
If the individual chooses a treatment



Risk averse individual :

- Correlation neutral $\rightarrow I=T$

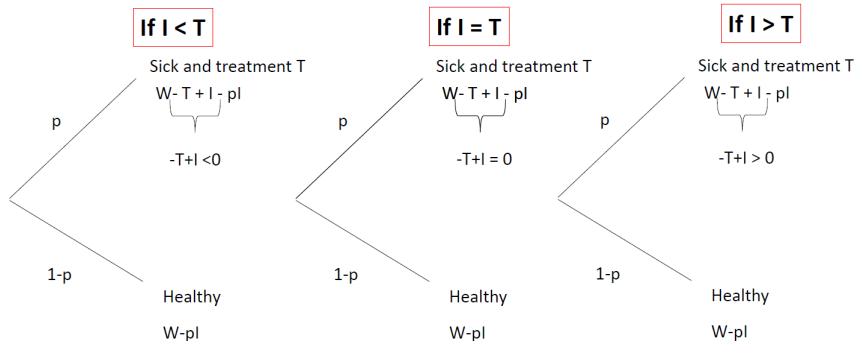
If the individual chooses a treatment



Risk averse individual :

- Correlation neutral $\rightarrow I = T$
- Correlation averse

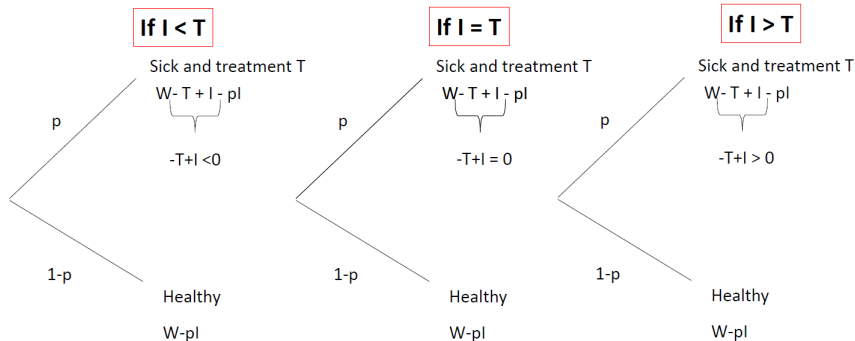
If the individual chooses a treatment



Risk averse individual :

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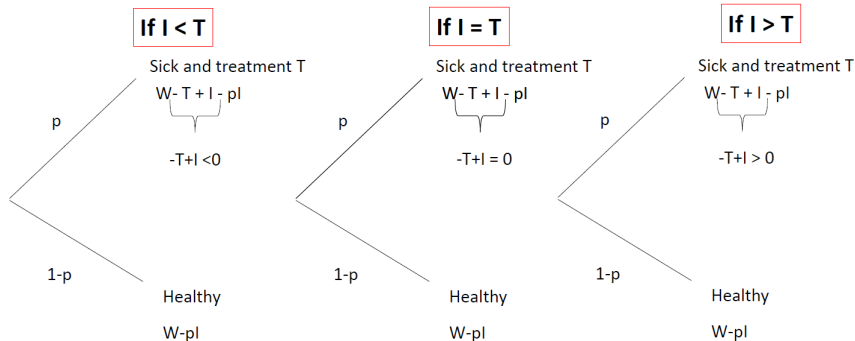
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Risk averse individual :

- Correlation neutral $\rightarrow I = T$
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<u>If the individual chooses a treatment</u>	Risk preference			
		Averse	Neutral	Seeking
Correlation aversion	Averse	$I > T$	$I > T$	$I > T$
	Neutral	$I = T$	Indifferent	$\text{Max} I - T $
	Seeking	$I < T$	$I < T$	$I < T$

<u>If the individual chooses a treatment</u>	Risk preference			
	Averse	Averse	Neutral	Seeking
		$I > T$	$I > T$	$I > T$
	Neutral	$I = T$	Indifferent	$\text{Max} I - T $
	Seeking	$I < T$	$I < T$	$I < T$
Correlation aversion				

<u>If the individual chooses no treatment</u>	Risk preference			
	Averse	Averse	Neutral	Seeking
		$I > T$	$I > T$	$I > T$
	Neutral	$I = T$	Indifferent	$I > 0$
	Seeking	$I = T$	$I = T$	$I = T$
Correlation aversion				

- ① Higher preference for health relative to wealth leads to choosing higher treatment intensity
- ② Correlation averse are more likely to over-insure ($I > T$) than correlation neutral or correlation seekers
- ③ Among those who choose a treatment ($T \neq 0$), correlation seekers are more likely to choose incomplete insurance ($I < T$) than correlation averse

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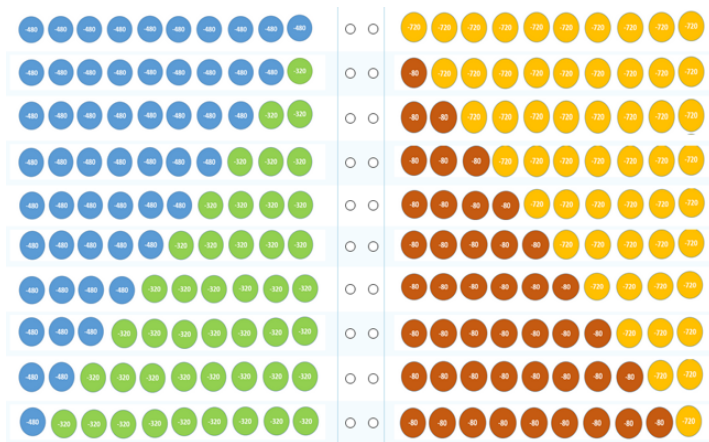
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Lab experiment conducted in Université Paris Dauphine

- 2 training questions about probabilities + 1 one health state
- Hypothetical choices
- 4 tasks and socio-demographic questionnaire
- Tasks order is random
- Sample : 311 Students
 - Excluded those with dominated or inconsistent choices
 - Final sample : N=271

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Multiple price list in the financial domain



Imagine that you have a monthly income of **1000€** (once your rent is paid). You fall ill for a month. Your health state is then the following :

- I am unable to walk about
- I am unable to wash or dress myself
- I am unable to do my usual activities
- I have moderate pain or discomfort
- I am not anxious or depressed

Would you be willing to pay to no longer have this health problem during a month and therefore have perfect health ?

- Yes
- No

How much are willing to pay (of your 1,000€) to no longer have this health problem during one month and thus have a perfect health state?
Move the slide to indicate your choice.



Imagine that you have a monthly income of **1,000€** (once your rent is paid) and that you have an accident leading to a **2-month sick leave**. You have to undergo surgery but it will happen only in a month.

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During the month before the surgery, your health state will be :

- I am **unable** to walk about
- I have **slight problems** washing or dressing myself
- I am **unable** to do my usual activities
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During the month of sick leave after the procedure, you are recovering and your health state will be :

- I have **slight problems** in walking about
- I have **no problems** washing or dressing myself
- I am **slight problems** to do my usual activities
- I have moderate pain or discomfort
- I am not anxious or depressed

Your employer subscribed to a provision contract which grants you **200€** worth of vouchers for your sick leave.

The vouchers are only valid a month and are provided at the beginning of the month.

You have to choose how much vouchers you want to allocate to each month

Indicate which amount you want for each month by moving the cursor.



Accident

Wealth: 1000€

Health state:

- I am unable to walk about
- I have slight problems washing or dressing myself
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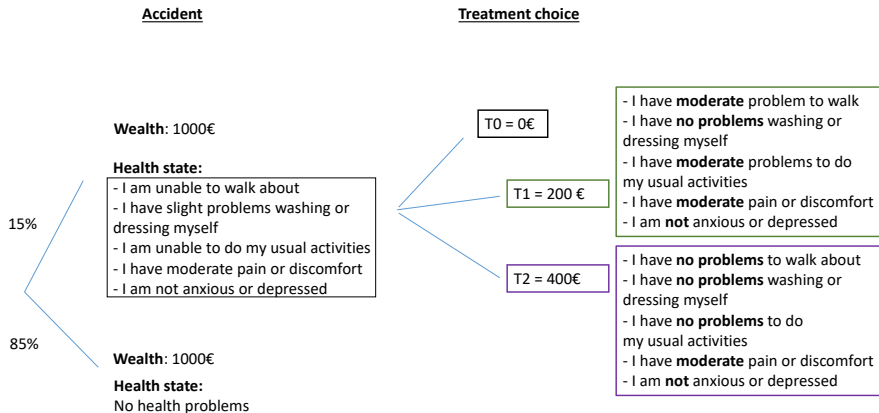
15%

85%

Wealth: 1000€

Health state:

No health problems



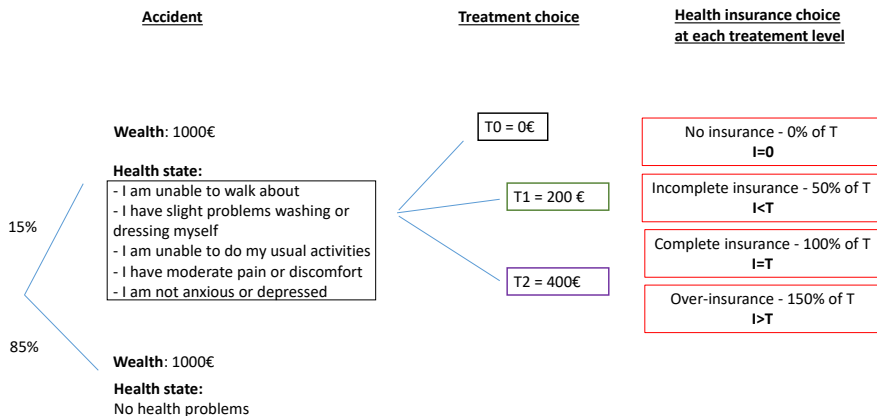


Table summarizing treatment and insurance decisions

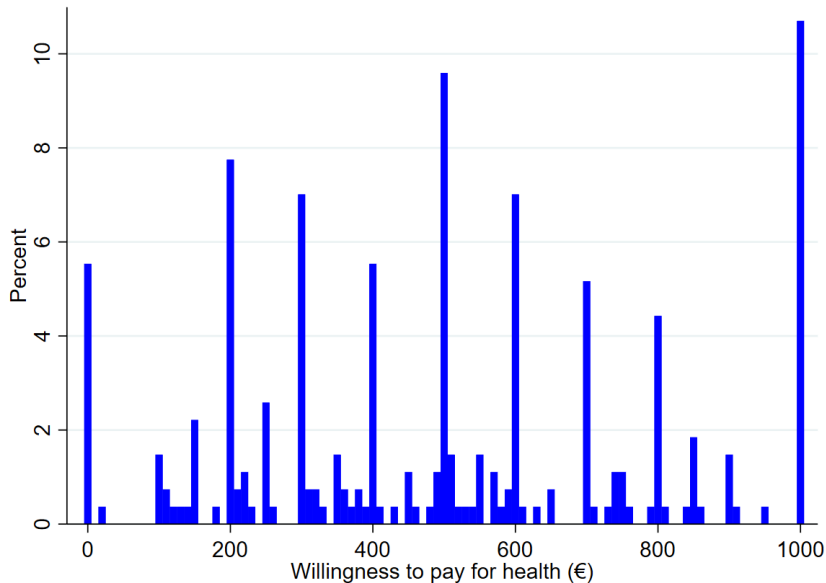
You choose:

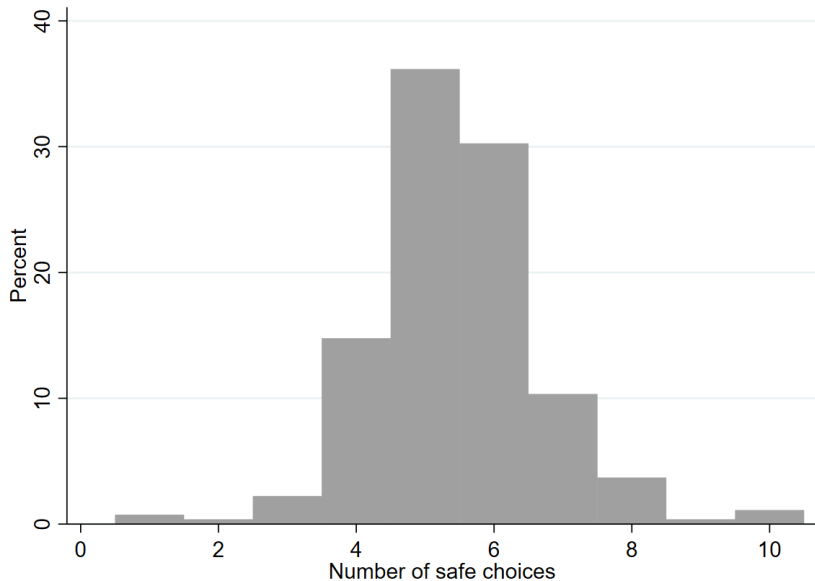
Treatment 1, for your treatment choice
and
Contract A, for your insurance choice.

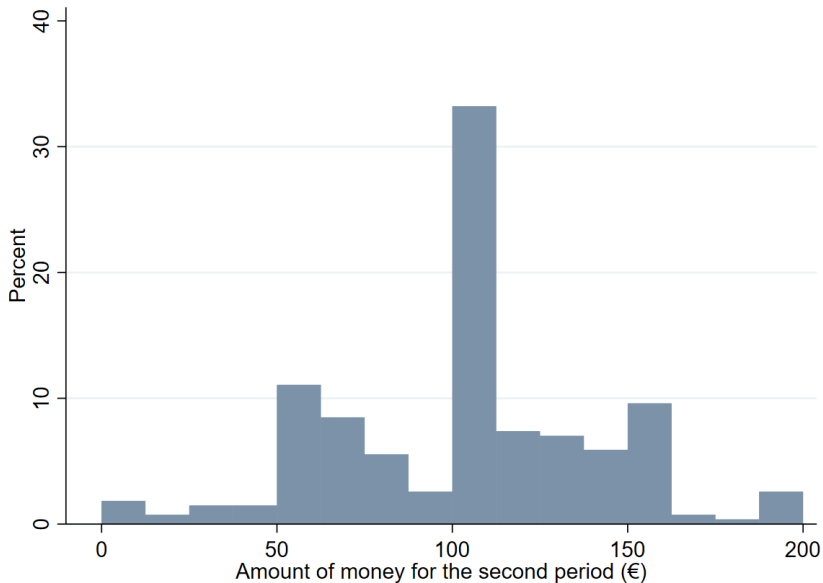
	Consequences if you have an accident (15% probability)	Consequences if you do not have an accident (85% probability)
Final income (in €)	885	985
Health state	<ul style="list-style-type: none">• I have moderate problems in walking about• I have no problems washing or dressing myself• I have moderate problems doing my usual activities• I have moderate pain or discomfort• I am not anxious or depressed	<ul style="list-style-type: none">• I have no problems in walking about• I have no problems washing or dressing myself• I have no problems doing my usual activities• I have no pain or discomfort• I am not anxious or depressed

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Descriptive statistics

Preferences	N	%	Preferences	N	%
<i>Willingness to pay for health</i>			<i>Correlation aversion</i>		
Mean	500		Correlation averse	90	33.2
St. Dev.	286.08		Correlation neutral	81	29.9
Median	500		Correlation seeker	100	36.9
<i>Risk aversion</i>					
Risk seekers	49	18.1			
Risk neutral	98	36.1			
Risk averse	124	45.8			

	Risk aversion			
	Risk lover	Risk neutral	Risk averse	
Correlation aversion				
Correlation lover	18	40	42	100
Correlation neutral	16	29	36	81
Correlation averse	15	29	46	90
Total	49	98	124	271

Insurance	Treatment			Total
	No Treat. (0€)	Treat. 1 (200€)	Treat. 2 (400€)	
No insurance ($I=0$)	6	9	16	31
Incomplete coverage ($I < T$)	-	48	19	67
Full coverage ($I=T$)	-	53	54	107
Over-insurance ($I > T$)	19	23	24	65
Total	25	133	113	271

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The individuals with higher preference for health relative to wealth choose a higher treatment intensity.

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	No treatment	Treatment 1	Treatment 2
	Marg Eff. (se)	Marg Eff. (se)	Marg Eff. (se)
WTP for health	-.0000932 (.0000646)	-.0001059 (.0001056)	.0001991* (.0001018)

Multinomial logit. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. N=271.

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- Increasing the WTP for health by 100 euros increases the probability to choose treatment 2 by 2%.
- Robust to adding other variables of interest and covariates (gender, health status, time preference, income and health insu. status)
- Support of hypothesis 1 but weak.

Hypothesis 2

The propensity to buy more than full insurance is higher among correlation averse individuals than among the two other groups (correlation neutrals and correlation seekers).

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	$I < T$	$I = T$	$I > T$
	Marg Eff. (se)	Marg Eff. (se)	Marg Eff. (se)
Ref : corr. averse			
Corr. neutral	0.0153 (0.0723)	0.0347 (0.0751)	-0.0500 (0.0684)
Corr seeker	0.0378 (0.0688)	0.0822 (0.0714)	-0.120* (0.0617)

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- Correlation averse individuals are more likely to choose $I > T$ than correlation seekers
- Robust to adding other variables of interest and covariates (gender, health status, time preference, income and health insu. status)
- Support of hypothesis 2 but weak.

Hypothesis 3

Among individuals choosing to treat ($T > 0$), the propensity to buy partial insurance ($I < T$) is higher among correlation seekers than among correlation averse individuals.

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	$I < T$	$I = T$	$I > T$
Ref : corr. seeker			
Corr. averse	-0.0376 (0.0739)	-0.0541 (0.0756)	0.0917 (0.0597)
Corr. Neutral	-0.0307 (0.0759)	-0.0291 (0.0778)	0.0598 (0.0594)

Multinomial logit. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. N=246.

Hypothesis 3

Among individuals choosing to treat ($T > 0$), the propensity to buy partial insurance ($I < T$) is higher among correlation seekers than among correlation averse individuals.

	$I < T$	$I = T$	$I > T$
Ref : corr. seeker			
Corr. averse	-0.0376 (0.0739)	-0.0541 (0.0756)	0.0917 (0.0597)
Corr. Neutral	-0.0307 (0.0759)	-0.0291 (0.0778)	0.0598 (0.0594)

Multinomial logit. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. N=246.

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Still to be done

- The relationship between treatment and insurance choices
- More sessions in September (hopefully)

- 1 Motivation
- 2 Theoretical Setting
 - The model
 - Predictions
- 3 Experimental design
 - Experimental setting
 - The design
 - Elicitation of preferences
 - Health insurance decision
- 4 Results
 - Sample description
 - Testing predictions
- 5 Discussion

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Implication :

- Long-term care insurance
 - Several features of our model and experiment relate to long-term care : over-insurance possibility and indemnities received even if no treatment costs
 - Our result : correlation seekers are less likely to over-insure
 - New explanation for the low take-up of long-term care insurance