

BRIEF ANALYSIS

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Health Insurance: Letting Employees Choose

By Greg Scandlen

While managed care was rather successful at holding down health care inflation in the 1990s, it did so at the price of growing dissatisfaction among workers, their doctors and ultimately politicians. The various proposals in Congress for a "Patient Bill of Rights" are an indication of this dissatisfaction. So too are the dozens of new "anti-managed care" state laws.

Employers are afraid they will be held liable for bad outcomes in the managed care programs they choose for their employees. Health maintenance organizations (HMOs) and other health plans are raising premiums again because the benefits of favorable selection eroded as more workers entered managed care programs, some plans artificially restrained premium growth to gain market share and are now playing catch-up and, fearing a political backlash, some managed care programs relaxed their cost containment efforts.

"Defined contribution" is a reaction to all of these factors.

Defined Contribution. Under a defined contribution health insurance program, an employer who currently spends \$4,000 to \$6,000 a year per worker on health benefits would simply make that money available to employees, who would choose their own health plans. If the employer contribution failed to cover the full cost, employees would supplement it with their own funds. Or they could choose a less generous plan and pay less out of pocket. Either way, the employees would make their own decisions about available resources and acceptable trade-offs.

Defined contribution plans are among the hottest concepts in health care financing today. Experts have explored the issue at a number of recent conferences. The mainstream press is beginning to take notice. Benefit consulting firms like KPMG, Booz-Allen Hamilton,

and PricewaterhouseCoopers are discussing with their clients how to make the transition.

Is this a good idea?

Conflicting Surveys. The Commonwealth Fund recently released a survey called "Listening to Workers." The survey polled some 5,000 adults, ages 18 to 64, on the health insurance provided by their employers — or in some cases not provided by their employers.

The Fund's researchers were eager to interpret the survey's findings. They said, "These findings speak against a move by some employers to convert plan sponsorship to a defined 'contribution' in which employees would be on their own when arranging coverage. A significant majority — 67 percent — wanted some form of group coverage, either through employers or government."

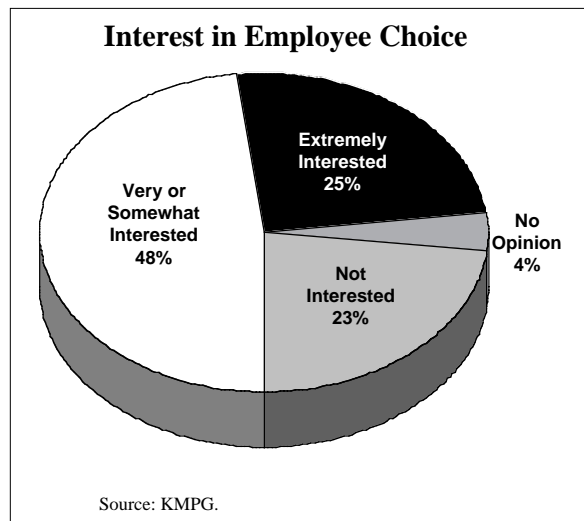
Parts of the Commonwealth survey are being used to rebut a similar poll by KPMG that found, among the 14,000 employees of Fortune 1000 companies it questioned, widespread interest in moving to a defined contribution approach. As the figure shows,

■ KPMG found that only 23 percent of the workers polled were "not at all interested" in a defined contribution.

■ The rest were "extremely interested" (25 percent), "very interested" (19 percent), "somewhat interested" (29 percent) or had no opinion (4 percent).

The different results demonstrate how polls can be abused by the questions asked and their interpretation.

A Closer Look at the Surveys. The KPMG survey was intended to measure employee interest in the defined contribution approach, so it asked: "What if you were able to select from any health plan being offered in your area, at the cost you choose, using both your employer contributions and the personal contribution you make, instead of having your employer select plan options for you? How interested would you be in this concept as a replacement for your current health care selection options from your employer?" As indicated



above, 73 percent said they would be interested in this concept, while 23 percent said they would be “not at all interested.”

Conversely, the authors of the Commonwealth Fund survey claim that their “findings speak against a move” to defined contribution plans. But they did not directly ask about defined contribution. Commonwealth pollsters asked: “Which would be best: For employers to continue to be the main source of health coverage for workers, for the government to become the main source of coverage or for workers to buy insurance directly from insurance companies?”

The question does not mention that employers would continue to provide most of the money for employees’ coverage. It implies the opposite — that workers would be left on their own to “buy directly.” It does not “speak” to defined contribution in any way at all.

The Commonwealth researchers also insist that the answers are an affirmation of “group coverage — either through employers or government.” As the Table shows, if we include Medicaid as “group coverage,” then Commonwealth is correct that 67 percent want such coverage. But it is quite a stretch to add Medicaid and employer-based benefits together. It is at least as credible to combine “employer” and “direct purchase” and conclude that 72 percent want “private” coverage and only 18 percent prefer “public” coverage.

- The majority of people currently in public programs don’t think highly of them — only 22 percent would choose to continue being in a public program.
- More of the beneficiaries of public programs (31 percent) prefer direct purchase than would choose employer-sponsored coverage (29 percent).

It is curious that Commonwealth recorded no responses from people who currently have individually purchased coverage — about 6.5 percent of Americans

— to see if they would like to continue it. Also curious is the assumption that all groups will be employment based. Most people looking at defined contribution programs assume employers would continue to help pay employees’ insurance costs, while workers would be free to form other groups through which to reap the benefits of joint purchasing. Purchasing groups that might be longer lasting and provide more stability than job-based coverage include labor unions, homeowners’ associations, churches, credit unions and fraternal clubs.

Conclusion. Even without the flaws of the Commonwealth survey, public opinion polls are a bad way to test a new idea like defined contribution. It is hard for people

to have an opinion on something that does not exist yet. Politicians may be poll-driven, never supporting an idea until a solid majority favors it, but that isn’t how business works. If businesses waited until a majority of the public wanted a new product before developing

one, they would bring very few new products to market. And even if the Commonwealth survey were perfectly accurate in reporting that 23 percent of the market wanted defined contribution plans while 49 percent wanted employers to do it all, that would hardly be a deterrent. Rather, it would represent an enormous market potential for a new product and great business opportunity.

References

KMPG, “A New Direction for Employer-Based Health Benefits: Survey of Fortune 1000 Employers and Employees” December 5, 1999.

Commonwealth Fund, “Listening to Workers,” January 2000.

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Which is the Best Source of Health Insurance?

Which is Best?	All Adults	Current Coverage		
		Job-Based	Public	Uninsured
Employers	49%	56%	29%	35%
Government	18%	15%	22%	24%
Direct Purchase	23%	20%	31%	27%

Source: Commonwealth Fund.

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