Cutting Through the Clutter: Making Insurance Choices Easier in the United States

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Sector(s): Finance, Social Protection

Location: United States of America

Sample: 451 individuals age 65 and over

Target group: Seniors (65+)

Outcome of interest: Empowerment

Intervention type: Information Insurance

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Research Papers: Comparison Friction: Experimental Evidence from Medicare Drug Plans

Partner organization(s): Ideas42

A 2006 Medicare study found that around 70 percent of American seniors believed there were too many prescription plans to choose from, and more than half had difficulty understanding how plan selection worked. Researchers evaluated the effect of personalized options information on seniors' plan choices. They found that people who received personalized information were more likely to change plans, resulting in an average saving of US$100 per year. This suggests that direct information delivery can decrease the difficulty of comparative research, thereby helping consumers make more informed decisions about government services.

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Government services increasingly rely on consumer choice. For example, Medicare Part D prescription drug insurance requires consumers to choose a plan from a menu of options. The rationale for providing choices is straightforward - individuals have varying preferences and choice allows them to opt for services that best match those preferences. However, being able to look at a menu of options and pick the one that most effectively matches their needs requires informed consumers. As a result, public policy is often designed to make comparative information readily available. Simply making such information available, however, does not ensure consumers will use it. Can a program to reduce *comparison friction* - the wedge between the availability of comparative information and consumers' use of it - help consumers to make better decisions?

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The Medicare Part D prescription drug benefit was established as part of the United States' Medicare Modernization Act of 2003, with coverage beginning in January 2006. Under the benefit structure, individuals are typically able to choose from among 40-60 plans, depending upon where they live. The cost of each plan includes a monthly premium common to all beneficiaries of that plan and a personalized component that depends upon use. Under a standard plan in 2007, individuals paid 100 percent of the first US$265 of total costs of covered medications, 25 percent of total costs US$266-US$2400, and 100 percent of total costs US$2401-US$5401. Most insurers offer two or three plans, including one actuarially equivalent to the standard plan and one or two with higher premiums and more cost sharing.

There are several reasons to believe that substantial *comparison friction* occurs in the choosing of Medicare Part D plans. A recent study found that more than 70 percent of seniors believed that there were too many alternative plans to choose from, and more than half had difficulty understanding how Medicare Part D worked and what savings to expect.

An insurance enrollment form in the United States

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This study estimates the impact of reducing *comparison friction* on consumer choice in the market for prescription drug insurance plans for senior citizens.

The sample, which was drawn from patients of the University of Wisconsin Hospital, was randomly assigned to either an intervention or a comparison group. Seniors in the intervention group received a letter with personalized price information created by entering their prescription use data into Medicare's Plan Finder website. They saw the cost of all plans for their

personal drug profile, as well as how much they would save by switching to the lowest-cost plan. The comparison group was given only the address of this website, but they had to actively pursue this information, whereas the treatment group had information delivered to them.

The experiment included a baseline phone survey, and two follow-up phone surveys, one in early 2007 and one in early 2008.

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At baseline, the leading sources of information that participants used to learn about drug plans were mailings from insurance plans and mailings from Medicare. However, those mailings were not personalized and did not clearly convey information about actual out-of-pocket costs. More personalized information was accessible at quite a low cost (for example, by calling 1-800-Medicare or your local pharmacy), but only 18 percent of individuals nationally had ever reviewed personalized plan comparisons.

Providing personalized information to consumers, rather than having them actively access it, had a significant impact on their ultimate choices. Twenty-eight percent of those in the intervention group switched plans between 2006 and 2007, compared to 17 percent in the comparison group. This brought about a decline in the average consumer cost of around US$100 per year for letter recipients. These results suggest that comparison friction can be large even when the cost of acquiring information is small, and may be relevant for a wide range of public policies that incorporate consumer choice.

Kling, Jeffrey R., Sendhil Mullainathan, Eldar shafir, Lee C. Vermeulen, and Marian V. Wrobel. 2012. "Comparison Friction: Experimental Evidence from Medicare Drug Plans." The Quarterly Journal of Economics 127:199-235. Kling, Jeffrey R., Sendhil Mullainathan, Eldar Shafir, Lee Vermeulen, and Marian V. Wrobel. "Misperception in Choosing Medicare Drug Plans." Working Paper, Harvard University, October 2009.