

issue brief

Consumer Choice in the Health Insurance and Provider Markets: A Look at the Evidence Thus Far

In February 2007, AcademyHealth conducted a meeting on behalf of the Robert Wood Johnson Foundation examining the role of consumer engagement in improving the quality of health care. In preparation for this meeting, five papers were commissioned on the following subjects: consumer activation, consumer choice of health plan and provider, consumer choice of treatment, patient navigation, and the appropriate role for consumers. This issue brief is based on the consumer choice of health plans and providers paper, which was authored by Jonathan Kolstad and Michael Chernew, Ph.D.

The Context for Quality as a Consumer Decision Tool

In the last decade, improving health care quality has been identified as a major goal of any health care reform effort. Numerous public and private initiatives for measuring and collecting quality data are underway in order to provide performance information on health plans, providers and institutions to consumers and other key decision makers. These quality measures can be categorized into four groups: outcomes measures (i.e., mortality rates), process measures (i.e., adherence to best practices), organizational measures (i.e., use of information technology), and consumer satisfaction scores. Consumers also gain information on plan and provider quality through a variety of informal sources, such as friends, colleagues and family members, but these preferences

may or may not be evidence-based. Because consumer choice of health plans and providers drives cost and quality outcomes, consumers are being asked to make use of these formally reported data as they assume greater responsibility for their health and health care decisions.

Despite the momentum in this area, it is not easy for consumers to make evidence-based decisions about their health plans and providers. There are several reasons for this. First, there is a relative dearth of information on quality. Second, choosing between health plans is not as simple as it once was because there is no one-size-fits-all or “right” answer. Third, out-of-pocket costs are increasingly a factor. Consumers are also at a distinct information disadvantage when it comes to choosing providers, since they lack clinical knowledge and may not understand the full spectrum of factors that should be weighed in the decision (e.g., years in practice or board certification).

However, consumers do not act alone in making these decisions, and the choices available to them—for health plans and providers—are sometimes limited. For example, employers affect the choice of health plan and associated costs, and access to providers may be limited if demand for their services exceeds their capacity. Furthermore, consumer choices are likely made in consultation with outside advisors or agents.



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Typically, the role of the agent is to inform decision making by augmenting the limited information available to consumers. In the case of selecting a health plan, the agent is often an employer or affinity group. In the case of selecting a provider, the agent can be another provider, such as a primary care physician, or a trusted source.

Despite these constraints and decision supports, the task of selecting health care products and services remains daunting for many consumers. Given the complexities of the health care market and the inadequate supply of useful, meaningful and accessible information, there is concern that consumers often do not make optimal choices in selecting health plans and providers. Dale Shaller and colleagues argue that “consumers will use health care quality measures to assess and choose health plans, providers, caregivers, and health facilities, but only if that information is relevant to their concerns and packaged and disseminated so they can easily obtain, trust, understand, and apply it.” That perfect world of information may not yet exist, but it is clear that efforts are underway to help inform consumers’ selection of many health care products, including health plans and providers.

A Review of the Evidence to Date

To better understand the implications of information dissemination efforts thus far, Jonathan T. Kolstad and Michael E. Chernew, Ph.D. at the Department of Health Care Policy at Harvard Medical School reviewed the evidence on consumer choice in the markets for health insurance plans and health care providers.

Understanding consumer behavior in any market is difficult, but health care is particularly challenging for several reasons. First, the health care sector involves numerous stakeholders, often with complex relationships. Second, health status is uncertain because it is generally difficult to predict. Third, all health care consumers do not have the same preferences, with some valuing convenience over cost, for example. To provide a common lens through which to evaluate the disparate topics and methodologies that surfaced in their review and to try to accommodate the challenges inherent in the health care market, the authors relied on the conceptual framework of

discrete choice. The concept of discrete choice argues that consumers are rational and will act in their own self-interest. The actions they take will depend on the characteristics of their health plan and provider options.

Given data limitations, the authors restricted their review to identifying factors affecting consumer choice and the extent to which efforts to provide more information to consumers influenced their choices. They did not make any attempt to evaluate the quality of those choices. The authors were also careful to acknowledge that the observed effects of quality data on consumer behavior may be very different from the hypothetical effects generated through survey research. In other words, the research based on what people say they will do in certain circumstances often yields very different results from the research based on what people actually do.

Consumer Choice of Health Plans

A range of studies and approaches find that consumers do consider quality when selecting a health plan, but the consideration does not always require the explicit presentation of quality information, such as plan report cards. This was the case whether consumers were selecting from a specified set of plans or electing to move from one plan to another. Most consumers also responded to formal reporting mechanisms, such as the Consumer Assessment of Healthcare Providers and Systems (CAHPS) survey and health plan report cards. This was found to be true for a broad range of populations, save for Medicaid recipients.

Given the evidence that consumers appreciate quality information when choosing a health plan, a logical next step is to understand why and to what extent they respond to this information. Initial findings on consumer response to plan quality report cards suggest that they use the information not necessarily to optimize care, but to avoid the risks associated with below-average care. This nonlinear response appears to hold true whether quality information is withheld or made available. Studies looking at this relationship in multiple plan markets have found that consumers are willing to pay a lot more to move away from the lowest-quality plans but have little or no

increased willingness to pay for a move from an average plan to an above average one. Though additional research on consumer sensitivity may be required, one initial takeaway from these findings is that the availability of plan quality data may only move the quality agenda so far forward.

Research also suggests that quality agenda efforts have limited impact at this point. Most studies discovered that less than 10 percent of eligible consumers responded to the release of quality data.

What Do Consumers Value Most and Are All Consumers the Same?

Consumers typically make health plan purchasing decisions based on six types of data: 1) information on access to providers (both hospitals and physicians), 2) out-of-pocket costs, 3) quality of providers, 4) provider communication skills, 5) courtesy, and 6) administrative burden (i.e., paperwork). Kolstad and Chernew also found evidence that consumers value survey responses from “people like them” when selecting plans. This reliance on peer data is supported in a study that found that survey data on consumer experiences with their health plans (CAHPS) was the primary driver of plan choice.

As is true in any market, it is entirely possible that demographics and other characteristics might affect a consumer’s choice of health plan. The authors cite several studies with findings that race, ethnicity, gender, geography and socioeconomic status all affect consumer response to health plan information. For example, one study found that racial and ethnic minorities place greater trust in formally reported quality information from a neutral third party.

Other forces were found to impact health plan choice. The amount of time a consumer was enrolled in a plan affected their response to quality, with most studies finding a stronger response to report card information among new employees as opposed to organization incumbents. This could be explained by inertia, the fact that incumbents may have a stronger attachment to their current plan, or that incumbents’ costs to change plans is greater. In addition, the longer consumers face the same pool of insurance plan options the better informed they become, which makes

them less likely to be affected by new information.

Out-of-pocket costs to consumers have also been identified as a key driver of health plan selection. Studies have repeatedly—though to varying degrees—demonstrated that plan market share declines when prices go up. Looking at the nexus of quality and price response, some assert that consumers are more price responsive in the presence of publicly reported quality data. One research team observed that consumers were more price responsive to plans providing National Committee for Quality Assurance quality ratings compared to those that did not reveal their performance. They attribute this finding, in part, to the potential for health plan premiums to serve as a proxy for quality, an understandable phenomenon given that for most goods and services, people think of more expensive as being better.

Consumer Choice of Providers: What Is Quality?

Like the choice of a health plan, consumer preferences for providers involve a number of different factors, including reputation (often based on word-of-mouth information from friends and family), qualifications, demeanor and office atmosphere. A consistent finding across research methods is the importance of location, meaning that access is a key factor.

Do Consumers Respond at All and Are Their Responses Different?

Though there is great hope that access to provider quality information—largely through report cards—will stimulate consumer demand for higher-quality providers, the results of efforts studied thus far are mixed. Generally speaking, consumer

surveys reveal that provider report cards are difficult for consumers to understand and remember, and oftentimes they are not even aware of the existence of report cards.

Despite these survey findings, statistical studies of consumer choice data suggest that both individual and institutional provider quality reporting does have an impact. One research team found that New York-based hospitals and surgeons with lower risk-adjusted mortality rates for coronary artery bypass graft (CABG) surgery experienced increased growth in market share following the release of quality report cards. A separate research team also found that the such information affected demand for CABG surgeries at specific hospitals.

As with choosing a health plan, what consumers value in a provider can vary by race, gender, education and other demographic variables. This is a particularly critical point given the need for policy-makers to address current disparities in health care. For example, one study found that African Americans and Asians/Pacific Islanders are, on average, treated by surgeons with higher risk-adjusted mortality rates. Another found that the introduction of quality report cards actually made a difference in reducing some of the disparities in care. In an initial analysis, the research team found that less-educated consumers of all races, and African-American consumers of all education levels, were significantly more likely to get care from lower-quality surgeons. Once quality report cards were released, an analysis of the new data showed that African-American patients were no less likely than white patients to get care from a high-quality surgeon.

Areas for Future Research on Consumer Choice in Health Care

While a broad range of research efforts have explored the relationship between quality information and consumer choice in health care, the authors point out several persisting knowledge gaps and recommend work in six specific domains. One of the most important of these areas is the behavior of different subgroups of consumers in response to quality information. There is hope that better knowledge in this area may help policy-makers reduce health disparities. The authors also recommend future work in the following areas:

- ◆ The long-term effects of formal quality reporting and consumer involvement on choice
- ◆ Switching costs between plans and providers
- ◆ Behavioral factors that might make standard consumer response difficult to attain in the health care context
- ◆ Provider capacity constraints and their impact on consumer choice
- ◆ Supply-side versus demand-side response to quality reporting on providers

As more pressure is exerted on consumers to engage more fully in their health care experiences, policy-makers will want to craft quality reporting interventions that have the greatest positive impact on consumer health. Though researchers have made great strides in this arena, future studies that build on this knowledge base will be essential to pinpoint mechanisms that facilitate informed consumer decision making in the health care sector.

About the author

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