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Incorporating Health Insurance into Consumption (Poverty) Measurement: Conceptual Issues

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Thank you to my long-time collaborator, Sanders Korenman

Why Include Health Insurance in Consumption Measures?

- Quantitatively large
  - Health care 17.7% of GDP, 90% paid by insurance
- Health care & health insurance seen as essential for adequate standard of living
- Health itself is core to well-being
- Leaving it out → misleading comparisons between US and other countries

- But difficult to accomplish validly

Purpose

- Describe conceptual issues for incorporating health insurance into consumption measures of well-being, inequality, poverty
  - Make recommendations
- Outline proposed health-inclusive consumption poverty measure
  - modeled on Health-Inclusive Poverty Measure (Income based; Korenman & Remler 2016)

Health Care Utilization

- Highly concentrated
  - 5% of people account for >50% of expenditures
- Depends on detailed health conditions
- Both predictable & unpredictable variation over time
  - Correlation of 0.36 between expenditures on individual in adjacent years
  - Rises with age
- Technological change

➔ Magnitude & relationships change substantially over time

Hirth et al. 2016, Pashchenko & Ponpoje 2016, Mitchell 2019

Consumption and Health *Care*

- Consumption (in economics): use of goods and services
- How is consumption conceptualized?
  - Current period, taking economic resources to produce, contributing to utility
  - Ideal consumption measures of well-being?
- Health care brings value in current & future periods
  - Consumption and investment
  - “Health care does not belong, because investment”
    - Not relevant to reasons for choosing consumption over income measures

Perverse & Valid Indicators of Well-being

- Health *care* utilization driven by worse health conditions
- *Insurance* value of care used for assessing how government health programs reduce income inequality (Paulus et al. 2010)
  - Pooled over health status, conditional on age
- Insurance value pooled over health status for consumption measure?
  - Counterargument: Health insurance not so valuable for most people in current period (uncertain if valuable, in future)
  - Include health benefits, because misleading if only out-of-pocket spending on insurance

Consumption and Health *Insurance*

- Health insurance: investment or consumption?
- Health insurance provides access to health care & financial protection, only in current period, not future
  - In US, HI explicitly designated as being for a particular period
- Perceived as something to have to ensure adequate standard of living, as part of well-being currently
- Investment argument not relevant to reasons for choosing consumption over income measures

Purposes of Health Insurance

- Transfers from healthy states/people to sick states/people
  - To enable expensive health care that can improve health
- Financial protection
  - Would get same care in bad state but must pay for it without insurance
- Access to health care
  - Use valuable care not obtained without insurance (Nyman 2013)
  - Missed with fungible value of health insurance "the extent that having the insurance would free up resources that would have been spent on medical care" (Census 2015, Footnote 2)
  - Complicated by availability of free care (implicit insurance)
- Peace of mind

Health Status and Value of Health Insurance

- Health insurance protects against bad health status & events in given year
- Conditional on health conditions at point in time, health insurance more valuable if in poor health
  - But if health insurance consumption measure depends on health status ➔ Perverse well-being measure, as for care
- Meaningful health insurance protects over time
  - Against rise in actuarially fair premium, reclassification risk (Cochrane 1995)
  - Social solidarity perspective (Ellis & Fernandez 2013)
  - Would not vary by health status

Insurance Through Time in the US

- Complex patchwork, far from complete

- Before Affordable Care Act (2014)
  - Government (Medicaid, Medicare, VA, CHIP…), employer-provided, regulations… but Gaps
- After Affordable Care Act
  - Guaranteed issue, community rating, risk adjustment ➔ ⬆ protection for individual (out-of-pocket) HI purchase
    - Still far from complete (e.g., employer pool in better health)

Reasons premiums vary

- Selection
  - Actuarially fair premium (AFP) = expenditures on care by insurer, averaged over defined risk pool
  - AFP very sensitive to who is in risk pool, due to tails
- Cost-sharing (e.g., deductible)
  - Affects AFP through insurer-insured split
  - Affects AFP through care used
- Quality (richness of network, cost-containment, efficiency…)

  but selection >> quality
- Loading (administrative costs, profits) << AFP

Health Insurance Consumption Measure Recommendations

- Include both benefits and purchased out-of-pocket
- Reflect value to the insured
  - Quality, wideness of network
  - Cost-sharing terms
    - Ideally, “convert” to standardized cost-sharing terms
- Do not reflect health status of risk pool
  - Not consumption, though major driver of actual costs/premiums
- Do not reflect individual’s health status
  - But depends on philosophy, goals

Health Insurance in Poverty Measures

- Threshold is key
  - Resources & threshold must be consistent (Moon 1993, NAS 1995)
  - Same for consumption poverty
    - If consumption includes health insurance, threshold must include health insurance

- Proposed outline of health-inclusive consumption poverty based on Korenman & Remler (2016) HIPM

Proposed Health-Inclusive Consumption Poverty Measure

- Add health insurance plan to material (non-health) consumption threshold
  - Not risk-rated, can be age-dependent
- If purchase (good enough) health insurance or if receive (good enough) health insurance benefit

  ➔HI need met

  ➔Poor if non-health consumption < non-health threshold
- If no (good enough) health insurance
  - If (non-health) consumption exceeds non-health threshold by enough to purchase health insurance out-of-pocket, not poor

Issues with Health-Inclusive Consumption Poverty Measure

- Solved already with HIPM or easier to solve
  - Uninsured and insured within same household
  - Determining price to purchase health insurance post-ACA
    - Guaranteed issue, community rating, risk adjustment
  - Determining good-enough health insurance, post-ACA
- Harder to solve
  - Cost-sharing
  - Quality of health insurance
  - Pre-ACA, determining good-enough health insurance
  - Pre-ACA, price of health insurance purged of health status

Measures of Poverty vs. Well-being, Inequality

- Concept of (consumption) poverty: less than a minimally adequate standard of living
- For health insurance in consumption poverty
  - key is consistent threshold & consumption
- For health insurance in overall consumption
  - requires valuing health insurance relative to all else

➔ Separate health insurance & material measures?

- Especially for trends (Han, Meyer, & Sullivan 2021)
- But misses reconfigurations & tradeoffs (Burkhauser et al. 2013)

Consumer Expenditure Survey Health Insurance Variables

- Insurance status, including form and source
  - 2021 instrument has most essential health insurance variables
    - But needs indicators for ACA compliant or not

- Suggestions
  - Less attention to amounts spent out-of-pocket on premiums
  - More attention to quality, protection
    - Plan's cost-sharing *terms* (deductible, co-pays, max out-of-pocket…)
    - Network restrictions?

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Thank you!

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