



Behavioral Decision Making Group Colloquium Series

is pleased to present



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The Complexity of Health Plan Choice: Challenges and Policy Remedies

ABSTRACT

I discuss a series of projects examining how individuals negotiate the complexity of health insurance decisions. A first paper examines the health plan choices of 23,897 employees at a U.S. firm who selected from an expansive menu of plans that varied in financial cost-sharing and premium but were otherwise identical. These decisions provide a clear test of the predictions of the standard economic model because plans were priced so that nearly every low-deductible plan option was financially dominated by alternative options. We find that the majority of employees chose a dominated plan, resulting in excess spending equivalent to 42% of premiums. We explore explanations for these choices— which cannot be rationalized by standard risk preferences or beliefs regarding medical needs— through two online hypothetical choice experiments. The experiments indicate that the size and attribute complexity of the plan menu does not lead to dominated plan choice, but suggests instead that the observed behavior can be explained by a poor understanding of the underlying structure of insurance. In a second study, we examine the sensitivity of employee choices in response to changes in the size and configuration of the plan menu at the same firm in subsequent years. The empirical analysis and follow-up experiments suggest that plan selection ultimately appears consistent with a heuristic choice strategy whereby individuals sort into available plans based on perceptions of relative health risk rather than a careful financial comparison of plan options. In a final study, we explore the policy implications of poor plan choice in the context of the ACA, the facilitative efficacy of the metallic labels of the exchanges, and how modifications to choice architecture might improve enrollee decisions. Overall, our findings challenge the standard practice of inferring risk preferences from insurance choices, raise doubts as to the welfare benefits of reforms that expand choice, and highlight potential policy remedies, informed by a deeper understanding of how consumers make such decisions, to improve consumer welfare.

FRIDAY, APRIL 29, 2016 | 12:15-1:30pm | CORNELL HALL - D307