

Economic Issues in Analyzing Entry in Health Insurance Markets

**NATIONAL ECONOMIC
RESEARCH ASSOCIATES**

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n/e/r/a

Consulting Economists

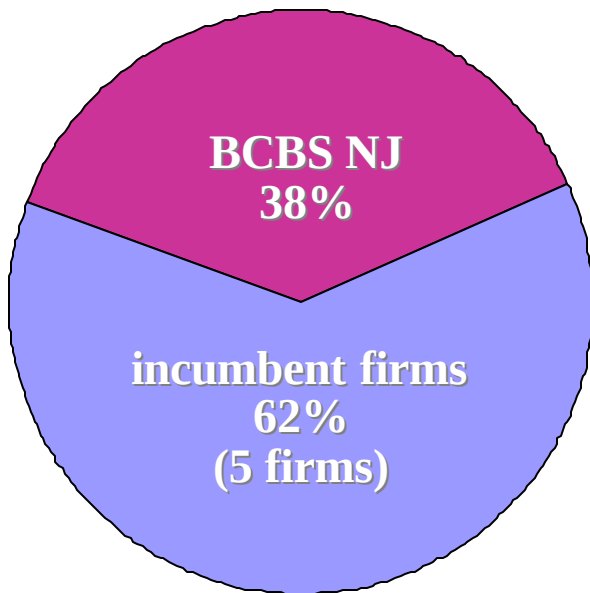
Overview

- **1. Is entry or expansion effective as a source of competition?**
- **2. Are switching costs a substantial barrier to entry into health insurance markets?**

Atlantic City/Cape May New Jersey January 1994 to December 1998

“Entrants” captured 47% of HMO/POS enrollment in Atlantic City/Cape May from January 1994 to December 1998. BCBS’s share fell 17 percentage points.

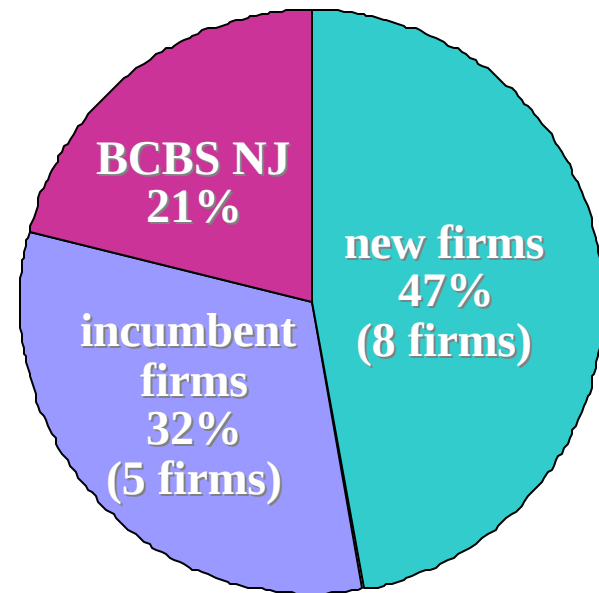
January 1994



Enrollment = 74,730

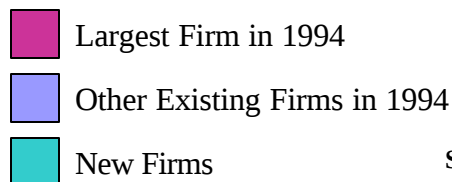
Source: InterStudy HMO Trend Report

December 1998



Enrollment = 88,703

Source: New Jersey Managed Care Bureau

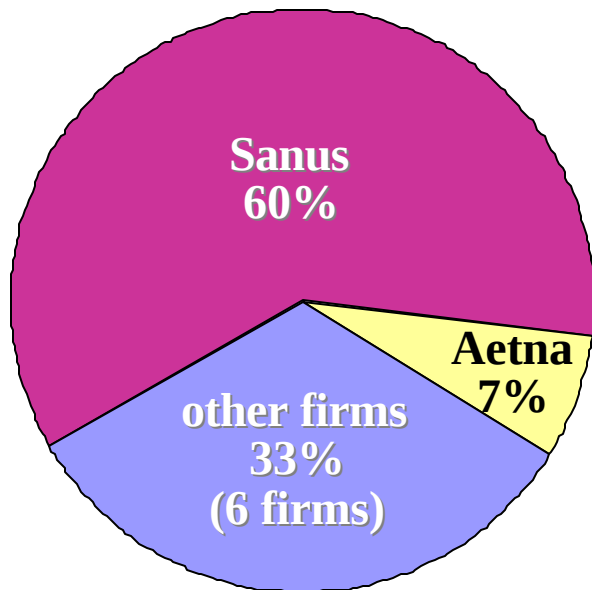


Houston Texas

January 1994 to October 1998

“Entrants” captured 23% of HMO/POS enrollment in Houston from January 1994 to October 1998. Aetna/Sanus’ share fell 32 percentage points.

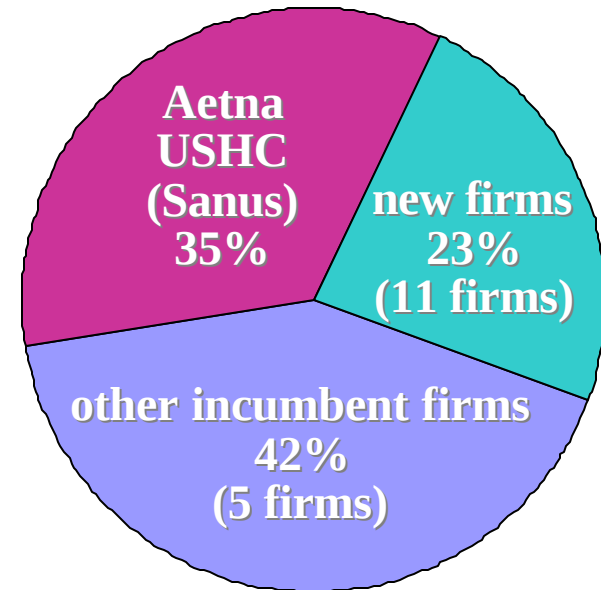
January 1994



Enrollment = 331,231

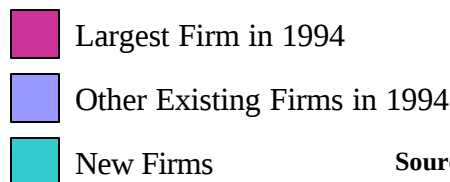
Source: InterStudy HMO Trend Report

October 1998



Enrollment = 1,255,077

Source: Texas Managed Care, Harkey & Associates

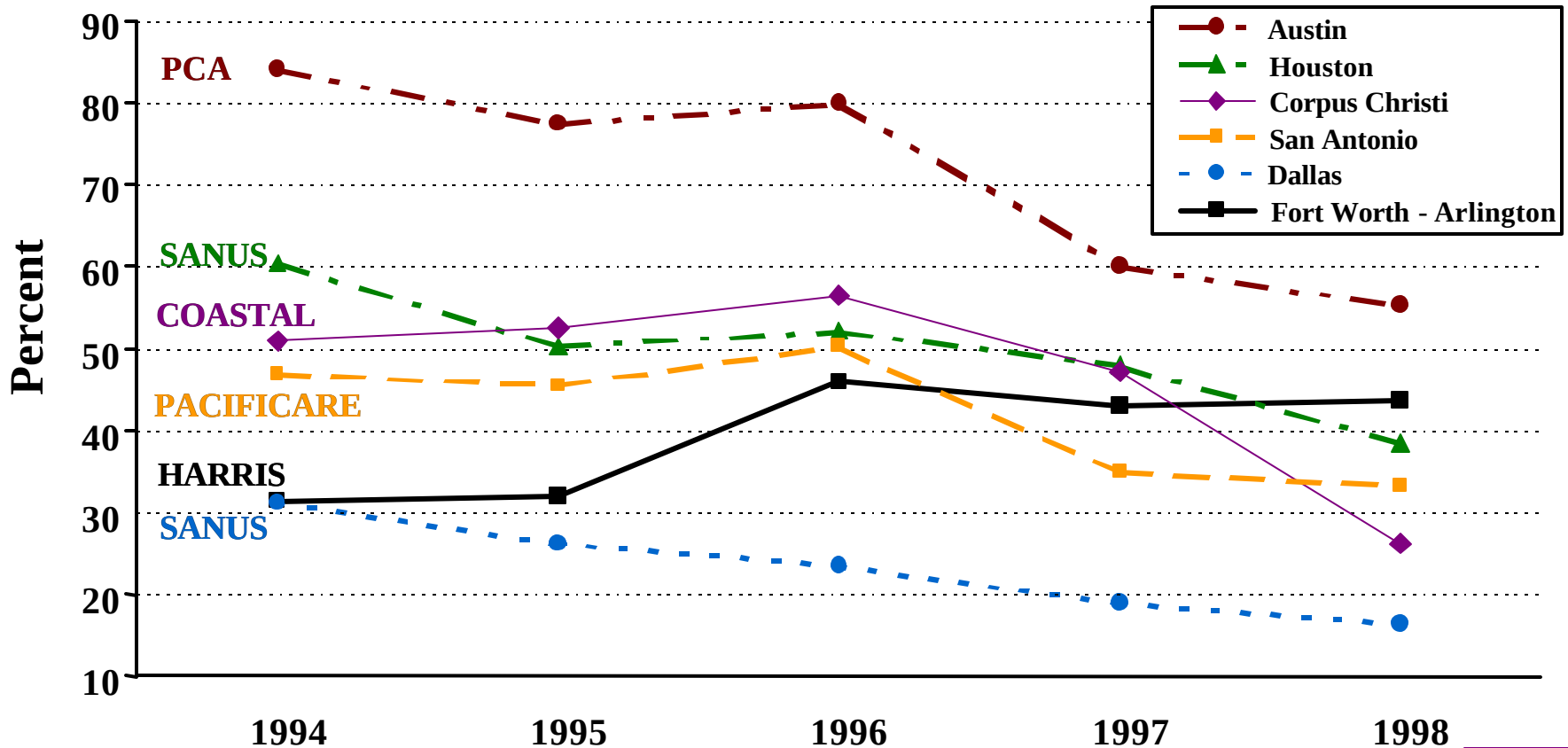


Entry or Expansion as a Source of Competition

- **Entry or expansion was effective in:**
 - Reducing the share of the largest plan
 - Making service areas less concentrated over time
- **In three years, the average share of the leading plan dropped seven percentage points**
 - In 1995, the average share of the leading plan in each MSA was 37 percent
 - In 1998, the average was 30 percent

The “Market Leaders” in Texas Have Generally Lost Share

HMO With Largest Share in 1994
HMO/POS Enrollment Share 1994-1998, in Texas MSAs



Source: InterStudy MSA Profile Database 8.2, 7.2 and HMO Trend Report

Implications for Switching Costs

- **Employers and employees have turned to and accepted new health plans**
 - This would not have occurred if switching costs were so high that consumers were effectively “locked in” to their current plans
- **Member turnover is high, which suggests that switching costs are not prohibitive**
 - The percentage of a health plan’s subscribers who change plans in any given year can be as high as 20 to 30 percent

Switching Costs for Individual Consumers

- **Changing health plans may require them to change physicians**
 - **But many competing health plans have broad and overlapping provider networks**

Switching Costs for Individual Consumers

- **To minimize the disruption costs to subscribers, an employer can offer its employees multiple health plans**
- **According to the 2002 Kaiser/HRET Survey of Employer-Sponsored Health Benefits**
 - **62 percent of covered workers had more than one health plan option**
 - **The majority of employees—around 61 percent—worked for firms that gave them a choice of more than one HMO**
 - **The availability of another health plan choice varies by the size of the employer**

The Availability of Health Plan Options

Percentage of Covered Workers With a Choice of Health Plans, by Firm Size (2002)

<u>Firm Size (No. of Workers)</u>	<u>One Plan Only</u>	<u>More Than One Plan</u>
3-199	76%	24%
200-999	39%	61%
1000-4999	25%	75%
5000 or more	14%	86%
All	38%	62%

Source: 2002 Kaiser/HRET Survey of Employer-Sponsored Health Benefits (2002), Exhibit 4.4.

Switching Costs for Individual Consumers

- **To minimize the disruption costs to subscribers, health plans:**
 - **Engage in marketing and advertising**
 - **Give discounts on pricing to obtain new business**
 - **Build broad provider networks**
 - **Improve their products and customer service**

Switching Costs for Employers

- **Although employers may have reservations about dropping their current health plan for another, that is not what most employers are likely to do**
- **It is more likely that an employer would keep its current health plan and offer a lower-priced alternative plan as an *additional* option for employees**

Conclusions

- **The data show that entry and expansion have been sufficient to take share away from the leading firm**
- **Entry and expansion have worked to reduce HMO concentration over time**
- **While there are switching costs, they do not rise to the level of being a barrier to entry**

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