



Most State Governments Offer Choice of Health Plans, But Do Not Standardize Benefit Packages Survey Finds

Health insurance purchasing cooperatives: Analysis of data on prototypes

SUMMARY

In light of the interest in health insurance purchasing cooperatives (HPICs) as part of President Clinton's health reform plan, a team of researchers at the [University of Minnesota School of Public Health](#), Minneapolis, conducted a mail and telephone survey of 500 public-sector employers to inventory their health plan purchasing practices and estimate the effect of those practices on premiums.

This information could assist policymakers as they designed and implemented HPCs under a reformed health system. The project took place between 1993 and 1995.

This project was part of the Robert Wood Johnson Foundation (RWJF) national program *Changes in Health Care Financing and Organization* (HCFO) (for more information see the [Program Results Report](#)).

Key Findings

The researchers found that:

- The vast majority of state governments:
 - Offer a choice of employee health plans.
 - Hold open enrollment periods.
 - Provide employees with information on competing health plans.
- City and county government do well in providing employees with information on competing health plans.
- Price competition among health plans is diminished when employees are allowed to use pre-tax dollars to pay premiums.

Funding

RWJF supported the project with a grant of \$237,096 between November 1993 and September 1995.

THE PROBLEM

Health insurance purchasing cooperatives (HIPCs) figured large in national health reform proposals. Yet, very little was known about their potential effectiveness.

At the time, the organization that came the closest to the form and function of the HIPC was the large employer that offered multiple health plans to its employees. Here again, little was systematically known about what large employers were doing with regard to health insurance and the potential impact of their efforts.

THE PROJECT

A team of researchers conducted a mail and telephone survey of 500 public-sector employers—including state and local governments, public universities, and school districts—to inventory their health plan purchasing practices and estimate the effect of those practices on premiums. The survey gathered information on:

- Employers' decisions to offer multiple health plans.
- Standardization of benefit packages among the health plans.
- Information provided to employees during open enrollment periods.
- Risk adjustments among the multiple plans.
- Methods for determining employer premium contributions.

The objective of the research was to provide information to assist policymakers as they designed and implemented HIPCs under a reformed health system.

The researchers also used the survey information from this grant to analyze the effect of Section 125 of the Internal Revenue Service code on employees' sensitivity to price differences among health plans.

Section 125 allows employees to pay health insurance premiums with before-tax dollars out of flexible spending accounts set up through their employers. The analysis of the effects of Section 125 was funded by the US Office of Technology Assessment.

FINDINGS

The investigators' findings on public employers' health insurance purchasing practices include:

- **The vast majority of state governments offer a choice of employee health plans, hold open enrollment periods, and provide employees with information on competing health plans.** It appears that a significant percentage of state employees purchase their health insurance in an environment not unlike managed competition—with the intended outcome of lower health insurance premiums.
- **City and county government do well in providing employees with information on competing health plans; however, their performance is not as strong in the areas of standardization of benefits packages among plans and the use of employer premium contributions as a financial incentive to select lower cost plans.**
- **Price competition among health plans is diminished when employees are allowed to use pre-tax dollars to pay premiums.**
- **When individuals are allowed to pay out-of-pocket premiums with pre-tax dollars they care less about the difference between two competing health plans' premiums than if they had to pay out-of-pocket premiums with post-tax dollars.**
- **Employees' sensitivity to premiums was decreased by 40 percent for single coverage and by 42 percent for family coverage when they could tax shelter their out-of-pocket premium contributions.**

The investigators concluded that the main beneficiaries of Section 125 are not the employees but the health insurance companies and health care providers, because of reduced competition.

Communications

The principal investigator and two co-authors wrote a report published by the US Office of Technology Assessment.

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(Current as of date of the report; as provided by the grantee organization; not verified by RWJF; items not available from RWJF.)

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