BONUS OPTIONS
IN HEALTH INSURANCE

by
Peter Zweifel
University of Zürich, Department of Economics, Switzerland

with the assistance of
Otto Waser

SPRINGER SCIENCE+BUSINESS MEDIA, B.V.
# Table of contents

Foreword ix  
List of tables xi  
List of figures xii  

1. Overview and key statements of the study 1  
2. Institutional framework, issues, and results 8  
   2.1. Issues of health policy in Western Germany 8  
   2.2. The role of private health insurance in Western Germany 10  
   2.3. Main issues of this study 11  
   2.4. The main results of this study 14  
3. Health insurance options from the point of view of the consumer 17  
   3.1. The basic issue 17  
   3.2. Peculiarities of health risks 17  
   3.3. Rebate and bonus options as a possible solution 19  
   3.4. Correlated risks: An illustration 20  
4. Insurer A: Traditional cost sharing 25  
   4.1. A simple model and its implications 25  
      4.1.1. The propensity to initiate a medical care episode 25  
      4.1.2. Choice of intensity of ambulatory medical care 28  
   4.2. Results of a statistical analysis 30  
      4.2.1. Coinsurance and comprehensive coverage compared 30  
      4.2.2. The impact of deductibles 35  
      4.2.3. Tracing impacts across the billings distribution 38  
5. Insurer B: Fixed rebates for no claims 42  
   5.1. Theoretical background 42  
      5.1.1. The decision to file a claim 43  
      5.1.2. The decision to initiate an ambulatory care episode 46  
      5.1.3. Choice of intensity of treatment 52
5.2. Empirical evidence on the joint impact of a fixed rebate and a deductible
   5.2.1. Test No. 1: Zero net rebate due to outlays on dental care
   5.2.2. Test No. 2: Impact at the threshold value "rebate + deductible"
5.3. The cost of ambulatory medical care: Insurers A and B compared
5.4. Adverse side effects on health?
6. Self-selection of risks with insurers A and B?
   6.1. Self-selection and risk premium
   6.2. Risk surcharges and choice of policy
   6.3. Additional arguments concerning self-selection of risks
7. Insurer C: The dynamic bonus system
   7.1. Characteristics of an experience-rated bonus
   7.2. A simple two-period behavioral model
   7.3. Fixed rebate and dynamic bonus compared
8. First-dollar coverage, fixed rebate, and dynamic bonus compared
   8.1. Controlling for filing decisions in a dynamic bonus system
   8.2. Short-run comparative impacts of rebate and bonus offers
      8.2.1. Main results based on the merged sample
      8.2.2. Three objections
   8.3. The intermediate run: Educational effects of financial incentives?
   8.4. Financial incentives and the aged
   8.5. Income-dependent effects of financial incentives?
   8.6. Digression: Effects on hospital care expenditures
      8.6.1. Contractual provisions and cost of hospital care
      8.6.2. Results of estimation
      8.6.3. Discussion of findings
9. Bonus options in social health insurance?
   9.1. Lacking effectiveness
   9.2. Lacking targetedness of effects
   9.3. Undermining of the solidarity principle
   9.4. Concluding remark
Appendix A. Tables  
A.1. Characterization of data base  
A.2. Dependent variables and means (1982), insurer A  
A.3. Explanatory variables and means (1982), insurer A  
A.4. Dependent variables and means (1982), insurer B  
A.5. Explanatory variables and means (1982), insurer B  
A.6. Dependent variables, merged sample  
A.7. Explanatory variables and means, subsamples and merged sample  

Appendix B. Sample construction and choice of statistical method  
B.1. Overview of plans written by insurers A, B, and C  
B.2. Representativeness and comparability of samples  
B.3. Methodological issues in empirical analysis  
B.3.1. Neutralizing the decision to submit  
B.3.2. Choice of statistical method  
B.3.3. Description of explanatory variables  

References  
Index of names  
Index of subjects