Editorial

Christophe Courbage

The Geneva Association, 53 rte de Malagnou, Geneva 1208, Switzerland.
E-mail: christophe_courbage@genevaassociation.org

The Geneva Papers (2010) 35, 499–502. doi:10.1057/gpp.2010.27

For nearly a decade, The Geneva Association has been engaged in a new research programme on Health and Ageing. The main objective of this programme is to better understand the role of demographics, new technologies and insurance in the management of health risk in society.

This special volume of *The Geneva Papers* on health, the fifth in our bi-annual series, contributes to this understanding by addressing four important issues: the concept of risk classification in health insurance, the link between insurance and health expenditures, the development of long-term care insurance and finally the relation between retirement and health.

Many countries have chosen to implement health plan competition as a means of creating incentives to be cost-conscious, while preserving quality, innovation and responsiveness to consumer preferences. Risk equalisation or risk adjustment is an important mechanism for attenuating problems that threaten the effectiveness of such strategies for resource allocation in health care. Risk equalisation means using information to calculate the expected health expenditures of individuals and setting subsidies to consumers or health plans to improve efficiency and equity. Without adequate risk adjustment, competing health plans have incentives to avoid individuals with predictable losses and to select predictably profitable members. This selection and the resulting risk segmentation can have adverse effects in terms of access to care, quality of care and efficiency in the production of care. This volume starts with two papers dealing with this issue.

The paper of *Richard van Kleef*, *Konstantin Beck* and *Florian Buchner* stems from the important goal of risk-adjusted capitation payments (where subsidies are adjusted for risk characteristics) to competitive community-rated health plans (where health plans are not allowed to differentiate their premiums according to individuals' risk characteristics), that is, to reduce incentives for risk selection while maintaining incentives for efficiency. While, in most schemes, risk-adjusted capitation payments are simply based on the average observed costs in risk groups (in a prior year), the authors show that under this procedure, incentives for efficiency will not always be maintained. In particular they demonstrate that when identical risk types are concentrated in the same health plans—due to selection, specialisation or just coincidence—cost savings can be captured by the risk-adjusted capitation payments and leak away from these plans.

The paper of *John Armstrong* and *Francesco Paolucci* addresses the issue of risk equalisation in the special case of Australia and Ireland. The authors carry out a

simulation exercise to compare the effectiveness of the two countries' risk equalisation schemes in meeting the policy objectives of encouraging insurers to be efficient and discouraging them from engaging in risk selection. The results of their analysis show that the Australian scheme is less effective than the Irish scheme in reducing the incentive for risk selection and in encouraging insurers to be efficient. Their results provide evidence that direct standardisation mechanisms (as used in Ireland) can lead to superior outcomes as compared to indirect standardisation mechanisms (as used in Australia) in terms of promoting efficiency and deterring risk selection.

A second series of papers address the important link between health insurance and health care expenditures. While insurance, whether public or private, is crucial in covering the financial consequences of illness and in giving access to care, it can also lead to opportunistic behaviours in various aspects, making health risks more expensive and difficult to cover.

The paper of *Baoping Shang* and *Dana Goldman* addresses one of these aspects in the U.S. public health system for the elderly, Medicare. Indeed, the introduction of Medicare Part D (which provides seniors with affordable coverage for prescription medications) has generated interest in the cost of providing drug coverage to the U.S. elderly. Of paramount importance—often unaccounted for in budget estimates—are the salutary effects that increased prescription drug use might have on other Medicare spending. The authors use longitudinal data from the Medicare Current Beneficiary Survey to estimate how prescription drug benefits affect Medicare spending. They find that Medicare prescription drug coverage significantly increases drug spending and reduces Medicare Part A spending (covering care in hospitals as an inpatient, critical access hospitals, skilled nursing facilities, hospice care and some home health care.) This result is consistent with the story that there is a large substitution effect between prescription drugs and inpatient care for sick individuals, since Medicare beneficiaries are on average much sicker than working age adults.

The third paper of this section, the one of *David Bernstein* also looks at the U.S. case by simulating the impact of reinsurance on insured health care expenditures for different cohorts. The author shows that reinsurance would not eliminate potential risk selection by insurers and, even with reinsurance, specific cohorts would have trouble obtaining affordable insurance unless reinsurance would be accompanied by significant changes to U.S. insurance laws including the adoption of guarantee issue requirements and the abolition of underwriting based on health status or pre-existing conditions.

The paper of *Gholamreza Keshavarz Haddad* aims to estimate a demand model for health insurance and medical care in Iran, in the presence of heterogeneous and latent health status of individuals. It also offers a test of information asymmetry in the health insurance market using the 2006 Households' Expenditures Survey of Iran. Using various econometric specifications, the findings confirm the presence of adverse selection hypothesis in personally purchased health insurance and moral hazard in all health insurance categories.

Finally the paper of *Xiong Linping*, *Zhang Lulu*, *Tang Weidong* and *Liu Hong* concludes this section by focusing on the health scheme in China. In the late 1990s, the Chinese government established the medical insurance scheme for urban employees

and retirees. Given China's considerable size and diversity, the reform of the medical care system faces many challenges. The authors analyse and evaluate the impact of the reform on individuals' health care benefits and on their financial burden due to medical expenses. This makes it possible to consider the sustainability of the urban medical insurance system. The authors create a static microsimulation model for predicting and evaluating the medical insurance policies. Their model investigates the balances of the social pool fund and personal savings accounts. Their conclusion advances the understanding and impact of health insurance reform in China, and also assists in future policy formulation and implementation.

The two last papers of this special issue focus, through two different aspects, on the consequences of the changing demographic structure whereby the population over 60 largely exceeds that of other groups. Such a demographic trend has consequences both on the ways long-term care coverage and pensions are organised.

The first paper by *Andy Zuchandke, Sebastian Reddemann, Simone Krummacker* and *J.-Matthias Graf von der Schulenburg* deals with long-term care insurance in Germany. The discussion concerning long-term care insurance in Germany barely exceeds the financial state of the social system. The view of the insured involved is largely ignored. This paper analyses the effect of the introduction of compulsory long-term care insurance in 1995 in Germany on the perception of financial security when needing long-term care. Using different regression techniques, the authors show that the introduction of this scheme led to a generally positive shift of the assessment of long-term care risk. Furthermore experience with long-term care is shown to have no significant effect before the introduction, but a positive effect afterwards. Finally, the perception of financial security is found to be increasing with income at both times with similar magnitudes.

Finally, the paper of *Jennifer Roberts, Nigel Rice* and *Andrew Jones* concludes this volume and is concerned with the role of health in explaining the decision to retire early. Britain and Germany, like much of the Western world, have concerns about the ageing of the population and early exit of older workers from the labour market. Policy debates have focused on direct changes to retirement ages and incentives to encourage greater pension saving. Less attention has been paid to the role of health. The authors use hazard models applied to longitudinal data from Britain and Germany to estimate the effect of health on early retirement among men. Their results show that health is a key determinant, and its effect is large compared to that of other variables, including the type of pension an individual has access to.

All in all, we aim to think that this set of papers contributes to the main aim of this journal, which is to improve the scientific knowledge of insurance and to offer a rigorous forum for exchanging ideas among concerned parties. These contributions illustrated in the light of various countries provide some important messages for policy-makers on how best to plan the financing and the organisation of health systems, and on the role of insurance mechanisms, whether public and private, in covering health risks.

This special issue of *The Geneva Papers* would not have been possible without the help of external referees, who devoted time to evaluate and to review the papers in a timely way. It is now time to thank them warmly for their effort. They are John

Armstrong, David Bardey, Shelton Brown, David Bernstein, Thomas Buchmueller, Luke Connelly, Stefan Felder, Gustavo Ferro, Annette Hoffmann, Zaki Khorasane, Richard van Kleef, Les Mayhew, Jean Pinquet, Erik Schokkaert and Baoping Shang.

Finally, we have once again been privileged to benefit from the knowledge of all the authors who contributed to this volume. We express our deep gratitude to all of them for their contributions and we sincerely hope that you will enjoy reading their work.