In absolute or relative terms? How framing prices affects the consumer price sensitivity of health plan choice

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Abstract

This paper provides field evidence on a.) how price framing affects consumers’ decision to switch health insurance plans and b.) how the price elasticity of demand for health insurance can be influenced by policymakers through simple regulatory efforts. In 2009, in order to foster competition among health insurance companies, German federal regulation required health insurances to express price differences between health plans in absolute Euro values rather than percentage point payroll tax differences.

We use German Socio-Economic Panel (SOEP) data from 1999-2010 and identify the sickness fund of each statutorily insured individual in the data. Together with information on the gross labor income and the contribution rate of the sickness fund at the day of the interview we calculate the employee’s share of the monthly health insurance contribution in Euro. The data set includes about 50,000 person-year observations from individuals in the statutory health insurance system. The average likelihood to switch sickness funds within a year is 5%. Introducing an add-on premium raises the switching probability by 6 percentage points – a strong effect regarding the low baseline probability to switch funds.

Comparing the effects of a 10 Euro increase in monthly insurance contributions before and after the reform yields the following results. Before the reform, a 10 Euro increase induced an increase in the switching probability by about 1 percentage point. After the reform, 10 Euro more lead to a jump in the switching probability by about 6 percentage points. Thus, expressing price differences in absolute rather than in relative terms led to a sixfold increase in the switching probability. The basic results are corroborated by a supporting analysis using aggregated data on membership numbers of sickness funds with and without an add-on-premium.

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