



***Employer Decisions to Self-Insure:
Does State Regulation Matter?***

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Policy Questions

- *Why does a firm self-insure a health plan?*
- *How important is the motive to avoid state insurance regulation?*
- *Did the 1996 federal insurance mandates lead fewer employers to self-insure?*

Why Care?

- *One implication of growing self-insurance is further erosion in the 'reach' of state laws intended to protect and benefit subscribers.*
- *Under ERISA, states have no oversight of self-insured plans, and there is limited federal oversight.*

A State Mandated Benefit ...

- *Enhances benefits in some purchased plans*
- *Adds expense to premiums*
- *There are also “efficiency costs” associated with compulsory coverage that purchasers would not have otherwise acquired.*

Efficiency Costs:



Consequent changes in access to health insurance, the nature of coverage, worker compensation, and possibly even firm hiring practices, that decrease the welfare of individuals or firms in any way.

Some Components of Efficiency Costs:

- *Increase in self-insurance*
- *Reduced provision of health benefits by employers*
- *Decreases in workers' wages that occur, or reductions in non-mandated areas*

Some Concerns about Self-Insurance

- *Self-insured plans may be less efficient. Some research suggests they incur higher loading charges for comparable coverage.*
- *Self-insurance & ERISA has resulted in two separate and unequal regulatory systems.*
- *Widespread self-insurance makes it difficult for states to design comprehensive health policies.*

Changes in Health Insurance in the 1990s

- *Managed care grew rapidly to dominate the market.*
- *State regulation of managed care plans proliferated.*
- *Employers increasingly chose to self-insure their managed care plans.*

*Percentage of All Insured Workers Under
Self-Insurance by Plan Type:*

	1991	1993	1996	1999
<i>Conventional</i>	58	74	74	62
<i>HMO</i>	--	5	20	19
<i>PPO</i>	50	74	70	67
<i>POS</i>	29	22	81	47
<i>Total, All Plans</i>	--	55	57	52

Source: Sullivan et al. (1992) and Gabel et al (2003)

States with Various Laws for Managed Care Plans:

	1993	1996	1999
<i>Direct Access to Specialists</i>	1	5	8
<i>Prompt Payment of Providers</i>	9	11	33
<i>External Review of Denials of Care</i>	0	0	16
<i>Formal Grievance Procedures</i>	1	5	18
<i>HMOs must offer a POS option</i>	0	0	8

Source: Stauffer et al. (2001), BCBSA (2001), Butler (2002)

*Growth in Presence and Intensity of
Any Willing Provider (AWP) Laws:*

requires that a managed care firm allow any covered provider to be included in its network if provider is willing to abide by the terms and conditions of the network contract.

*Growth in Presence and Intensity of
Freedom of Choice (FOC) Laws:*

require that a managed care subscriber be allowed to obtain service from any licensed provider provided they pay a larger out of pocket payment if the provider is outside the network. Can apply only to HMOs, only to PPOs, or to both.

Theoretical Framework

- *A firm's decision of whether to self-insure is part of its broader choice problem regarding how to compensate workers.*
- *The firm compares the perceived full cost of compensation with purchased coverage to the perceived full cost of compensation under self-insurance, and decides to self-insure when the later is lower.*

Continued

- *If a firm can avoid unwanted benefits and premium taxes with self-insurance, it can often better-tailor its compensation package to worker preferences.*
- *However, in this case the firm must bear the uncertainty of claims and possibly incur higher administrative costs (if it is less efficient than insurers at processing claims).*

Data for the Analysis

- *HRET/KFF Annual Survey of Employer Health Benefits, 1993-1999*
- *5,212 firms, all with 200+ employees*
 - *1,373 conventional plans*
 - *2,407 HMOs*
 - *2,997 PPOs*
 - *981 POS plans*

Data on State Insurance Regulation

- *State Mandated Benefits and Taxation*
 - *Compendiums from Health Policy Tracking Service, National Conference of State Legislatures*
 - *Compendium from Blue Cross Blue Shield Association*
- *AWP and FOC Laws*
 - *Ohsfeldt et al. (1998)*
 - *Updated to 1999*

Other Data Sources Used

- *Local Managed Care Penetration*
 - *Medstat Marketscan Survey*
- *Medical Care Prices*
 - *Medicare payment rates by county*

Econometric Approach

$$\text{Prob}(\text{self-insurance}) = f(F, M, R, S)$$

F = firm characteristics

M = market area characteristics

R = regulatory variables

S = state-level fixed effects

Firm-Level Models

- *Logit model for whether it self-insures any plan*
- *Logit model for whether it self-insures a managed care product, given that it offers a self-insured conventional plan*
- *Models also estimated for the subset of firms with one dominant location (75% or more of workers)*

Plan-Level Models



- *Logit models for whether a particular plan type is a self-insured offering*
- *Separate equations for conventional, HMO, PPO, and POS plans*

Firm Characteristics



- Total employees
- Multiple locations
- Industry dummies
- Choice of plans offered
- Overall % increase in premiums from last year

Market Characteristics



- Area medical price index
- Area HMO+PPO penetration
- Area HMO + PPO penetration data missing

Regulatory Variables

- Pre-1997
- total mandates
- direct access to specialists
- prompt payments to providers
- external review of denials
- premium taxes
- due process for providers
- POS mandated offerings
- presence and intensity of AWP/FOC laws

Results at the Firm-Level

- *Overall, our findings are highly sensitive to the inclusion of state-level fixed effects.*
- *Without state fixed effects, the role of state insurance regulation is greatly overstated.*
- *With state fixed effects, state laws are mostly insignificant.*

Regulatory Variables, Firm-Level Models, Chi-Square Test for Joint Significance

*Without
state fixed effects*

*chi-square test
194.97*** (d.f.=13)*

*With
state fixed effects*

*chi-square test
15.17 (d.f.=13)*

Firm-Level Models, Likelihood of Self-Insurance is Higher for ...

- *larger firms*
- *firms with more than one physical location*
- *firms offering multiple plans*
- *firms in mining, manufacturing, wholesale trade, or transportation*
- *firms that experience smaller increases in their premiums*

Regulatory Variables, Plan-Level Models, Chi-Square Test for Joint Significance

*plan-specific
models*

*chi-square
test statistic*

Conventional plans

4.41 (d.f.=7)

HMOs

15.28 (d.f.=10)

PPOs

13.20 (d.f.=10)

POS plans

13.85 (d.f.=10)

Plan-Level Models, Likelihood of Self-Insurance is Higher for ...

- *larger firms*
- *firms with more than one physical location*
- *firms offering multiple plans*
- *firms that experience smaller increases in their premiums*
- *industry effects mainly in the PPO model, not the models for other types of plans*

*Firms with more than one physical location
were far more likely to self-insure.*

*Odds of self-insuring
for multi-site firms*

<i>any type of plan</i>	<i>1.90***</i>
<i>conventional plan</i>	<i>1.33</i>
<i>HMO</i>	<i>1.30*</i>
<i>PPO</i>	<i>1.72***</i>
<i>POS plan</i>	<i>3.19***</i>

*Why such a strong effect
for multi-site firms?*

*One rationale for self-insuring may be to
avoid having to deal with the diversity of
regulations across states.*

*Does state insurance regulation matter
in the decisions of single-site firms?*

*To answer this, we re-estimated the model
excluding multi-site firms.*

$N = 1,580$

Regulatory Variables, Single-Site Firms, Chi-Square Test for Joint Significance



*Only those firms with
a single dominant location*

chi-square test

19.04 (d.f.=13)

In the self-insurance of managed care products, is there evidence of “carry over” from past decisions to self-insure conventional coverage?

To answer this, we re-estimated our plan-level models using only those firms where we could identify the self-insurance status of a conventional plan that the firm offered.

Very Strong Evidence of “Carry-Over” in Self-Insurance Decisions

*Odds ratio for self-
insuring this plan
when conventional
plan is self-insured*

<i>HMOs</i>	<i>14.9***</i>
<i>PPOs</i>	<i>16,481***</i>
<i>POS plans</i>	<i>440.4***</i>

Regulatory Variables Continue as Jointly Insignificant Even in these Models

*plan-specific
models*

*chi-square
test statistic*

HMOs

12.20 (d.f.=10)

PPOs

10.71 (d.f.=10)

POS plans

12.93 (d.f.=10)

Conclusions

- *Self-insured managed care is now commonplace.*
- *We find no evidence that state regulation was associated with self-insurance decisions over the 1990s.*
- *Multi-site firms, however, were far more likely to self-insure. It is these firms who must deal with conflicting state insurance laws.*

Continued

- *It may not be the enactment of state mandates, per se, but the variance in insurance laws across states that drives self-insurance decisions.*
- *Firms that have used a strategy of self-insuring their conventional plan are far more likely to self-insure their managed care plans too.*

Continued

- *HIPAA and other federal mandates enacted in 1996 did not make self-insurance less attractive to employers. (Although HIPAA did expand pre-existing condition clauses in some self-insured plans.)*

Policy Significance

- *The price of diversity in state insurance regulation is a greater prevalence of self-insurance.*
- *Widespread self-insurance is likely to continue, even as enrollment changes across plan types.*
- *If variation in state regulatory environments increases, so too will self-insurance.*

