Company supplementary health insurance: Compulsory or voluntary schemes, avoiding adverse selection and its effect on employees

Camille Francesconi, Marc Perronnin, Thierry Rochereau

Company supplementary sickness insurance is offered to 72% of employees, according to the Company Supplementary Social Protection survey (PSCE), and is by no means uniform. Many different schemes exist: compulsory schemes offered to all employees or to a proportion of them, voluntary schemes with or without options etc... These schemes are not all exposed to the same degree of adverse selection. Adverse selection exists where young persons in good health choose not to insure themselves, which leads people in poor health to finance their own risk. According to our survey, insurers protect themselves against this risk by proposing for the most part compulsory group schemes, or voluntary schemes with options. Voluntary schemes without options are most exposed to this risk, and affect at most 15% of employees. In these cases, employees who delay signing up to the scheme may face increased premiums.

Compulsory group schemes and voluntary schemes do not offer the same levels of benefit to employees. The first, which are not exposed to adverse selection and enjoy a range of advantages in terms of costs, offer on average higher levels of cover. The voluntary schemes give employees more freedom, particularly that of whether to subscribe, and would appear, in the service sector, to be offered most often by companies which delegate management of the scheme to the employees.

Note for the reader: 22% of employees working in an establishment which offers a compulsory scheme to all employees have access to a scheme with limited levels of cover for optical and dental care, compared to 50% of those employees working in an establishment offering a voluntary scheme to all employees.

Company supplementary health insurance, which is offered to 72% of all employees according to the Company Supplementary Social Protection survey (PSCE), is far from uniform. Schemes may be compulsory or voluntary, with or without options, offered in different forms according to the categories of employees or proposed only to some groups of employees. In this paper we describe the range of schemes available, and how they tackle the problem of adverse selection, and then assess the consequences for employees in terms of the levels of cover and choice.

**Avoiding adverse selection: a strategy for insurers**

Adverse selection is an important issue in health insurance. This happens when individuals in good health do not subscribe to an insurance scheme because they consider that the contributions which they pay outweigh any benefits they may receive under the scheme. To deal with this problem where individual policies are concerned, insurers often use a tariff based on expected risk. Hence, although a wide range of schemes exists in the company supplementary health insurance market, compulsory schemes are the most widespread: 44% of employees are enrolled in these schemes, to which must be added a high proportion of the 24% who work in an establishment offering a scheme which varies by employee group. Compulsory schemes are frequently offered in a single format, but whatever their form, they are not subject to adverse selection because all employees are obliged to participate in them.

Voluntary schemes at risk of adverse selection are, in almost half of all cases, offered with options, with coverages designed to encourage all levels of risk. In total, 14% of employees are enrolled in voluntary schemes with options and 15% in voluntary schemes with a single level of cover, which do not appear to take into account the risk of adverse selection at least in terms of the level of cover offered. In this latter case, insurers may take a different approach to this risk, for example by imposing additional premiums for late enrolment or by withholding insurance from individuals who initially refused to enrol in a scheme.

**Compulsory schemes: the most common formula not subject to adverse selection**

According to the Company Supplementary Social Protection survey carried out at the end of 2003, among those employees working in an establishment which offers a group scheme for supplementary sickness insurance:

- 44% have access to a scheme which is compulsory for all employees. Among these, 67% are offered a single scheme without options, 10% a scheme with options, and the others schemes in which cover varies by socioprofessional group;
- 32% may subscribe to a voluntary scheme offered to all employees. For 45% of these employees this is a scheme with options available to all employees, for 48% this is a scheme without options with a single formula for all employees. The remaining 7% are offered a scheme which is optional for everyone and varies by socioprofessional group;
- 24% are offered schemes which exclude some groups of employees, or which are compulsory or voluntary depending on the employee group. Hence, 12% of employees are offered compulsory schemes which exclude non-managers and 9%, compulsory schemes which exclude temporary employees.

Hence, although a wide range of schemes exists in the company supplementary health insurance market, compulsory schemes are the most widespread: 44% of employees are enrolled in these schemes, to which must be added a high proportion of the 24% who work in an establishment offering a scheme which varies by employee group. Compulsory schemes are frequently offered in a single format, but whatever their form, they are not subject to adverse selection because all employees are obliged to participate in them.
The differences in levels of cover between compulsory and voluntary schemes may be explained first of all by the fact that compulsory schemes are not subject to adverse selection, which means that insurers can propose high levels of cover with no danger of some employees refusing to enrol in the scheme. Furthermore, because the cost of the scheme is distributed among all employees, not only those incurring the highest costs, the insurer can propose higher levels of cover at a given level of premium.

In addition, compulsory schemes have other financial advantages which enable them to offer higher levels of cover for a given budget. In fact:

- the management costs of compulsory schemes are automatically lower than in voluntary schemes because they more often take the form of a single scheme which is easier to manage than a scheme with options;

- furthermore, compulsory schemes benefit from reductions in employers’ social charges and tax deductions for employees, which results in an indirect reduction of their costs vis-à-vis voluntary schemes. According to Turquet (2002), the Court of Accounts values public tenders at 50% of the cost of supplementary insurance for compulsory schemes, and at about 25% for schemes with voluntary enrolment.

### Issues in health economics

#### Very different approaches to supplementary sickness insurance in different sectors of activity

Although voluntary schemes on average offer lower levels of cover than compulsory schemes, they do give employees more choice. Employees can choose...

### Level of cover in schemes offered to employees by type of enrolment

<table>
<thead>
<tr>
<th>Type of contract</th>
<th>Classes</th>
<th>Limited</th>
<th>Average</th>
<th>Good dental cover</th>
<th>Good optical cover</th>
<th>Total</th>
<th>% establishments</th>
<th>% Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary for all</td>
<td>50%</td>
<td>43%</td>
<td>5%</td>
<td>2%</td>
<td>100%</td>
<td>33%</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td>Compulsory for all</td>
<td>22%</td>
<td>41%</td>
<td>20%</td>
<td>16%</td>
<td>100%</td>
<td>50%</td>
<td>44%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>33%</td>
<td>33%</td>
<td>24%</td>
<td>11%</td>
<td>100%</td>
<td>16%</td>
<td>24%</td>
<td></td>
</tr>
</tbody>
</table>

**Note for the reader:** 44% of employees working in companies which offer a group supplementary sickness insurance scheme, have access to a scheme which is compulsory for all employees. 22% of these employees are offered a scheme with limited cover for dental and optical care.

### Statistics on levels of cover for dental, optical and specialist care by type of enrolment

#### Levels of cover for dental care, as % of the agreed tariff

<table>
<thead>
<tr>
<th>Type of contract</th>
<th>Mean</th>
<th>1st quartile</th>
<th>3rd quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary for all</td>
<td>191%</td>
<td>100%</td>
<td>272%</td>
</tr>
<tr>
<td>Compulsory for all</td>
<td>289%</td>
<td>200%</td>
<td>330%</td>
</tr>
</tbody>
</table>

Levels of dental cover in compulsory schemes for all employees are all significantly better than those of voluntary schemes for all employees (Student Test: t value = -12.12 Pr > |t| < 0.0001).

#### Levels of cover for optical care

<table>
<thead>
<tr>
<th>Type of contract</th>
<th>Mean</th>
<th>1st quartile</th>
<th>3rd quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary for all</td>
<td>202 €</td>
<td>137 €</td>
<td>258 €</td>
</tr>
<tr>
<td>Compulsory for all</td>
<td>306 €</td>
<td>190 €</td>
<td>458 €</td>
</tr>
</tbody>
</table>

Levels of cover for optical care in compulsory contracts are all significantly better than those of voluntary schemes for all employees (Student Test: t value = -12.38 Pr > |t| < 0.0001).

#### Levels of cover for specialist care, as % of the agreed tariff

<table>
<thead>
<tr>
<th>Type of contract</th>
<th>Mean</th>
<th>1st quartile</th>
<th>3rd quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary for all</td>
<td>68%</td>
<td>35%</td>
<td>80%</td>
</tr>
<tr>
<td>Compulsory for all</td>
<td>85%</td>
<td>70%</td>
<td>105%</td>
</tr>
</tbody>
</table>

Levels of cover for specialist care in compulsory contracts are all significantly better than those of voluntary schemes for all employees (Student Test: t value = -9.29 Pr > |t| < 0.0001).

### Data sources and classification of schemes

Our study is based on data collected during the Company Supplementary Social Protection survey (PSCE) carried out at the end of 2003 of 1 744 establishments employing at least one person, outside the administrative and agricultural sector.

Among these companies, 943 offer at least one scheme to their employees. This constitutes a sample of 1 446 schemes. These schemes are classified according to the levels of dental and optical care offered (for detail on the classification method see Francesconi et al., 2006). Four groups of schemes ranked according to their overall level of cover are identified:

- **Class 1:** Contracts with “limited” levels of dental and optical cover (34% of schemes, 34% of employees);

- **Class 2:** Contracts with “average” levels of dental and optical cover (39% of schemes, 40% of employees);

- **Class 3:** Contracts with “good” levels of optical cover (18% of schemes, 16% of employees);

- **Class 4:** Contracts with “good” levels of dental cover (9% of schemes, 10% of employees).

Levels of cover for specialist care have not been used to classify schemes but are given for illustrative purposes. They increase with levels of cover for dental and optical care. Reimbursements for dental care (£750 for a prosthesis) and for specialist care (£40 for a specialist consultation) are expressed as a percentage of the negotiated rate on top of the Social Security reimbursement rate, and for optical cover (£250 for a pair of spectacles with graduated lenses and £50 for frames) in euros above the Social Security reimbursement rate.
between different levels of cover depending on their needs and, most importantly, can decide not to enrol in the supplementary sickness insurance scheme which is proposed.

In other respects, employees are more or less involved in choosing and negotiating their insurance cover depending on the type of scheme, and above all on the sector of activity.

In the service sector, employees are involved in negotiating levels of cover more often than in other sectors. This is the case in 32% of establishments compared to 28% in industry and 12% in the construction sector. It is even more common, occurring in 44% of establishments, when the scheme is voluntary for all employees. In this latter group of establishments, the employees alone decided to arrange insurance in 15% of cases, while this happens in only 4% of establishments where the scheme is compulsory for everyone. Finally, in 34% of establishments where the scheme is voluntary for all employees, the employer does not help to finance it. Overall it would appear that the management of voluntary schemes is by and large handed over to the employees.

In the manufacturing sector, schemes are essentially the product of negotiations between social partners. The implementation of supplementary insurance was negotiated unilaterally in only 28% of establishments, compared to 46% in the service sector and 62% in the construction sector. This was decided by the employees in 7% of establishments in the case of voluntary schemes for all employees, and in 2% in the case of compulsory schemes for all employees. Employees are involved in the discussions fairly frequently, in 28% of establishments, whatever the type of scheme.

In the construction sector, it is very often the employer alone who decides to arrange supplementary sickness insurance in his establishment — in 62% of cases compared to 24% in industry and 37% in the service sector. This is a compulsory scheme for all employees in 62% of establishments. Employees are involved in discussions with the supplementary insurer in only 12% of establishments.

Overall, although employees appear to be more involved in the management of supplementary insurance schemes when they are voluntary, how the contracts are managed depends above all on the sector of activity, where very different choices have been made with regard to the supplementary insurance offered to employees.

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In terms of company insurance schemes, compulsory group schemes are the usual means of avoiding adverse selection, because they provide better levels of cover at lower cost. Almost half of voluntary schemes offer options in order to deal with adverse selection, the other half which are offered to 15% of employees, being single voluntary schemes. These rely on financial incentives to limit the risk of adverse selection, for example by increasing contributions from employees who delay joining the scheme. Hence voluntary schemes offer more choice to employees: of whether to enrol and often a choice of level of cover. However the management of these schemes is often left to employees, particularly in the service sector.

At this point it is useful to note that supplementary insurers do not necessarily offer the same choice between compulsory and voluntary contracts. Instead each organisation seems to operate with its own set of principles. Compulsory schemes are usually proposed by provident societies and private insurers, whereas voluntary schemes are more often arranged with mutuals. We now propose to study the position of the different types of organisations in terms of their history and their operating principles, possibly extending the analysis to the market offering for individuals.

ally it should be noted that voluntary contracts could be marginalised or disappear altogether in 2008, which is the date from which employers’ exemptions from social contributions for these schemes will end.

Further information


