

questions

d'économie de la santé

Issues in health economics

results

Background

This study is based on an analysis of data from the Company Supplementary Social Protection survey (PSCE), carried out by IRDES at the end of 2003. By collecting detailed information on the nature of collective schemes from 1 700 organisations, this survey complements the information on company sickness insurance provided by employees in the 2004 Health and Social Protection Survey (ESPS).

Several studies based on these surveys have already been published, notably on the higher levels of cover provided in company schemes compared with individual contracts (Couffinal et al, 2004). A recent analysis showed that managers are more likely to have access to a company scheme and that on average, they are offered higher levels of cover (Francesconi et al, 2006). This new edition of *Health Economics Questions* analyses the differences between compulsory and voluntary schemes in order to address the issue of adverse selection and its effect on employees.

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

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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.

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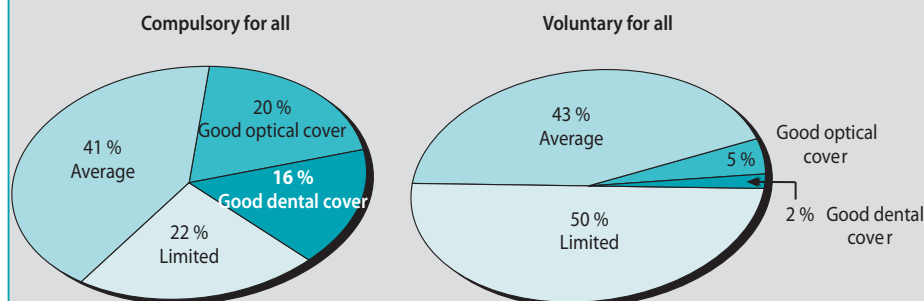
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Levels of cover in compulsory and voluntary schemes



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.

Source: PSCE survey 2003.

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 through the age, or on observed risk as did MMA recently in proposing a contract which reimburses part of the premium for individuals who have not used any health services.

As far as company schemes are concerned, organisations take a different approach. Hence adverse selection can be avoided by making the scheme compulsory for all employees, or a particular group of employees, such as managers. This type of insurance makes it possible to offer uniform levels of cover to all employees whatever their level of risk.

Where participation in a scheme is voluntary, adverse selection is avoided by other means; for example by offering lower levels of cover or options designed to encourage contracts with all levels of risk. In theory voluntary schemes deal with adverse selection by requiring

disclosure: the insured chooses a formula which represents a compromise between price and level of cover, adapted to the volume of care he/she consumes. Given this information, the insurer can fine tune the cost of the contract in line with expected expenditure.

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 socio-professional 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 socio-professional 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.

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.

Not subject to adverse selection, compulsory schemes provide higher levels of cover than voluntary schemes

We show that compulsory membership of an insurance scheme is generally associated with higher levels of reimbursement, as has already been shown in analysis of the ESPS survey data (Couffinhal *et al.*, 2004) (see table p. 3).

Hence, employees working in an establishment which offers a compulsory scheme to everyone are five times more likely to have access to a scheme with high levels of cover than employees working in companies offering a voluntary scheme to all employees (36% compared to 7%). These schemes provide “good” levels of optical and dental cover (see box, p. 3). The same employees are therefore two times less likely to be offered a scheme with “limited” levels of cover (22%).

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.

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

Type of contract	Classes				Total	% establishments	% Employees
	Limited	Average	Good optical cover	Good dental cover			
Voluntary for all	50%	43%	5%	2%	100%	33%	32%
Compulsory for all	22%	41%	20%	16%	100%	50%	44%
Other	33%	33%	24%	11%	100%	16%	24%

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

Type of contract	Mean	Confidence interval	Median	1 st quartile	3 rd quartile
Voluntary for all	191%	170% - 212%	200%	100%	272%
Compulsory for all	289%	265% - 313%	280%	200%	330%

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

Type of contract	Mean	Confidence interval	Median	1 st quartile	3 rd quartile
Voluntary for all	202 €	182 € - 222 €	186 €	137 €	258 €
Compulsory for all	306 €	282 € - 330 €	275 €	190 €	458 €

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

Type of contract	Mean	Confidence interval	Median	1 st quartile	3 rd quartile
Voluntary for all	68%	58% - 78%	70%	35%	80%
Compulsory for all	85%	74% - 96%	105%	70%	105%

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.

* * *

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 incenti-

ves 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

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