# Comments on "Evaluating Consumer Preferences for Medicare Part D Using Conjoint Analysis"

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# Synopsis

- Respondents from Shelby County, TN, choose between hypothetical "products" which differ in levels of "attributes" (premium, deductible, donuthole, formulary coverage, pharmacy access, brand copayments, generic copayments, and medical management levels)

- Levels of attributes picked to be reflective of plans available in the county

- Survey also collects demographic info, health, # meds etc

- Conjoint analysis on resulting survey responses figures out "part worth" (marginal valuation) placed on each plan characteristic, and sums to "total utility" associated with each product

- Estimation method: HB, multinomial logit

- Results in "willingness to pay" in $, using "part worth" on premium attribute to calibrate utility

- Results:
  - Preference orderings as one would expect-eg  respondents prefer plans with more generous coverage, premium per month would have to be $14 lower for beneficiaries to accept a plan that would "cover" some, rather than all, their  drugs, valued a plan that worked at their current pharmacy by $12 a month

# Contributions and Take-Aways

- Rather than using secondary data, "investigator administered each survey on a one on one basis with each senior "

- Design of survey allows one to examine:
  - Specific characteristics in lab-like setting
    - Abstracts from brand name, plan quality ratings etc
  - How valuation differs by demographic characteristics
    - E.g. by income and health status
  - Plan characteristics not known in existing data sets
    - E.g. we learn that pharmacy convenience valued
      - But plans can add pharmacy upon request
    - Could also examine new characteristics

# Comparison to Studies Using Existing Data Sets

- Can avoid issues with representativeness of sample, reality of the task
- Discrete choice modelling using aggregate market shares (e.g. Frakt and Pizer, and Lucarelli, Prince and Simon)
  - Follows Berry (1994), uses only aggregate market shares of plans, and plan attributes
  - Finds coefficients associated with product characteristics that maximize the probability that the choices of plans are as observed, recovers parameters of utility functions
  - Turns results into measures of value of plan attributes to consumers using coefficient on premium characteristic
  - Bounds search costs
- Discrete choice modeling using individual claims data (e.g. Abluck and Gruber)
  - Uses actual choices, but subset of market
  - Can examine search costs directly, knows drugs taken before choice

# Complexity of Choice in Medicare Part D

- Part D choices are more complicated than other product choices
  - Contrast to market for cars or computers
  - What could policy do to reduce complexity without efficiency costs?

- Studies of search costs recommend reducing the number of choices (Rice et al 2008, Cubanski 2008)
- Current policy direction is to reduce plan choice by limiting # plans by insurer within region to less than 3, and removing plans with too few participants (Federal Register, 2010)

- Absent search costs, choice reduction leads to softened price competition and reduction in product variety

- Multidisciplinary research in choice literature is important for these policy decisions

- Psychology points out cognitive challenges among older people in making choices occurs ~age 60 to 70 , shifts focus from cost details to "emotion" (Carstensen research, Szrek and Bundorf 2011)

- Choice architecture also important ( e.g. Kling et al study)
  - Providing customized search pages by mail?

- Instead reducing plan choices, should there by ex-ante competition for entry into the market?

# Suggestions for Future Analyses with Data

- **Richness of data allows linking results to policy discussions**
  - E.g. first investigation of value of pharmacy choice
  - Showing valuation differences by income relevant for LIS policy
- **Additional analyses by other unique characteristics within the data could tie work to psychology**
  - E.g. differences by whether they consult others in decisions (social networks) or by sub age categories (cognitive decline literature)