Comments on “Evaluating Consumer Preferences for Medicare Part D Using Conjoint Analysis”

Discussant:
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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 be 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)