



Risk Selection Threatens Quality of Care for Certain Patients: Lessons from Europe's Health Insurance Exchanges

Synopsis

Since the passage of the Affordable Care Act (ACA), insurers can no longer deny coverage to consumers based on a preexisting condition or adjust premiums based on health status. As a result, insurers run the risk of being undercompensated for the care of high-need, high-cost patients. To guard against this, insurers may use subtle means to avoid sick patients and attract healthier, less-expensive ones—a practice known as risk selection. To protect patients and ensure that insurers' compensation is linked to enrollees' health risk, policymakers need to understand the complexities of risk selection and implement strategies to reduce it. European countries have been using health exchanges for 20 years and offer valuable insight for the United States.

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The Issue

Beginning in the early 1990s, several European countries, along with Israel, established health insurance exchanges similar to those launched in the U.S. as part of the ACA. For a Commonwealth Fund-supported study in *Health Affairs*, researchers gleaned lessons from those countries on how to reduce incentives to engage in risk selection. Insurers can engage in risk selection by steering away high-risk patients in a variety of ways, including purposefully contracting with doctors or hospitals that offer mediocre or substandard care or excluding providers with the best reputations for treating certain diseases.

Key Findings

- Risk selection has been a serious problem in Europe. Health plans operating on the exchanges have marketed products to preferred groups and opened clinics in regions with healthy populations, while closing clinics in communities where health problems are more prevalent.
- The best strategy for reducing incentives for risk selection is to improve risk adjustment so that insurers' reimbursement is aligned with predicted medical expenses. Techniques used in Europe offer some solutions but carry trade-offs. For instance, tying reimbursement to a patient's health care expenses in the previous year reduces the risk of losses but discourages efficiency among insurers. Dutch officials mitigated this risk by,

"It is [policymakers'] duty to make sure that . . . high-cost patients are protected against risk selection that threatens the provision of good quality care."

among other things, relying on expenditures from multiple prior years. The U.S. also might consider factoring disability, pharmaceutical costs, and previous use of durable medical equipment into risk adjustment formulas that determine payment.

- U.S. policymakers should invest in collecting appropriate data. The risk adjustment approaches in use in Europe require a long-term investment in building data systems.
- Other potentially effective strategies include allowing insurers to charge, within an acceptable range, higher premiums for higher-risk patients and removing age as a determining factor in setting rates. To ensure premiums remain affordable, such an approach might require offering greater subsidies to young, low-income, and high-risk enrollees.

The Big Picture

Risk selection may be a more critical issue in the U.S. over the short run. “[I]n the United States there are many competing managed care organizations that deliver care themselves and therefore, compared to European insurers, have much more effective and subtle tools to use to distort the level of quality of care,” the authors write. U.S. insurers also are experienced at identifying medical risk and may use the information at their disposal to design products that are unattractive to high-risk patients—including those with cancer and substance abuse disorders. The high number of consumers choosing health plans in the insurance exchanges may exacerbate the problem. Solving these vexing issues, the authors say, must be made a priority to prevent sick patients from receiving poorer-quality services or reduced access to care.

The Bottom Line

Policymakers and legislators need to understand the complexities of regulating competitive health insurance markets and absorb lessons from other nations. High-cost patients, in particular, must be protected against risk selection that threatens their ability to obtain quality care.

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