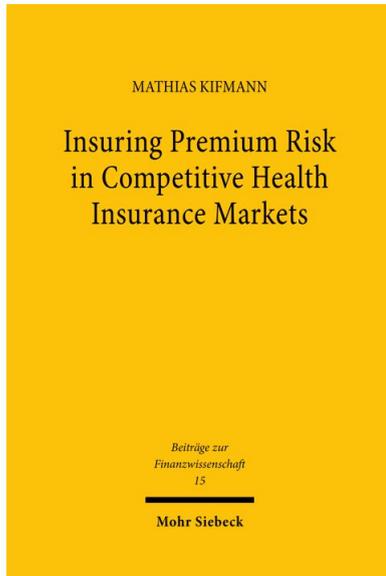


Mathias Kifmann

## Insuring Premium Risk in Competitive Health Insurance Markets



How can it be avoided that consumers face premium risk, i.e. increases in their premiums when their health status deteriorates? Mathias Kifmann examines how this problem which is a major challenge for private health insurance markets can be solved. Three principal ways to insure premium risk which preserve competition among health insurers are analyzed and compared. Guaranteed renewable contracts ensure premiums independent of changes in the health status by requiring a life-time commitment to an insurer. Premium insurance compensates an increase in premiums if the health status changes. Under community rating, the government rules out risk-based premiums by requiring that insurers set a uniform premium for all insured.

Mathias Kifmann pays particular attention to the challenges posed by managed care. He argues that managed care can aggravate the lock-in problem under guaranteed renewable contracts. He demonstrates that an alternative contract is superior to guaranteed renewable contracts. This contract creates incentives for insurers to behave in the interest of consumers by specifying payments upon switching to another insurer. If insurers are community-rated, an important question is whether they should be allowed to offer managed care besides traditional health insurance. The author shows that managed care can be used as a pure risk-selection device under community rating. However, the introduction of managed care can also be to the benefit of everyone. To obtain such welfare gains, it may be necessary to tax some insurance plans and to subsidize others.

**Mathias Kifmann** Born 1970; 1991-96 studies of economics at Ludwig-Maximilian's University in Munich and at the London School of Economics; since 1996 assistant at the University of Constance; 2001 PhD at the University of Constance.

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