

A Shot in the Arm for Medicare Part D: Four Ways for the Government to Boost its Customer Communications

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BACKGROUND

Background on Choice Among Public Services and the Psychology of Choice

- In areas from Social Security to public schools to health insurance, policy makers are increasingly incorporating consumer choice into the provision of government services. While choice and competition have great potential to improve service quality and reduce cost, a recent body of research emphasizes the psychological and cognitive difficulty that consumers may have with complex choices.
- In the case of Medicare Part D, these difficulties may be acute. Research suggests that the comprehension of comparative information and the willingness to make decisions diminish with age, and clearly since these benefits are for seniors, age is an important factor.

Background on the Medicare Drug Benefit

- The Medicare prescription drug benefit offered subsidized drug coverage to Americans with Medicare beginning in January 2006. Beneficiaries enroll voluntarily and choose among multiple free-standing private drug plans and multiple Medicare HMOs offering drug coverage. Most beneficiaries can only enroll or change plans during an open enrollment period, which occurs between November 15 and December 31 each year.
- The typical individual chooses from among 40-60 free-standing private plans, which differ along a variety of dimensions, including premiums, cost-sharing at the pharmacy, numbers of drug covered, and numbers of pharmacies participating. With the large number of plans and the many dimensions to consider, making an informed choice is extremely complicated. In particular, costs depend on a complex interplay between the individual's drugs and the plan's co-payment schedule.

Experimental Study of Information Provision and Other Data Sources

- The study was a randomized experiment in which members of the intervention group received a carefully designed letter showing the potential savings from switching to the lowest-cost plan and a printout from the Medicare website showing personalized costs in all plans. The comparison group received a letter that referred them to the Medicare website.
- Participants were 406 patients of a university hospital, who were already enrolled in a free-standing Medicare drug plan, not receiving subsidies, and over age 65.

Baseline data collection and the intervention occurred in the fall of 2006. Follow-up interviews were conducted in the spring of 2007 and the spring of 2008.

- Independently, the researchers conducted a phone and a mail survey of seniors enrolled in Medicare drug plans in the spring of 2007 and audited potential sources of advice on choosing a drug plan, including 1-800-MEDICARE, senior centers, and retail pharmacies. In these audits, a researcher posed as a Medicare beneficiary or a helpful relative and requested advice on plan choice.

RESULTS

Seniors' Knowledge, Demand for Information, and Plan Satisfaction

- While a significant majority of respondents to the phone survey knew that different plans were better for different people, few had learned additional facts about the specific differences among plans. Less than one fifth of respondents to the phone survey had ever reviewed personalized information comparing plans side-by side. Yet, in both surveys, over 80 percent of participants were generally satisfied with their 2006 prescription drug plans.

Information Available from Medicare and Other Sources

- Medicare's website tool, the Prescription Drug Plan Finder (available at <http://www.medicare.gov/MPDPF>), generates personalized, comparative information. After the user enters information on prescriptions and other preferences, the tool calculates an estimated annual out-of-pocket cost for each plan.
- Researchers' calls to 1-800-MEDICARE indicated that personalized, comparative information was readily available from this source with minimal effort on the part of the caller. The audit further indicated that few private-sector information sources had emerged. A small fraction of pharmacies offered personalized in-store assistance with plan choice. Even the simple message, "Choice among drug plans has significant cost implications, and personalized help is available from Medicare," was not clearly and consistently articulated.

Distribution of Plan Costs

- There are significant differences in costs among plans, and many seniors could save significant amounts of money by changing plans. For example, a typical senior with between four and six prescriptions could have saved about \$500 by changing from his current plan to the lowest cost plan.

Effect of Information on Choices, Costs, and Experience

- 28 percent of seniors in the information group switched plans, compared to 17 percent in the comparison group. The difference was found in a simple comparison of means and in more sophisticated statistical models.
- Based on drug used at the time of plan selection, the decrease in predicted cost for the entire information group relative to the comparison group was \$90 or six

percent of the baseline total drug bill. The decrease in predicted costs was larger if one only considers those seniors who made different choices as a result of the intervention; this decrease was at least \$200 or between 13 percent of the baseline drug bill.

- The bulk of the information group's relative savings came in the form of out-of-pocket costs, not premiums. These costs are virtually impossible to calculate without the Plan Finder or a comparable tool.
- Based on the actual set of drug used over the year, as opposed to drugs known at the time of selection, the decrease in realized costs for the entire information group as opposed to the comparison group was 4 percent of the total drug bill, which translates into actual savings of at least \$150, or 9 percent for who made different choices.
- There were no apparent differences in plan satisfaction, medication access, or plan quality between the two groups.
- These findings suggest that, absent the intervention, many seniors were not making well-informed choices and that additional efforts to distribute personalized cost information could lead to significant reductions in seniors' costs.