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Loss Aversion and the Framing of the Health Care Reform Debate

David L. Eckles*

Brian F. Schaffner†

*University of Georgia, deckles@uga.edu

†University of Massachusetts, Amherst, schaffne@polsci.umass.edu

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Abstract

The high-stakes debate over health care reform captured the public's attention for nearly a year. Options ranging from fully nationalized insurance to maintaining the status quo were considered, though little consensus as to the appropriate solution emerged. Most surveys indicated an agreement that a problem existed with the current health care system and a clear and consistent majority favored taking some action on health care reform. However, clear public support for any specific reform proposal was difficult to muster since most individuals also indicated satisfaction with their own health care. This paper explores this disconnect in public opinion within the context of loss aversion. We note that even as elites actively attempted to frame the issue to counteract the public's loss averse tendencies, these strategies met with little success in generating support for Obama's reform plan. However, we also argue that these loss averse tendencies will now work against any Republican efforts to repeal the health reform legislation.

KEYWORDS: health care reform, loss aversion, framing

The high-stakes debate over health care reform captured the public's attention for nearly a year. Stakeholders put forth a variety of options, ranging from fully nationalized insurance to maintaining the status quo. Perhaps because of advantages and disadvantages to each option and the complexity of the issue, little consensus emerged from the discussion. Most surveys indicated an agreement that a problem existed with the current health care system, and a clear and consistent majority favored taking some action on health care reform. Yet most individuals also indicated satisfaction with their own health care, and clear public support for any specific reform proposal was difficult to muster.

We explore this disconnect in public opinion within the context of *loss aversion*. General economic theories of decision-making (expected utility theory and prospect theory) provide useful tools for understanding why there was not overwhelming public support for the Democratic reform proposals on health care. We note that even as elites actively attempted to frame the issue to counteract loss averse tendencies by the public, these strategies met with little success in generating support for Obama's reform plan. However, we also argue that these very tendencies will now work against any Republican efforts to repeal the health reform legislation, as the public will place more value on the benefits of that legislation now that they represent the status quo.

Economics and Decision Making

Expected utility theory, which has long been a tenet of economic decision-making, stipulates that when faced with uncertain outcomes, decision-makers assign utility values to the potential outcomes, weight these utilities by the probability of occurrence, and ultimately choose the outcome with the highest expected utility. Noting that individuals seemed to prefer certain outcomes to risky outcomes, economists implemented concave utility functions to model the utility functions of risk-averse decision-makers. (Alternatively, convex utility functions are used to model the utility functions of risk-seekers). The concavity of the utility function creates a preference for certain wealth when compared to risky alternatives.

Numerous experiments, however, have shown individual decision-making to be inconsistent with expected utility theory. In an effort to reconcile these outcomes, Kahneman and Tversky (1979) put forth the notion of "prospect theory."¹ Among other components of prospect theory, Kahneman and Tversky point out that decisions seem to depend on whether or not the decision-maker is set to realize a gain or incur a loss. This aspect of prospect theory is often referred to as loss aversion. Loss aversion is generally defined as "the generalization that

¹ It is important to note that Kahneman and Tversky are not the first to notice, or try to explain, behavioral deviations from expected utility theory.

losses are weighted substantially more than objectively commensurate gains in the evaluation of prospects and trades” (Kahneman, Knetsch, and Thaler 1990). Loss aversion gives rise to what Thaler termed the “endowment effect” (Thaler 1980), which refers to the seemingly inconsistent valuation by owners and potential buyers of the same good. That is, when asked to sell a good they possess, owners are likely to demand higher prices than the prices which non-owners are willing to pay for the same good.

A survey experiment conducted August 23-25, 2009, in the midst of the debate over health care reform, provides an illustration of loss aversion within the context of health insurance.² Respondents to this survey were randomly assigned to one of two different conditions and then asked to make a hypothetical choice between two health care plans. Specifically, they were asked: “Suppose you were offered a choice between the following two health insurance plans. Which one would you choose?” One half of the sample was given the following two options to choose from:

- 1) "A plan with no lifetime limit on benefits." (79.5% of respondents in this condition selected this option.)
- 2) "A plan that limited the total amount of benefits in your lifetime to \$1 million, but saved you \$1000 per year." (20.5%)

The second half of the sample chose between these options:

- 1) "A plan that limited the total amount of benefits in your lifetime to \$1 million." (44.2%)
- 2) "A plan with no lifetime limit on benefits, but cost you an additional \$1000 per year." (55.8%)

From an expected utility perspective, the options presented to respondents in the first group are equivalent to those presented to the second group. In both cases, the absence of a lifetime limit on health insurance benefits will cost the respondent \$1,000 per year. In the first scenario, the cost will come by foregoing the savings of a plan with a lifetime limit. In the second scenario, the cost is directly tied to the lifetime limit. However, despite the equivalence, the different framing of the options (one emphasizing "savings" with the other focusing on "cost") is critical. Nearly 80% of respondents in the first group chose the plan

² This analysis is from the Economist/YouGov poll conducted by YouGov/Polimetrix. The survey of 1,000 respondents was conducted August 23-25, 2009.

with no lifetime benefits while just 56% of those in the second group did the same.

This finding indicates that when selecting a health insurance plan, people are strongly influenced by how the terms of those plans are framed. In this case, respondents were far more likely to prefer the plan with no limit on benefits when they would receive those benefits by foregoing a savings of \$1,000 per year rather than when it was framed as the plan that would cost them \$1,000 per year. But does prospect theory also apply to how Americans evaluate proposals to reform America's health care system? Specifically, are loss aversion and the endowment effect relevant to understanding how Americans view their own health care plans, as well as health care reform more generally? In the following section, we discuss how proponents of health care reform attempted to frame the debate in a way that neutralized loss aversion on the part of the public. We then discuss why these efforts met with limited success.

Re-framing the Public's Loss Aversion?

In the example above, the endowment effect influenced which health care plan respondents preferred by causing the different groups to value the \$1,000 differently. Respondents who received the "savings" frame placed less value on the \$1,000, largely because the framing made them think of the money as not currently being in their possession. Those receiving the "cost" frame placed more value on the \$1,000, since it was money that they would have to part with. Several scholars and political analysts have pointed to a similar dynamic when it comes to citizen views on health care reform (Milner 2009; Surowiecki 2009). In particular, there appears to be a tendency on the part of the public to over-value their own health insurance plan relative to alternatives, and this makes people particularly concerned about reforms that may affect their current health insurance.

Writing in 2007, Gregg Bloche argued that one of the primary reasons that significant health care reform had not been achieved in the United States was precisely because of loss averse tendencies on the part of the public. He and others have noted that the famed "Harry and Louise" ads that helped sink President Clinton's health reform initiative played to this very impulse, by promoting the message that "if this reform plan goes through, your current health coverage will be taken away" (Good 2009). The same impulse was affecting public opinion toward health care reform during the current debate. In a July, 2009, Gallup poll, 77% of respondents indicated that it was either "extremely" or "very" important that any change in the healthcare system provide them with "the option to keep the health insurance plan you have now" (Jones 2009).

Bloche argued that reform proposals that "avoid immediate, large-scale disruption of settled arrangements are most likely to achieve health reform's long-

term goals” (Bloche 2007). In other words, the key to winning popular support for health care reform is to thread the needle by promoting a proposal that simultaneously changes the health care system but makes it possible to leave individual plans intact. The plan sponsored by the Obama administration attempted to do this by not offering an entirely new health care structure. Rather, the plan supplemented the current structure with mandates, subsidies, and (though this aspect of the plan did not make it into law) some version of a public insurance option. The significance of this design is not limited to what actual changes the plan would (or would not) make, but also how the issue can be framed by the President and other supporters during the policy debate.

To see why this is the case, we return to the example provided above. When respondents were asked to give up \$1,000 to receive the plan with no lifetime limit on benefits (the “cost” frame), they were much less likely to select that plan than if they were simply foregoing a savings of \$1,000. Appearing to understand this psychology, President Obama has been careful not just in how his health care reform proposal has been structured, but also in how it is being framed. First, Obama and his supporters have repeatedly told the public that if they want to keep the insurance and the doctor that they currently have, they will be allowed to do so. In fact, in his September 9th speech to a joint session of Congress, this was the very first point he made about his plan:

Here are the details that every American needs to know about this plan. First, if you are among the hundreds of millions of Americans who already have health insurance through your job, or Medicare, or Medicaid, or the VA, nothing in this plan will require you or your employer to change the coverage or the doctor you have. Let me repeat this: Nothing in our plan requires you to change what you have (Obama 2009).

This point was repeated at news conferences, radio addresses, town hall events, and in any other venue where it would reach the public. The apparent goal was to neutralize the loss averse predispositions of the American public by telling them that they could keep what they have. If members of the public do not feel as though they will have to lose their own health insurance to make health reform a reality, it may make them more likely to support the plan.

The problem for reform advocates, however, was that a significant share of the American public appeared not to believe this claim. When asked in June of 2009 whether they thought it was “possible to reform the health care system in a way that people who have coverage now can keep it without any changes if they want to,” only 38% agreed that it was possible, while 58% thought that reform would “require everyone to make changes, whether they want to or not” (Langer

2009). As long as Americans thought that their own health insurance plans were in jeopardy, their willingness to support health care reform was limited.

The influence of the “cost” frame was also evident in other ways that both opponents and advocates framed the health care reform plan. On one hand, those fighting against the plan pointed to its high cost, which they argued would be paid for by individuals, either in the form of higher insurance premiums or increased taxes. On the other hand, proponents pointed to the costs of not reforming the health care system, including the fact that Americans will continue to see their health care expenses rise if no reform is enacted. In essence, health care reform opponents were arguing that Americans would incur costs if something was done (that is, if the reform plan became law), and supporters were claiming that Americans would incur costs if nothing was done (that is, if the reform plan failed).

How effective were these two different attempts to apply the cost frame to health care reform? A survey of Americans conducted by Gallup on September 11-13 of 2009 provides one approach to answering this question.³ Respondents were asked what they saw as the most important problem with the current health care system, and the most commonly mentioned problem, by far, was the high cost. They were also asked whether rising health care costs were a problem for them personally: 46% said that rising costs were a major problem, and an additional 31% said they were a minor problem. (The other 22% responded that rising health care costs were not a problem at all).

Given that high and rising costs were identified by such a large share of Americans as a problem with the current health care system, it may seem logical that framing health care reform as a way to avoid costs would be successful. Yet only about 40% of respondents in the same poll expressed support for the President’s health care plan. Further analysis of the same survey data demonstrates why the success of this frame was limited. Only 22% of Americans thought that there would be an improvement in the amount of health care costs they would pay if the health care reform legislation became law, and 42% actually thought that these costs would get worse. This pattern is even evident among those who said that rising health care costs are a major problem: only 36% of people in this group thought that the health care reform plan would make things better, and 40% thought those costs would become worse (see Table 1).

These findings are striking, because they indicate that both sides enjoyed success in framing the issue with regards to costs. Proponents convinced the public that rising health care costs would be a significant problem in the absence of reform. But those opposing health care reform also convinced the public that

³ This analysis is from the USA Today/Gallup. The survey of 1,030 respondents was conducted September 11-13, 2009. The survey was acquired from the Roper Center Public Opinion Archives (Study# USAIPOUSA2009-16).

reform would do little to curb costs and might very well make them worse. To determine which cost-related concerns were more important in structuring support for the reform proposal on health care, we estimated a simple logit model where the dependent variable was whether the respondent would advise his/her member of Congress to vote for the healthcare bill. Each of the questions described in Table 1 were included as covariates in the model, along with controls for each respondent's party affiliation and political ideology.⁴

Table 1
Perceptions of Costs of Status Quo vs. Health Care Reform (September 2009)

If bill passes costs will...	Rising health care costs are...			Total
	Major Problem	Minor Problem	Not a Problem	
Get Better	36%	8%	13%	22%
Not Change	21%	41%	46%	33%
Get Worse	40%	49%	36%	42%
Don't Know	4%	2%	5%	4%
Total	47%	32%	21%	

Percentages are calculated using sample weights.

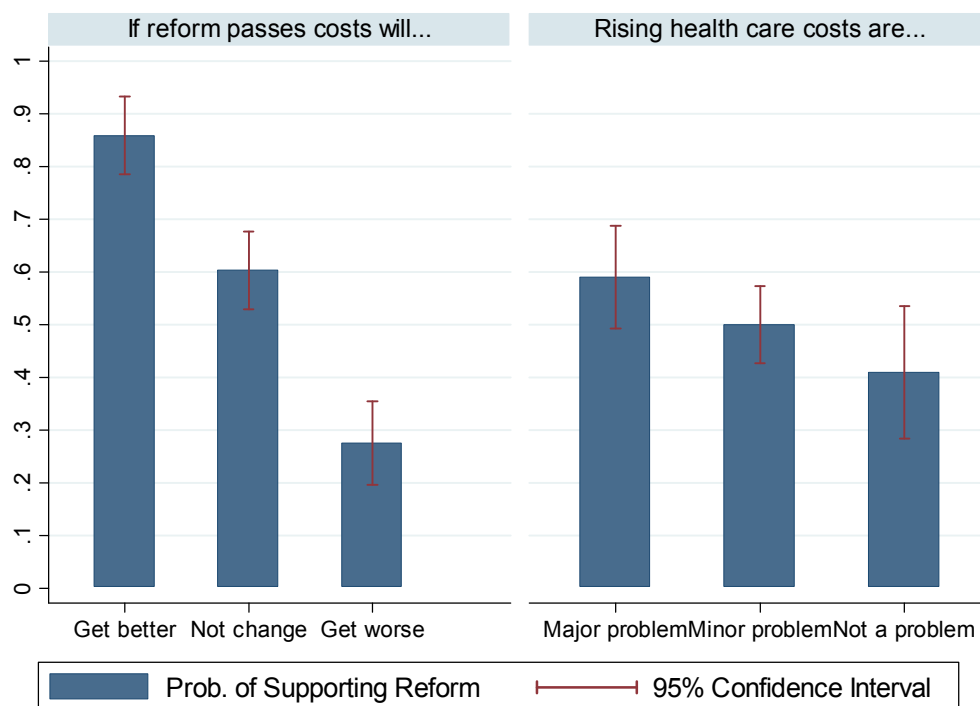
We do not present the full model results here, but our key findings are presented in Figure 1, which graphs the predicted probability of supporting reform depending on how a respondent viewed the costs of that reform and how problematic current health care costs were for that respondent. The figure demonstrates that expectations about how the plan would affect costs had a statistically significant and substantively strong effect on support for reform, while the measure gauging the importance of rising costs under the current system lacked both substantive and statistical significance. The probability that an individual would support healthcare reform was higher than .8 if they thought that the reform would improve costs, but less than .3 if they thought those costs would worsen. Recall that many more individuals fell into the latter category than the former.

Ultimately, it appears as though much of the public believed that they would incur costs regardless of whether the status quo was maintained or if health care reform passed. Under these conditions, the public's well-established bias toward the status quo seemed to win out. (Samuelson and Zeckhauser 1988; Kahneman, Knetsch, and Thaler 1991) The status quo bias is closely related to

⁴ The wording of the question regarding support was "Would you advise your member of Congress to vote for or against a healthcare bill this year, or do you not have an opinion?" Party affiliation was measured on a 3-point scale while ideology was a five-point scale.

loss aversion and the endowment effect. Ironically, this bias appears to limit the extent to which proponents of health care reform were able to neutralize loss averse predispositions by the general public. Most Americans appeared more comfortable with the more familiar costs of the status quo than they were with the less certain costs of reform.

Figure 1
 Predicted Probability of Supporting Reform
 Based on Orientation Toward Existing Costs and Prospective Costs



Note: Based on 438 responses to a Gallup poll conducted September 11-13, 2009. Predictions generated from a logit model in which the dependent variable is whether the respondent would advise his/her member of Congress to vote for the reform legislation on health care. These predictions were generated while holding variables for party identification and political ideology at their mean values. Including additional demographic controls did not alter the substantive results.

The Health Care Law

We have outlined two particular issues in which loss aversion has played a role in public support for health care reform: 1) the potential that individuals would lose

their status quo ante health insurer and 2) the real possibility that reform (and the promise of increased benefits) would be costly to individuals. Whether intentional or not, President Obama signed into law a bill that has provisions that address both of these issues. Concerning the problems associated with losing a status quo ante health care provider, the bill itself does nothing to preclude individuals from maintaining their current provider. As it currently stands, the bill does require individuals to purchase health insurance, but imposes no other coverage requirements for individuals. Individuals can therefore continue with their current provider should they choose to do so.

The bill is also written in a way that highlights the benefits to the individuals while minimizing the cost imposed. Generally, the bill is designed to increase health insurance coverage for everyone. For those previously uninsured, the bill requires insurance be purchased. Also, the bill makes two very important changes to insurance company practices: 1) removal of lifetime caps, and 2) limits on the ability of insurers to consider pre-existing conditions. Both of these changes significantly increase the coverage available to individuals, and will certainly increase costs for some. However, the costs of these programs are framed in such a way to minimize the impact. In fact, some of the costs are even framed to be benefits of the bill. For example, though the law requires individuals to obtain health insurance, the law also provides tax subsidies to low- and middle-income families to minimize the cost burden of the mandate. As such, the bill imposes no fresh explicit financial burden on most individuals and, rather, almost treats the cost as a benefit. Additionally, the bill requires employers to provide health insurance. This again attempts to shift the cost burden away from the individual.

Loss Aversion and Post-Reform Politics

While Democrats had to fight against the public's loss aversion when pushing the reform law toward passage, it is very likely the case that they will benefit from these tendencies when trying to defend it from Republican efforts to repeal this legislation. In effect, while the public's bias toward the status quo has not changed, the status quo has. Now that the public has taken on the costs and benefits of health care reform, it may become challenging for Republicans to convince people to trade them for the uncertain costs and benefits entailed in any significant repeal or reform.

Consider recent Republican attempts to reform Social Security via a system of privatization. The issue first gained attention in the U.S. in the 1990s, as widespread agreement formed about the need to reform Social Security to ensure that it did not become insolvent. The privatization proposal became particularly relevant when President George W. Bush was elected president. During his first

term, he launched a commission to study individual retirement accounts as a way to reform the Social Security system. This proposal became the first major initiative promoted by Bush during his second term but was defeated, at least in part due to the fact that opponents of the reform were able to frame the proposal as being too risky.

As with health care reform, both the costs and benefits of Social Security privatization seemed relatively uncertain. Opponents of privatization appealed to a risk-averse public by promoting privatization as the “risky” alternative. In fact, one Democratic polling firm noted that when debating the privatization proposal, arguments should stress that “The Bush plan undermines retirement *security* by cutting *guaranteed* benefits...*risky* privatization accounts won’t make up the difference.” The effect of risk aversion on attitudes toward Social Security privatization was evident when some polling organizations implemented survey questions that primed citizens to think about the risks involved in private accounts.

Thus Cook and Jacobs (2002) compared responses to questions asked about the privatization plan over several years and found that when questions were asked without any mention of the risk involved in the proposal, support for privatization was substantially higher than when questions did make note of the risks. They concluded that “the public seems to favor some form of partial privatization of Social Security in the abstract, but their support is replaced by ambivalence and then opposition as they are informed of the costs and risks associated with it” (Cook and Jacobs 2002). If Republicans attempt to repeal or scale back the health reform law that was enacted in 2010, Democrats will almost certainly seek to frame such proposals as putting the public’s health care plans at risk. The experience of the failed attempts to privatize Social Security suggests that such arguments will resonate.

Conclusion

Our discussion speaks both to the strong effect that loss aversion and the endowment effect have on public opinion toward health care reform, as well as how the status quo bias limited efforts by Obama and others to frame the debate in a way that neutralized these effects. Supporters emphasized that individuals would not have to change anything about their own health care plan if reform was enacted (a claim shown to be true, at least in the original bill that was signed into law), but a significant portion of the public appeared not to believe this claim. Proponents also attempted to generate support for reform by focusing on the rising health care costs that maintaining the status quo would have produced.

While a large majority of Americans did see rising health care costs as a problem, very few of these same people thought that reform would improve this

situation, and when it came to whether people supported or opposed the reform plan, it was the anticipated costs of the legislation, not concerns about current rising costs, that appeared most salient to Americans. Ultimately, Democrats passed health care reform legislation in spite of their inability to secure significant public support for the plan. Yet their efforts to mitigate the effects of loss aversion on public support for the proposal may have kept even more Americans from opposing the legislation, and if Republicans mount a serious attempt to repeal the reform law, it will be Democrats who are appealing to the public's aversion to risk and loss.

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