



Risk Adjustment and Risk Selection in Europe: six years later

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In this paper we analyse the developments concerning risk adjustment and risk selection in Belgium, Germany, Israel, the Netherlands and Switzerland in the period 2000-2006. Since 2000 two major trends can be observed. On the one hand the risk adjustment systems have been improved, for example, by adding relevant health-based risk adjusters. On the other hand in all 5 countries there is evidence of increasing risk selection which increasingly becomes a problem, in particular in Germany and Switzerland. Some potential explanations are given for these seemingly contradictory observations.

Since the mid-1990s citizens in these countries can regularly switch sickness fund, which should stimulate the sickness funds to improve efficiency in health care production and to respond to consumers' preferences. When looking at managed care there are some weak signals of increasing managed care activities by individual sickness funds in all countries (except Belgium). However, with imperfect risk adjustment, such as in Israel and Switzerland, insurers will integrate their managed care activities with their selection activities, which may have adverse effects for society, even if all insurers are equally successful in selection.

The conclusion is that good risk adjustment is an essential pre-condition for reaping the benefits of a competitive health insurance market. Without good risk adjustment the disadvantages of a competitive insurance market may outweigh its advantages.