

1995 Hans Sigrist Prize



Joseph P. Newhouse

Newhouse received his award for leading a research team that designed and carried out a randomized trial in health care financing, the RAND Health Insurance Experiment. In the late 1970s and early 1980s the Experiment randomized over 2000 non-elderly families to pay varying amounts for medical care services. At one extreme families received all services free of charge. Other families paid 25, 50, or 95 percent of their medical bills, up to a maximum of \$1000 (US). (An equivalent maximum in 2004 would be about \$6,000.) If \$1000 exceeded a certain percentage of a family's income, however, the maximum was scaled down to either 5, 10, or 15 percent of income (families were randomly assigned to these percentages). Families participated for either three or five years.

The award allowed me to write a set of lectures, the Walras-Pareto Lectures, given at the University of Lausanne in 1998, on

the subject of paying for medical services. Subsequently it also allowed me to expand those lectures into a book, *Pricing the Priceless: A Health Care Conundrum*, which was published by the MIT Press in 2002. In 2003 the book won the Paul A. Samuelson Certificate of Excellence from the TIAA-CREF Institute. The book allowed me to pull together the academic literature on how to pay for medical services and juxtapose that literature with my experience from having served for eleven years on a Commission that recommends to the US Congress how and how much to pay for medical services in the American Medicare program.

Families who had to pay 95 percent of their medical bills up to the maximum used about 30 percent fewer medical services than families who received medical services free. On average they made two fewer physician visits each year and were 20-25 percent less likely to be admit-

ted to a hospital. For the average person this reduction in use made little or no difference to their health. Those who were poor and sick, however, had substantially worse control of blood pressure, resulting in a predicted 10 percent increase in mortality.

Some families were randomly assigned to a health maintenance organization. Although they did not have to pay, these families also used less medical care than their counterparts who could see any physician and did not have to pay. Nonethe-

less, on average their health did not suffer, although there was suggestive evidence that those who were poor and sick in this group were also worse off.

In addition to its finding on patient payment, the Experiment's results pointed up problems with the quality of medical care that have been confirmed with later studies, both in the US and elsewhere. The Experiment also developed methods for measuring health status that are now in use worldwide.

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