

## Key Findings

This paper examines the determinants of the demand for private health insurance in the UK from 1978 to 1996. This period is one in which there have been major reforms to the structure of the public sector as provider of health care and to the role of the private sector in the provision of welfare in general. Understanding the purchase of private health care is of interest as governments continue to promote greater private finance of health care. Thus, the focus of this paper is the impact of public and private sector quality on demand.

Individual purchase of private medical insurance (PMI) has shown a steady increase since 1978, from just over 600,000 policies sold in 1978 to 1.4 million in 1996. However most of this growth took place before the 1990's; since 1991, the year of the internal market reforms to the NHS, the number of individual policies sold has risen by only 5 percent.

We use data from the Family Expenditure Survey (FES) to construct a pseudo-cohort panel data set. The FES provides data on household purchase of private medical insurance, household income and expenditure as well as other household demographics. We use the data to follow the experience of 7 birth cohorts, which we can track through the 19 years of data. Use of this panel allows us to examine generational change and investigate dynamics. The data was then matched with NHS and private sector measures of quality and availability of supply, at a regional level.

Our results suggest that the growth in PMI can be explained by demographics, income, the quality of the public and private sectors and generational change.

- Age and cohort have significant effects on PMI purchase. At an aggregate level purchase increases with age, but there has also been generational change. Purchase increases with age but decreases with cohort. At any given age older cohorts are less likely to purchase than younger ones.
- We find income to be positively and significantly related to the decision to purchase, confirming earlier analyses.
- We examine several measures of the quality of the public and private sectors on purchase. We find contrary to previous analysis (Besley *et al* 1999) all except waiting lists have a significant effect on purchase. Most of the impact of these variables arises in the 1990's. Further, the most important determinants of purchase appear to be measures of private sector care, changes in the contractual status of senior doctors employed in the public sector has had the greatest impact on demand for the private alternative. It is this more subtle link rather than perceived (or published ) NHS quality measures that appears to affect purchase the most.
- Aggregate data suggests a strong impact of past purchase. However, our investigation at a more disaggregate level indicates there is only a limited effect for habit.