

ESTIMATING EQUILIBRIUM IN HEALTH  
INSURANCE EXCHANGES: PRICE COMPETITION  
AND SUBSIDY DESIGN UNDER THE ACA

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# MOTIVATION: ACA AND INDIVIDUAL MARKET

- Highly policy relevant research topic
  - Substantial controversy over Affordable Care Act (ACA)
- Individual market for insurance with notorious problems
  - Prior to ACA, problems with cream-skimming, selection
  - Under ACA problems remain: insurer's leaving the market place + raising premiums
  - Important to adjust policy instruments to support the functioning of this market
- Individual market of particular importance, as growing number of employers stop providing health insurance

# SUMMARY

Paper makes (at least) three nice points:

1. Theory: Targeted vouchers towards young consumers creates positive externalities
2. New evidence on demand for and cost of insurance in individual market
3. Implements alternative approach to the estimation of “selection” based on FOC

# COMMENTS: THEORY/POLICY GOALS

- Fundamental goal of ACA is universal coverage
  - would also address selection at the extensive margin.
  - “Cheap” way to achieve this is to raise the tax penalty of not buying health insurance
- Why do we need subsidies?
  - Primary goal is to support low-income households that do not qualify for Medicaid
- Alternative approach would be to keep means-tested subsidies and raise the tax penalty as opposed to age-specific vouchers?

# DATA/VARIATION VS. POLICY POPULATION

- Model/research analysis is largely about selection at the extensive margin (consumer market participation)
  - Great exchange data but strengths lie at the intensive margin (on inside goods)
  - Outside good shares from Area Resource File (hard to measure market participation) [other data sources such as NHIS/CPS ?]
- Compelling variation in base prices induced by variation in the composition of market participants
  - How do base prices affect market participation of subsidized population?
  - How important is the structure of the model to recover their preferences/ marginal costs?
  - Variation in subsidy thresholds to recover preferences?

# SELECTION, MORAL HAZARD, REGIONAL DIFFS

- FOC identify marginal costs. Challenge:
  - Separating selection from moral hazard using data on insured
  - Separating selection from regional differences in costs
- Current cost model:

$$MC_{jr}^{age} = \underbrace{\phi^{age}}_{\text{Selection}} + \underbrace{\phi_{tier} + \phi_{n(j)}}_{\text{Moral Hazard}} + \underbrace{\phi_r}_{\text{Regional Differences}}$$

- How much variation in claim expenditures is explained by age? Rest loaded onto moral hazard/regional differences?
- Suggestion(s):
  - Richer model of selection on observables?
  - Multiple years of data might help here too

# INSURER PARTICIPATION/ PREMIUM SETTING

- Recent evidence indicates substantial price increases/ market exit
- Important here:
  - How do insurers set premiums? Information structure in first order conditions?
  - Endogenous entry/exit ?
  - Suggestion: Direct evidence from claims/marginal costs?
- Key challenge going forward is how to design policies to encourage market participation/ low prices of insurers
  - Risk-adjustment policies, re-insurance?

# SUMMARY

Very nice paper!!!

- Very policy relevant research analysis
- Nice modeling approach to address selection and moral hazard through first order conditions
- Nice exchange market data