Topic 10: Welfare Analysis of Public Health Insurance

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Harvard and NBER

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Thanks to Raj Chetty and Amy Finkelstein for generously providing their lecture notes, some of which are reproduced here.
Medicaid is the largest transfer program in the US ($550B in 2015)

Potential rationales for gov’t provision:
- Adverse selection
- Samaritan’s dilemma (uncompensated care)
- Externalities on others
- Productive impacts on children
Goals of This Lecture

- Impact of Public Health Insurance on Adults
  - Consumption smoothing / reducing high out of pocket spending
  - Increases in healthcare utilization (i.e. “moral hazard”)
  - Labor supply

- Conduct/discuss welfare analysis
  - Structural assumptions vs. revealed preference
  - Role of uncompensated care

- Impact of health on Children
  - Large evidence of health impacts

- GE Effects
  - Insurance increases hospital expansion/innovation/etc
  - Leads to increased costs...
Key Themes: It’s all about the kids...

- Insurance limits out of pocket payments and decreases financial stress
- Does not have (measurable) health impacts on adults
  - Large crowd-out of uncompensated care in recent expansions
  - The uninsured aren’t fully “uninsured”
- In contrast, lots of evidence suggesting insurance improves health for children
  - Similar to MTO / neighborhoods?
- Strong evidence insurance increases costs through GE effects
Impact of Medicaid on Adults

Welfare Analysis of Medicaid

Impact Medicaid on Children

Impact of Medicare: Health and GE Effects
In 2008, Oregon ran a lottery for its Medicaid program for low-income adults

- Was previously closed to new enrollment
- Approximately 90,000 people signed up.
  - Budget for 10,000 people
- Lotteried 30,000 with ~30% takeup

Finkelstein et al. (2012, QJE “The Oregon Health Insurance Experiment: Evidence from the First Year”)
Oregon Health Insurance Experiment

- Intention to treat specification

\[ y_i = \beta_0 + \beta_1 \text{LOTTERY}_i + \beta_2 X_i + \epsilon_i \]

where \( X_i \) are covariates correlated with probability of winning the lottery (e.g. household size)

- LATE specification

\[ y_i = \pi_0 + \pi_1 \text{INSURANCE}_i + \pi_2 X_i + \nu_i \]

where first stage is

\[ \text{INSURANCE}_i = \gamma_0 + \gamma_1 \text{LOTTERY}_i + \gamma_2 X_i + \eta_i \]

- Compliers are those induced to get insurance through the lottery

- Begin with impacts on utilization
Hospitalization Utilization Increases (QJE, 2012)

Probability of Hospital Admission

Hospital Discharge Data

Percent

- All
- Via Emergency Department
- Not Via Emergency Department

Outcomes measured over an approximately one year period.
Emergency Department Use (Science, 2014)

Total ED Use, by Hospitalization and Time of Day

Emergence Department Data

Number of Visits

0.0 0.5 1.0 1.5 2.0

Inpatient  Outpatient  On hours (7AM-8PM M-F)  Off hours (Nights/Weekends)

Control Mean
Control Mean plus Medicaid Effect
CI for Medicaid Effect
Preventive Care (Last 12 Months)

In-person Survey Data

<table>
<thead>
<tr>
<th>Service</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cholesterol test (all)</td>
<td>40%</td>
</tr>
<tr>
<td>Cholesterol test (age &gt;= 50)</td>
<td>30%</td>
</tr>
<tr>
<td>Colonoscopy (age &gt;= 50)</td>
<td>20%</td>
</tr>
<tr>
<td>Flu Shot (age &gt;= 50)</td>
<td>50%</td>
</tr>
<tr>
<td>Pap Smear (women)</td>
<td>70%</td>
</tr>
<tr>
<td>Mammogram (women &gt;= 50)</td>
<td>60%</td>
</tr>
<tr>
<td>PSA (men &gt;= 50)</td>
<td>40%</td>
</tr>
</tbody>
</table>

Legend:
- Control Mean
- Control Mean plus Medicaid Effect
- CI for Medicaid Effect
Diabetes Diagnosis (NEJM, 2013)

Post-lottery Diagnosis (Dx) and Current Medication (Rx)

Inperson Survey Data

- **Dx Hypertension**
- **Rx Hypertension**
- **Dx High cholesterol**
- **Rx High cholesterol**
- **Dx Diabetes**
- **Rx Diabetes**
- **Dx Depression**
- **Rx Depression**

- Control Mean
- Control Mean plus Medicaid Effect
- CI for Medicaid Effect

Percent
Utilization Summary

- Increases in healthcare utilization across the board
  - ED use goes up (contrary to some theories)
  - Preventative care increases
  - Increased diagnosis of diabetes

- What about financial strain?
### TABLE VII
**Financial Strain (Administrative Data)**

<table>
<thead>
<tr>
<th></th>
<th>Control mean (1)</th>
<th>ITT (2)</th>
<th>LATE (3)</th>
<th>p-values (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A: Overall</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any bankruptcy</td>
<td>0.014</td>
<td>0.0022</td>
<td>0.0086</td>
<td>[0.106]</td>
</tr>
<tr>
<td></td>
<td>(0.119)</td>
<td>(0.0014)</td>
<td>(0.0053)</td>
<td>[0.358]</td>
</tr>
<tr>
<td>Any lien</td>
<td>0.021</td>
<td>0.0012</td>
<td>0.0047</td>
<td>[0.406]</td>
</tr>
<tr>
<td></td>
<td>(0.144)</td>
<td>(0.0014)</td>
<td>(0.0056)</td>
<td>[0.698]</td>
</tr>
<tr>
<td>Any judgment</td>
<td>0.064</td>
<td>0.0014</td>
<td>0.0054</td>
<td>[0.573]</td>
</tr>
<tr>
<td></td>
<td>(0.244)</td>
<td>(0.0024)</td>
<td>(0.010)</td>
<td>[0.698]</td>
</tr>
<tr>
<td>Any collection</td>
<td>0.500</td>
<td>-0.012</td>
<td>-0.048</td>
<td>[0.003]</td>
</tr>
<tr>
<td></td>
<td>(0.500)</td>
<td>(0.0041)</td>
<td>(0.016)</td>
<td>[0.013]</td>
</tr>
<tr>
<td>Any delinquency</td>
<td>0.366</td>
<td>0.0016</td>
<td>0.0063</td>
<td>[0.704]</td>
</tr>
<tr>
<td>(credit accounts)</td>
<td>(0.482)</td>
<td>(0.0042)</td>
<td>(0.017)</td>
<td>[0.698]</td>
</tr>
<tr>
<td>Standardized</td>
<td>0.0022</td>
<td>0.0086</td>
<td></td>
<td>[0.653]</td>
</tr>
<tr>
<td>treatment effect</td>
<td>(0.0049)</td>
<td>(0.019)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Panel B: Medical debt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any medical collection</td>
<td>0.281</td>
<td>-0.016</td>
<td>-0.064</td>
<td>[&lt;0.0001]</td>
</tr>
<tr>
<td></td>
<td>(0.449)</td>
<td>(0.0040)</td>
<td>(0.016)</td>
<td>[&lt;0.0001]</td>
</tr>
<tr>
<td>Amount owed in</td>
<td>1,999</td>
<td>-99</td>
<td>-390</td>
<td>[0.028]</td>
</tr>
<tr>
<td>medical collections</td>
<td>(6733)</td>
<td>(45)</td>
<td>(177)</td>
<td>[0.025]</td>
</tr>
<tr>
<td>Standardized</td>
<td>-0.026</td>
<td>-0.100</td>
<td></td>
<td>[&lt;0.0001]</td>
</tr>
<tr>
<td>treatment effect</td>
<td>(0.0061)</td>
<td>(0.024)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Panel C: Nonmedical debt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any nonmedical</td>
<td>0.392</td>
<td>-0.0046</td>
<td>-0.018</td>
<td>[0.264]</td>
</tr>
<tr>
<td>collection</td>
<td>(0.488)</td>
<td>(0.0041)</td>
<td>(0.016)</td>
<td>[0.455]</td>
</tr>
<tr>
<td>Amount owed in</td>
<td>2,740</td>
<td>-20</td>
<td>-79</td>
<td>[0.751]</td>
</tr>
<tr>
<td>nonmedical collections</td>
<td>(9,492)</td>
<td>(63)</td>
<td>(248)</td>
<td>[0.752]</td>
</tr>
<tr>
<td>Standardized</td>
<td>-0.0058</td>
<td>-0.023</td>
<td></td>
<td>[0.325]</td>
</tr>
<tr>
<td>treatment effect</td>
<td>(0.0059)</td>
<td>(0.023)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## TABLE VIII

**FINANCIAL STRAIN (SURVEY DATA)**

<table>
<thead>
<tr>
<th></th>
<th>Control mean (1)</th>
<th>ITT (2)</th>
<th>LATE (3)</th>
<th>p-values (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any out of pocket medical expenses,</td>
<td>0.555</td>
<td>-0.058</td>
<td>-0.200</td>
<td>[&lt;0.0001]</td>
</tr>
<tr>
<td>last six months</td>
<td>(0.497)</td>
<td>(0.0077)</td>
<td>(0.026)</td>
<td>[&lt;0.0001]</td>
</tr>
<tr>
<td>Owe money for medical expenses</td>
<td>0.597</td>
<td>-0.052</td>
<td>-0.180</td>
<td>[&lt;0.0001]</td>
</tr>
<tr>
<td>currently</td>
<td>(0.491)</td>
<td>(0.0076)</td>
<td>(0.026)</td>
<td>[&lt;0.0001]</td>
</tr>
<tr>
<td>Borrowed money or skipped other</td>
<td>0.364</td>
<td>-0.045</td>
<td>-0.154</td>
<td>[&lt;0.0001]</td>
</tr>
<tr>
<td>bills to pay medical bills, last six</td>
<td>(0.481)</td>
<td>(0.0073)</td>
<td>(0.025)</td>
<td>[&lt;0.0001]</td>
</tr>
<tr>
<td>months</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refused treatment because of medical</td>
<td>0.081</td>
<td>-0.011</td>
<td>-0.036</td>
<td>[0.01]</td>
</tr>
<tr>
<td>debt, last six months</td>
<td>(0.273)</td>
<td>(0.0041)</td>
<td>(0.014)</td>
<td>[0.01]</td>
</tr>
<tr>
<td>Standardized treatment effect</td>
<td>-0.089</td>
<td>-0.305</td>
<td></td>
<td>[&lt;0.0001]</td>
</tr>
<tr>
<td></td>
<td>(0.010)</td>
<td>(0.035)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Figure I

Quantile Regression Estimates
Total amount paid out-of-pocket ($)

Percentile
Medical and Non-medical Collections
Credit Report Data

- Any Medical Collection
- Any Non-medical Collection

Outcomes measured over an approximately one year period.
Reduction in Self-Reported Hardship (NEJM, 2013)

Financial Hardship
Inperson Survey Data

- Any Out-of-Pocket Spending (Last 12 Months)
- Catastrophic Expenditures (Last 12 Months)
- Any medical debt (Current)
- Borrowed/skipped bills (Last 12 Months)

- Control Mean
- Control Mean plus Medicaid Effect
- CI for Medicaid Effect
Financial Strain Summary

- Robust evidence that Medicaid reduces financial strain
  - Lower OOP spending
  - Fewer bankruptcies
  - Fewer collections
  - etc...

- What about health outcomes?
No change in blood pressure (NEJM, 2013)

Blood Pressure
Inperson Survey Data

- Systolic
  - Full Sample
  - Hypertension diagnosis
- Diastolic
  - Full Sample
  - Pre-lottery

Control Mean
Control Mean plus Medicaid Effect
CI for Medicaid Effect
Some reductions in depression (NEJM, 2013)

Current Clinical Measures

Inperson Survey Data

- Elevated blood pressure
- High total cholesterol
- Low HDL cholesterol
- High Hemoglobin
- Screen positive for depression

Percent

Control Mean
Control Mean plus Medicaid Effect
CI for Medicaid Effect
Some evidence of increased subjective well-being and reduced depression

But, no statistically significant change in medical conditions

- Lack of power?

- Also can't reject clinical trial estimated impact on outcomes
What about impacts on labor supply and other program participation?

Why do we care?

Fiscal externality...

Is the LATE what we want?

What about ex-ante responses?
Impacts on Earnings (AER, P&P 2014)
### Table 1: 2009 Earnings

<table>
<thead>
<tr>
<th></th>
<th>Control Mean</th>
<th>ITT</th>
<th>LATE</th>
<th>p-values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>Employment (Any Earnings)</td>
<td>0.547</td>
<td>-0.0042</td>
<td>-0.016</td>
<td>0.266</td>
</tr>
<tr>
<td></td>
<td>(0.0037)</td>
<td>(0.014)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of Earnings</td>
<td>6513.015</td>
<td>-51.74</td>
<td>-194.93</td>
<td>0.500</td>
</tr>
<tr>
<td></td>
<td>(10227.3)</td>
<td>(76.8)</td>
<td>(289.0)</td>
<td></td>
</tr>
<tr>
<td>Earnings above FPL</td>
<td>0.131</td>
<td>-0.0032</td>
<td>-0.012</td>
<td>0.219</td>
</tr>
<tr>
<td></td>
<td>(0.0026)</td>
<td>(0.0099)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 2: 2009 Benefits

<table>
<thead>
<tr>
<th></th>
<th>I. Any Receipt of Benefits</th>
<th></th>
<th>II. Amount of Benefits Received</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Control Mean</td>
<td>ITT</td>
<td>LATE</td>
<td>p-values</td>
</tr>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>Food Stamps (SNAP)</td>
<td>0.599</td>
<td>0.025</td>
<td>0.095</td>
<td>&lt;.001</td>
</tr>
<tr>
<td></td>
<td>(0.0038)</td>
<td>(0.014)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TANF</td>
<td>0.031</td>
<td>0.0031</td>
<td>0.012</td>
<td>0.042</td>
</tr>
<tr>
<td></td>
<td>(0.0015)</td>
<td>(0.0058)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSI</td>
<td>0.050</td>
<td>-0.00024</td>
<td>-0.00092</td>
<td>0.888</td>
</tr>
<tr>
<td></td>
<td>(0.0017)</td>
<td>(0.0065)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSDI</td>
<td>0.084</td>
<td>0.0017</td>
<td>0.0066</td>
<td>0.222</td>
</tr>
<tr>
<td></td>
<td>(0.0014)</td>
<td>(0.0054)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: All outcomes are measured at the individual level except for “Amount of TANF” and “Amount of SNAP” which are the amount that the individual’s household received. Columns (1) & (5) report the control mean of the dependent variable and standard deviation for continuous outcomes (in parentheses). Columns (2) and (6) report coefficient (and standard error in parentheses) on LOTTERY from estimating equation (1) by OLS; columns (3) and (7) report coefficient (and standard error in parentheses) on MEDICAID from estimating equation (2) by IV. Column (4) reports the p-values. All regressions control for dummies for number of household members on the lottery list and the 2007 value of the dependent variable. Standard errors are clustered by household. All regressions are weighted to adjust for a new lottery that started in late 2009. N=61790.
Medicaid Lottery increases Food Stamp enrollment

What is the welfare impact?

Information versus price effects

If people learned from their doctor or other program officer that they were eligible for other benefits beyond Medicaid, can generate first order welfare benefit from changing behavior in response to this information

Labor supply didn’t change -> eligibility didn’t change; only enrollment?

Was it information?
MA health insurance expansion required everyone to obtain insurance

Impact on financial strain: Mazumder and Meyer (2016)

Study county-level credit records in MA

Look at heterogeneity as function of % uninsured prior to MA reform
\( Y_{cat} = \beta_{ca} + \sum_{y=1999}^{2012} (\beta_{y1} \times I(Year = y) + \beta_{y2} Uninsured_{2005ca} \times I(Year = y) + \beta_{y3} MA_c \times I(Year = y) + \beta_{y4} MA_c \times Uninsured_{2005ca} \times I(Year = y)) + \epsilon_{cat}, \)
Figure 4. Coefficient on PercentUninsured × MA × Year by Year
Health insurance expansions reduce bankruptcy and unpaid bills

- Implies beneficiaries of public health insurance are not necessarily the beneficiaries themselves

Garthwaite, Gross, and Notowidigdo (2015): “Hospitals as Insurers of Last Resort”

- Document significant impact of public health insurance on reductions in other forms of charity care and uncompensated care

Use two empirical strategies:

- Panel regression of uncompensated care cost on %uninsured
  - Control for state and year effects
- Large dis-enrollment in Tennessee and Missouri Medicaid program from funding reduction
Table 2. Effect of Uninsured Population on Uncompensated Care at All Hospitals

<table>
<thead>
<tr>
<th>Dependent Variable:</th>
<th>Per-capita uncompensated care</th>
<th>Uncompensated care divided by expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Share of population uninsured</td>
<td>856.49 (309.58)</td>
<td>880.95 (303.96)</td>
</tr>
<tr>
<td></td>
<td>[0.01]</td>
<td>[0.01]</td>
</tr>
<tr>
<td>R²</td>
<td>0.871</td>
<td>0.873</td>
</tr>
<tr>
<td>N</td>
<td>1,224</td>
<td>1,224</td>
</tr>
</tbody>
</table>

| Share of population uninsured | 863.05 (317.77) | 886.42 (312.96) | 910.39 (358.81) | 892.36 (320.36) | 0.19 (0.05) | 0.18 (0.05) | 0.18 (0.05) | 0.16 (0.05) |
|                      | [0.01]                          | [0.01]                                  | [0.01]      | [0.01]      | [0.00]      | [0.00]      | [0.00]      | [0.00]      |
| R²                  | 0.865                           | 0.867                                  | 0.885       | 0.888       | 0.820       | 0.822       | 0.858       | 0.862       |
| N                   | 1,224                           | 1,224                                  | 1,224       | 1,224       | 1,224       | 1,224       | 1,224       | 1,224       |

| Share of population uninsured | - 6.85 (11.38) | - 5.88 (12.07) | - 8.46 (17.95) | - 6.50 (17.64) | 0.00 (0.04) | 0.00 (0.04) | 0.01 (0.05) | 0.01 (0.05) |
|                      | [0.55]                          | [0.63]                                  | [0.64]      | [0.71]      | [1.00]      | [0.98]      | [0.91]      | [0.81]      |
| R²                  | 0.480                           | 0.481                                  | 0.549       | 0.551       | 0.294       | 0.295       | 0.380       | 0.390       |
| N                   | 1,200                           | 1,200                                  | 1,200       | 1,200       | 1,200       | 1,200       | 1,200       | 1,200       |

- **A. All Hospitals**
- **B. Hospitals with an ED**
- **C. Hospitals without an ED**
- **D. Acute-Care Hospitals with an ED**

State-year controls: ✓
Region-year fixed effects: ✓
Figure 3. Uncompensated Care Costs in Tennessee

Note: This figure presents total uncompensated care costs in Tennessee versus other Southern states, as reported in the AHA survey. See text for details.
Greater uninsured lead to greater uncompensated care paid by hospitals

- Implies beneficiaries of public health insurance are not necessarily the beneficiaries themselves

Estimates suggest each additional uninsured person costs local hospitals $900 each year in uncompensated care
1. Impact of Medicaid on Adults

2. Welfare Analysis of Medicaid

3. Impact Medicaid on Children

4. Impact of Medicare: Health and GE Effects
Informal Welfare Analysis

- Media:
  - “Medicaid Makes ’Big Difference’ in Lives, Study Finds”
    - National Public Radio (2011)
  - “Spending on Medicaid Doesn’t Actually Help the Poor”
    - Washington Post (2013)

- Public policy centers:
  - “Oregon’s lesson to the nation: Medicaid Works”
    - Oregon Center for Public Policy (2013)
  - “Oregon Medicaid Study Shows Michigan Medicaid Expansion Not Worth the Cost”
    - MacKinac Center for Public Policy (2013)
Welfare Analysis

- Present results from two recent approaches:
  - “Model-based” approach in Finkelstein, Hendren, and Luttmer (2016)
    - Conduct welfare analysis of Oregon Health Insurance Experiment
Model-Based Approach: Two Frameworks

1. Complete-information approach
   - Completely specify normative utility function and estimate causal effect of Medicaid on distribution of all utility-relevant arguments
   - Here: Consumption and Health
   - Don’t need to assume consumer optimization or need to model how Medicaid affects budget set

2. Optimization approaches
   - Assume consumer optimization
   - Model how Medicaid affects the budget set (in each state of the world)
   - Only specify marginal utility function over one argument
   - Implement three versions:
     - Consumption-Based Optimization Approach using “consumption proxy”
     - Consumption-Based Optimization Approach using “CEX data”
     - Health-Based Optimization Approach
Setup (common to both frameworks)

- Individuals derive utility from health, $h$, and consumption of non-medical goods and services, $c$
  
  $u = u(c, h)$

- Health $h$ produced according to $h = \tilde{h}(m; \theta)$
  - Medical spending, $m$
  - $\theta$ denotes underlying state variable
    - medical conditions, other factors affecting health, etc.

- Assume each Medicaid recipient faces same distribution of $\theta$
  - Conceptually: welfare analysis behind veil of ignorance
  - Empirically: cross-sectional distribution of outcomes capture different potential $\theta$
  - Presence of Medicaid denoted by $q \in \{0, 1\}$
Complete-Information Approach

- Define \( c(q, \theta) \), \( h(q, \theta) \), and \( m(q, \theta) \) to be distributions of consumption, health, and medical spending conditional on insurance \( q \).

- Define welfare impact of Medicaid on recipient, \( \gamma(1) \):

\[
E[u(c(0; \theta), h(0; \theta))] = E[u(c(1; \theta) - \gamma(1), h(1; \theta))]
\]

- Expectations taken over all possible states of world \( \theta \).

- To recover \( \gamma(1) \) from above equation requires:
  - Estimates of distribution of \( c \) and \( h \) at \( q = 1 \) and \( q = 0 \)
  - Specification of normative utility function over all its arguments (in our application: \( c, h \))
Assumption 1: Full specification of utility function:

\[ u(c, h) = \frac{c^{1-\sigma}}{1-\sigma} + \phi h \]

\[ E \left[ \frac{c (0; \theta)^{1-\sigma}}{1-\sigma} + \phi h (0; \theta) \right] = E \left[ \frac{(c (1; \theta) - \gamma (1))^{1-\sigma}}{1-\sigma} + \phi h (1; \theta) \right] \]

Requirements:

- Causal effects on distribution of \( c \) and mean \( h \) for \( q = 0 \) and \( q = 1 \)
- Full specification of normative utility function
Reduce information requirements through additional assumptions

**Assumption 2**: (Program structure) Medicaid’s only direct effect is on the out-of-pocket price for medical care, $p(q)$

- Rules out other ways Medicaid might affect consumption or health
- E.g., impacts on provider behavior

Implementation: define out-of-pocket spending, $x$, for medical care by:

$$x(q, m) \equiv p(q)m$$
Assumption 3: Individual Optimization

**Assumption 3:** Individuals choose $m$ and $c$ optimally, subject to their budget constraint

$$\max_{c,m} u(c, \tilde{h}(m; \theta)) \ \text{subject to} \ c = y(\theta) - x(q, m) \ \forall m, q, \theta.$$  

- $y(\theta)$ denotes (potentially state-contingent) income plus any (potentially state-contingent) changes in assets (savings or borrowings)

- Not an innocuous assumption in health care context!
  - Decisions are taken jointly with other agents (e.g., doctors) who may have different objectives (e.g., Arrow 1963)
  - Complex nature of decision may generate individually sub-optimal behavior
Thought Experiment: Marginal Expansion of Medicaid

- Let \( q \in [0, 1] \) trace a “marginal” expansion in Medicaid:
  \[
  x(q, m) = (1 - q)p(0)m + qp(1)m
  \]

- Marginal expansion of Medicaid (marginal increase in \( q \)), relaxes the individuals budget constraint by \(-\frac{\partial x}{\partial q} \):
  \[
  -\frac{\partial x(q, m(q; \theta))}{\partial q} = (p(0) - p(1))m(q; \theta)
  \]

- Note: this is program parameter (i.e., holding behavior, \( m \), constant)

- Value to recipient of getting fraction \( q \) of Medicaid is given by \( \gamma(q) \):
  \[
  E[u(c(0; \theta), h(0; \theta))] = E[u(c(q; \theta) - \gamma(q), h(q; \theta))]
  \]
Consumption-Based Optimization Approach

Use envelope theorem to derive value of marginal expansion of insurance:

\[
\frac{d\gamma}{dq} = E \left( \frac{u_c}{E[u_c]} \times \frac{(p(0) - p(1))m(q; \theta)}{u_c} \right)
\]

- Value budget constraint relaxation by \( \frac{u_c}{E[u_c]} \) in each state, \( \theta \)
- Because derivation is based on envelope theorem, we do not require first-order condition to hold everywhere (i.e., medical spending can be “lumpy”)
Consumption-Based Optimization Approach

- Decompose $\frac{d\gamma(q)}{dq}$ into a transfer term and a pure-insurance term
  - Implementation will be based on estimating each term separately

$$
\frac{d\gamma(q)}{dq} = \left( p(0) - p(1) \right) E \left[ m(q; \theta) \right] + Cov \left[ \frac{u_c}{E[u_c]}, (p(0) - p(1)) m(q; \theta) \right]
$$

- **Transfer Term (consumption valuation)**
  - **Transfer term**: Value to beneficiary of expected resource transfers from rest of economy
    - Medical spending times change in out-of-pocket price
  - **Pure-insurance term**: Value of reallocating resources (by relaxing budget constraint) across different states of world
    - Medicaid adds value if it moves resources from states of the world with lower marginal utility of consumption into states of the world with higher marginal utility
To arrive at non-marginal estimate, integrate over $q$:

$$\gamma(1) = \int_0^1 \frac{d\gamma(q)}{dq} dq =$$

$$(p(0) - p(1)) \int_0^1 E[m(q; \theta)] dq + \int_0^1 \text{Cov} \left( \frac{u_c}{E[u_c]}, (p(0) - p(1)) m(q; \theta) \right) dq$$

- The transfer term does not depend on the utility function
  - therefore relatively straightforward to implement
  - same for all optimization approaches (whether consumption based or health based)
Implementation: Pure-Insurance Term

- Requires partial specification of utility function: only marginal utility of consumption

- **Assumption 4**: Utility function has the form:

  \[
  u(c, h, \ldots, \ldots) = \frac{c^{1-\sigma}}{1-\sigma} + v(h, \ldots, \ldots)
  \]

  where \(v(.)\) is unspecified subutility function over health and any other arguments of the utility function

- As a result, can write the pure-insurance term as:

  \[
  \text{Pure-Insurance Term (consumption valuation)} = \text{Cov} \left[ \frac{u_c}{E[u_c]}, (p(0) - p(1))m(q; \theta) \right] = \text{Cov} \left( \frac{c(q; \theta)^{-\sigma}}{E[c(q; \theta)^{-\sigma}]}, (p(0) - p(1))m(q; \theta) \right)
  \]
Implementation: Interpolation

- Only observe $q$ at 0 and at 1.
- Need additional assumption to obtain $\gamma(1)$
  - Baseline: statistical assumption: $\frac{d\gamma}{dq}$ linear in $q$
  - Explore sensitivity to alternatives (e.g., $m$ linear in $q$, or $m$ as any increasing function of $q$, bounds on transfer term)

**Assumption 5**: Linear approximation:

$$\gamma(1) \approx \frac{1}{2} \left[ \frac{d\gamma(0)}{dq} + \frac{d\gamma(1)}{dq} \right]$$

- Compare to complete-information approach which can deliver non-marginal welfare estimates directly
### Table 2: Welfare Benefit Per Recipient

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Complete-Information Approach (Consumption Proxy)</strong></td>
<td><strong>Optimization Approaches</strong></td>
<td><strong>Consumption-Based (Consumption Proxy)</strong></td>
<td><strong>Consumption-Based (CEX Cons. Measure)</strong></td>
<td><strong>Health-Based</strong></td>
</tr>
<tr>
<td><strong>A. Welfare Effect on Recipients, ( \gamma(1) )</strong></td>
<td>1675</td>
<td>1421</td>
<td>793</td>
<td>690</td>
</tr>
<tr>
<td>(standard error)</td>
<td>(60)</td>
<td>(180)</td>
<td>(417)</td>
<td>(420)</td>
</tr>
<tr>
<td>Transfer component, ( T )</td>
<td>699</td>
<td>661</td>
<td>661</td>
<td>661</td>
</tr>
<tr>
<td>Pure-insurance component, ( I )</td>
<td>976</td>
<td>760</td>
<td>133</td>
<td>30</td>
</tr>
</tbody>
</table>

Notes: Estimates of welfare effects and moral hazard costs are expressed in dollars per year per Medicaid recipient. Standard errors are bootstrapped with 500 repetitions.
- $G$ is cost to Government of providing Medicaid:

\[ G = E[m(1; \theta)] = $3,600 \]

- $N$ is monetary transfer by Medicaid to external parties:

\[ N = E[m(0; \theta)] - E[x(0, m(0; \theta))] = $2,721 - $569 = $2,152 \]

- $C$ is net resource cost of Medicaid = $G - N = \text{increase in } m \text{ plus decrease in } x$:

\[ C = G - N = $3,600 - $2,152 = $1,448 \]
### Table 2B: Comparisons

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Optimization Approaches</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complete-Information Approach (Consumption Proxy)</td>
<td>Cons.-Based (Consumption Proxy)</td>
<td>Cons.-Based (CEX Cons. Measure)</td>
<td>Health-Based</td>
<td></td>
</tr>
<tr>
<td><strong>A. Welfare Effect on Recipients, $\gamma(1)$</strong></td>
<td>1675</td>
<td>1421</td>
<td>793</td>
<td>690</td>
</tr>
<tr>
<td><strong>B. Transfer to External Parties, $N$</strong></td>
<td>2152</td>
<td>2152</td>
<td>2152</td>
<td>2152</td>
</tr>
<tr>
<td><strong>C. Efficiency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pure-insurance component, $I$</td>
<td>976</td>
<td>760</td>
<td>133</td>
<td>30</td>
</tr>
<tr>
<td>Moral hazard cost, $G-N-T = C - T$</td>
<td>749</td>
<td>787</td>
<td>787</td>
<td>787</td>
</tr>
<tr>
<td><strong>D. Ratios of $\gamma(I)$ relative to:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>monetary transfer to external parties, $\gamma(1)/N$</td>
<td>0.78</td>
<td>0.66</td>
<td>0.37</td>
<td>0.32</td>
</tr>
<tr>
<td>net costs, $\gamma(1)/C$</td>
<td>1.16</td>
<td>0.98</td>
<td>0.55</td>
<td>0.48</td>
</tr>
<tr>
<td>gross costs, $\gamma(1)/G$</td>
<td>0.47</td>
<td>0.39</td>
<td>0.22</td>
<td>0.19</td>
</tr>
</tbody>
</table>
First two key findings:

1. Recipients' value from Medicaid is 1/3 to 3/4 of transfers to external parties, \( \gamma(1) < N \)

2. Cash vs. In-kind: Recipients would rather give up Medicaid than pay G, \( \gamma(1) < G \)

Driven by substantial transfers to external parties (\( N/G = 0.6 \)).

- Uninsured pay only about $0.20 on the dollar for medical spending
- Consistent with other estimates of share of medical expenses paid by uninsured (e.g., Coughlin et al., 2014; estimates in MEPS)
- Consistent with other evidence of implicit insurance
  - Medicaid substantially reduces provision of uncompensated care by hospitals (Garthwaite et al. 2015)
  - Impact of health shocks on access to credit similar for insured and uninsured (Dobkin et al. 2015)

Key question: economic incidence of transfers to external parties
Summary

- Key limitation for welfare analysis of public health insurance / Medicaid: Do not observe choices

- FHL2016 impose a utility function (or coeff. of risk aversion)
  - Maybe people really are WTP more for health insurance than is generated from CRRA=3?

- Alternative: Exploit setting where we do see prices
Finkelstein, Hendren, and Shepard (2016) exploit subsidized health insurance exchange in Massachusetts (pre ACA)
- Charged premiums that were discontinuous functions of income

Estimate demand and cost curves for insurance
- Idea: Enrollment on exchange reveals willingness to pay (demand)
- Key variation: Premium discontinuities by income group
  - E.g., Cheapest plan is $0 for 100-150% pov.; $39 for 150-200% pov.
- RD Strategy: Compare 149% poverty vs. 151% poverty to measure how much higher premium reduces demand, affects avg. costs
  - No evidence of income manipulation across thresholds (why is this important?)
Subsidy and Premium Discontinuities (2011)

- Insurer Price
- Subsidies
- Enrollee Premium
- "Affordable Amt." (cheapest plan)
- Four Other Plans

Income, % of FPL

$ per month

0 100 200 300 400
Share of Eligible Population Insured

- 94% with %Δ = -26%
- 76% with %Δ = -27%
- 58% with %Δ = -24%

Income, % of FPL

- P_min = $0
- P_min = $39
- P_min = $77
- P_min = $116
Result #1: Substantial Adverse Selection

Downward sloping MC and AC

Average Cost (H)

Marginal Cost (H)

Value_H

Fraction in H Plan

$ per month

0 100 200 300 400

.2 .3 .4 .5 .6 .7 .8 .9 1

0 100 200 300 400

.2 .3 .4 .5 .6 .7 .8 .9 1
Result #2: Little Take-up w/out Large Subsidies

Demand well below average cost
Result #3: Adverse selection alone cannot explain low covg.

Suggests most enrollees would prefer cash to coverage.

Demand also well below marginal cost.
Normative Conclusions Not Immediate

Private MC = Social MC?
(e.g. Charity Care?)

Private WTP = Social WTP?
Ex-Ante WTP?

- What about ex-ante WTP we discussed last class?
- Apply approach from Hendren (2018)
WTP and Cost Curves: Net Resource Cost

Uncompensated Care Estimate $C(s)$, Average Cost $AC(s)$, and Cost $D(s)$

$C(s)_{CE} = 0$

Uncompensated Care Estimate
Market Surplus Maximizing Allocation

C(s)
D(s)
Market Surplus Maximizing Allocation

\[ p_{ms} = \$1581 \]

\[ s_{ms} = 41\% \]
$p_{ms} = $1581

$s_{ms} = 41\%$

$C(s)$

$D(s)$

$\$182$
From Observed to Ex-Ante WTP

- What about ex-ante WTP?

- Requires measure of risk aversion

- Baseline case: $\gamma = 5 \times 10^{-4}$ (Handel, Hendel, and Whinston 2016)
  - Estimated for richer population -> lower bound under DARA preferences

- But, implies CRRA of 8 if consumption is 150% FPL
  - Consider alternative scenario of CRRA of 3 (CARA of $1.8 \times 10^{-4}$)
From Observed to Ex-Ante Demand

\[ D(s) + EA(s) \]

\[ C(s) \]

\[ D(s) \]
From Observed to Ex-Ante Demand

\[ D(s) + EA(s) \]

\[ C(s) \]

\[ D(s) \]

\[ p_{ea} = \$1089 \]

\[ s_{ea} = 55\% \]
Result #1: Ex-ante optimal insurance prices are $1089 not $1581
Result #1: Ex-ante optimal insurance prices are $1089 not $1581

Ex-Ante Optimal Allocation involves “deadweight loss”
$p_{ea} = \$1089$

$s_{ea} = 55\%$
From Observed to Ex-Ante Demand

Result #2: Everyone is WTP $228 to live in a world with marginal price of $1089 for insurance prior to learning $s$

\[ p_{ea} = $1089 \]

\[ s_{ea} = 55\% \]
Welfare Cost of Mandates: Market Surplus

Mandate lowers market surplus by $45
Mandate increases ex-ante welfare by $70
Result #3: Mandates are ex-ante optimal, but result in lower market surplus.
Modest premiums deter coverage substantially and raise costs
  - Adverse selection!

Low-income WTP for insurance far below cost
  - Consistent with Finkelstein, Hendren, and Luttmer (2016) and fact that uninsured pay 20-30\% of their costs

Contrasts with health insurance for high-income people
  - Consistent with model in which uncompensated care only provided to low-income people
  - Open question: Implications for optimal tax/transfers?!

Ex-ante welfare perspective can matter in this instance for whether WTP exceeds resource costs
Impact of Medicaid on Adults

Welfare Analysis of Medicaid

Impact Medicaid on Children

Impact of Medicare: Health and GE Effects
Impacts on Children

- Substantial evidence that public health insurance improves health for children
  - But, contrasts with minimal estimated impacts on adults
- Currie and Gruber (1996, QJE): Health Insurance Eligibility, Utilization of Medical Care, and Child Health
  - Exploits state variation in expansion of Medicaid to children and pregnant mothers
\begin{equation}
\text{UTIL}_i = \alpha + \beta_1 X_i + \beta_2 ELIG; + \beta_3 \delta_j + \beta_4 \tau_t + \beta_5 AGEG_i \\
\times \delta_j + \beta_6 AGEG_i \times \tau_t + \epsilon_i,
\end{equation}

where

\text{UTIL}_i is a measure of utilization for individual \textit{i},
\text{X} is a set of control variables,
\text{ELIG} is an indicator of the eligibility of individual \textit{i} for Medicaid,
\text{\delta}_j and \text{\tau}_t are a full set of state and year dummies, respectively,
\text{AGEG} is a dummy for being in one of five age groups.
Our strategy, therefore, is to use a “simulated instrument” that varies only with the state’s legislative environment and not with its economic or demographic characteristics. In order to construct this instrument, we select a national random sample of 300 children of each age (zero to fourteen), in each year, and calculate the fraction of children in this sample who would be eligible for Medicaid given the rules in each state in that year. This measure can be thought of as a convenient parameterization of legislative differences affecting children in different state, year, and age groups—a natural way to summarize the generosity of state Medicaid policy as it affects each group is in terms of the effect it would have on a given, nationally representative, population.
<table>
<thead>
<tr>
<th>Dependent var</th>
<th>(1) OLS No visit last year</th>
<th>(2) OLS Visit last 2 weeks</th>
<th>(3) OLS Hospital last year</th>
<th>(4) TSLS No visit last year</th>
<th>(5) TSLS Visit last 2 weeks</th>
<th>(6) TSLS Hospital last year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid</td>
<td>-2.510</td>
<td>-0.119</td>
<td>0.681</td>
<td>-9.553</td>
<td>4.653</td>
<td>3.960</td>
</tr>
<tr>
<td>eligibility</td>
<td>(0.309)</td>
<td>(0.237)</td>
<td>(0.153)</td>
<td>(3.037)</td>
<td>(2.803)</td>
<td>(1.646)</td>
</tr>
<tr>
<td>Male</td>
<td>-0.034</td>
<td>0.691</td>
<td>0.763</td>
<td>-0.033</td>
<td>0.691</td>
<td>0.763</td>
</tr>
<tr>
<td></td>
<td>(0.159)</td>
<td>(0.132)</td>
<td>(0.078)</td>
<td>(0.159)</td>
<td>(0.132)</td>
<td>(0.078)</td>
</tr>
<tr>
<td>Black</td>
<td>4.149</td>
<td>-3.354</td>
<td>-0.611</td>
<td>4.362</td>
<td>-3.505</td>
<td>-0.710</td>
</tr>
<tr>
<td></td>
<td>(0.260)</td>
<td>(0.195)</td>
<td>(0.123)</td>
<td>(0.276)</td>
<td>(0.212)</td>
<td>(0.133)</td>
</tr>
<tr>
<td>Hispanic</td>
<td>1.738</td>
<td>-0.922</td>
<td>0.019</td>
<td>1.978</td>
<td>-1.093</td>
<td>-0.093</td>
</tr>
<tr>
<td></td>
<td>(0.294)</td>
<td>(0.234)</td>
<td>(0.140)</td>
<td>(0.311)</td>
<td>(0.254)</td>
<td>(0.150)</td>
</tr>
<tr>
<td>Mom is HS</td>
<td>2.809</td>
<td>-0.613</td>
<td>0.264</td>
<td>3.255</td>
<td>-0.927</td>
<td>0.057</td>
</tr>
<tr>
<td>dropout</td>
<td>(0.246)</td>
<td>(0.180)</td>
<td>(0.118)</td>
<td>(0.316)</td>
<td>(0.252)</td>
<td>(0.157)</td>
</tr>
<tr>
<td>Mom has some college</td>
<td>-3.098</td>
<td>1.177</td>
<td>-0.263</td>
<td>-3.269</td>
<td>1.298</td>
<td>-0.183</td>
</tr>
<tr>
<td></td>
<td>(0.197)</td>
<td>(0.175)</td>
<td>(0.098)</td>
<td>(0.210)</td>
<td>(0.188)</td>
<td>(0.064)</td>
</tr>
<tr>
<td>Dad is HS</td>
<td>3.069</td>
<td>-0.832</td>
<td>-0.216</td>
<td>3.365</td>
<td>-1.041</td>
<td>-0.354</td>
</tr>
<tr>
<td>dropout</td>
<td>(0.296)</td>
<td>(0.212)</td>
<td>(0.137)</td>
<td>(0.323)</td>
<td>(0.243)</td>
<td>(0.154)</td>
</tr>
<tr>
<td>Dad has some college</td>
<td>-2.392</td>
<td>0.672</td>
<td>-0.252</td>
<td>-2.378</td>
<td>0.662</td>
<td>-0.258</td>
</tr>
<tr>
<td></td>
<td>(0.223)</td>
<td>(0.191)</td>
<td>(0.111)</td>
<td>(0.223)</td>
<td>(0.192)</td>
<td>(0.109)</td>
</tr>
<tr>
<td>Child is oldest</td>
<td>-2.540</td>
<td>0.990</td>
<td>-0.049</td>
<td>-2.372</td>
<td>0.872</td>
<td>-0.127</td>
</tr>
<tr>
<td></td>
<td>(0.197)</td>
<td>(0.157)</td>
<td>(0.092)</td>
<td>(0.210)</td>
<td>(0.171)</td>
<td>(0.099)</td>
</tr>
<tr>
<td>Number of siblings</td>
<td>1.610</td>
<td>-0.640</td>
<td>-0.234</td>
<td>2.111</td>
<td>-0.936</td>
<td>-0.430</td>
</tr>
<tr>
<td></td>
<td>(0.095)</td>
<td>(0.066)</td>
<td>(0.040)</td>
<td>(0.204)</td>
<td>(0.175)</td>
<td>(0.105)</td>
</tr>
<tr>
<td>No male head</td>
<td>-5.243</td>
<td>2.195</td>
<td>0.618</td>
<td>-4.985</td>
<td>2.012</td>
<td>0.498</td>
</tr>
<tr>
<td></td>
<td>(0.395)</td>
<td>(0.315)</td>
<td>(0.196)</td>
<td>(0.410)</td>
<td>(0.332)</td>
<td>(0.204)</td>
</tr>
<tr>
<td>Mom is respondent</td>
<td>-0.214</td>
<td>1.434</td>
<td>-0.445</td>
<td>0.027</td>
<td>1.264</td>
<td>-0.556</td>
</tr>
<tr>
<td></td>
<td>(0.569)</td>
<td>(0.541)</td>
<td>(0.349)</td>
<td>(0.579)</td>
<td>(0.549)</td>
<td>(0.352)</td>
</tr>
</tbody>
</table>
### TABLE V

**MEDICAID ELIGIBILITY AND THE SITE OF CARE**

All regressions run as instrumental variables; Medicaid eligibility coefficient and means are × 100

<table>
<thead>
<tr>
<th></th>
<th>(1) Doctor’s office</th>
<th>(2) ER or hospital outpatient clinic</th>
<th>(3) Other site</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid eligibility</td>
<td>5.073 (2.479)</td>
<td>1.174 (1.117)</td>
<td>−1.217 (1.100)</td>
</tr>
<tr>
<td>Mean of dependent var</td>
<td>8.707</td>
<td>1.666</td>
<td>1.473</td>
</tr>
<tr>
<td>Number of obs.</td>
<td>227169</td>
<td>227169</td>
<td>227169</td>
</tr>
</tbody>
</table>

Standard errors are in parentheses. All regressions also include all the variables listed in Table V, as well as an intercept; dummy variables for each state, calendar year, and year of age; season dummies; interactions between calendar year and year of age dummies; and interactions between year of age and state dummies. Eligibility is instrumented using simulated eligibility calculated from the CPS, and matched to individuals by state, year, and age. Standard errors are corrected for heteroskedasticity.
TABLE VI

EFFECTS OF MEDICAID ELIGIBILITY ON CHILD MORTALITY
DEPENDENT VARIABLE IS DEATHS PER 10,000 CHILDREN

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All causes</td>
<td>Internal causes</td>
<td>External causes</td>
</tr>
<tr>
<td>Percent eligible</td>
<td>-1.277</td>
<td>-1.016</td>
<td>-0.261</td>
</tr>
<tr>
<td></td>
<td>(0.482)</td>
<td>(0.359)</td>
<td>(0.363)</td>
</tr>
<tr>
<td>Mean of dep var</td>
<td>3.807</td>
<td>1.926</td>
<td>1.881</td>
</tr>
<tr>
<td>Number of obs</td>
<td>816</td>
<td>816</td>
<td>816</td>
</tr>
</tbody>
</table>

Standard errors are in parentheses. Dependent variable is death rate per 10,000 children in state/year/race/age group, where age groups are 1–4 years old and 5–14 years old. Regressions are run as instrumental variables, where percent eligible in state/year/age group cell is instrumented using simulated eligibility in that cell. Regressions include state, year, and age group dummies. Standard errors are corrected for heteroskedasticity.
Further evidence exploiting Medicaid expansion that offered Medicaid to children born after September 30, 1983

- Amazing source of identification...
- Regression discontinuity!

Wherry, Miller, Kaestner, and Meyer: “Childhood Medicaid Coverage and Later Life Health Outcomes”

Wherry and Meyer (2015): “Saving Teens: Using a Policy Discontinuity to Estimate the Effects of Medicaid Eligibility”

Builds on Card and Shore-Sheppard (2004, RESTAT)
Figure 1. Average Years of Childhood Eligibility for Medicaid/SCHIP by Birth Cohort and Family Income (%FPL)

Notes: Weighted average calculated using the characteristics and state of residence of a sample of children of ages 0–17 in the 1981–1988 March CPS. See text for more information. Family income is indexed using the CPI-U and assumed to be constant over the child's lifetime.
Figure 3: Medicaid Coverage in Childhood, Ages 8 to 13, NHIS

(a) All Races  
(b) Blacks  
(c) Non-Blacks  
(d) Households below poverty level  
(e) Households above poverty level
Wherry and Meyer (2015)

White, Ages 15–18

Internal Mortality

Medicaid Impacts on Children

- Evidence Medicaid reduces mortality of children

- What about other health impacts
  - Direct health impacts
  - Impacts on costs later in life

- Wherry, Miller, Kaestner, and Meyer: “Childhood Medicaid Coverage and Later Life Health Outcomes”
  - Look at impacts on later-life hospitalization, ED visits
    - Focus on visits for chronic conditions
Figure 5: 2009 Hospitalizations, Calendar Month of Birth Fixed Effects Removed

(a) All Hospitalizations, All Races
(b) All Hospitalizations, Blacks
(c) All Hospitalizations, Non-Blacks
(d) Chronic Illness Hospitalizations, All Races
(e) Chronic Illness Hospitalizations, Blacks
(f) Chronic Illness Hospitalizations, Non-Blacks
(g) Non-chronic Illness Hospitalizations, All Races
(h) Non-chronic Illness Hospitalizations, Blacks
(i) Non-chronic Illness Hospitalizations, Non-Blacks
Figure 6: 2009 Emergency Department Visits, Calendar Month of Birth Fixed Effects Removed

(a) All ED Visits, All Races  (b) All ED Visits, Blacks  (c) All ED Visits, Non-Blacks

(d) Chronic Illness ED Visits, All Races  (e) Chronic Illness ED Visits, Blacks  (f) Chronic Illness ED Visits, Non-Blacks

(g) Non-Chronic Illness ED Visits, All Races  (h) Non-Chronic Illness ED Visits, Blacks  (i) Non-Chronic Illness ED Visits, Non-Blacks
Figure 7: 2009 Hospitalizations, Patients from Low-Income Zipcodes, Calendar Month of Birth Fixed Effects Removed

(a) All Hospitalizations, All Races  
(b) All Hospitalizations, Blacks  
(c) All Hospitalizations, Non-Blacks

(d) Chronic Illness Hospitalizations, All Races  
(e) Chronic Illness Hospitalizations in 2009, Blacks  
(f) Chronic Illness Hospitalizations in 2009, Non-Blacks

(g) Non-chronic Illness Hospitalizations, All Races  
(h) Non-chronic Illness Hospitalizations in 2009, Blacks  
(i) Non-chronic Illness Hospitalizations in 2009, Non-Blacks
Figure 8: 2009 Emergency Department Visits by Patients from Low-Income Zipcodes, Calendar Month of Birth Fixed Effects Removed

(a) All ED Visits, All Races  
(b) All ED Visits, Blacks  
(c) All ED Visits, Non-Blacks

(d) Chronic Illness ED Visits, All Races  
(e) Chronic Illness ED Visits, Blacks  
(f) Chronic Illness ED Visits, Non-Blacks

(g) Non-chronic Illness ED Visits, All Races  
(h) Non-chronic Illness ED Visits, Blacks  
(i) Non-chronic Illness ED Visits, Non-Blacks
Figure 9: 2009 Hospital Costs, Calendar Month of Birth Fixed Effects Removed

(a) Total Hospital Costs, All Races
(b) Total Hospital Costs, Blacks
(c) Total ED Costs, Non-Blacks
(d) Total ED Costs, All Races
(e) Total ED Costs, Blacks
(f) Total ED Costs, Non-Blacks
Medicaid Impacts on Children

- Medicaid reduced mortality rates
  - Infant mortality (Currie and Gruber 2006)
  - Child mortality (Wherry and Meyer 2015)

- Medicaid reduced later-life chronic conditions and hospitalization
  - Reduced later life costs on the system
  - Reduces cost of medicaid expansion by 2-5%

- But, less impact of Medicaid on adults (e.g. Oregon…)
  - Similar to impact of place via MTO: Significant impacts on children, but not on adults?
1 Impact of Medicaid on Adults

2 Welfare Analysis of Medicaid

3 Impact Medicaid on Children

4 Impact of Medicare: Health and GE Effects
Focus on two papers looking at impact of Medicare

Exploit:

- Age 65 discontinuity (Card, Dobkin, and Maestas, 2009)
  - Look at health effects

- Pre-Medicare variation in coverage rates (Finkelstein, 2007)
  - Look at “GE” effects
Card, Dobkin, and Maestas (2009) exploits discontinuity in eligibility for Medicare at age 65

- Document increase in medical care provided
- Document reduction in mortality
Figure V

Three Measures of Inpatient Treatment Intensity
Card, Dobkin, and Maestas (2009)

**Figure VI**

Patient Mortality Rates over Different Follow-Up Intervals
Health insurance can have effects on providers

Health expenditures are growing dramatically
  - Could health insurance cause this growth?

Increases incentive to innovate by creating excess demand
  - Is this bad from a welfare perspective?

Empirical analysis of Medicare is difficult
- Medicare is a national program!

Enacted in 1965
- Finkelstein (2007): exploit variation in pre-1965 insurance rates
Finkelstein (2007): Pre-1965 Insurance

TABLE I
SHARE OF ELDERLY WITHOUT HOSPITAL INSURANCE, 1963

<table>
<thead>
<tr>
<th>Region</th>
<th>Blue Cross</th>
<th>Any insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>New England (CT, ME, MA, NH, RI, VT)</td>
<td>0.49</td>
<td>0.37</td>
</tr>
<tr>
<td>Middle Atlantic (NJ, NY, PA)</td>
<td>0.60</td>
<td>0.41</td>
</tr>
<tr>
<td>East North Central, Eastern Part (MI, OH)</td>
<td>0.55</td>
<td>0.32</td>
</tr>
<tr>
<td>East North Central, Western Part (IL, IN, WI)</td>
<td>0.75</td>
<td>0.42</td>
</tr>
<tr>
<td>West North Central (IA, KS, MN, MO, NE, ND, SD)</td>
<td>0.81</td>
<td>0.47</td>
</tr>
<tr>
<td>South Atlantic, Upper Part (DE, DC, MD, VA, WV)</td>
<td>0.75</td>
<td>0.45</td>
</tr>
<tr>
<td>South Atlantic, Lower Part (FL, GA, NC, SC)</td>
<td>0.81</td>
<td>0.50</td>
</tr>
<tr>
<td>East South Central (AL, KY, MS, TN)</td>
<td>0.88</td>
<td>0.57</td>
</tr>
<tr>
<td>West South Central (AR, LA, OK, TX)</td>
<td>0.85</td>
<td>0.55</td>
</tr>
<tr>
<td>Mountain (AZ, CO, ID, MT, NV, NM, UT, WY)</td>
<td>0.78</td>
<td>0.50</td>
</tr>
<tr>
<td>Pacific (OR, WA, CA, AK, HI)</td>
<td>0.87</td>
<td>0.52</td>
</tr>
<tr>
<td>National Total</td>
<td>0.75</td>
<td>0.45</td>
</tr>
</tbody>
</table>

Data are from individuals aged 65 and over in the 1963 National Health Survey. Sample size is 12,757. Minimum sample size for a subregion is 377.

\[ \log(y_{ijt}) = \alpha_j + \delta_t + \sum_{t=1948}^{1975} \lambda_t \text{Mcareimpact}_z \ast \text{year}_t + X_{st}\beta + \epsilon_{ijt} \]

where:

- \( y_{ijt} \) is outcome in hospital \( i \) in county \( j \) at time \( t \)
- \( \alpha_j \) is county fixed effect
- \( \delta_t \) is year fixed effect
- \( X_{st} \) is outcomes in state \( s \) at time \( t \)
- \( \text{Mcareimpact}_z = \% \) elderly in region \( z \) without Blue Cross hospital insurance in 1963
- Does \( \lambda_{post} - \lambda_{pre} \) capture GE effects? What might be missing?
Finkelstein (2007): Main Results

![Graph showing changes in Admissions and Patient Days over time.](graph.png)
Finkelstein (2007): Main Results

![Graph of Employment and Beds over years 1950 to 1975]
Finkelstein (2007): Main Results

Payroll Expenses

Total Expenses

year


year

### TABLE VI
**ANALYSIS OF EXIT AND ENTRY**

<table>
<thead>
<tr>
<th></th>
<th>Entry analysis (columns 1–2)</th>
<th>Exit analysis (columns 3–4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unweighted OLS (1)</td>
<td>Weighted OLS (2)</td>
</tr>
<tr>
<td>( (t - 1965) \times \text{Mcareimpact} )</td>
<td>0.116*** (0.019)</td>
<td>0.121*** (0.017)</td>
</tr>
<tr>
<td>Mean dep. var. in 1970</td>
<td>0.18</td>
<td>0.18</td>
</tr>
</tbody>
</table>

Table reports the coefficient on \((t - 1965) \times \text{Mcareimpact}\) (i.e., \(\beta_2\)) from estimating the OLS deviation-from-trend analysis at the market level (4). For the entry analysis, the dependent variable is the proportion of hospitals in market \(m\) in 1960 that have entered between 1960 and year \(t\). For the exit analysis, the dependent variable is the proportion of hospitals in market \(m\) in 1960 that have left between 1960 and year \(t\). For all estimates, the sample is limited to 1960 through 1970. All analyses include eight time-varying state-level indicator variables for the number of years before (or since) the implementation of Medicaid in state \(s\). Weighted estimations (in columns 2 and 4) use the number of patient days in a given market in 1960 to weight each market’s observations. Standard errors are in parentheses and are calculated allowing for an arbitrary variance–covariance matrix within each hospital market.

***, **, * denotes statistical significance at the 1, 5, and 10 percent levels, respectively. \(N = 2,832\).
Finkelstein (2007): Adoption of new technologies

- Paper also looks at impact of adoption of new technologies by hospitals:

\[ \text{Newtech}_{is} = \lambda \text{Mcareimpact}_{z} + X_s \beta + \epsilon_{is} \]

- Newtech indicates adoption of technology in hospital \( i \) in state \( s \)

  - NOTE: Only cross-sectional data available...
  - Potential bias?
### TABLE VII

**Medicare and the Adoption of New Cardiac Technologies**

<table>
<thead>
<tr>
<th>Analysis of open heart surgery (columns 1–5)</th>
<th>Analysis of CICU (columns 6–7)</th>
<th>Difference-in-differences analysis (columns 8–9)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Open heart surgery facility</strong></td>
<td><strong>CICU</strong></td>
<td><strong>Open heart surgery vs. CICU</strong></td>
</tr>
<tr>
<td>(1)</td>
<td>(6)</td>
<td>(8)</td>
</tr>
<tr>
<td><strong>EEG</strong></td>
<td><strong>Postoperative recovery room</strong></td>
<td><strong>Postoperative recovery room</strong></td>
</tr>
<tr>
<td>(2)</td>
<td>(7)</td>
<td>(9)</td>
</tr>
<tr>
<td><strong>Postop recovery room</strong></td>
<td><strong>Diagnostic radioactive isotope</strong></td>
<td></td>
</tr>
<tr>
<td>(3)</td>
<td>(4)</td>
<td></td>
</tr>
<tr>
<td><strong>Intensive care unit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Without state-level covariates</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Year of analysis</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mean dependent variable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Estimating equation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All estimates are marginal effects from probit estimation. Columns (1) through (7) report the marginal effect of Moreimpact from estimation of (6); dependent variable is shown in column heading and results for cardiac technologies are in italic. Columns (8) and (9) report the marginal effect of the interaction of Moreimpact with CARDIAC indicator from estimation of (7). CARDIAC is 1 for the cardiac technology in the analysis, (open heart surgery or CICU) and 0 otherwise. Standard errors (in parentheses) are adjusted for correlation within hospital markets. First row reports results from regressions without covariates. Second row reports results from a separate regression which adds controls for state-level socio-economic characteristics (specifically, real per capita state income, state infant mortality rate, violent crime rate, and state population).
Public health insurance for adults leads to:
- Reductions in OOP spending
- Reductions in financial strain
  - And reductions in uncompensated care
- But, beneficiaries generally not willing to pay full cost
  - Perhaps because incidence is on third parties

Public health insurance for children leads to:
- Reductions in infant and child mortality
- Reductions in future medical costs and chronic conditions

Evidence of GE effects of health insurance on hospital entry and new technologies