

What Prevents Health Insurance Take-up? Quantifying Frictions and Policy Response

(joint with Soheil Ghili, Michael Sullivan and Michael Whinston)

Abstract

The majority of consumers eligible for health insurance plans listed on the exchanges created by the Affordable Care Act (ACA) remained uninsured despite substantial premium subsidies and, historically, fines for lacking coverage. Several impediments, including adverse selection, informational frictions, uncompensated care, and hassle costs, stand as possible explanations for low participation. We use rich data on consumers' medical conditions, medical

expenses by payer, and insurance status to estimate a model of exchange equilibrium incorporating these frictions, to assess these various factors.

We find that uncompensated care is the main friction impeding take-up. Uncompensated care depresses consumers' willingness to pay for insurance to the extent that the exchange market fully unravels without premium subsidies. Subsidies are necessary because of uncompensated care: eliminating both subsidies and uncompensated care participation increases from 39% to 84%.