



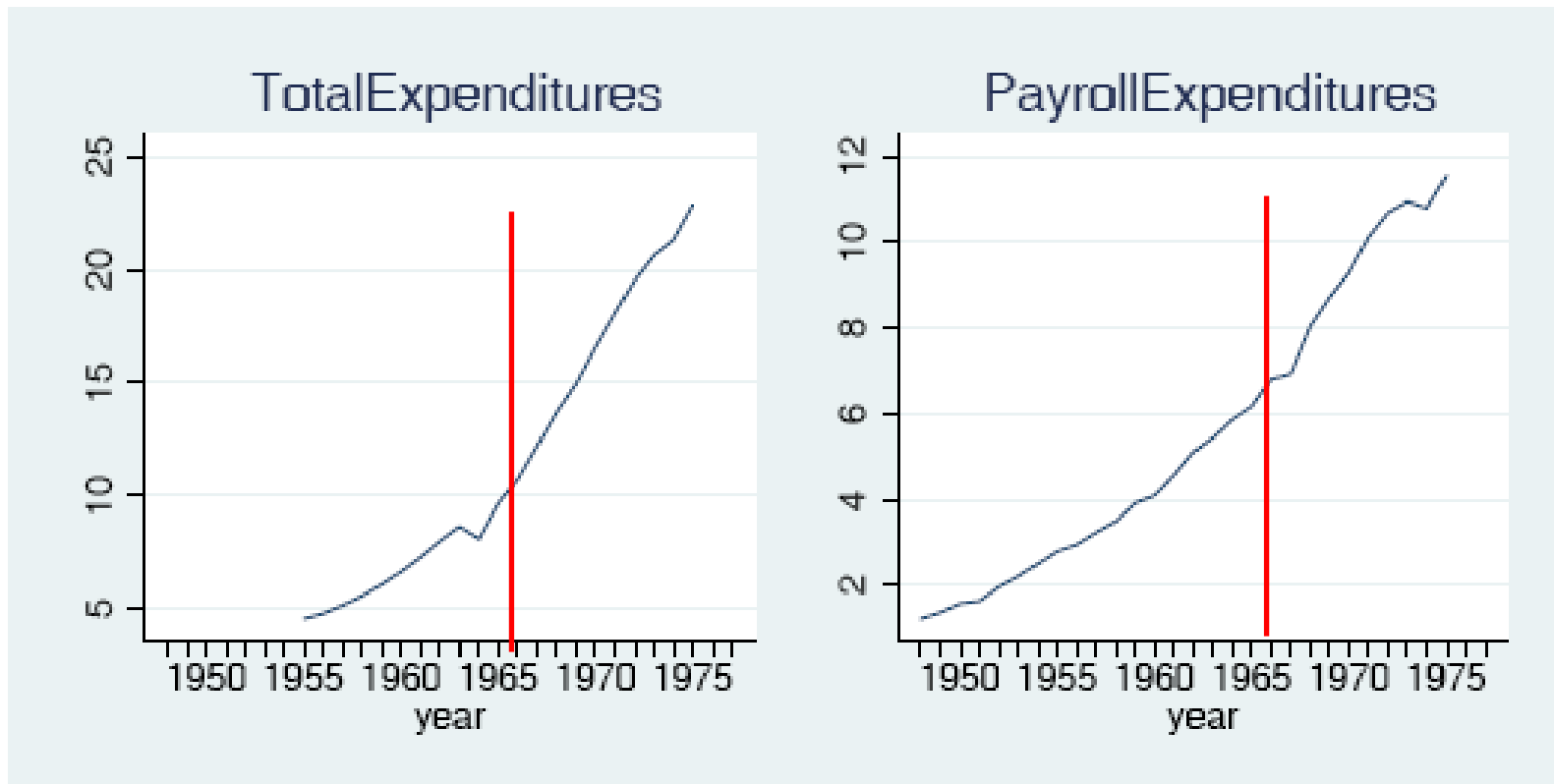
HEALTH

**Comments On
“The Aggregate Effects of
Health Insurance: Evidence
from the Introduction of
Medicare”**

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Health (Hospital) Spending Growth



Source: Finkelstein, 2006

Review: Health Care Elasticities

- **Elasticities of demand quantify the response to a change in price or income**
- **Price elasticities in health low (inelastic) at the individual level**
 - **Generally in the range of .2**
 - **i.e. if price up by 1 percent consume .2 percent less; if price doubles, consume 20% less care**
 - **Inpatient elasticities even lower**
- **Income elasticities also low**
 - **Estimates vary, but generally also around .2**
 - **i.e. if income up by 1 percent consume .2 percent more; if income doubles, consume 20% more care**

Studies of Demand for Health Care

- **Gold Standard: RAND Health Insurance Experiment**
 - Full insurance vs. large deductible led to 37% more spending for hospital care
 - Medicare-induced decrease in cost-sharing should increase overall hospital spending by 5.6%
- **A few observational studies with higher elasticities, still far below these “aggregate” estimates**
 - Eichner: before vs. after deductible met
 - Feldstein: state level, hospital data

Prior Work Explaining Health Spending Growth

- **Newhouse, based on HIE data**
 - **Extrapolates RAND estimates, thus insurance explains ~1/10 of growth in spending**
 - **Nets out all measurable causes (e.g. income growth, aging of the population), attributes remainder to technology**
- **Schwartz, Weisbrod, Cutler, others: Insurance may change decisions about adoption, development of new technologies**
- ***Finkelstein paper not inconsistent with the technology hypothesis***

Recap of Key Finkelstein Findings

- **Medicare caused:**
 - **Hospital spending increase of 37% over 1st 5 years**
 - **Even larger impact over 10 years**
- **Effects 6 times larger than prior estimates, stunning given elderly only 20% of 1965 hospital spending**
- **Can explain 1/2 of rise in per capita health spending 1950-1990**

How did Medicare have Such a Big Effect?

- **Hospital entry (“fixed costs of entry”)**
 - **18 percent increase in spending due to hospitals opening**
 - **Represents $\frac{1}{2}$ of estimated effect**
- **“Spillover” effects on other populations**
 - **Greater adoption of cardiac technologies in areas more affected by Medicare**
 - **Increase in hospital spending for all age groups**

Nice Features of the Paper

- **Long time-series of AHA data**
- **Critical assumption: Without Medicare different regions would have continued pre-Medicare trends**
 - **Numerous specification checks to rule out alternative explanations**
 - **Compelling graphical presentation of trends pre- and post-1965/66**
- **Innovative explorations of *how* effects were produced**
- **Anticipates important follow-on questions**

Other Areas to Explore

- **International comparisons: other countries had similar changes**
- **Implication that Medicare caused regions to converge in their spending**
 - **Other reasons for convergence?**
 - **Medicare passed as way to help South, West “catch up”?**
 - **Huge geographic variation in health spending remains**
- **Short vs. longer-term effects on other types of health spending**

Implications for Health Policy Today

- **Major changes health insurance may have larger effects than expected**
 - **Expansions may be more expensive BUT Medicare reimbursement was initially more generous than private**
 - **Spillover effects can be important**
 - **Managed care practices**
 - **“Consumerism”**
- **Feedbacks between insurance coverage and technology**
 - **Supply quickly follows reimbursement**
 - **Adoption, development of new technologies**
- **Tremendous benefit of social insurance through risk reduction**
- **Law of unintended consequences in policy-making**

RAND