

Abstract:

The effectiveness of inducements to participate in health insurance exchanges, be those inducements of the Affordable Care Act (ACA) or of the Republican proposals to replace the ACA mandate, are an empirical matter. We study participation and welfare under different policies. We depart from the fully rational model of insurance. We do so because under ACA rules millions remain uninsured despite the heavy premium subsidies, often declining almost free coverage.

We estimate the role of different frictions to participation, such as: uncompensated care, myopia and distaste for complying with the ACA mandate. We solve the equilibrium in the exchanges, given the estimated frictions, under various government interventions: subsidies, individual mandate penalties, and dynamically based penalties. We find that the main friction is myopia. Although subsidies are necessary for the market under current rules not to collapse, subsidies would not be necessary absent myopia. Contrary to previous findings risk pricing does quite well, aided by subsidies and uncompensated care. Barring those, risk pricing would deliver very low welfare, due to reclassification risk.