Discussion: "Valuing Protection against Health-Related Financial Risks"

(by Dean Jamison and Jonathan Skinner)

Mark Shepard
Harvard Kennedy School and NBER

November 3, 2017

Summary: Valuing Health Insurance

- Should low/middle-income countries expand health insurance?
  - **This paper:** A benefit-cost framework for thinking about this issue

- **Main point:** Financial benefits of insurance matter a lot
  - Conventional approach: Provide insurance if ΔV(Health) > Cost
  - But this ignores important financial benefits of insurance:
    - Risk protection
    - Consumption smoothing
    - Redistribution

- **Key caveat:** *Who* receives the financial benefits of insurance?
  - Some goes to previously uninsured
  - But also benefits those who would have given charity care to uninsured
    - Public insurance crowds out private charity
    - Can help explain low WTP for insurance (Samaritan's dilemma)

What Does Health Insurance Buy?

- The paper starts from a standard economic model of insurance – insuring an uncertain (but fixed) health care cost shock H_{sick}
  - Insurance is entirely about risk protection

- But health insurance for the poor is different
  - Can't afford much health care alone (so H_{sick} can't be large)
  - Often receive charity care even if can't pay

- Health insurance buys access to care w/out whims of private charity
  - Some financial risk protection
  - More important: "Mental" risk protection (peace of mind, avoiding hassles charity care and stresses of unpaid bills)
    - Consistent with health results from Oregon experiment

Modeling the Benefits of Insurance

- Current model in paper (roughly):

$$\Delta SW_{Ins} = \Theta_b \left[\Delta V_{Health} + FinBen\right] - GovtCost + \Theta_{CC}(-\Delta CharityCare)$$

  - Thought experiment: Provide insurance to poor + Save on charity care
  - Key unknown: What is the incidence of charity care (and Θ_{CC})?

- Comment #1: Allow for other utility benefits (e.g., peace of mind)
  - Could be folded into health (but not captured by ΔH in current model)

- Comment #2: Consider benchmark case where can tax charity care providers to fund insurance, so $\Theta_{CC} = 1$
  - Key stat: "Net Cost" = GovtCost - ΔCharityCare
  - If can design insurance plan so that GovtCost = ΔCharityCare, then net cost is zero → Insurance is optimal as long as better than charity care.