

Discussion of Cabral, Geruso, and Mahoney

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December 3, 2015

Summary of Paper

- ▶ Use variation in Medicare capitation payment increase to estimate pass-through.
- ▶ Pass-through difficult to reconcile with selection alone.
- ▶ Market power, proxied by pre-increase HHI, seems to play larger role.

Simple Model Set-up

- ▶ Basic insight of Einav, Finkelstein, Cullen(EFC): In selection markets, price variation identifies both demand D and cost c .
- ▶ $\frac{dc}{dp}$ identifies if selection is adverse or advantageous.
- ▶ Extension in Mahoney and Weyl (2014): add market power.
- ▶ Market power lets firms off $p(Q) = AC$ curve and onto the steeper MC curve.
- ▶ But also lets firms off demand curve and onto MR curve.
- ▶ If selection adverse: market power exacerbates problems. If advantageous, market power can mitigate inefficiency.
 - ▶ Advantageous selection implies optimal degree of market power.

Pass-through

- ▶ This paper: Use increases in Medicare Advantage capitation payment b to estimate pass-through to premiums (and benefits) $-\frac{dp}{db}$
- ▶ Pass-through given by FOC, with θ indicating market power:

$$p = \theta(\mu(p) + MC(Q)) + (1 - \theta)AC(Q) - b \quad (1)$$

- ▶ Use Traditional Medicare to estimate selection, heterogeneity by plan HHI to estimate market power.
- ▶ If considerable market power, need substantial advantageous selection to justify. Implies optimal θ^* .
- ▶ Can authors calculate this?

Some Assumptions

- ▶ Rules out monopolistic competition? Heterogeneous costs?
- ▶ No increasing or decreasing returns in costs beyond selection.
 - ▶ Administrative costs not important? (Casalino et al. 23-31 billion dollar plan interaction time cost).
 - ▶ Higher or lower than TM?
 - ▶ Are these fixed or increasing?
 - ▶ Assumption pretty key to the interpretation.
- ▶ Model only allows symmetric competition. But uses HHI for empirics.
- ▶ Can't plans partition the space? Single premium constraint?
- ▶ Multiple dimensions of private information (Finkelstein and McGarry)

Bringing HHI in explicitly

- ▶ Straightforward extension of Cournot model in MW?
- ▶ Firms maximize $q^i(P(q) - AC(q) - \phi^i + b)$,
- ▶ $P(q) =$
 $(1 - HHI)(AC + \bar{\phi}) + HHI(MS + MC + \bar{\phi}) + cov(\frac{q_i}{Q}, \phi^i) + b$
- ▶ Get explicit formula for pass-through in terms of HHI.
- ▶ Covariance term: Heterogeneity important if HHI is measure of competition.

Don't actually measure selection in Medicare Advantage

- ▶ Would imply seeing private insurer costs fall on the margin.
- ▶ Instead look at selection out of traditional medicare.
- ▶ Assume $\frac{dAC}{dQ^{MA}} = -\phi \frac{dAC}{dQ^{TM}}$, so selection out of TM is proportional and negative to selection into MA.
- ▶ And know that $\frac{dQ^{MA}}{dp} = -\frac{dQ^{RM}}{dp}$
- ▶ But couldn't some of this be moral hazard?
- ▶ Not selection of higher cost types but changing behavior of identical types. (Upcoding, as in Geruso and Layton).
- ▶ EFC: moral hazard identified by change in cost of those in TM.

Other Dimensions Of Competition

- ▶ 20% of MA enrollees are paying 0 premium: competition might be on other dimensions.
- ▶ Premiums salient, but pass-through perhaps overstated if undone on other margins.
- ▶ Some effect on copays. Small effects on benefits (hearing aids!)
- ▶ But what about maximum out-of-pocket caps? Deductibles? Intensive margin Coverage?
- ▶ What about the prices faced by doctors?
- ▶ Selection by patients, moral hazard of doctors.
- ▶ Marginal take up more expensive because doctors charge more under MA.
- ▶ Patient or doctor moral hazard? (Can look at insurer hospital networks?)

Applications to Labor Markets.

- ▶ Easier and easier to measure average productivity of workers in administrative data.
- ▶ Search models, costly recruitment, etc. imply market power.
- ▶ Unobserved marginal productivity implies selection.
- ▶ Moral hazard implied by e.g. efficiency wages.
- ▶ Employer wage policies often generate exogenous wage variation (e.g. Dube, Giuliano and Leonard 2014)
- ▶ Similar ideas in this paper could be used to assess importance of these forces?

Summary

- ▶ Great paper: clean identification, theoretical interpretation of coefficients.
- ▶ Model could be brought closer to data, and perhaps key dimensions calibrated.
- ▶ Would be great to see actual plan costs change.
- ▶ Political economy: drawing patients into MA complementary to lobbying to privatize FFS Medicare?
- ▶ Think about doctors and hospitals as intermediaries as in Atkin and Donaldson (2014)?