Middlemen or Innovators? The Role of Insurers in Cost and Productivity in Health Care

(with Jonathan Holmes, Jonathan Kolstad, and Kurt Lavetti)

Abstract

Private **i**nsurers play a central role in directing and rationing health care in the US. Insurer differentiation and innovation are often cited as key reasons motivating this centrality, with the hope that consumers and employers will match to insurers who will best match their preferences for low cost and high quality care. We study insurer productivity and differentiation for private insurers in the state of Utah, leveraging a comprehensive all-payer claims database where we observe both the identity of an individual's insurer and the identity of their employer, who is often their source of coverage. We leverage employer switches of private insurers together with a movers decomposition framework to assess whether and how insurers differ from one another in terms of their causal impacts on cost, quantity, and quality. We find moderate average effects of each private insurer on total spending, prices, and quantities but find more substantial match effects with respect to specific chronic conditions, including diabetes and hypertension. We show that despite these differences across private insurers, firms don't respond to these match effects by choosing lower cost insurers for their populations of employees.