

Private vs. Public Provision of Social Insurance: Evidence from Medicaid

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Key Findings and Policy Implications

This paper analyzes the effects on health care utilization and costs of administering public Medicaid benefits through private firms. It assesses the consequences of private provision by analyzing health care services in counties that newly mandated private enrollment for Medicaid beneficiaries with disabilities in Texas and New York, as compared with counties not subject to the mandate. The study uses administrative data from the Centers for Medicare and Medicaid Services for Texas (2004-2010) and New York (2006-2010), including information on Medicaid enrollment status, and healthcare utilization for inpatient, emergency, and outpatient services, and for prescription drugs. The paper finds that:

- In Texas, where the publicly-administered Medicaid program uses strict rationing to control costs, the shift to private provision led to higher Medicaid spending but also improvements in healthcare. Outpatient and prescription drug spending increased, while utilization of inpatient care decreased. Increases in outpatient spending result partly from increased outpatient utilization (8% increase in outpatient services), and partly from private plans paying higher prices (8% higher on average). Increases in prescription drug spending were due to the presence of a strict limit of three prescription drug fills per month in the public Medicaid program. Further analyses revealed that increases in drug utilization were (1) concentrated in drug categories related to chronic diseases prevalent in this population and (2) accompanied by corresponding decreases in inpatient hospital stays related to these same conditions.
- In New York, where the public program is more generous, privatization did not affect overall Medicaid spending, but it did result in a sharp reduction in inpatient use. The drop in inpatient use may have been larger in New York, because private firms were responsible for inpatient spending there, while the state paid for inpatient stays for private plan enrollees in Texas.

Since many people with disabilities are eligible for Medicaid due to their enrollment in the Supplemental Security Income (SSI) program, differences between public and private provision of Medicaid benefits are fundamental to both Social Security and health care policy.

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