Transfer Payout Systems and Financial Distress

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Abstract

How should payout systems of means-tested benefits be designed to improve the financial situation of needy recipients most effectively? We study this question in the context of mandatory health insurance in Switzerland where recipients initially were offered either cash transfers or subsidized insurance coverage. A reform in 2014 led to a federally mandated harmonization forcing jurisdictions to universally switch to transfers being paid to insurers, which then reduced the premiums for individual needy people. We exploit this setting based on a difference-in-differences design analyzing rich individual level accounting data. We find that switching from cash transfers to reduced insurance premiums is associated with an approximately 28% reduction in the probability that subsidized households miss paying their health insurance premiums on time and an approximately 29% reduction in the probability that the government has to collect the debts for long-term missed payments. These effects seem partly driven by the subsidies being paid out over a longer time period. Finally, there is no evidence for a negative spillover effect as people are not less likely to pay bills for health services on time after the regime change.

Keywords: Health insurance, transfers, cash subsidies, reduced insurance premiums, financial distress, debt collection

JEL classification: D14, G52, H24, I13

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