Dynamic Moral Hazard in Nonlinear Health Insurance Contracts

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Abstract

This paper tests for a dynamic relationship between moral hazard and adverse selection in health insurance contracts with deductibles. I set up a dynamic model of healthcare consumption where the insured can substitute between strategically preponing care across years and switching to a low deductible to engage in moral hazard the next year. The framework motivates a new reduced-form identification strategy for these responses that relies on the timing of a large health shock within the calendar year. Shock timing induces variation in incentives after the shock by varying the distance to the year-end deductible reset, as well as expected prices next year through shock persistence. I find little evidence for strategic preponing, but significant differences in deductible switching rates with higher moral hazard the year after. The results suggest that the scope for preponing care is limited, and that adverse selection is more important in shaping healthcare consumption.

Keywords: Health insurance, nonlinear contracts, moral hazard, dynamic responses.

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