

Public Provision and Private Competition in Health Insurance*

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Abstract

This paper studies the effect of expanding public provision of health insurance on the parallel private market. I consider an expansion of Medicaid eligibility, which shifts a particular subset of consumers from the private individual market. I develop a structural model of endogenous insurer entry, capturing insurer responses to competition and consumer sorting. Applying the model to administrative enrollment and claims data from Colorado, I find that accounting for the effect on insurer market participation reveals substantial private market welfare loss and reduced government subsidy spending concentrated in smaller markets. These effects arise primarily from increased probabilities of having no insurer or only one insurer, which reduce consumer choice and private enrollment. The estimates provide insights into recent policy proposals to extend Medicaid eligibility.

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