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# Social Insurance, Private Health Insurance and Individual Welfare\*

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## Abstract

This paper studies the impact of social insurance on individual choices and welfare in a dynamic general equilibrium model with uncertain medical expenses and individual health insurance choices. I find that social insurance (modeled as the combination of a minimum consumption floor and the Medicaid program) does not only distort saving and labor supply decisions, but also has a large crowding out effect on the demand for private health insurance. However, despite the distorting effects, the net welfare consequence of eliminating social insurance is still negative in most cases. In addition, the large crowding out effect on private health insurance suggests that the existence of social insurance programs may be one reason why some Americans do not buy any health insurance.

**Keywords:** Saving, Uncertain Medical Expenses, Health Insurance, Means Testing.

**JEL Classifications:** E20, E60, H30, I13

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