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Do Health Insurers Innovate?

Evidence from the Anatomy of Physician Payments

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Abstract

One of private health insurers' main roles in the United States is to negotiate physician payment rates on their beneficiaries' behalf. We show that these rates are often set in reference to a government benchmark, and ask how often private insurers customize their fee schedules away from this default. We exploit changes in Medicare's payments and dramatic bunching in markups over Medicare's rates to address this question. Although Medicare's rates are influential, 25 percent of physician services in our data, representing 45 percent of covered spending, deviate from the benchmark. Heterogeneity in the pervasiveness and direction of deviations suggests that the private market coordinates around Medicare's pricing for simplicity but abandons it when sufficient value is at stake.

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