

Connecting Theory to Data in Analyzing Social  
Insurance, *Chetty and Finkelstein*

COMMENTS AND CONTEXT

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# Paper Highlights

- 1) Should government intervene?
  - Does selection exist (in the private market for insurance)?
  - How does this affect welfare?
- 2) Optimal SI policy
  - Develop expressions that implicitly define optimal policies
  - Sufficient statistics, estimable elasticities and changes in consumption
- → Connecting theory and empirics to learn about welfare and optimal policy
- Strongly grounded in theory; combined with identifying estimable pieces with less structure

# Social Insurance in Developed Countries

- Social Security: *earnings loss due to retirement or death*
- Medicare: *medical expenditures in old age*
- Disability Insurance: *career ending disability*
- Unemployment Insurance: *job loss*
- Workers' Compensation: *on the job accidents*

# U.S. Social Insurance Expenditures, 2008 (Billions)

Social Security	542
Medicare	468
Disability Insurance	104
Unemployment Insurance	52
Workers' Compensation	58
Total	1,223

# U.S. Social Insurance as seen through Handbooks

Volume 2: 1987

Volume 4: 2002

Volume 5?: 2011

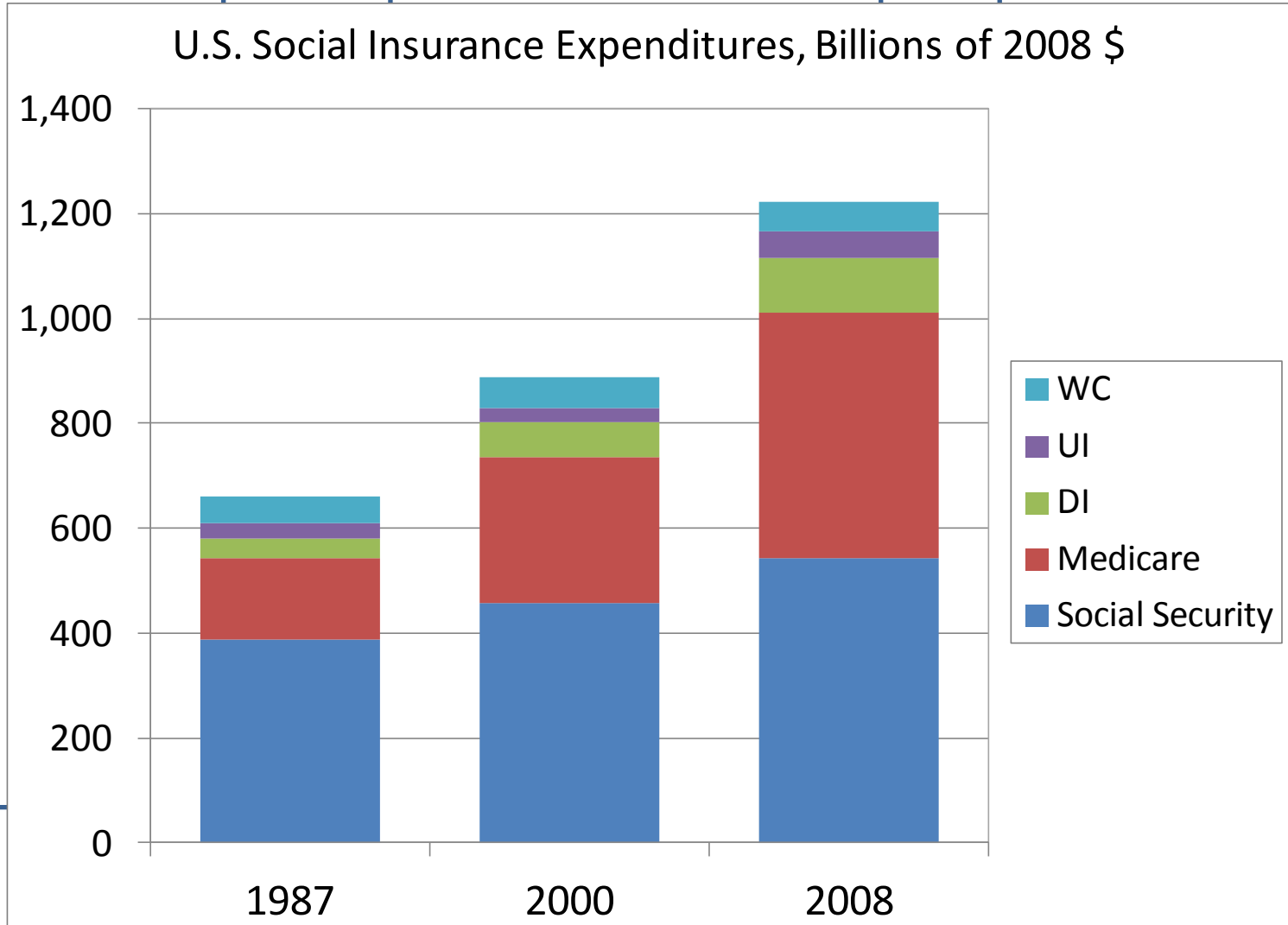


# U.S. Social Insurance as seen through Handbooks

Volume 2: 1987

Volume 4: 2002

Volume 5?: 2011



Volume 2: 1987

Ch 13: Income Maintenance and Social Insurance, *Atkinson*

Volume 4: 2002

Ch 31: Health Care and the Public Sector, *Cutler*

Ch 32: Social Security, *Feldstein and Liebman*

Ch 33: Labor Supply Effects of Social Insurance, *Krueger and Meyer*

Volume 5?: 2011

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# Getting back to the paper

- 1) Should government intervene?
  - Does selection exist (in the private market for insurance)?  
Positive correlation test.
  - How does this affect welfare?
- 2) Optimal SI policy
  - Develop expressions that implicitly define optimal policies
  - Sufficient statistics, estimable elasticities and changes in consumption

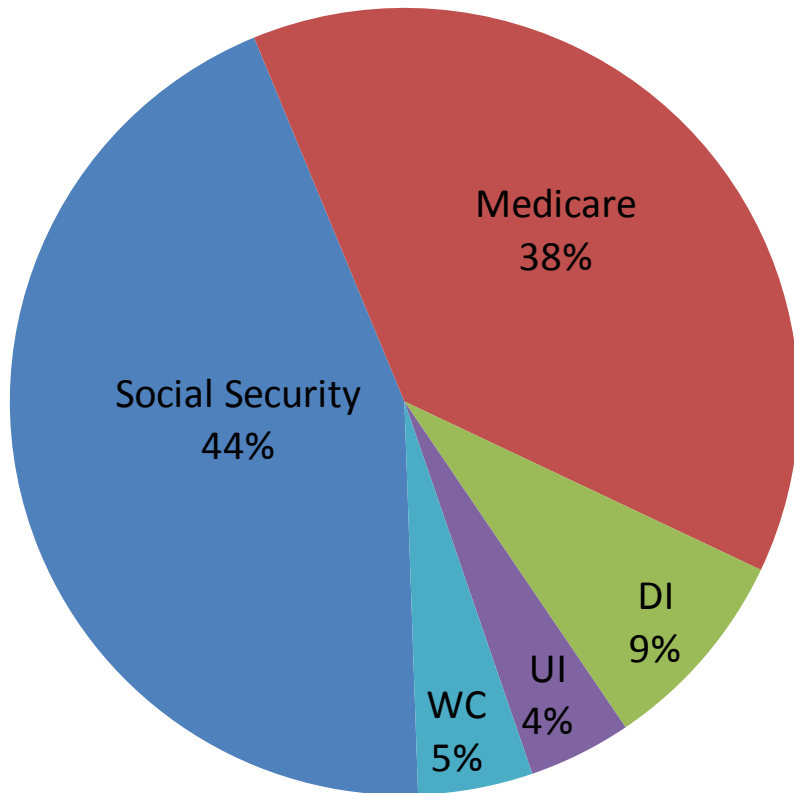


# Where this work is being applied

	Testing for Adverse Selection	Optimal Policy		
		Change in C or U	Elasticity (Moral Hazard)	Optimal Benefit Calculation
Social Security	X			
Medicare	X		X	
Disability Ins.			X	
Unemp. Ins.		X	X	X
Workers' Comp.			X	

# Why Intervene?

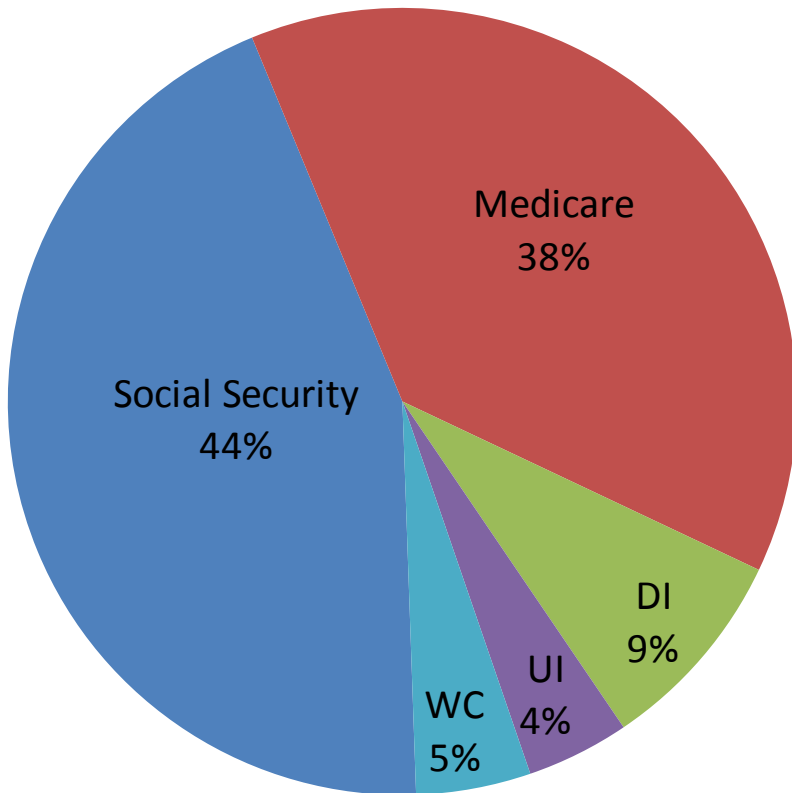
2008 Social Insurance



- Extent of adverse selection: most work is for private health insurance markets

# Optimal Policy

2008 Social Insurance



- Majority of the work is on UI program.

# Observations on Chapter, Future Work

- Why intervene? Focus in chapter is on selection.
  - Paternalism (optimization failures), aggregate shocks, redistribution (SS)
- Challenge in *why intervene piece*: estimate adverse selection *given* existence of social insurance programs

## Observations on Chapter, Future Work (cont)

- Medicaid?
  - As with Medicare, there market failure due to selection . But it is means tested. Still, similar issues arise.
- It would be good to spend more time describing the findings in the optimal SI literature.
- Literature described in the two parts are not well integrated