

The Behavioral Effects of Insurance Coverage and Its Health Consequences: Evidence from Long-Term Care *

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Abstract

How does the generosity of social insurance coverage affect demand for healthcare and health outcomes for the elderly? This paper examines the effect of insurance coverage on long-term care utilization and its health consequences using novel administrative data from the public long-term care insurance (LTCI) system in Japan. LTCI coverage is determined through a standardized health index and there exist multiple thresholds which generate discontinuous changes in the insurance coverage. Exploiting a regression discontinuity (RD) design, I find that an expansion of insurance coverage significantly increases recipients' long-term care utilization even without a change in price they face. I also find that utilizing more long-term care has little effect on health outcomes. Together, these results suggest that generous insurance coverage could induce excessive utilization mainly due to behavioral biases without having health benefits.

Keywords: Social insurance, insurance coverage, long-term care, nonlinear pricing, anchoring, heuristic thinking.

JEL Codes: I10, I12, I13, I18, D90, D91.

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