

Plan Value-Added: Evaluating Medicaid Managed Care Plans Using Random Assignment

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Abstract

We use the random assignment of more than 100,000 households in South Carolina to different Medicaid managed care plans to estimate the effect of health care plan assignment on health care utilization, spending, and plan “effectiveness” evaluated using industry-standard measures of preventive care and chronic disease management. We find large differences in plan effects across many different health care categories, including ER visits, inpatient hospitalizations, well-child doctor visits, and cancer screenings. We find that the estimated plan effects are generally positively correlated across health care categories, and with the length of time households remain in a plan before switching plans or leaving Medicaid. We find evidence of a large amount of selection bias when including households making “active” plan choices, with the conventional (non-randomized) estimates often significantly overstating differences across the plans. Given the conceptual similarity to School Value-Added estimates used in school choice programs, we call our plan effect estimates “Plan Value-Added”, and show using simulations calibrated to our experiment that incorporating randomization into the evaluation of Medicaid managed care plans can help policymakers improve the incentives for plans to increase quality and reduce costs, as well as help households make more informed plan choices.

JEL codes: I13, H51, H75.

Keywords: Medicaid, Managed Care Organizations (MCOs), Health Care Utilization, Risk Adjustment, Quality Rating, School Value-Added.

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