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# The impact of subsidies on deductible choice in health insurance

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Lan Zou is a postdoctoral research fellow at Harvard University. Her research focuses on the economics of health insurance markets, with a focus on social health insurance programs for low-income households, especially in the Swiss health insurance market.

**ABSTRACT**

Premium subsidies affect insurance choice via the income effect and the substitution effect. Literature assumes that the income effect is small, but this paper shows that the income effect is substantial and consequential, indicating demand responses to subsidies cannot be interpreted as (income-constant) willingness-to-pay. I study the two discontinuity points in the subsidy scheme providing financial aid to low-income individuals in the Swiss health insurance market. Subsidy provision significantly increases insurance coverage. 43% of the increase is attributable to the income effect. Additionally, the study quantifies substantial cost increases due to moral hazard behavior induced by the subsidy.