

ReadMe File
Brown & Finkelstein
“The Interaction of Public and Private Insurance:
Medicaid and the Long-Term Care Insurance Market.”

This ReadMe file briefly explains the Gauss program 0050525_main_gauss_procedure.g and the accompanying data files.

GAUSS PROGRAM

The Gauss program defined above will, with minimal manipulation of user-entered variables, reproduce the core results of the paper, including all of the data points found in Figures 1 and 2 as well as the results found in columns 1-4 of Table 2. Column 5 of Table 2 can also be reproduced, although requires one small program edit (to be described below).

The key input variables / assumptions provided in the program are set at the base case levels from Brown & Finkelstein, including such assumptions as risk aversion, discount rates, medical cost growth rates, etc. The primary inputs that need adjusted as part of any run of output are:

1. Male: simply specifies whether the run is being conducted for males (male=1) or females (male=0).
2. Wcount: Specifies which point(s) in the wealth distribution the run is for.
3. Bencap: States whether benefit should be capped (default is capped at \$100 daily benefit) or uncapped
4. Bben: Monthly benefit cap that applies if Bencap=1. Base case is \$3000, corresponding to a \$100 daily benefit.
5. MWcount: specifies choice of pricing loads.

Note that if bencap=1, Bben=3000 and MWcount=0, the program will replicate results from Figure 1 (\$100 daily benefit, market loads), as well as columns 1-4 from Table 2.

If bencap=0 and MWcount=3, the program will replicated the results from Figure 2 (comprehensive benefits, zero load).

In order to replicate the results from column 5 of Table 2, take the following steps:

1. Set bencap=0, so that the policy is fully comprehensive
2. Hard code the premium matrix to be 0, so that the individual receives the private policy for “free”
3. Run the program to calculate the “willingness to pay” for access to this free, comprehensive policy
4. Subtract off the incremental cost of providing a comprehensive policy relative to existing Medicaid expenditures.

DATA

NOTE: File names submitted to the AER have a prefix “20050525_data_filename” to identify to which paper the files belong. The “20050525_data_” prefix should be removed before running the Gauss program, or alternatively, the prefix should be added to the filename in the Gauss program.

There are 6 input files that are loaded by the Gauss routine. These are:

- **tranmi65**: This file contains the transition matrix for males starting at age 65 who begin in the healthy state (i.e., receiving no care)
 - o When loaded up, the rows correspond to annual ages 65 to 111
 - o Column 1 is the age. Columns 2 through 26 are the transition probabilities
 - o Transitions are from state i to state j. So column 2 is transition from state 1 (no care) to state 1 (no care). Column 3 is transition from state 1 (no care) to state 2 (home health care). Etc.
- **tranfi65**: This file contains the transition matrix for females starting at age 65 who begin in the healthy state (i.e., receiving no care)
- **hcexp0mi65**: This is the amount of unskilled home health care used by individuals, conditional on receiving home health care, by age, for males starting out healthy at 65.
- **hcexp0fi65**: This is the amount of unskilled home health care used by individuals, conditional on receiving home health care, by age, for females starting out healthy at 65.
- **hcexp1mi65**: This is the amount of skilled nursing home health care used by individuals, conditional on receiving home health care, by age, for males starting out healthy at 65.
- **hcexp1fi65**: This is the amount of skilled nursing home health care used by individuals, conditional on receiving home health care, by age, for females starting out healthy at 65.

Further documentation on these data can be found in the NBER Working Paper version of Brown and Finkelstein, “Supply or Demand: Why is the Market for Long-Term Care Insurance so Small?” (NBER WP 10782) and references therein.