MARKETING COLLOQUIA

SPRING 2017

Bradley Shapiro
Assistant Professor of Marketing and Beatrice Foods Co. Faculty Scholar
University Chicago, Booth

Thursday, March 23, 2017
Where: *741 JMHH*
When: *12:00 PM* to 1:20 PM

Advertising in Health Insurance Markets

ABSTRACT: The effects of television advertising in market for health insurance are of distinct interest to both firms and regulators, due to both the sheer size of the market and some of its more particular characteristics when it comes to consumer choice. Regulators are concerned about firms potentially using ads to "cream skim," or attract an advantageous risk pool, as well as the potential for firms to use misinformation to take advantage of the elderly. On the other hand, ads could provide useful information or remind people to reconsider their options, making regulation potentially welfare-reducing. Using the discontinuity in advertising exposure created by the borders of television markets, this study estimates television advertising to have zero average lift on both the share of seniors who choose private Medicare Advantage (MA) plans over government-provided Traditional Medicare (TM), as well as brand share conditional on MA purchase with enough precision to exclude positive ROI from the 95% confidence interval. Leveraging the unilateral cessation of advertising by United Healthcare, further evidence is provided that this result is not explained by a prisoner's dilemma equilibrium. Additionally, advertising is not more effective in counties with a healthier population, potentially easing the concern over cream skimming. The lack of average effect cannot be attributed to long-run effects of advertising. While the average effect of advertising is zero and firms tend to target broadly, evidence is provided that advertising is significantly more useful for increasing brand share in the most competitive markets, suggesting that firms could improve targeting to gain ROI.

Wharton UNIVERSITY *of* PENNSYLVANIA MARKETING DEPARTMENT