



## **Unhealthy Insurance Markets: Search Frictions and the Cost and Quality of Health Insurance**

James B. Rebitzer, Ph.D.

John R. Mannix Medical Mutual of Ohio Professor for Health Care Finance and  
Chairman, Department of Economics  
Weatherhead School of Management

### **Abstract**

Health insurance is a complex, multi-attribute product and this creates search frictions that can distort market outcomes. We study the effect of frictions in the market for employer based health insurance. We find that frictions are most severe in the “fully insured” part of the group health insurance market and we estimate that frictions in this market segment cause a quarter of the consumer surplus to shift from policy-holders to insurers (a transfer of 32.5 billion dollars in 1997). Our analysis also suggests that frictions in insurance markets reduce incentives to invest in future health.