

# Health Plan Quality and the Lock-in Effect of Illness

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[New version coming soon]

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## Abstract

This paper provides novel evidence that health status is an important driver of consumer inertia in health insurance markets. I show this by studying a large program in Colombia at a time when two large health plans experienced a persistent and severe decline in their ability to provide adequate access to medical care, eventually facing termination by the government. The program’s design—featuring a single standardized plan offered by competing health plans, mandatory enrollment, and virtually unrestricted monthly switching—provides an ideal setting to study consumer inertia. The study has three parts. First, I provide descriptive and causal evidence of the substantial quality differences between the terminated and the non-terminated plans. Using employer-driven steering into plans as a source of exogenous variation in plan choice, I show that switching out from one of the terminated plans can increase the probability of using care by up to 23 pp. Second, I provide descriptive and causal evidence that health risk increases choice persistence. The causal evidence focuses on how chronic illness affects the probability of switching plans. Using a flexible event-study approach, I find that cancer diagnoses decrease the probability of switching plans across all plans. Importantly, this “lock-in” effect increases choice persistence among those who could benefit most from enrolling with plans that provide better access to care. Third, I show that the correlation between illness and choice persistence contributed to the plans’ collapse by worsening the average risk of their enrollee pool.

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