

## **Treatment effects of selection behavior in managed care plans: evidence from Medicaid\***

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**Abstract.** This paper tests whether capitated payments to Medicaid managed care plans induce to plans' strategic undercutting of treatment for specific diagnostic groups. I focus on treatment (measured by length of stay and cost) in acute care hospitals in Massachusetts. I use a "differences-in-differences-in-differences" approach, where the third differences compare treatment patterns between managed care plans that receive capitated payments with those that do not. I find that the first reduce treatment significantly more to mental health patients than to patients in other disease groups, whereas the latter reduce hospital resource use more uniformly across disease groups. These results highlight the importance of using payment mechanisms in public programs that reflect the variability in costs of beneficiaries.

**Key words:** Capitation – Managed care – Medicaid

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