Does risk equalization reduce the viability of voluntary deductibles

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Theoretically, a risk avers consumer takes a deductible if the premium rebate (far) exceeds his/her expected out-of-pocket expenditures. In the absence of risk equalization, insurers are able to offer high rebates because those who select into a deductible plan have below-average expenses. This paper shows that, for high deductibles, such rebates cannot be offered if risk equalization would “perfectly” adjust for the effect of self selection. Since the main goal of user charges is to reduce moral hazard, some effect of self selection on the premium rebate can be justified to increase the viability of voluntary deductibles.