**Measuring and Mitigating Incentives for Service Distortion in Managed Health Care: the Israeli Example**

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**Abstract:**

In healthcare, service distortion (SD) takes place when health plans overprovide some services, in order to attract profitable enrollees, and underprovide others, in order to discourage the unprofitable ones.

SD poses a major challenge to researchers and policy makers, since it is hard to measure and regulate.

Using Israeli data, we apply a new measure of SD to identify services that are likely to be distorted and evaluate several payment mechanisms that can address the problem.

We show that a mixed payment scheme, with a modest level of cost sharing, is a significant improvement upon a pure risk-adjustment scheme.