Abstract

The risk adjustment model currently used does not adequately compensate insurers for predictable differences in individuals’ health care expenditures in the Czech Republic. It then leads to financial inequality in the redistribution of funds to the insurance companies and causes their financial problems. This study introduces a PCG model as another method for risk adjustment and determines to what extent the predictive performance of the model can be improved when applied to Czech data. We analyze 10% of population sample in the Czech Republic in years 2011 and 2012. Our results confirm the appropriateness of the PCG model for the Czech environment. When the PCG variables are added to the demographic model, $R^2$ value of the prediction model increases from 2.03% to 13.87%.