This study contains a practical guide for sponsors (employers, governments, etc.) who want to put their system of risk-adjusted premium subsidies to the test.

*Testing the effectiveness of risk equalization models in health insurance* contains a new method to test for and improve upon the effectiveness of risk-adjusted premium subsidies in competitive health insurance markets. A regulatory system of risk-adjusted premium subsidies that is established by a sponsor is the preferred approach to ensure affordable out-of-pocket premiums for those at high risk. In that case, price competition among insurers is not distorted and therefore incentives for efficiency are not reduced. In all countries that apply risk-adjusted premium subsidies in their health insurance markets, the sponsor organizes this system in the form of risk equalization among insurers.

In practice, however, the implementation of such a system may not fully satisfy the policy goals of the sponsor due to a lack of adequate empirical data. The extent to which this is the case can be determined by the approach developed in this study. In addition, alternative model specifications can be tested to determine their potential to improve affordability. As an example, the method developed in this study is applied to the 2004 Dutch risk equalization model. This study is relevant to all sponsors who want to improve efficiency and responsiveness to the consumers’ preferences in the health care sector and simultaneously ensure affordable out-of-pocket premiums for high-risk insured people.