

Employer Provision of Health Insurance

October 14, 2002

Economics 156/256

Kate Bundorf

Sources of Coverage: under 65 population

	1987	1998
(percentage)		
Total population	100.0%	100.0%
Employment-based coverage	69.2	64.9
Own name	33.8	33.1
Dependent coverage	35.4	31.7
Individually purchased	6.7	6.5
Public	13.3	14.3
No health insurance	14.8	18.4

Notes: From EBRI (2002)

Health Insurance Loading

$$\textit{premium} = (1 + L)E(B)$$

$L = \textit{Loading}$

$E(B) = \textit{Expected Benefits}$

Estimates of Loading by Group Size

Table 10.3 Typical Loading by Group Size

Number of Employees	Loading Fee (as a % of benefits)
Individual policies	60-80%
Small Groups (1-10)	30-40%
Moderate Groups (11-100)	20-30%
Medium Groups (100-200)	15-20%
Large Groups (201-1000)	8-15%
Very Large Groups (>1,000)	5-8%

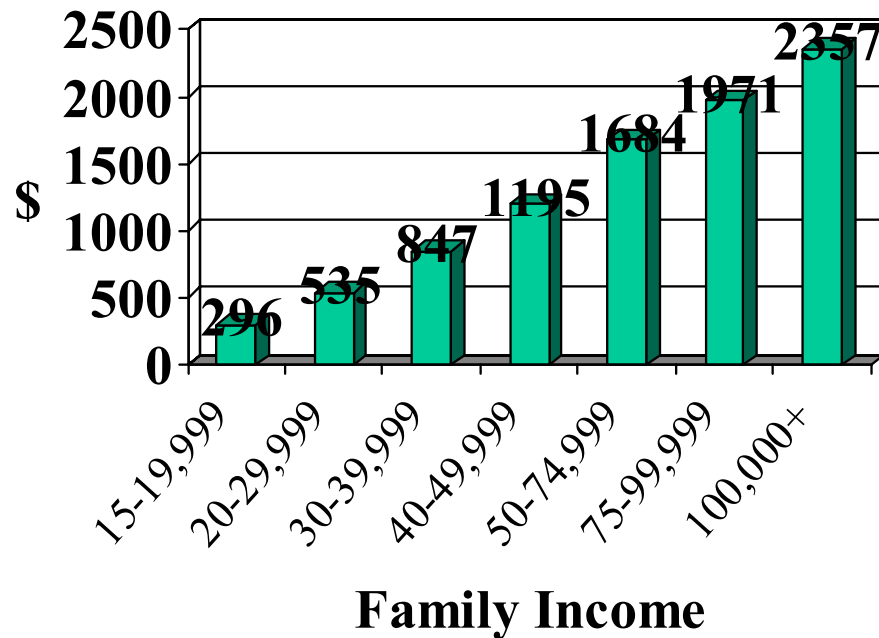
Source: Phelps (1997)

Tax treatment lowers the price of insurance

Marginal tax rate= 28%	After-tax purchase	Pre-tax purchase
Total Wage	\$1000	1000
Pre-tax premium	-	50
Tax Payment	280	266
Net Cash Wage	720	684
After-tax premium	50	-
Take Home Pay	670	684

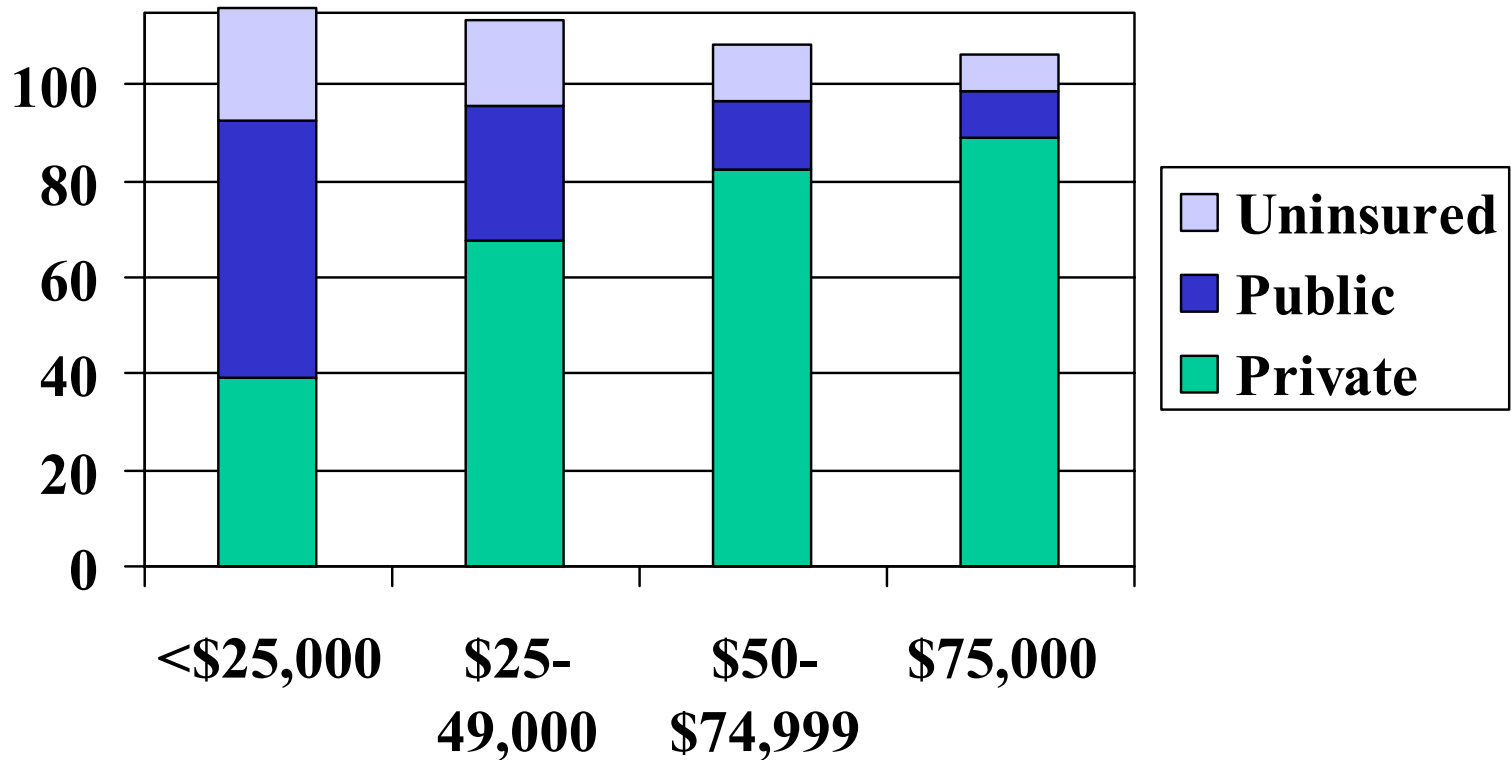
Is the Subsidy Equitable?

Average Federal Health Benefits Tax Expenditure, 1998



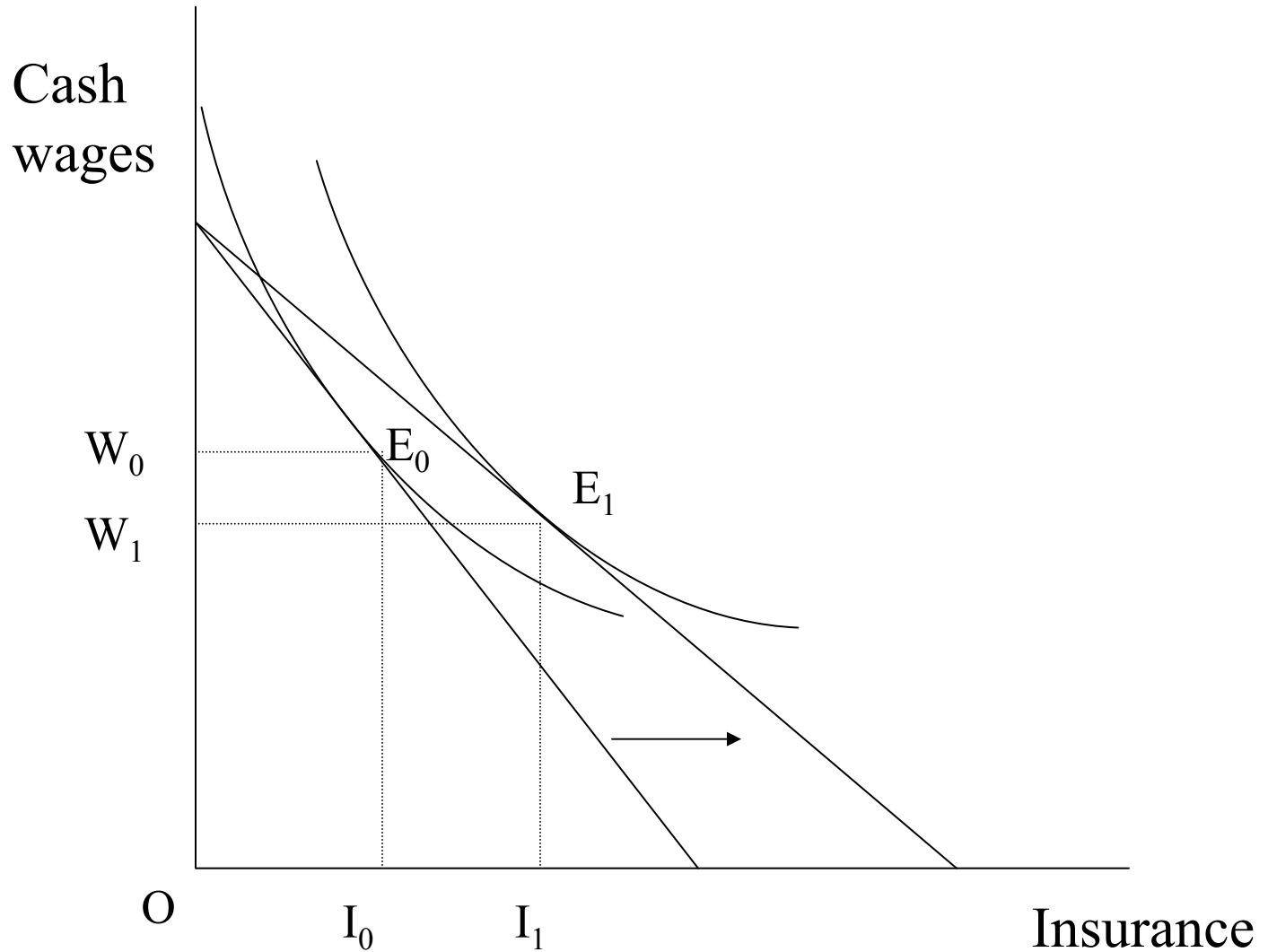
Sheils and Hogan (1999)

Insurance Status by Household Income

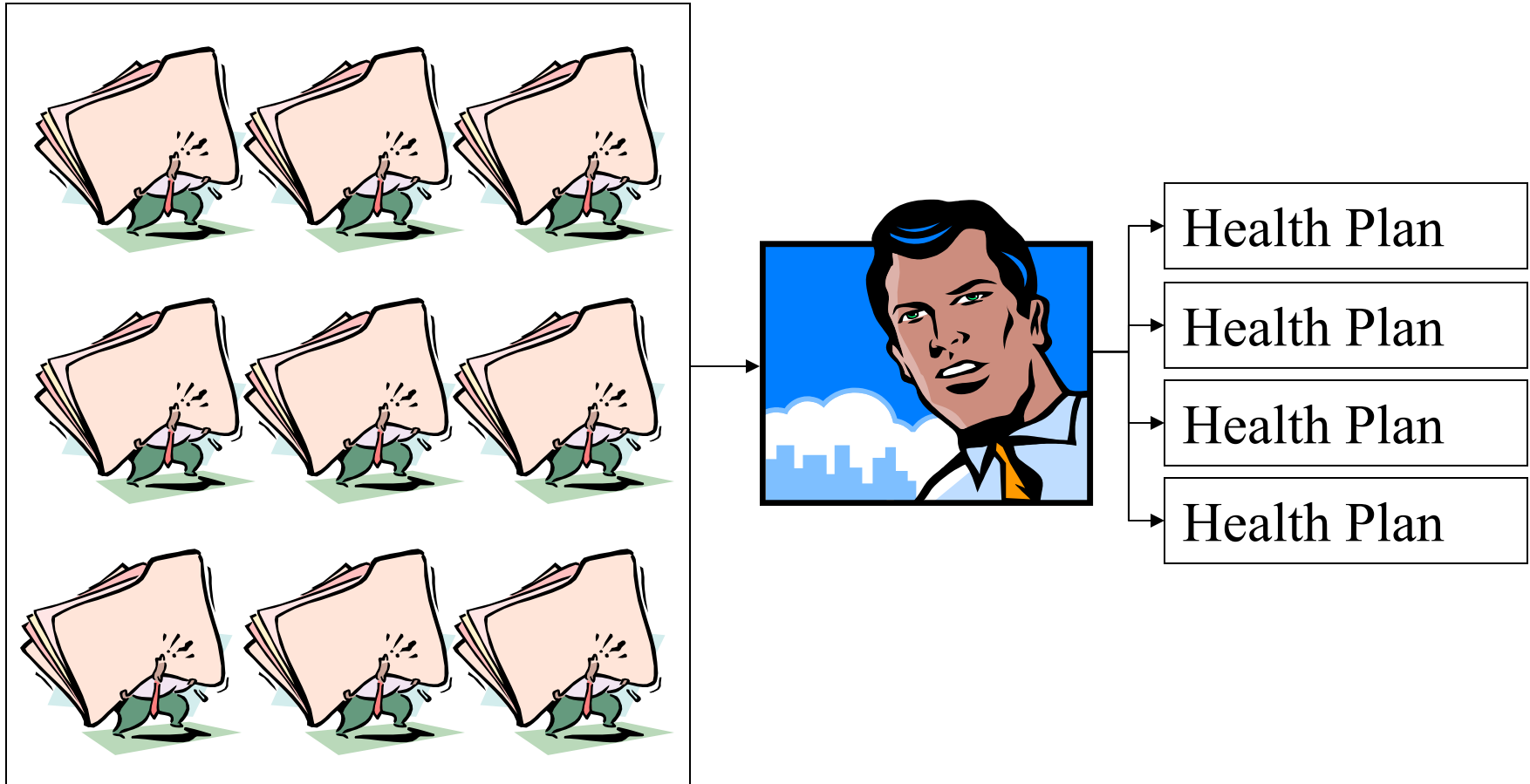


Data Source: Current Population Survey, March 2002

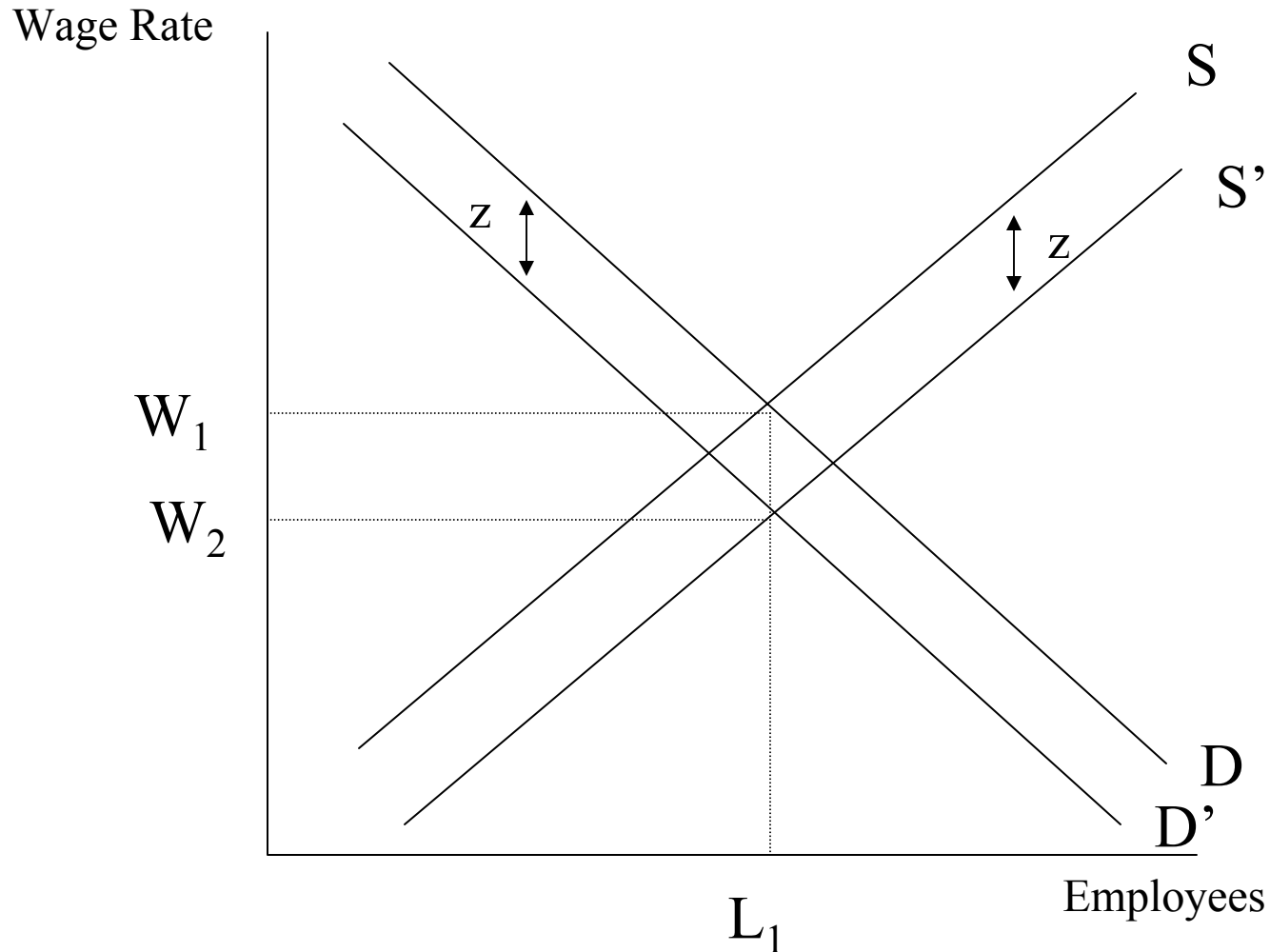
Increases the quantity of health insurance purchased



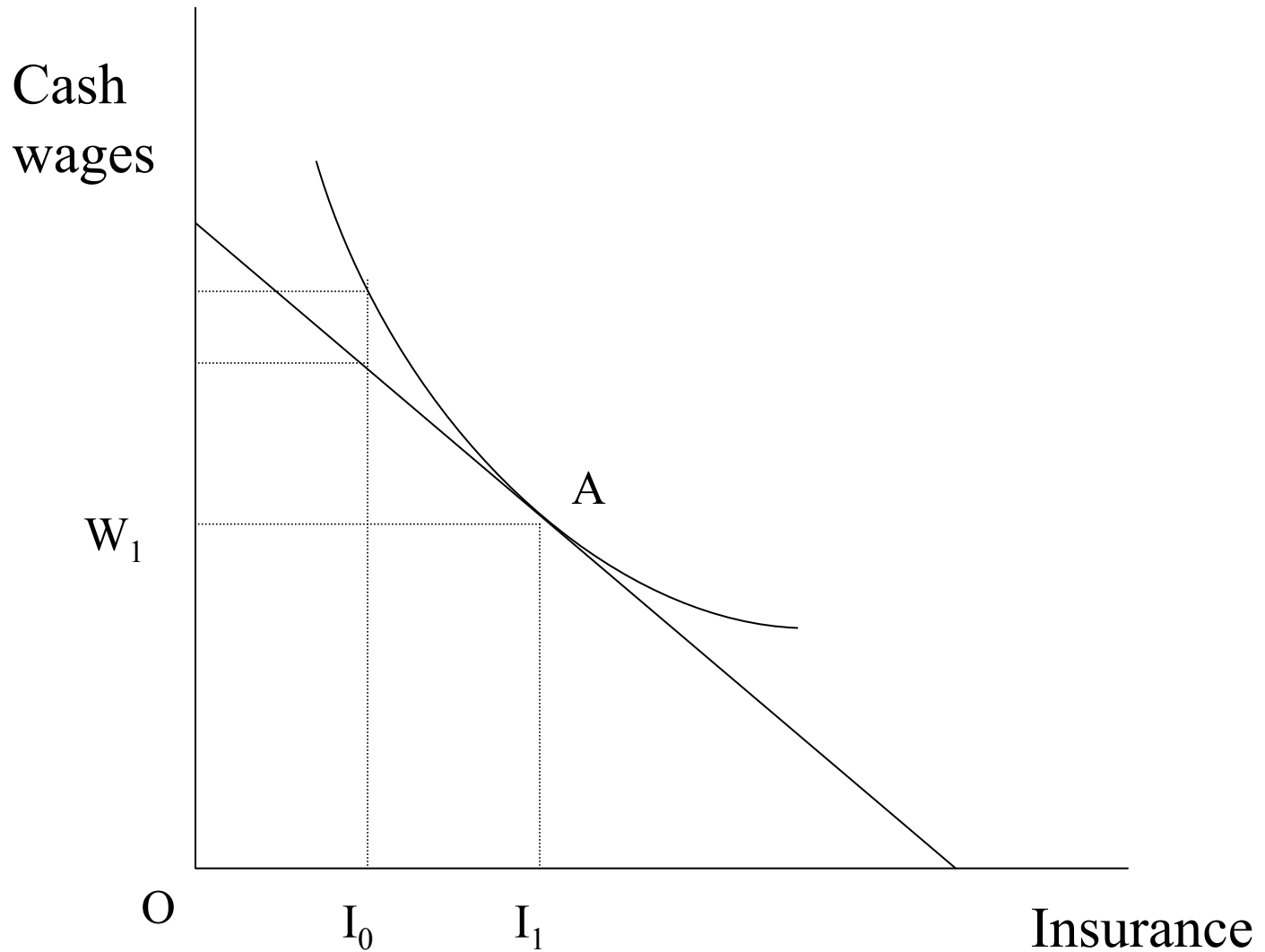
The role of the employer in the purchase of health insurance



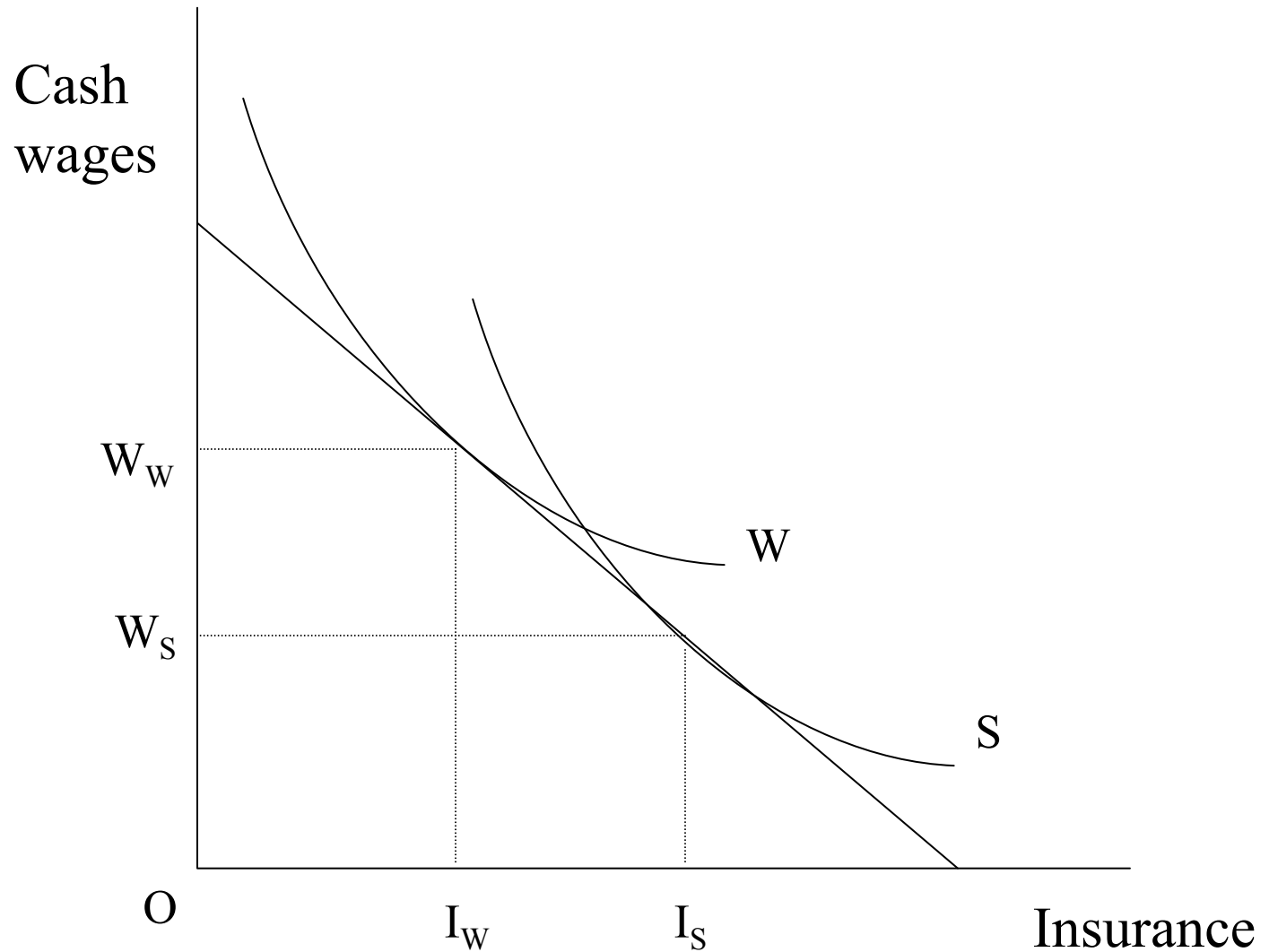
Who bears the cost of employer-sponsored coverage?



Do employers make “good” choices for workers?



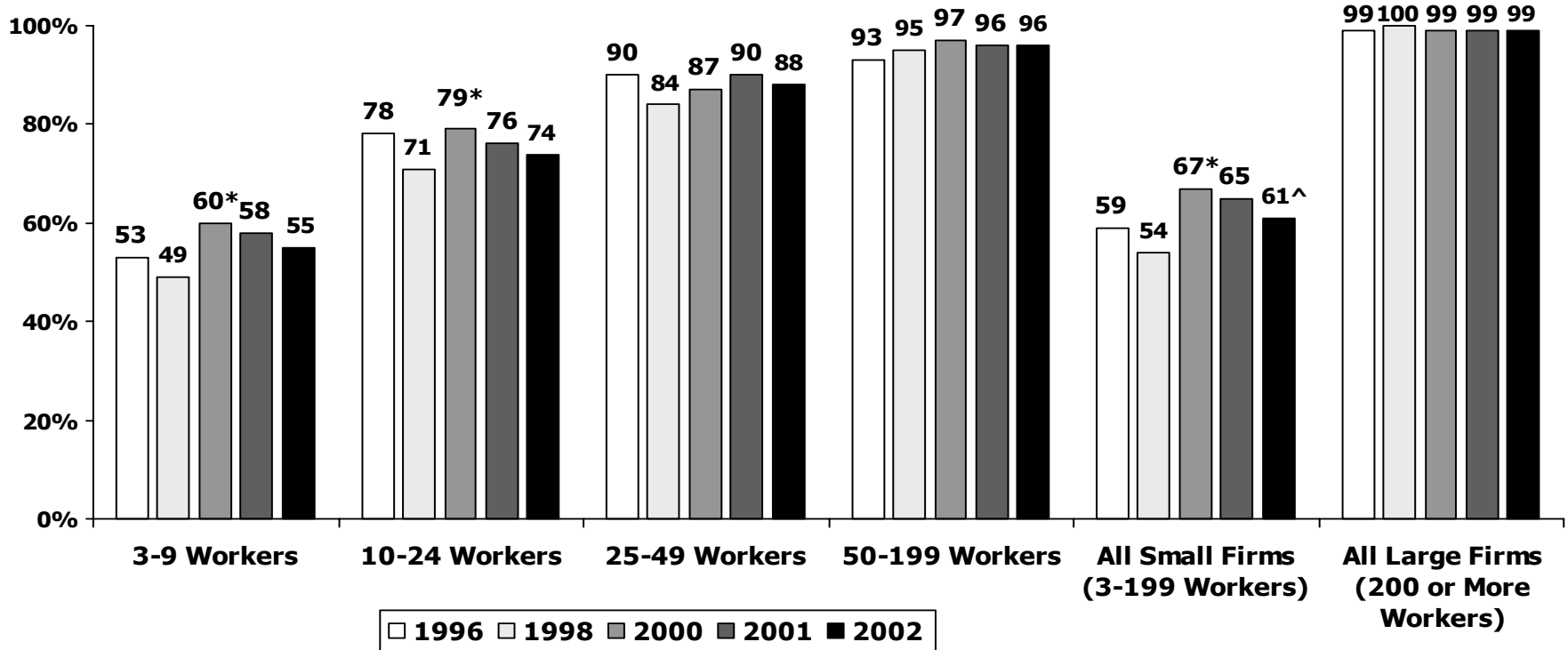
What if workers vary in their preferences for health insurance?



Barriers to Offering Choice

- Favorable tax treatment is contingent upon meeting non-discrimination requirements
- Fixed costs of offering multiple plans
 - Administrative costs
 - Loading

Percentage of Firms Offering Health Benefits, by Firm Size, 1996-2002



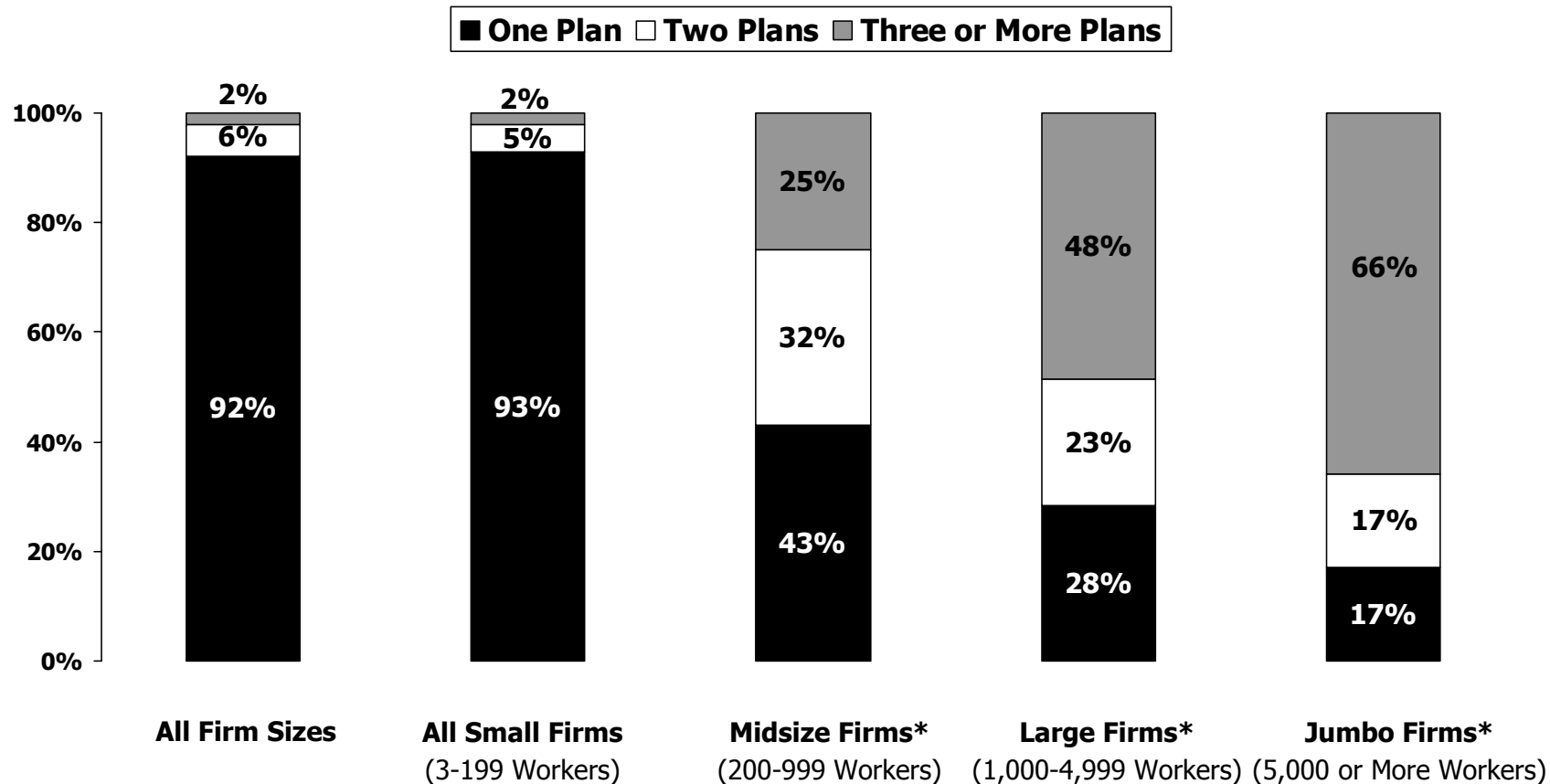
Note: Nationwide, there are about 6,290,665 firms with 3-199 workers and 85,448 with 200+ workers.

* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

^ Estimate is statistically different (p<0.1) from the previous year shown: 2000-2002.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

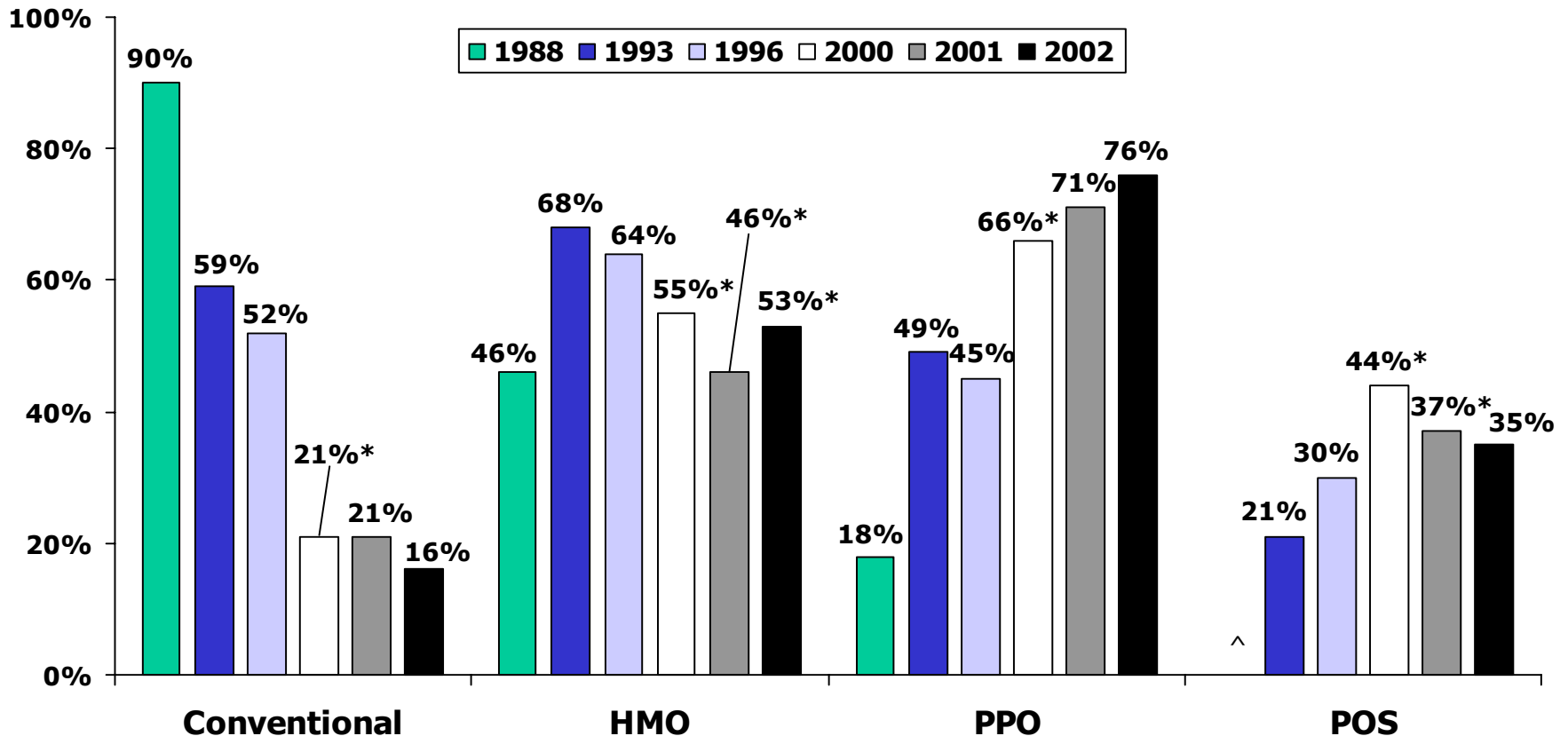
Percentage of Employers Providing a Choice of Health Plans, by Firm Size, 2002



* Distribution is statistically different from All Firms.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002.

Percentage of Covered Workers With a Choice of Conventional, HMO, PPO, or POS Plans, 1988-2002

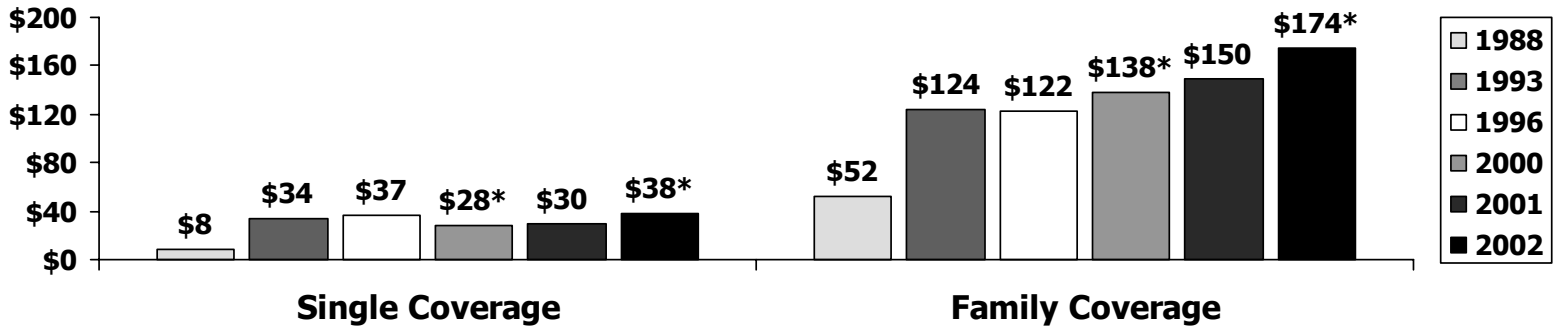


* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

^ Information was not obtained for POS plans in 1988.

Source: KFF/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

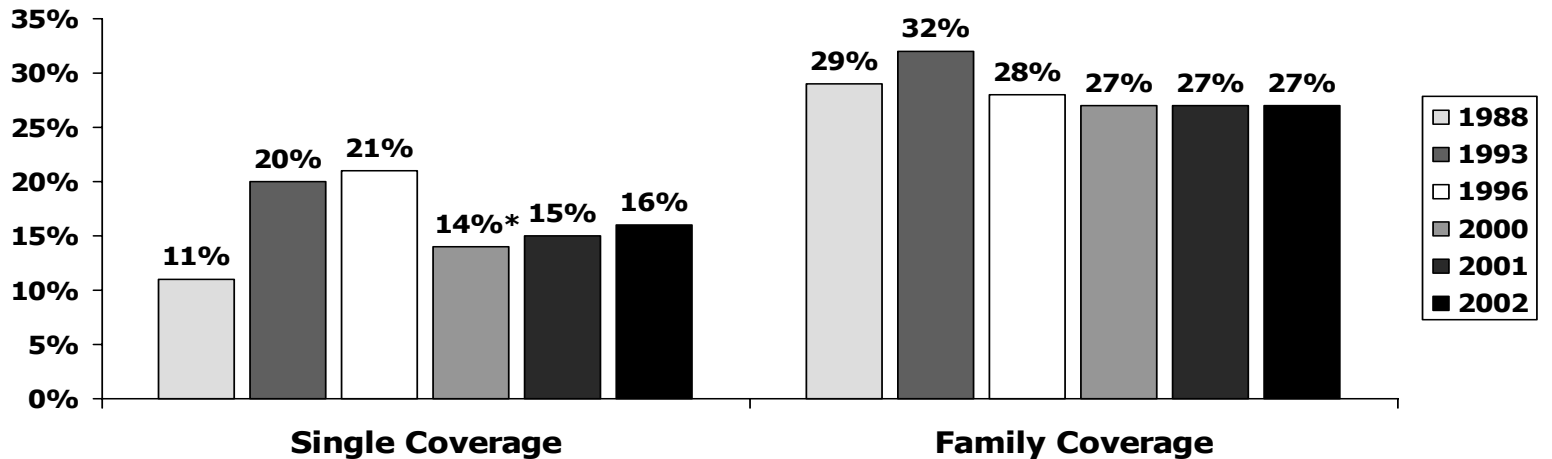
Average Monthly Worker Contribution, 1988-2002



* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996

Percentage of Premium Paid by Covered Workers, 1988-2002



* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

Labor Market Distortions

- Anecdotal evidence of job lock:
 - 11-30% of individuals report that they or a family member have remained in a job at some time because they did not want to lose health insurance coverage.
- Types of job lock
 - Job to job mobility
 - Self-employment decisions
 - Delaying retirement

Empirical Evidence

Employer-provided health insurance

Value of health insurance	Employer-provided health insurance	
	No	Yes
High	M_{00}	M_{10}
Low	M_{01}	M_{11}

Test 1: $(M_1 - M_0)$

Test 2: $(M_{10} - M_{00}) - (M_{11} - M_{01})$

Summary

- The purchase of employment-based health insurance is highly subsidized, particularly for high income workers and their families.
- On average, the incidence of health insurance premiums falls on workers, not firms.
- Employers have incentives to respond to the preferences of their workers when choosing health insurance.