

Costs/Benefits of Employer-Sponsored Insurance

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Group insurance may increase coverage

- Group insurance solves adverse selection problem
 - Pricing at the 'group' level rather than individual
 - Low cost purchases subsidize higher care users
- Group insurance lowers price
 - Favorable tax treatment reduces costs (subsidized by government)
 - Economics of group plans
 - Group plans efficient
 - Economies of scale

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Fraction of Population Covered by Private Insurance

• Year	Percent w/ Pvt Insurance
• 1950	6.7%
• 1960	50.6%
• 1970	68.3%
• 1980	78.1%
• 1990	73.1%
• 2000	72.3%

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Economies of scale

- Definition
 - Average price declines as # insured increases
- Why economies of scale?
 - Do not have to gather info about each person to price accordingly
 - Cost of developing plan similar regardless of size
 - Administrative costs not linear in members, some economies of scale
 - Loading fee much higher in non-group plans
 - Loading fee declines with group size

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Loading Fees

Year	Group Insurance			Non-group Insurance		
	Prem.	Bene.	Ratio	Prem.	Bene.	Ratio
1990	94	79	1.18	8.9	5.8	1.53
1995	117	102	1.15	12.9	8.4	1.50
2000	125	105	1.19	20	13.3	1.50

In Billions of dollars

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Loading Fee by Group Size (2000)

# of employees	Load fee (as % of benefits)
Individual policies	60-80%
Small group (1-10)	30-40%
Moderate (11-100)	20-30%
Medium (100-200)	15-20%
Large (201-1000)	8-15%
Very large (>1000)	5-8%

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- Group insurance requires subsidy from low to high risks
 - Policy is priced for the group
 - Firm will 'charge' workers the same 'cost' of insurance per worker
- Possible implications
 - Maybe people 'sort' to particular jobs with particular health insurance
 - Low risk workers may sort to jobs w/ out insurance

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Interactions: Tax Code and Group Plans

- The tax subsidy reduces the burden of the transfer to the low risk workers
- Some estimates:
 - Without the tax subsidy, 20 million would lose health insurance

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Some problems

- Insurance status is tied to your job
- Those without jobs or those in low-paying jobs may not be offered health insurance
- Subsequently, the uninsured in this country is
 - A large group
 - Has predictable characteristics
 - The uninsured are more likely to be: young, low earning, lower educated, minorities, those in poor families, working part time, not working, working in smaller firms

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Coverage

- Uninsurance is a persistent problem in US
- Dimensions of the problem
 - 47 million people
 - 16% of population
 - 9 million children
- Uninsurance rates have increased steadily over time

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Who are the uninsured? (2006)

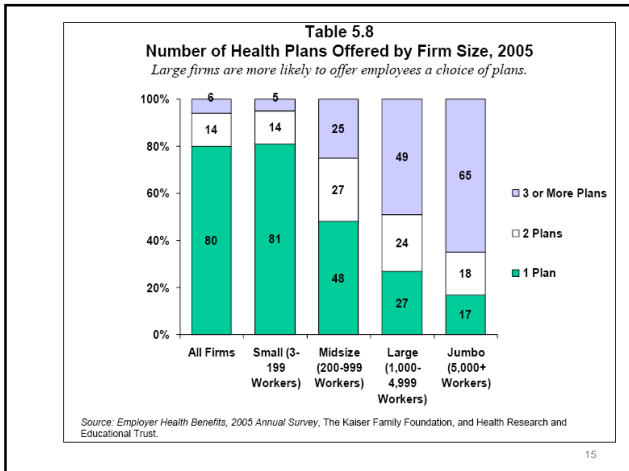
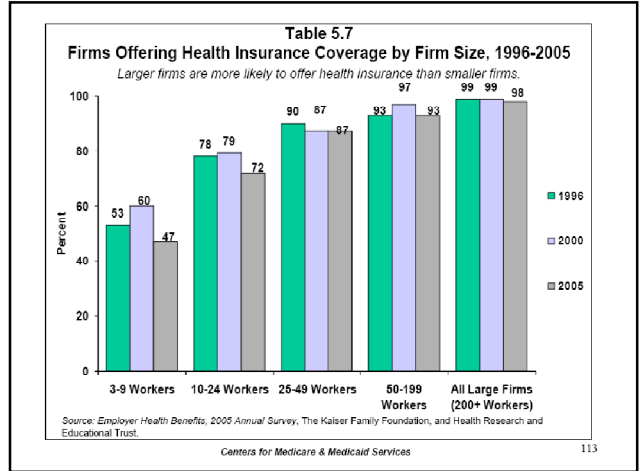
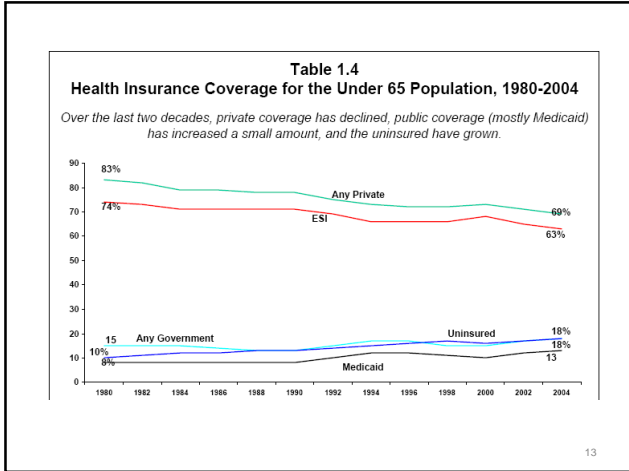
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|------------|-------|-----------------|-------|
| • Race | | • Family Income | |
| – White | 10.8% | – <\$25K | 24.9% |
| – Black | 20.5% | – \$25-\$50K | 21.1% |
| – Hispanic | 34.1% | – \$50-\$75K | 14.4% |
| • Age | | – >\$75K | 8.5% |
| – <18 | 11.7% | | |
| – 18-24 | 29.3% | | |
| – 25-34 | 26.9% | | |
| – 35-64 | 16.0% | | |
| – 65+ | 1.5% | | |

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Time Series

- Number uninsured
 - 31 million in 1987
 - 47 million in 2006
- Percent uninsured
 - 12.6 in 1987
 - 15.8 in 2006

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Job Lock

- Many group insurance programs have clauses prohibiting coverage for 'pre-existing conditions'
 - Conditions diagnosed or treated within past 6-24 months (depending on policy)
 - If you are HIV+ and you start work with a new employer, the new insurer will not cover expenses associated with known disease

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- Why?
 - Designed to reduce adverse selection
- Likely economic effects
 - Reduce turnover. Workers who have family members with pre-existing conditions will not change job for fear of losing coverage
 - Workers w/pre existing conditions who do lose jobs will be uninsured
- Does job lock reduce turnover?

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Retirement

- Medicare starts at age 65
- Workers who lose a job with insurance at an older age risk being uninsured until age 65
- Lack of insurance may discourage retirement
- Insurance from other sources may encourage it
 - Spouse, Medicaid, etc.

How to test job lock hypothesis

- Hypothesis: Those with insurance may not change jobs as frequently because they may have pre-existing condition that would prevent coverage at a new employer
- Could look at turnover rates among those with and without insurance
- Problem: those without insurance may be fundamentally different from those with

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- Therefore, if you find a difference, do not know how much is due to insurance status and how much is due to other factors
 - e.g., people with young kids are more likely to have insurance and less likely to move – is this evidence of job lock?
- Solution: find a 'comparison' sample that can help identify the model

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Example: Madrian (1994)

- Compare turnover of people with without EPHI
- How much of this is due to job lock?
- Consider people with another source of insurance
 - Union, spouse's employer, private insurance, maybe even Medicare
- Those with other insurance are not as 'locked' to their jobs
 - Other insurance shields against pre-existing conditions
 - Any turnover is baseline behavior

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Other Ins.

	No	Yes	Diff
With EPHI	A	B	(A-B)
Without EPHI	C	D	(C-D)
			(A-B)-(C-D)

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1987 NMES

	Other Insurance		Diff
	No	Yes	
Has EPHI	0.085	0.115	-0.030 (-26.1%)
Does not have EPHI	0.256	0.244	0.012 (4.9%)
			-0.042 (-31.0%)

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Second example

- Some families have more constraints on mobility than others
 - Sick kids, lots of kids, expecting medical costs
- Difference in turnover may be due to lack of insurance and other factors
- What about people with similar family situations but no insurance?

	# of kids		Diff
	5+	1	
With EPHI	0.051	0.092	-0.041 (-44.6%)
Without EPHI	0.224	0.253	-0.029 (-11.5%) -0.012 (-33.1%)

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Job Lock and HIPAA

- Health Insurance Portability and Accountability Act
- Passed in 1996
- Various components that include
 - Provide new rights/protections for people in group plans
 - Enhanced privacy of medical records

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New Protections for Group Plan Members

- Limit exclusions for pre-existing conditions for
 - Pregnancy
 - Adopted children
 - Some genetic conditions
- Limited pre-existing conditions to 12 months of coverage

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- How this works
 - If you've been covered for N months and $N < 12$, your new firm can only prohibit Coverage for 12-N
 - If you've been covered for 12 months under an existing plan, when you move to a new plan (job), no pre-existing conditions apply
 - Cannot be 'uncovered' for more than 63 days or the 12 month rule starts again

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Evidence

- Little change in turnover for those with insurance after HIPPA
- Looks like protection is not that great

Health insurance and the tax code

- Employer-provided health insurance is tax-preferred
- Taxable income may also be reduced through flexible spending accounts
- Families who itemize deduct health care spending is in excess of 7.5% of adjust gross income

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Equity of the tax preferred health insurance

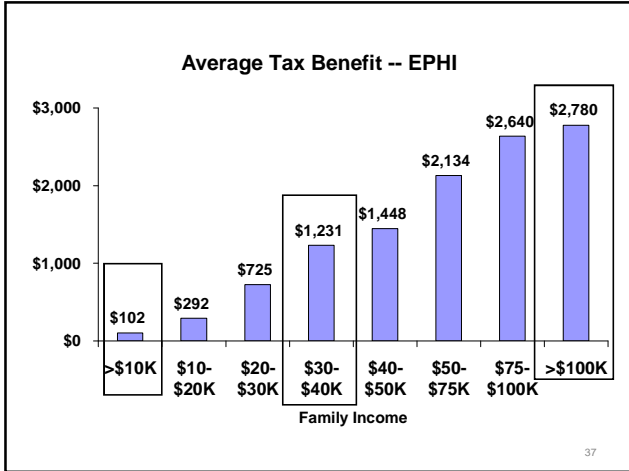
- Vertical equity
 - Is it equitable across income classes
- Horizontal equity
 - Is it equitable within income classes

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Vertical Inequity

- Economic model: Employer premium are assumed to come out of earnings
- Tax-preferred status leads to tax expenditures that are smaller for higher income households: vertically inequitable.
- Higher income households benefit more because they have
 - higher tax rates
 - are more likely to have insurance
 - they buy more generous and more expensive insurance

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Who Benefits from the Tax Subsidy

EXHIBIT 3
Distribution Of Federal Health Benefit Tax Expenditures, By Family Income, 2004

Family Income	Expenditure amount, billions (\$)	Percent of total
\$150,000 or more	25.9	13.7
\$100,000-\$149,999	24.1	12.8
\$75,000-\$99,999	40.8	21.6
\$50,000-\$74,999	44.2	23.4
\$40,000-\$49,999	17.9	9.5
\$30,000-\$39,999	17.1	9.1
\$20,000-\$29,999	12.2	6.5
\$10,000-\$19,999	5.0	2.7
Less than \$10,000	1.3	0.7
Total	188.5	100.0

SOURCE: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

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- ### Summary: Effects by Income
- The half of the population above the median income gets 75% of the subsidy
 - The lower half of the population receives 25% of the subsidy
 - The half of the population above the median income makes up 25% of uninsured; half below makes up 75%
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- ### Horizontal Inequity
- Within a “full” income class, those who work for a firm offering insurance pay less taxes.
 - Those who chose higher priced insurance pay lower taxes.
 - Those who use flex accounts, especially those who “clean out” the account, pay less taxes.
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**Tax Benefits Lead to Uneven
Distribution of Risk Protection and
Medical Care Use**

- Higher income people are induced to buy more generous coverage with high administrative costs, may also be more likely to obtain coverage.
- This more generous coverage causes higher spending for them.
- The tax treatment thus worsens disparities in insurance coverage, use of care, and perhaps health outcomes.

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