

# Health insurance and labor market outcomes: Joint decision-making within households

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## Abstract

Most Americans obtain access to health insurance through an employer. In this paper, we ask how the link between health insurance and employment affects labor market choices such as whether to work full-time. To understand the effect of the incentives embedded in the employer-based insurance system, we study the joint decision-making of husbands and wives that determines the household's access to health insurance. We estimate the effect on a wife's (husband's) labor market outcomes of husband's (wife's) health insurance, allowing the health insurance of both spouses to be endogenous. Obtaining unbiased estimates of such effects is complicated by the likelihood that positive assortative mating creates correlations between a couple's characteristics and the possibility that there are important unobservable household income effects. Our innovation is to measure these biases by examining a second fringe benefit, paid sick leave, in addition to health insurance. We find that, as predicted, spouse's insurance has statistically significant negative effects on being offered own employer insurance as well as on the probability of working full-time with health insurance.

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## 1. Introduction

In the United States, approximately 64% of non-elderly Americans obtain their health insurance through an employer ([www.statehealthfacts.kff.org](http://www.statehealthfacts.kff.org), 2004). Employer group insurance

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is generally less costly, is often simultaneously more generous than private insurance obtained in the non-group market, and enjoys a tax advantage relative to insurance not purchased through an employer. However, these advantages may well be offset by some less obvious welfare losses resulting from the link between access to health insurance and employment if labor market decisions are influenced by the access to health insurance that some jobs convey. In this study, we ask how an individual's labor market choices are affected by the link between employment and health insurance.

One way of gaining access to employer insurance when it is not available through an individual's own job, or when he or she is not employed, is through a working spouse. In an earlier study we found that having two earners in a household substantially mitigates the negative effect on access to health insurance of workers in part-time jobs, workers in small establishments, and self-employed workers (Abraham and Royalty (2005)). In our sample, 43% of wives whose husbands were not offered employer insurance were offered insurance. Among wives without own employer insurance, 65% had husbands who were eligible for insurance at the workplace. Knowing that a large proportion of married adults who do not have their own access to coverage have access through a working spouse does not tell us, however, whether this is merely fortuitous or whether these couples have sorted themselves systematically into such arrangements.<sup>1</sup>

Knowing the extent to which labor market outcomes depend on each partner's access to coverage is critical to answering many current policy questions. For example, if couples sort themselves into jobs with and without health insurance, it will affect the demand for insurance by workers and therefore the likely effectiveness of policies designed to increase insurance coverage by encouraging employers to offer insurance in jobs where they have not done so historically. Understanding these joint decisions will also help us to identify how much health insurance drives other labor market decisions when access to health insurance depends on the choice made. If workers are locked into full-time jobs or choose to join the labor force because of employer health insurance, our system of employer-based insurance may produce large welfare losses.

We investigate how one spouse having access to employer insurance influences the probability that the other spouse also will be offered employer insurance. We then look at the effect of having access to health insurance through a spouse on decisions about hours of work. The innovation of the paper is to allow the health insurance of both spouses to be endogenous, controlling for bias due to assortative mating or income effects by looking at a second fringe benefit, paid sick leave. This allows us to examine how much behavior changes as married couples take advantage of the flexibility provided by being eligible for one another's health insurance and, conversely, by how much labor market outcomes may be distorted by having health insurance tied to employment when no other access to insurance is available.

## 2. Institutional background and hypotheses

We hypothesize that the probability a married person is offered employer insurance is inversely related to whether or not his or her spouse is offered employer coverage. Because

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<sup>1</sup> Monheit and Vistnes (1999) present evidence that single workers sort themselves into jobs with and without access to employer health insurance depending on their demand for health insurance, suggesting that married couples are likely to sort themselves into jobs in ways that depend on a spouse's health insurance.

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