



ELSEVIER

Journal of Health Economics 21 (2002) 65–88

JOURNAL OF
**HEALTH
ECONOMICS**

www.elsevier.com/locate/econbase

Employee demand for health insurance and employer health plan choices

M. Kate Bundorf*

*Department of Health Medicine, HRP Rewood Building, Stanford University School of Medicine,
Rm.T257, Stanford, CA 94305-5405, USA*

Received 1 August 2000; accepted 1 October 2001

Abstract

Although most private health insurance in US is employment-based, little is known about how employers choose health plans for their employees. In this paper, I examine the relationship between employee preferences for health insurance and the health plans offered by employers. I find evidence that employee characteristics affect the generosity of the health plans offered by employers and the likelihood that employers offer a choice of plans. Although the results suggest that employers do respond to employee preferences in choosing health benefits, the effects of worker characteristics on plan offerings are quantitatively small. © 2002 Elsevier Science B.V. All rights reserved.

JEL classification: I11; J33

Keywords: Employer-sponsored health insurance; Non-wage compensation; Health plan choice

1. Introduction

As the intermediary between health insurers and consumers in the purchase of the vast majority of private health insurance, employers play an important role in health insurance markets in the US. In 1999, over 88% of those with private health insurance, received their coverage through an employer (Mills, 2000). Underlying the prevalence of employer-sponsored coverage, however, is considerable variation in the health plans workers and their families receive. Employers vary in whether they offer health insurance, the number and types of plans they offer, and their premium contribution policies (Gabel, 1999). Differences among employees in the coverage they receive from their employers have generated concern over the incentives facing employers in choosing health plans for workers.

* Tel.: +1-650-725-0067; fax: +1-650-723-3786.

E-mail address: bundorf@stanford.edu (M. Kate Bundorf).

My objective in this paper is to examine the relationship between employee preferences for health insurance and the plans offered by employers. My hypothesis is that employee preferences affect employer choices—employers have incentives to consider the preferences of their employees when choosing health plans, although they are constrained in their ability to cater to the diverse preferences of employees by the fixed costs of offering multiple plans. I empirically test this hypothesis by examining the relationship between the characteristics of workers which affect individual demand for health insurance and the generosity of health plans offered by employers. Although the results suggest that employers do respond to employee preferences in choosing health benefits, the effects of worker characteristics on plan offerings are quantitatively small.

2. Background

The role of the employer as an intermediary between consumers and health plans differentiates the purchase of health insurance from that of most other consumer products. The primary benefit to consumers of purchasing coverage through an employer is lower premiums. Economies of scale in the loading of premiums lowers the price of health insurance purchased as part of group relative to coverage purchased individually, and the favorable tax treatment of employer-sponsored benefits reduces the price of health insurance purchased through an employer. A potential disadvantage, however, is that workers are restricted in their ability to choose among plans. By definition, individuals purchasing group health insurance through an employer limit themselves to the options offered by the employer. In 1998, nearly half of the workers were offered only one or two plans by their employer (Gabel, 1999).

The effect of the employer as the purchaser on the welfare of the workers, however, depends on the incentives employers face in choosing health benefits. In a simple model of the allocation between cash wages and fringe benefits, the employer's cost minimizing compensation package for an individual employee is the employee's utility maximizing allocation between cash wages and fringe benefits (e.g. Summers, 1989). Thus, in an employment-based group comprised of workers with homogeneous preferences for health insurance, the employer would offer a single health insurance plan, reflecting the optimal allocation between wages and health insurance for each employee.¹

Employment-based group purchasing, however, potentially aggregates individuals with heterogeneous preferences for health insurance into a single purchasing group (Goldstein and Pauly, 1976; Pauly, 1986). Studies of the incentives facing employers choosing a single plan for an exogenously determined, heterogeneous workforce have proposed that the single level of coverage chosen by the employer is a weighted average of the preferences of different types of employees (Goldstein and Pauly, 1976; Danzon, 1989). Individuals with strong preferences for health insurance receive a plan that is less generous than their preferred plan,

¹ Although the quantity of health insurance chosen by the employer for workers would be inefficient due to its tax treatment (Pauly, 1968), it would be optimal in the sense that it represents the plan, or allocation between cash wages and health insurance, that employees would have chosen for themselves if they could have purchased coverage at the price available to the employer.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات