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Journal of Public Economics 88 (2003) 237–254

JOURNAL OF
PUBLIC
ECONOMICS

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How has small group market reform affected employee health insurance coverage?

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Received 6 January 1999; received in revised form 28 May 2002; accepted 4 June 2002

Abstract

In the early 1990s, over 40 states passed legislation designed to limit a number of exclusionary practices by insurers in the small group market in order to improve the availability and affordability of health insurance to employees in small firms. In this paper, we address the effects of reform on the likelihood that workers are offered insurance, have employment-based coverage, or are policyholders of an employment-based plan. We use differences-in-differences (DD) and differences-in-differences-in-differences (DDD) estimators to evaluate the differential effects of alternative reform measures on high and low risk workers. We generally find little effect of reform on offer rates and find that, in states with the most stringent reform, employment-based coverage and policyholder rates increased for high risk workers relative to low risk workers. Our results also indicate that the effects of reform varied significantly by the extent to which states adopted guaranteed issue.

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JEL classification: I10; I18

Keywords: Health insurance; Small group market reform

1. Introduction

Improving the availability and affordability of health insurance to employees in small firms has been a focal point of efforts to reform the employment-related health insurance system and to reduce the number of uninsured Americans. This focus on the small group

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market is a consequence of the low insurance coverage rates of employees in small firms. It also reflects a concern that market failure—driven by insurer issuance, underwriting, and rating practices—has limited the availability of insurance coverage and made the costs of coverage excessive even for small groups of standard health risks.

In the early 1990s, over 40 states passed legislation designed to limit a number of exclusionary practices by insurers in the small group market. Included in such legislation were measures to guarantee the issue and renewal of health insurance policies to small firms, to regulate premiums and their rate of increase, to constrain the time limits associated with preexisting condition exclusions, and to ensure the continuity of coverage for small firm employees and their families. Although such measures were intended to assure access to coverage in the small group market and to control its price, other changes that occurred during this period, such as increased employee premium sharing and stagnant real wages, may have constrained the ability of some workers to take advantage of coverage made available through small group reform.

In this paper, we assess the degree to which small group market reform has affected employee health insurance coverage. We examine the effect of reform on three key aspects of insurance coverage: (1) the likelihood that a worker is offered coverage; (2) the likelihood that a worker is covered by employment-based insurance; and (3) the probability that a worker is a policyholder of such coverage. Since the expected impacts of reform are likely to be different depending on the health risk of individuals, we focus on differential effects of reform by health status. Our analysis, which uses both differences-in-differences (DD) and differences-in-differences-in-differences (DDD) estimators, exploits the variation in reform provisions across states, over time, and by firm size (in the DDD specification) to isolate the impact of reform.

2. The market for small group health insurance and the role of market reform

Provision of health insurance through the workplace is typically based upon an evaluation of the health care experience and risk profile of well-defined employment-related groups. When such groups are large, the risk of unanticipated and expensive medical care events can be spread over a sizeable, and typically stable, risk pool. As a result, per worker administrative costs are low, and the availability of coverage and associated experience-rated premiums generally display little year-to-year variation. Thus, employees of large firms can usually be assured of obtaining offers of coverage. Moreover, they generally face premiums that reflect a reliable and fair actuarial assessment of their group's health care experience and encounter little difficulty in renewing coverage in subsequent periods.

In contrast, employees of small firms face far greater uncertainty regarding health benefits. Small groups may be unable to establish a sufficiently large and stable risk pool to absorb the costs of expensive, low probability medical events and are less able to take advantage of scale economies in the administration of health insurance benefits. These considerations, as well as concerns regarding adverse risk selection (i.e., when small firms seek coverage they do so because an employee or dependent is in ill health), have led insurers to offer coverage to small employers at premiums that exceed those charged to large firm employees with comparable risk profiles.

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