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# The effect of premiums on the decision to participate in health insurance and other fringe benefits offered by the employer: evidence from a real-world experiment

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## Abstract

In this paper, we investigate the effect of the out-of-pocket premium on the decision to enroll in employer health insurance and other benefits plans including dental insurance, vision care, long-term care insurance, and wellness benefits. Previous estimates of the effects of premium on takeup of health insurance could be biased toward zero due to a correlation between premium and unobservable demand or plan quality. We solve this problem using data representing hypothetical choices by employees under three different price regimes, providing price variation uncorrelated with either individual-specific or plan-specific unobservables. We find that workers are insensitive to price in health insurance takeup. Workers show much greater price sensitivity to decisions about dental insurance, vision plans, long-term care insurance, and wellness benefits. We conclude that premium subsidies are unlikely to have a substantial impact on increasing insurance rates of workers already offered employer insurance.

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## 1. Introduction

More than 38 million Americans had no health insurance in 2000 according to the U.S. Census Bureau. Concern for the uninsured stems from many sources, ranging from negative health consequences of being uninsured, to the financial impact of lack of insurance, to the strain that uncompensated care due to lack of insurance puts on already burdened publicly-funded health facilities. Despite a growing awareness of the problem over the preceding decade and attention to the matter by policymakers all the way up to the White House, the number of uninsured Americans increased substantially between 1987 and 2000 (U.S. Census Bureau, 2001).

In the U.S. most private insurance is employment-based. In 1996, 75% of workers were offered insurance through the workplace but 20% of those eligible for insurance from their employer did not take up that coverage (Cooper and Schone, 1997). Of workers who were uninsured in recent years, approximately 60% worked at firms that did not offer insurance, 20% were not eligible for offered employer insurance, and 20% did not take up the health insurance offered by the employer (2000 data from Cutler, 2002; 1999 data from Garrett et al., 2001). Efforts to increase the number of workers covered by employer-based insurance can therefore be directed in any or all of three ways: policies to increase the number of employers offering insurance, policies to encourage liberalized eligibility at firms already offering insurance, or policies designed to increase the number of eligible workers who take up the coverage offered by their employers.

We focus here on the decision to enroll in offered employer health insurance. Not only do a substantial number of workers offered employer insurance decline the coverage, that number has been increasing in recent years (Cooper and Schone, 1997; Farber and Levy, 2000; Cutler, 2002). The most common policy prescription for increasing takeup when insurance is offered is a premium subsidy. (see, for example, Glied, 2001). The question is whether or not this will work. How much would premium subsidies increase participation in employer health plans that are already being offered? And, more specifically, how large would such subsidies have to be to have a real impact on the number of workers who have no health insurance?

The previous work most directly addressing these questions has found very small effects of premiums on takeup. These estimates imply that even subsidies as large as 50% would not induce most workers currently not enrolling in offered insurance to do so (Blumberg et al., 2002; Cutler, 2002; Chernenov et al., 1997). These studies are unable, however, to control completely for the correlation between premium and unobservable demand for insurance or plan quality that could bias the estimates.

We estimate the price sensitivity of workers' takeup decisions using a unique dataset in which the variation in workers' out-of-pocket premiums is exogenous, allowing us to estimate price effects unbiased by a correlation of premium and unobservable demand or unobservable plan quality. The data represent hypothetical choices of whether or not to participate in fringe benefits such as employer-sponsored health insurance by employees at a single firm. The data were collected in an effort to revise the firm's benefits offerings to reflect more closely employee preferences. The same employees made choices from the same (quality-constant) menu of alternatives under three different price regimes, providing price variation uncorrelated with either individual-specific or plan-specific unobservables

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