



Effects of immigration on the health insurance status of natives

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ABSTRACT

The objective of the paper is to estimate the effects of immigration on natives' probability of having private coverage and being uninsured. To examine whether immigrants affected employers' decisions to offer health benefits the study estimates immigration effects on natives' probability of being offered, eligible for, and a policy-holder of health insurance. Although in many cases the effects are statistically significant, most effects are very small. The increase in immigrant labor supply from 1995 to 2005 increases natives' uninsurance rates by about 0.7 percentage points and reduces the natives' probability of being offered and a holder of coverage by 0.8 and 1.9 percentage points, respectively. Immigrants' weaker preferences for coverage relative to natives' may be the key factor in this result.

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1. Introduction

In the last decade, the U.S. economy witnessed a large change in the composition of its labor force. In 1994, foreign-born workers accounted for about 10 percent of the U.S. labor force. By 2006, this number had grown to 15 percent and immigrants had accounted for about 50 percent of the growth in the total U.S. labor force since 1994. The large increase in the immigrant labor force has been a major contributor to changes in the insurance status of the U.S. population. The portion of non-elderly Americans who were uninsured grew from 16 percent in 1994 to almost 18 percent in 2003, with immigrants accounting for 86 percent of the growth between 1998 and 2003.¹

Not surprisingly, immigrants are more than twice as likely to be uninsured than natives (32 percent vs. 13 percent) and immigrant non-citizens are three times more likely to have a job that does not offer health coverage than natives (43 percent vs. 14 percent).² Indeed, the literature finds that the absence of jobs that offers health coverage is the main reason for high uninsurance rates among immigrants (Buchmuller et al., 2006). A growing body of anecdotal evidence suggests that some employ-

ers consciously use a strategy of not offering health benefits and engaging in contractual arrangements that enable firms to limit health and disability benefits to the work forces that are predominantly foreign born (Greenhouse, 2006; Lee, 1999). Clearly, the employers' decision to not offer health benefits could affect native workers competing for jobs with foreign born population.

Understanding the effects of immigration on natives' insurance benefits is important for policy makers, natives, and immigrant workers. Private coverage remains the key source of financing for health care, accounting for about 30 percent of total health expenditures in the U.S. (Hartman et al., 2009). A significant effect of immigrants on natives' insurance status, therefore, would affect native's access to care, health status, and productivity.

In this study we expand the existing literature by examining the effects of immigration on natives' likelihood of having private health coverage and being uninsured. We then investigate one of the mechanisms through which immigration could affect native's insurance status. Natives' employment status, firms' decision to offer insurance, and firms' decisions regarding the generosity of health benefits may all be affected by a change in immigrant labor supply. Until now, the literature has entirely focused on documenting the effects of immigration on employment and wages but has not addressed issues related to insurance or other fringe benefits.³

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¹ This information is drawn from Smith (2006), Employee Benefit Research Institute (EBRI, 2005) and author's calculations from Current Population Survey.

² Results on the uninsured are obtained from Buchmuller et al. (2006). Statistics on offer rates are author's calculations from CPS (2005).

³ Employed or unemployed natives can also purchase individual insurance that is not employer-sponsored. However, only about six percent of working age population (age 18–65) is covered by individual coverage and half of them are self-employed

To fill this gap, the study thoroughly examines the relationship between the immigrant labor supply and natives' likelihood of being offered, eligible for, and a policy-holder of private health insurance.

An offer of health insurance is a measure of firm behavior and is a prerequisite for having employer-based insurance. In firms that offer insurance, the eligibility of individual workers for the offered insurance may depend upon a variety of factors such as length of employment, full time vs. part time, etc. Finally, to become a policy-holder of health insurance, an eligible employee must accept the offer of coverage. Studies have consistently documented that offer rates have remained the same or even increased while take up rates have declined (Cutler, 2002; Cooper and Schone, 1997). One explanation for this finding is that the employer's cost of providing health coverage increased and as a result employers offered less generous coverage. Alternatively, employers may strategically offer parsimonious health benefits in order to reduce take up and, subsequently, to reduce cost of providing insurance to employees. Dranove et al. (2000) found evidence of such strategic behavior in the context of firms encouraging employees to take coverage from their spouses. Employers may also use this strategy if a large percentage of their employees has weak preferences for coverage. (As will be shown later, immigrants have weaker preference for coverage than natives.)

This study uses methods developed in Borjas's (2003) to identify the effects of immigration on the insurance status of natives in the years 1995–2005. We also examine the effects of immigration on natives' wages and employment over the same period. This allows us to rigorously compare the sensitivity of wage results to the time period studied (e.g., our narrower recent period vs. the broader period, 1960–2000 studied by Borjas (2003)). It also provides context for our insurance results by allowing us to compare the relative effects of immigrants on natives' wages and on natives health benefits. Next, we examine potential theoretical pathways through which immigrants could have affected natives' insurance status. We compare preferences for coverage between immigrants and natives and provide descriptive evidence on competition between natives and immigrants by examining occupations' propensities to offer health insurance.

We use data from the February and March Supplements of the Current Population Survey (CPS), for the years 1995, 1997, 1999, 2001, and 2005 and for selected years of Medical Expenditures Panel Survey (MEPS).⁴ The results indicate that immigrants reduced males' private insurance rates and increased their uninsurance rates. The magnitude of these offsetting effects was almost identical in absolute value. The study finds evidence that natives' probability of being offered and, especially, holding health insurance has also declined as result of the increase in immigrant labor supply.

The rest of the paper is organized as follows. In the next section we describe the relevant literature and provide more details on the contributions of this study. Section 3 describes the data while Section 4 describes empirical specifications. Section 5 provides results while Section 6 discusses channels through which immigrants may affect natives' insurance status. The last section concludes the paper.

2. Literature

The dynamics of immigration have stimulated economists to investigate the implications of immigration inflows for the native born population. Most studies have examined the effects of immigration on natives' wages and employment.⁵ Although, theoretically, the increase in immigrant labor supply should decrease natives' wages, many empirical studies have found small and often no effects.⁶ The exception is Borjas' (2003) influential study that found that a 10 percent increase in immigrant labor supply reduces natives' wages by 3–4 percent. Fairlie and Meyer (2003) estimate the effects of immigration on native self-employment, finding that immigrants reduce natives' probability of being self-employed but do not affect their earnings. Cortes's (2006) study finds that immigrants significantly decreased the prices of immigrant intensive services by about 2.1 percent and non-traded goods by about 0.7 percent. Additionally, several papers estimate the total benefits of immigration. Borjas (1995) suggests benefits in the range of \$7 billion in 1994.

Most of the literature has used geographic variation in immigration (usually on the MSA level) to investigate the relationship between immigrant labor supply and natives' wages and employment. The problem with this approach is that immigrants are likely to migrate to areas that pay higher wages and natives can respond to the shift in such labor supply by migrating elsewhere. The endogenous nature of this problem produced many conflicting results, even in the same studies. Borjas (2003) and Borjas et al. (2006) employed a national identification approach which circumvents some endogeneity issues and appears to have reconciled many of the previous results. The central assumption in this approach is that it is possible to accurately approximate the skills of workers by aggregating individual level data into education–experience cells over time periods. As we document below, immigrant labor supply and our outcome measures both exhibit good variation across these cells. Furthermore, since it is difficult to change levels of education and experience in a short period of time, short run response of native labor to shocks in immigrant labor supply are less of a problem for this identification strategy. This greatly reduces the simultaneity problems inherent in the area level studies and appears to be a good strategy to identify immigrant labor supply's short run affect on natives' outcomes.

In this study we estimate the aggregate effect of immigration on measures of natives' health insurance coverage. We also disaggregate immigrants into citizens and non-citizens to identify the effect of each on natives' coverage. Surprisingly, the previous immigration literature has not examined the possibility that citizen and non-citizen immigrants may have differential effects on the labor market outcomes of natives. Non-citizen immigrants have lived in the U.S. for a shorter time period than citizens and up to 50 percent of non-citizens are likely to be undocumented (Hoffer et al., 2006).⁷ Additionally, employment in many firms requires citizenship. As a result, non-citizen immigrants are a very different cohort of workers who are less likely than citizen immigrants to interact with natives and so their effects on natives' insurance measures may also be different.

(Ziller et al., 2004). For this reason, the association between immigrant labor supply and natives' purchase of individual coverage is unlikely.

⁴ To test for immigrants' preferences for coverage we used MEPS, years 2003–2005. To incorporate health expenditures in to the model, we used MEPS, years 1996, 1997, 1999, 2001, and 2005. To create immigrant share variable the study captures years 1994 through 2006, as will be explained in the data section.

⁵ See for instance Altonji and Card (1989), LaLonde and Topel (1991), Pischke and Velling (1997), Friedberg (2001), Borjas (1987, 2003), and Borjas et al. (2006).

⁶ See Borjas (1999) for a literature review.

⁷ Author's calculations using CPS data indicate that non-citizen immigrants constitute about 90 percent of immigrants who lived in the U.S. for less than 5 years.

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