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Does the availability of parental health insurance affect the college enrollment decision of young Americans?[☆]

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ABSTRACT

The present study examines whether the college enrollment decision of young individuals (student full-time, student part-time, and non-student) depends on health insurance coverage via a parent's family health plan. Our findings indicate that the availability of parental health insurance can have significant effects on the probability that a young individual enrolls as a full-time student. A young individual who has access to health insurance via a parent can be up to 22% more likely to enroll as a full-time student than an individual without parental health insurance. After controlling for unobserved heterogeneity this probability drops to 5.5% but is still highly significant. We also find that the marginal effect of the availability of parental health insurance has a larger effect on older students between ages 21 and 23. We provide a brief discussion about possible implications of the Affordable Care Act of 2010 in this context.

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1. Introduction

In 2009, 50.7 million (16.7%) Americans did not have health insurance (DeNavas-Walt, Proctor, & Smith, 2010). Of those uninsured the largest groups are young adults ages 18–24 (30.4%), Hispanics (32.4%), and households with annual incomes below \$25,000 (26.6%). A striking pattern found in the data is that health insurance coverage rates of young adults drop significantly at the age of 19 except for those who attend college full-time (Kriss, Collins, Mahato, Gould, & Schoen, 2008). According to

the Government Accountability Office (2008), 80% of college students have health insurance coverage. Those most likely to be uninsured include minority students, part-time students, and students from low-income families. Being uninsured has also been linked to restricted access to health care, delays in needed health care, and less frequent contact with health care providers (compare Callahan & Cooper, 2005; Callahan, Hickson, & Cooper, 2006).

To alleviate the situation of the young, various reform proposals to help cover young adults have been proposed. Some of these ideas included the extension of Medicaid, the extension of the age limit for dependent children from 19 to 22 and older in private insurance contracts, and some type of university provided low cost health insurance to cover the college student population (compare Holahan & Kenney, 2008; Kriss et al., 2008). Recently policy makers have reacted and included a provision that allows young adults to stay on their parents' health insurance plans until

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they turn 26 in the Patient Protection and Affordable Care Act that passed in spring of 2010. However, in evaluating these reforms and reform proposals it is important to understand the incentives that are present.

In this project we therefore investigate if the availability of parental health insurance has an effect on the college enrollment decision of the young. In particular we are interested in whether or not students are more likely to enroll as full-time students when their parents have health insurance that covers them. At the time of data collection, many private group insurances allowed insuring a dependent child up to age 24 if the child is a full-time student, which explains the higher coverage rates among the college population compared to members of the same age cohort (Holahan & Kenney, 2008).

Starting with Phelps (1973) and later Manning et al. (1987), demand estimation for health care provides strong evidence that people tend to be responsive to the price of health care and by extension to the price of health insurance. Because employer-provided health insurance is not taxed, price responsiveness is generally determined by examining the effects of taxes on coverage. Studies that isolate variations of tax rates across time (Long & Scott, 1982; Vroman & Anderson, 1984) and across tax brackets (Holmer, 1984; Sloan & Adamache, 1986; Woodbury, 1983) suggest that people are responsive to the price of health insurance. Other studies have found that unique changes in the tax code can increase health insurance coverage among targeted populations (Baughman, 2005; Gruber & Poterba, 1994). Taken together, these results identify a downward sloping health insurance demand curve and suggest that workers are rational in their choices regarding the amount of health insurance coverage to purchase.

Recently, there has been a push beyond estimating price elasticity of demand for health insurance towards examining the effect of the presence of health insurance on labor supply (Gruber & Madrian, 2002). Not surprisingly, workers respond in predictable ways when public policy is crafted to provide health insurance under certain conditions for certain populations. Specifically, studies have focused on the effect of the presence of health insurance on retirement decisions. In the US and in Taiwan, access to post-retirement health insurance leads to earlier retirement as documented in Gruber and Madrian (1995), Madrian (1994), Rogowski and Karoly (2000), and Hsieh (2008). Labor supply decisions later in life thus appear to be influenced by the availability of health insurance.

But these effects of health insurance on labor supply do not appear to be restricted to end-of-career labor decisions. Similar to the retirement decision, schooling decisions for young adults may also be influenced by the availability of health insurance. First, the presence of parental health insurance has been shown to improve educational outcomes in Levine and Schanzenbach (2009). This suggests that health insurance leading to better health may make college enrollment possible for some marginal students. Second, health insurance for young people often depends on parental income and

employment (Collins, Schoen, Kriss, Doty, & Mahato, 2006; GAO, 2008; Kriss et al., 2008), but for college students the presence of health insurance can be completely dependent on whether or not the student is enrolled in school full-time. Collins et al. (2006) provide ample descriptive statistics highlighting this situation. Additionally, because financial aid and fellowships have already been found to impact the college enrollment and retention decisions of young adults (see Cornwell, Mustard, & Sridhar, 2006; Linsenmeier, Rosen, & Rouse, 2006; Singell, 2004; Van der Klaauw, 2002), the availability of parental health insurance coverage may serve as a tuition subsidy for a young adult desiring to be a full time student. At this point we are not aware of any analysis that examines the possibly causal relationship between parental health insurance and the college enrollment decision of young adults.

Because full-time students are much more likely to complete their college degree than part-time students (Chen, 2007), parental health insurance provides full-time students with a significant tax break and with a better chance to complete their college degree and earn more income over their lifetime. Thus, it is important to model this decision process to better understand the extent to which the presence of parental health insurance impacts college enrollment decisions and future income streams.

Using data from a national database, the Survey of Income and Program Participation (SIPP) in years 2001, 2004 and 2008, our results suggest that a student who is insured via her parent's health insurance plan is 5.5% more likely to enroll as a full-time student than a student without parental coverage. According to the analysis, if considering the decision of going to college at all, individuals with parental health insurance are 22.0% more likely to enroll in college as a full-time student. At the same time, a student with parental health insurance is 2.6% less likely to enroll as a part-time student. Note that while careful attention was given to trying to eliminate reverse causality in our model, the nature of the setting we model here suggests it is still potentially present. Even so, we can carefully conclude that it is possible that the introduction of the Affordable Care Act of 2010 could introduce new incentives for young adults with, possibly, unintended consequences.

The paper is structured as follows. The next section will introduce the empirical model. Section 3 describes the survey data. Section 4 presents the results. We conclude in Section 5. Appendix A contains all tables and figures.

2. The empirical model

The underlying decision process of an individual can be described as a two stage decision process as in Fig. 1. In the first stage the individual decides whether to become a student or whether to start working. In the second stage, the individual decides whether to enroll as a full-time student or as a part-time student. We use three separate approaches to estimate how the availability of parental health insurance will affect the

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