



The effect of health insurance on workers' compensation filing: Evidence from the affordable care act's age-based threshold for dependent coverage[☆]



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ABSTRACT

This paper identifies the effect of health insurance on workers' compensation (WC) filing for young adults by implementing a regression discontinuity design using WC medical claims data from Texas. The results suggest health insurance factors into the decision to have WC pay for discretionary care. The implied instrumental variables estimates suggest a ten-percentage-point decrease in health insurance coverage increases WC bills by 15.3 percent. Despite the large impact of health insurance on the number of WC bills, the additional cost to WC at age 26 appears to be small as most of the increase comes from small bills.

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Workers' compensation (WC) is a state-regulated insurance program that provides partial wage replacement and pays medical bills for employees injured on the job. Workers benefit from having WC pay for treatment because they have no copays or deductibles for care, but firms have an incentive to decrease WC claims because treating an injury is typically more expensive under WC than health insurance (Baker and Krueger, 1995; Johnson et al., 1996; Leigh and Ward, 1997) and because WC benefits can encourage workers to delay returning to work. Ex-post moral hazard arises with the filing decision because injured workers choose whether or not to file for WC (Butler and Worrall, 1991). By making medical care apart from WC cheaper, health insurance has the potential to influence the worker's filing decision. Studying the effect of health insurance

on WC claiming is difficult because health insurance is not randomly assigned to workers or to firms, which means examining the correlation between health insurance and WC filing is not informative about the effect of health insurance on WC filing.

In this paper, I study the health insurance cutoff created by the ACA's expansion of dependent coverage until the age of 26 to estimate the causal effect of health insurance on WC filing for young adults. Under the ACA, firms that offer dependent coverage have to allow employees' children to stay on their health insurance until the age of 26. Young adults on either side of their twenty-sixth birthdays are very similar except that people just shy of their twenty-sixth birthdays can be on their parents' health insurance while people who just turned 26 cannot. I use Texas WC administrative data and this abrupt decrease in private health insurance coverage to implement a regression discontinuity design by comparing people on either side of their twenty-sixth birthdays. As long as other factors that affect WC filing do not change abruptly at age 26, this strategy provides estimates of the causal effect of health insurance coverage on WC filing for young adults.

In principle, there should be no relationship between having health insurance and filing for WC. If an injury occurs at work,

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WC should pay for medical treatment. If an injury occurs outside of work, health insurance or the individual should pay for treatment. However, as [Card and McCall \(1996\)](#) explain, workers without health insurance have an incentive to claim their medical issues are work-related even if they are not so that WC will pay for care. If the injury occurs at work, health insurance may deter workers from filing for WC if they feel there is a cost to filing a WC claim. As [Lakdawalla et al. \(2007\)](#) explain, filing a WC claim is costly if employers dissuade people from filing WC because they fear WC claims will increase their premiums. Injured workers also might not want to deal with the paperwork from WC or fear that they will be called on to prove that their injury was caused by work. Some workers may feel there is a stigma associated with filing for WC. Similarly, providers may encourage workers to have health insurance pay for their care since billing WC may have additional administrative burdens ([Leigh and Ward, 1997](#)). As manipulating the payment source is more difficult for visible injuries and emergencies, health insurance would be most likely to affect medical care that can easily be delayed.

[Biddle and Roberts \(2003\)](#) study benefit claiming among eligible workers by surveying Michigan workers identified by physicians as likely having work-related injuries. They find that 70 percent of injured workers did not file for WC and that 36 percent of the non-reporting injured workers cited having health insurance as a reason they did not file. [Lakdawalla et al. \(2007\)](#) use data from the 1979 National Longitudinal Survey of Youth and find that workers at firms that offer health insurance are 16 percentage points more likely to file for WC than workers at firms that do not offer health insurance. [Lakdawalla et al.](#) hypothesize that large firms may be more likely to provide workers with information about WC and to encourage them to use it. [Heaton \(2012\)](#) studies the impact of the Massachusetts health insurance reform on WC and finds health care reform results in WC paying for fewer emergency room medical bills. [Card and McCall \(1996\)](#) and [Campolieti and Hyatt \(2005\)](#) both study how health insurance factors into the increased number of Monday claims for easy-to-conceal injuries. They both find no difference in Monday claiming by health insurance status, which suggests the Monday effect is not driven by people claiming non-work injuries from the weekend are work-related so that WC would pay the medical costs.

In this paper, I use the National Health Interview Survey (NHIS) and the Survey of Income and Program Participation (SIPP) to study how health insurance and employment change at age 26. The estimates for the fall in insurance coverage for working adults range from 4.4 to 5.3 percentage points. I find no evidence of abrupt employment increases at age 26. To study how health insurance affects WC filing, I use Texas WC administrative data that contain information on all medical bills associated with each WC claim. I find that total WC medical bills increase immediately after young adults turn 26 as do claims for injuries that plausibly do not require immediate medical care. The mean number of bills per claim trends smoothly at age 26, which suggests that claims are not becoming more severe at age 26. Instead, the increase in bills appears to come from claims that began before workers turned 26. These results suggest discretionary care is most responsive to health insurance. The implied instrumental variables (IV) estimates suggest a ten-percentage-point decrease in health insurance coverage results in an increase in WC bills of 15.3 percent. Despite the large impact of health insurance on WC bills, the additional costs to WC at age 26 are small because the increase in total bills comes from small bills. These results imply that the expansion of health insurance from the ACA will shift many medical bills to being paid for by health insurance instead of WC but that the size of the cost shifting will be small.

The rest of the paper proceeds as follows. The next section discusses background on WC and dependent coverage. Section 2

considers health insurance and labor force changes occurring at age 26. Section 3 describes the Texas WC data and considers how claims, total care received, the intensity of claims, and the cost of care change at age 26. Section 4 provides a discussion of the results and concludes.

1. Background

1.1. Workers' compensation

WC insurance pays medical bills and replaces lost wages for employees who are injured during the course of employment. In exchange for being able to receive WC benefits, workers cannot sue their employers for negligence. Thus, WC insurance also protects firms from lawsuits by injured employees. WC insurance is regulated at the state level, and benefits to injured workers are set by the state. Although some states restrict injured workers' choice of physician, a majority of states—including Texas—allow injured workers to choose their own medical providers. While WC pays for medical care immediately after an injury occurs, injured workers become eligible for income replacement benefits after missing 3–7 days of work, dependent on the state. In Texas, injured workers become eligible for income replacement benefits after missing at least seven days of work. The injured workers' weekly cash benefits are a function of their weekly earnings subject to a maximum that varies across states.¹ For thorough overviews of WC, refer to [Sengupta et al. \(2013\)](#) and [Utterback et al. \(2014\)](#).

In their summary of WC spending, [Sengupta et al. \(2013\)](#) note that \$30 billion was paid to cover injured workers' medical expenses through WC in 2011. They also note that the majority of WC cases—around 76 percent—are medical-only cases and do not involve payments for missed work. Although \$30 billion is small compared to 2011's total medical spending of \$2.7 trillion, the amount makes up a large percentage of WC costs. According to [Sengupta et al.](#), the share of medical benefits as a percentage of the total amount paid to workers has risen from around 30 percent in the early 1990s to approximately 50 percent in 2011. As many people with work-related injuries do not file for WC, the medical cost of work injuries is higher than total WC medical costs. [Leigh \(2011\)](#) estimates that the true medical cost of work-related injuries in 2007 was \$60 billion and that the total cost of work-related injuries in 2007 was \$250 billion, which was more than the cost of cancer, coronary heart disease, and stroke.

Texas differs from all states other than Oklahoma in that Texas employers are not required to purchase WC insurance. Despite this, 81 percent of Texas workers work for firms with WC insurance as of 2012 ([Texas Department of Insurance \[TDI\], 2012](#)). Relatively few studies have examined firms' decisions to opt out of WC in Texas ([Morantz, 2010](#)). Two exceptions are [Butler \(1996\)](#) and [Morantz \(2010\)](#). [Butler](#) studies differences in injury rates between subscribing and non-subscribing firms and finds that both types of firms have similar fatality rates. He finds that non-subscribing firms have slightly higher nonfatal injury rates, likely because non-subscribers tend to offer occupational injury plans that provide first-day wage-replacement benefits. [Butler](#) concludes that safety levels are likely similar between subscribing and non-subscribing firms. [Morantz](#) surveys large firms who opt out of WC. She finds that most opt out to try to save money and that nearly all non-subscribing firms with more than 500 employees offer health insurance to employees,

¹ Previous research has studied how claiming behavior responds to a variety of incentives, such as benefit levels and anti-fraud measures. For examples, refer to [Boden and Ruser \(2003\)](#), [Bronchetti and McInerney \(2012\)](#), [Guo and Burton \(2010\)](#), [Hansen \(2014\)](#), [Meyer et al. \(1995\)](#), and [Neuhausser and Raphael \(2004\)](#).

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