



# The effect of state dependent mandate laws on the labor supply decisions of young adults<sup>☆</sup>



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## ABSTRACT

Prior to the Affordable Care Act, the majority of states in the U.S. had already implemented state laws that extended the age that young adults could enroll as dependents on their parent's employer-based health insurance plans. Because of the fundamental link between health insurance and employment in the U.S., such policies may effect the labor supply decisions of young adults. Although the interaction between labor supply and health insurance has been extensively studied for other subpopulations, little is known about the role of health insurance in the labor supply decisions of young adults. I use the variation from the implementation and changes in state policies that expanded dependent health insurance coverage to examine how young adults adjusted their labor supply when they were able to be covered as a dependent on their parent's plan. I find that these state mandates led to a decrease in labor supply on the intensive margin.

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## 1. Introduction

The Affordable Care Act (ACA) drastically reshaped the health insurance landscape for young adults by allowing individuals under the age of 26 to remain on their parent's employer-based health insurance plans. While many provisions of the ACA have been debated, the law to expand dependent coverage has received favorable reviews from both sides of the political aisle (H.R. 3970, 2009; H.R. 4038, 2009) as well as the general public. Early estimates of the efficacy of the law show large increases in the health insurance coverage rate of affected young adults (Antwi et al., 2013; Cantor et al., 2012b; Sommers and Kronick, 2012; Sommers et al., 2012). However, policies to expand health insurance coverage to dependent children through their parent's employer based health

insurance plans may have unintended consequences in the labor supply decisions of young adults. Although there has been considerable work emphasizing the role of health insurance in the labor supply decisions of various subpopulations, such as spouses and retirees, the interaction between health insurance and the labor supply decisions of young adults has been mostly overlooked, until recently.

In addition to studying the health insurance effects of the ACA, Antwi et al. (2013) find that the ACA also led to a decrease in the likelihood of full-time employment and hours worked. These estimates are the first set of empirical evidence that suggest that young adults may decrease their labor supply when they have access to an outside source of health insurance. In addition to being the first set of evidence, the results of Antwi et al. (2013) are the only set of evidence on the topic. To establish this important finding on the implications of policies that expand dependent health insurance coverage, it is exigent that other studies using alternative identification strategies find similar effects. However, recent work of Slusky (2013) finds that the health insurance and labor market findings of Antwi et al. (2013) are not robust to falsification tests. Slusky (2013) argues that the identification strategy of Antwi et al. (2013) does not satisfy the parallel trends of assumption of the

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difference-in-difference framework (Abadie, 2005; Bertrand et al., 2004). In this paper I use a much richer source of variation to estimate the effect of dependent coverage mandates on the labor supply of young adults. Specifically, I exploit changes in state-level dependent coverage laws that were implemented prior to the ACA's dependent mandate. I am able to invoke much weaker identification assumptions than Antwi et al. (2013) that enable me to avoid the identification critique of Slusky (2013). Similar to the general findings of Antwi et al. (2013), I find evidence that these state policies decreased the labor supply decisions of young adults on the intensive margin through decreases in hours worked and full-time employment.

A recent article (Dillender, 2014) also uses variation in these state dependent mandate laws to analyze the implications of extending dependent health insurance coverage to young adults on the labor market and higher education. Dillender (2014) finds that these laws are associated with higher levels of education and wages for individuals who were 18 or younger when a dependent mandate law was implemented. A key difference between this paper and the paper of Dillender (2014) is the identification strategy and thus the underlying mechanism. In Dillender (2014), individuals are only considered to be treated if they were 18 or younger at the time of the law change. Because Dillender (2014) studies the wage and education levels of individuals 26 and older, he is only able to use identifying variation from a few of the early adopting states (see Table 1 for a list of law changes). Therefore, Dillender (2014) findings provide insight on some of the long-run benefits of these policies: individuals may invest more in human capital at earlier ages and sort into better paying jobs later in their 20s. However, the identification strategy and estimation in this paper answers a more direct question of how young adults immediately adjust their labor supply when they exogenously have an alternative source of insurance coverage.

The young adult population is important to policy makers because not only is it the largest uninsured group in the U.S., their decisions in regards to human capital accumulation through on-the-job employment plays an important role in the continuing development of the American economy. A young adult who is able to acquire health insurance coverage through a parent's plan may have no need of his or her own employer-sponsored insurance. Depending on the value of health insurance to a young adult, expanding dependent coverage may cause an affected individual to change employment, reduce hours worked, or entirely exit the labor force.

In the mid 1990s, states began implementing dependent mandates that extended the age threshold that was used to determine if an adult child was eligible to be on a parent's health insurance plan. By 2010, over half the states had enacted expanded dependent coverage mandates. Insurance companies in states with no expanded coverage law generally allowed children under the age of 19 to qualify as dependents on a parent's policy. However, if a child was a full-time student and not married then they could typically stay on their parent's policy until the age of 23.

To estimate the effect of state laws that expanded dependent coverage, I exploit the variation of policy implementation across time, across state, and across age groups within a state. These three margins of variation allow me to use a difference-in-difference-in-difference (DDD) framework. Specifically, I compare the outcomes of individuals who were eligible in states who have implemented a policy to expand coverage to the outcomes of individuals within the same state who were not eligible for the policy. In addition, I control for differences between young adults in non-policy states who would either be classified as eligible or ineligible. I find evidence that young adults adjust their labor supply on the intensive margin in response to having access to a parent's health insurance

policy. In the main set of analyses, I only use age to assign eligibility. However, states often set other criteria such as marital status or student status to determine eligibility status. Not using the full set of eligibility criteria allows me to avoid the potential endogeneity problem of individuals selecting into treatment. Unfortunately, this empirical strategy leads to attenuation bias in the point estimates of interest. By including additional eligibility criteria (marital status, student status, and own children) in the assignment of eligibility I find much larger point estimates. However, these results are likely being driven by selection into treatment in addition to the effect from access to dependent coverage.

The estimated results are robust along many important dimensions. First, the main set of analyses find similar but attenuated results as the set of analyses that uses the full set of eligibility criteria. Differences between the two would raise suspicion of spurious effects because the mechanism is working in the same direction across the two sets of analyses. Second, the mechanism is consistent across gender for both the effect on health insurance and the effect on labor supply decisions. Specifically, the results suggest that state policies that expand dependent health insurance coverage caused females to have a higher take-up rate of health insurance than males. This finding is consistent with females having a higher demand for health insurance. Differences in demand can likely be attributed to greater health care costs of females than males aged 19–29 and to greater risk aversion of females than males. Consistent with the differential in health insurance take-up across gender, the analyses of the labor supply response find that females were more likely to adjust their labor supply than were males. Third, the results are robust when the Great Recession years are omitted from the analysis, suggesting that contemporaneous shocks from the Great Recession are not driving the results. Lastly, through a falsification test that randomly assigns the years that states implement an expanded dependent coverage law, I find no effect on the labor supply outcomes of young adults.

This paper contributes to the literature in health economics and labor economics in a number of ways. It shows that access to health insurance plays an important role in the labor supply decisions of young adults. It does this using much weaker identification assumptions than the previous paper by Antwi et al. (2013). In addition, the results in this paper are informative in understanding potential effects of the ACA and speaks directly to the differences found in previous work (Antwi et al., 2013; Slusky, 2013). In terms of dependent mandate laws, the results in this paper add to the work of Monheit et al. (2011) and Levine et al. (2011) who studied the effects of state-level dependent mandates on health insurance coverage by both analyzing a longer time horizon of state policies than the two previous papers and by studying how the state mandates had differential effects across gender. Finally, in contrast to previous work that has shown the potential benefits from dependent mandate laws (Levine et al., 2011; Antwi et al., 2013; Sommers et al., 2012; Dillender, 2014), this paper highlights some of the negative consequences that also accompany such laws.

## 2. Dependent health insurance and state laws

In 2008, young adults between the ages of 19 and 29 made up 17 percent of the population but accounted for 30 percent of the 46 million uninsured individuals in the U.S. (Nicholson et al., 2009). Although the health insurance rate is high for children, it drops significantly after age 18 because individuals who receive health insurance through public programs such as SCHIP are excluded from the programs once they turn 19 years of age. The sharp decline in health insurance coverage at age 19 has been well documented

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