

Insurance and Employment

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Who Pays? 1

- ▶ Wage is determined by intersection of LD and LS
- ▶ Health insurance paid by an employer shifts back the LD curve by the per unit cost of the benefit (z)
- ▶ If workers value the benefit exactly z , then the LS curve shifts out by z
→ wage falls by z , employment stays the same

Who Pays?

Tax subsidy

Employer mandates

Impacts of Tie

Uninsured

Who Pays? graph 1

Who Pays? 2

- ▶ If workers value the benefit more than z (group plan is better), then LS shifts out by more than z
→ wage falls by more than z , employment increases
- ▶ Workers pay for insurance with lower wages!

Who Pays? graph 2

Tax subsidy

- ▶ Insurance premiums paid directly by worker are exempt from income tax, and from Social Security and Medicare payroll taxes
- ▶ Insurance premiums paid by employer are also exempt from payroll taxes
- ▶ So, this implies that the employer pays z for health insurance and the worker values it at $z+x$

Employer mandates

- ▶ Very similar to tax subsidy – just regulation instead of incentive
- ▶ LD shifts back, LS shifts out
- ▶ Wage falls, employment stays same or increases

What if the wage falls below the minimum wage?

→ those who keep job are really better off ($w_{min} + z + x > w^*$),
but some get laid off

Impacts of Tie between Employment and Insurance

Pros:

- ▶ Employers negotiate lower group rates for insurance than individuals can get
- ▶ Reduces adverse selection because people choose jobs not health insurance plans, so pools risk among those healthy enough to work

Impacts of Tie between Employment and Insurance

Cons:

- ▶ Reduces the probability of retirement before age 65 when Medicare kicks in
- ▶ Reduces job mobility for fear of losing insurance or lack of coverage for pre-existing condition (bad for productivity, economy)
- ▶ Wages and benefits are sticky downward so, if health care costs are rising faster than inflation, this reduces employment (bad for economy's competitiveness)
- ▶ Tax subsidy for health insurance premiums benefits richest most

Categories of Uninsured

Working and healthy:

- ▶ Would rather have cash
- ▶ Health insurance is a luxury to avoid risk
- ▶ Poorer people take on many more risks that rich people – older cars are more dangerous, no emergency fund of cash, no alarm system
- ▶ Health insurance is like money thrown away if always healthy
- ▶ Related to adverse selection

Categories of Uninsured

Working and not able to get insurance:

- ▶ small businesses
- ▶ beautician example from book (work intermittently, more likely to work when need insurance, young women who have babies, and gay men who get AIDS)

Categories of Uninsured

Those eligible for Medicaid:

- ▶ Really they are insured, if sick go to hospital
- ▶ Costly if they don't enroll, because only get expensive emergency care
- ▶ Cheaper to enroll and give them preventative care