



DO HEALTH INSURANCE BENEFIT MANDATES DISCOURAGE EMPLOYMENT?

States often require health insurance plans to cover certain services and procedures through so-called benefit mandates. While benefit mandates may broaden coverage for some people, they also change labor markets in unintended ways. These changes include employment losses because of increased health insurance costs for employees and employers and shifts in employment opportunities among different kinds of businesses.

A new empirical study for the Mercatus Center at George Mason University shows that while health insurance benefit mandates do not reduce overall employment, they do benefit large firms at the expense of small firms. Large firms can self-insure, which allows them to take advantage of a federal law exempting self-insured companies from state benefit mandates. State legislatures should carefully consider the unintended consequences of passing new health insurance regulations.

To read the study in its entirety and learn more about its authors, economists James Bailey and Douglas Webber, see [“Do Health Insurance Benefit Mandates Discourage Employment?”](#)

BACKGROUND ON BENEFIT MANDATES

The study is the first to look at how benefit mandates distort firm size. Using information from a [recent study conducted for the Mercatus Center](#) on political interest groups, the study takes into account the fact that these groups, especially doctors, lobby for the passage of mandates, and does not assume mandates are passed at random. This approach overcomes empirical problems that may bias estimates of the effect of mandates on employment.

Under the Employment Retirement Income Security Act, firms that self-insure are exempt from state-based benefit mandates; only third-party health insurance providers must comply with state benefit mandate requirements. Larger firms are better positioned to self-insure, which means they can avoid complying with benefit mandates.

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KEY FINDING

Using data from the Blue Cross Blue Shield Association and the Quarterly Census of Employment and Wages, the study finds that while employment itself is not significantly affected by the presence of mandates, there is a shift in employment from smaller firms to larger firms, taking into account the political circumstances of mandate passage. Firms with 50–99 employees are hit the hardest by mandates, while firms with 1,000 or more employees benefit the most.

CONCLUSION

States should be cautious about passing additional health insurance benefit mandates. Health insurance regulations can distort the size of firms, driving employment away from small businesses to larger ones that can self-insure and avoid state-based health care regulation.