

Essays on Information, Choice and Quality in the Employer-Provided Health Insurance Market

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According to the Agency for Health Care Policy and Research, in 1996 nearly 61 percent of the U.S. population had job-related health insurance, with job-related coverage representing more than 89 percent of all private health insurance. The link between employment and health insurance remains strong. Nevertheless, Cooper and Schone (1997) find that while the prevalence of health insurance offers to employees recently has remained roughly constant, fewer workers accept those offers. Farber and Levy (1998) argue that this lower take-up rate is the largest factor contributing to the decline of employer-provided health insurance coverage in the 1990s.

This dissertation sheds light on decreasing coverage by formalizing a role for information in the complex interactions among insurers, employers and employees that characterize the employer-provided health insurance market. It proposes that employees choose insurance under two fundamental types of uncertain information: 1) need for future health care, and 2) quality of health insurance, characterized as its ability to provide needed care and insulate the employee from its financial costs. Furthermore, the dissertation explores the role of employer uncertainty about employee demand characteristics and health insurance quality in its determination of insurance offerings.

The first essay critically assesses the empirical and theoretical literature regarding information, choice and quality in employer-provided health insurance. Attention is paid to the tension between managed competition and adverse selection, particularly regarding recent consumer protection policy initiatives. While managed competition requires purchasers of insurance to be well-informed, adverse selection implies that markets may fail when there is too much asymmetric information.

The second essay develops an expected utility maximization model where employees determine the breakdown of compensation between cash wage and health insurance as well as a possible expenditure on individual-market insurance. The employee's productivity and contribution to the employer's insurance costs form the labor demand constraint. Employee valuation of employer contributions to health insurance are hypothesized to depend on family health need and the ability of insurance to protect the family from future health expenditures.

In the third essay, the equilibrium strategies of a game, where employers have limited knowledge of employee valuation of health insurance, determine employer offering and employee choice of insurance. The model shows that, in some circumstances, exogenous improvements in health insurance quality information can actually induce market failure, as employers respond strategically to the new information. That is, workers with relatively low valuation of health insurance may no longer be offered insurance, even when they value it above its price. Therefore, the model suggests a cautious approach to recent policy proposals that advocate the collection and dissemination of vast amounts of information about health insurance quality.

Health status, insurance and employment data from the 1987 National Medical Expenditure Survey are used to estimate and test the theoretical models. The model of essay two is estimated structurally via maximum likelihood. In essay three, a discrete choice model makes use of data linking actual employer health insurance offerings and employee choices. In both models, regression and non-parametric density estimation of family health expenditures and insurance quality are used to construct the choice specifications.

The late-1996 release of detailed information regarding all insurance choices offered to employees in the NMES provides a unique opportunity to study insurance offering and choice at the individual level. The availability of the structurally similar 1996-7 Medical Expenditure Panel Survey Insurance Component in 1999 should provide the opportunity for timely updates and expansions.