

Paper Available from Authors

Individually Mandated Health Insurance and the Labor Market: Evidence from the Massachusetts Health Insurance Reform

Jonathan T. Kolstad

Wharton School, University of Pennsylvania

Amanda E. Kowalski

Department of Economics, Yale University

December 2010

Abstract: This paper develops a model of the labor market impact of key provisions of recently passed national health insurance reform: a mandate that individuals have coverage, rules that encourage employers to offer coverage, and expansions in publicly subsidized coverage. We demonstrate that the incidence of expansions in coverage depends on relative labor supply and demand elasticities, worker valuation of employer-sponsored health insurance, the penalty for not obtaining coverage, and the applicable subsidies. We model differential labor market impacts of three types of coverage: employer sponsored health insurance, private health insurance purchased independently of employment, and subsidized coverage. In the literature, the labor market impact of private coverage has received little attention because of the popularity of employer-sponsored health insurance, and the labor market impact of subsidized coverage has received little scrutiny because earlier subsidies focused only on the poor. With the introduction of subsidies for earners well above Federal Poverty line (up to 400 percent of FPL in the recent national reform), the labor market incidence of public expenditures on health insurance is an important question. Relying on the reform implemented in Massachusetts – similar to the national reform in all of the key elements of our model – we test the predictions of our model empirically. To identify the labor market impact of increases in employer sponsored, private, and public coverage, we estimate panel data models allowing us to control for unobserved heterogeneity across individuals. In addition, we estimate models in cross sectional data that uses variation in eligibility criteria that differentially shifted individuals into each type of coverage in Massachusetts after the reform relative to before the reform and relative to other states. Using this approach, we estimate effects on wages, employment, hours, and full-time vs. part-time work for each type of coverage. Our estimates are consistent with the predictions of our model.