Do Firms Avoid Health Insurance Mandates? Evidence from the Self-Funding of Employer Plans

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Abstract

Fifty percent of the U.S. population gets health insurance through an employer, and roughly half of employers only offer one health plan. Therefore, the choices made by firms about what plan(s) to offer are critical to understanding the health insurance available to workers. This paper focuses on one dimension of the firm's decision: whether to self-fund plans (meaning the firm bears the financial risk of claims itself). I study whether firms use self-funding to avoid complying with mandates to cover specific procedures or providers. Using administrative data on the health plans offered by firms and a difference-in-differences design, I find that new mandates increase self-funding rates among smaller firms (100-249 employees) by 3.2 percentage points, an increase of 14.5%. The mandates do not appear to affect larger firms (250+ employees), who are more likely to already be self-funded in the pre-period. These results imply that new mandates can lead to long-lasting reductions in the proportion of firms that are bound by the full set of state health insurance regulations, including all previously mandated benefits.

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