

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

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Abstract

Fifty percent of the US gets health insurance through an employer. Thus, which plan(s) the firm offers limits the choices available to individuals, and these firm decisions are the mechanism through which policy can increase welfare. However, little is known about how firms decide what to offer. This paper focuses on an important dimension of the firm's decision: whether to self-fund their health insurance benefits. Unlike fully insured firms, self-funded firms are exempt from all state-level regulations of health insurance. I study whether firms use self-funding to avoid complying with regulations that insurance must cover specific benefits. Using administrative data on the health plans offered by firms and a difference-in-differences identification strategy, I estimate the effect of state mandated benefits on self-funding rates among firms. I find that mandates substantially increase self-funding among smaller firms (100-250 employees). The mandates do not appear to affect larger firms (250+ employees), who are more likely to be already self-funded in the pre-period.

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