The Business Case for Employer-Provided Health Benefits

Employers could be expected to offer health insurance to their employees whenever workers are willing to pay for health insurance with reduced wages and direct contributions. When workers do pay for coverage in these ways, offering health insurance will not increase labor costs. However, not all workers value health insurance enough to forego wages or make significant premium contributions. Several observations suggest that this lack of demand is an important reason why some workers do not obtain health insurance through their employers:

- Many workers who lack coverage from their own job have access to health insurance from others sources (Monheit & Vistnes 1994; Thorpe & Florence 1999).
- Workers in non-insuring firms are similar to those declining employer health insurance offers (Marquis & Long 1992).
- Fewer workers enroll when health insurance costs increase and when total compensation decreases (Currie & Yelowitz 1999; Pierce, 1999).
- Over recent years, rising employee contributions have coincided with a decline in the percentage of workers accepting coverage offered to them (Cooper & Schone 1997, Farber & Levy 1998).

Even though offering health insurance does not always yield direct benefits to employers in terms of reduced total compensation, offering health insurance could be associated with various indirect benefits. These indirect benefits, along with a summary of relevant evidence, are presented below.

Argument	Supported by Evidence?	Summary of Evidence	Additional Comments
Health insurance reduces employee turnover.	Somewhat	Some studies (Madrian, 1994; Buchmueller and Valletta, 1996; Anderson, 1997) find that among married men and women and single women, but not single men, employer-sponsored health insurance is associated with reduced job mobility. Others studies (Holtz-Eakin, 1994; Penrod, 1993; Kapur, 1998) do not find evidence for this effect.	Turnover-related benefits from offering health insurance are likely greatest for firms with highly skilled workers (for whom training costs are highest) and among larger firms (which typically invest more in training); firms of these types are already likely to offer health insurance.
Health insurance reduces workers' compensation costs.	No	Health insurance status does not account for differences in workers' compensation claims (Card and McCall, 1996).	Reduced workers' compensation claims would yield little direct benefit to small businesses because only the largest firms have experience-rated workers' compensation premiums.
Health insurance increases productivity by reducing employee absenteeism.	No	Health insurance coverage appears to be associated with fewer illness-related absences (Vistnes, 1997; Gilleskie, 1998), although when health status and other employee and job characteristics (e.g. paid sick leave) are controlled for, the relationship disappears. The RAND Health Insurance Experiment (HIE) (Newhouse, 1993) demonstrated no relationship between health insurance coverage and absenteeism.	
Health insurance increases productivity by improving employee health.	No	The RAND HIE showed no relationship between health insurance and health for most individuals (some improvements in health status were observed for individuals with hypertension and vision problems) (Newhouse, 1993).	If health insurance did improve employee productivity and this gain was associated with higher compensation, workers rather than employers would be the main beneficiaries.
Health insurance increases productivity by improving employee morale.	No	No empirical evidence on the relationship between health insurance and morale is available.	

Based on research by Professor Thomas Buchmueller of the University of California, Irvine

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