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Did the Affordable Care Act's dependent coverage mandate increase premiums?☆

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ABSTRACT

We investigate the impact of the Affordable Care Act's dependent coverage mandate on insurance premiums. The expansion of dependent coverage under the ACA allows young adults to remain on their parent's private health insurance plans until the age of 26. We find that the mandate has led to a 2.5–2.8 percent increase in premiums for health insurance plans that cover children, relative to single-coverage plans. We are able to conclude that employers did not pass on the entire premium increase to employees through higher required plan contributions.

1. Introduction

The dependent coverage mandate was one of the first components of the Affordable Care Act (ACA) to be implemented. Under the new federal mandate, children can remain on their parent's private health insurance plans[1] until the age of 26.[2] Early estimates suggest that the mandate has substantially increased the rate at which young adults aged 19–25 are covered by their parent's health insurance plans (Antwi et al., 2013; Cantor et al., 2012b; Sommers and Kronick, 2012; Sommers et al., 2013). An important component of the welfare implication of the dependent mandate is understanding how premiums were affected by the dependent mandate and how those effects were distributed between policy holders and firms. In this paper we estimate the effect of the dependent mandate on the premiums of the health insurance plans that cover children. However, this study is more than just an analysis of the ACA. More broadly, we provide insight into the allocation and incidence of benefit mandates on employers and employees in the U.S. labor market, which is fundamentally linked with employer-based health insurance.

The effect of benefit mandates on health insurance premiums has rarely been studied because previous benefit mandates are limited in scope and scale. We take advantage of the ACA's large-scale dependent mandate to provide the first set of estimates on the topic. Furthermore, we are the first to specifically investigate how employee contributions are affected by benefit mandates. We find that the total premium for family plans increased by approximately $350–400 relative to single plans (a 2.5 percent to 2.8 percent increase). However, we find no evidence that firms have directly shifted the increase in premiums to the employees who have family coverage through higher employee contributions to

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[1] The dependent coverage mandate applies to both employer-based plans and plans purchased in the individual insurance market. We focus on employer-based plans because they represent the vast majority of private plans and the data is more easily accessible.

[2] When a child turns 26 years old, the employer may continue to cover the child and the value of the coverage can continue to be excluded from the employee's income for the full tax year.

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their health insurance plans. The data suggests that we can reject the hypothesis that more than 20 percent of the premium increase is passed down to employees by higher contributions. We conclude three potential outcomes may exist: (1) the increases in the total premiums are largely absorbed by the firm; (2) the increases in the total premiums are passed on to employees with both family or single plans through cross subsidization of single plans; or (3) the increases in the total premiums are passed on to employees through another mechanism, such as lower wages and additional cost-sharing. We explore two potential mechanisms in which premiums increases are passed through to employees: lower wages and increased cost-sharing.

There has been a large amount of interest in evaluating the effect of the ACA's dependent mandate on the 19–25 year olds who have acquired insurance through the new law. Most notably, Antwi et al. (2013) estimate that the mandate led two million young adults to acquire health insurance from their parent's employer-sponsored plans. Aside from the welfare gains of increasing the rate of insurance coverage for young adults, Antwi et al. (2013) and Slusky (2013) investigate whether the new law may have reduced the labor supply of young adults. We provide no formal welfare analysis on the topic; however, our study provides insight into the costs of the mandate and how those costs are potentially distributed across employers and employees. These estimates are a precursor for any future welfare analysis on the topic.

Enrolling young adults as dependents is relatively inexpensive for families, and often the marginal cost for the family is zero (in the absence of general equilibrium effects from dependent mandate laws). Since young adults are typically very healthy, we would not expect the increase in premiums to be substantial. If premiums did not substantially increase, the dependent mandate provided a very easy and inexpensive solution to the problem of uninsurance among young adults, the age group which has had the highest rate of uninsurance. If premiums did increase, the welfare effect of the mandate is less clear. The welfare properties of the mandate depend not only on the size of the premium increase, but also how the increases are distributed between employers and employees.

In this paper we use the Medical Expenditure Panel Survey-Insurance Component (MEPS-IC) (Agency for Healthcare Research and Quality, 2012) data to address how total premiums and employee contributions to premiums were affected by the dependent mandate provision of the ACA. We find strong and robust evidence that the total premiums of plans covering children do increase. Previous literature on group-specific health insurance mandates (Gruber, 1994; Lahey, 2012; Bailey, 2013) finds that employers pay close to nothing because they are able to pass the additional costs on to employees. The contributions of this paper build upon the three previous papers by studying how both premiums and employee contributions were affected by a large nationwide mandate. In addition, the findings in this paper contrast with the findings in other papers that have more broadly studied health insurance premiums. Baicker and Chandra (2006) find that a 2.3 percent decrease in wages is associated with a 10 percent increase in premiums and Anand (2011) finds that establishments reduce compensation to employees by $0.52 for each dollar increase in premiums. However, Anand (2011) finds that establishments rely on increasing employee contributions when passing along the additional cost, rather than decreasing wages. In regards to the ACA, Antwi et al. (2013) show that increases in dependent coverage were greater among those with lower marginal costs by comparing the plans of parents who already covered another child dependent to those who previously did not.

Our general identification strategy uses single health insurance plans as a control for family health insurance plans to differentiate the effect of the dependent coverage mandate from the effect of other ACA provisions that were implemented in 2010. However, the ACA also mandated that insurance polices cover pre-existing conditions for children starting in 2010.[3] We are able to take advantage of the fact that the Health Insurance Portability and Accountability Act of 1996 (HIPAA) already required this for small firms. We find that premiums for plans covering children still increase by a larger amount than those of single-coverage plans in small firms. To further display the robustness of the results we show that the dependent coverage mandate led to larger premium increases in states that had not passed their own versions of a dependent coverage mandate.

We make four important contributions to the literature in this paper. First, we estimate the magnitude of the premium increase caused by the ACA's dependent coverage mandate, and show our estimates are likely not driven by concurrent provisions of the ACA. These findings are of particular interest because of the scale and scope of the ACA's dependent mandate. Second, we are the first paper to use data on employee contributions to investigate the incidence of the benefit mandate. Third, we explore alternative mechanisms, other than wages, through which the incidence of the dependent mandate is passed down to employees. And fourth, we assess how the risk pool was affected by the ACA's dependent mandate and whether the increase in premiums reflects the added cost of insuring dependents added to the pool.

2. Background and motivation

2.1. The dependent coverage mandate

The goal of the dependent coverage mandate was to increase the health insurance coverage rate of young adults aged 19–25 without imposing a significant economic burden. Under the new policy, group plans that offer dependent coverage must offer coverage to employees' young adult children through the age of 25. Unlike most previous dependent mandates from state laws, this applies regardless of whether the young adult is a student, a dependent on a parent's tax return, lives with a parent, or is married. The mandate became effective for plans that had policy years beginning on or after September 23, 2010. However, Secretary of Health and Human Services Kathleen Sebelius asked leading insurance companies to begin covering young adults before the implementation date set out by the ACA. As a result, over 65 leading health insurance companies began providing coverage before the implementation date.[4]

One caveat to the new policy is that the law does not apply to young adults who either have, or are eligible for, their own employer-based health insurance coverage if that plan was in existence prior to the passage of the ACA. In 2014, this exception to the dependent mandate will no longer apply, but in the meantime, this exception mitigates major shifts in the risk pool of single plans. However, young adults may still give up their own employer-based coverage and gain access to their parent's coverage by reducing hours worked from full-time to part-time employment or exiting employment. Antwi et al. (2013) and Cantor et al. (2012b) find that the federal mandate reduced the number of young adults who were covered by private health insurance in their own name. Because young adults are a relatively healthy subpopulation of the risk pool, shifts of young adults out of single plans may actually increase the

[3] All people with pre-existing health conditions cannot be denied health insurance under the ACA starting in 2014.

[4] See http://www.dol.gov/ebsa/newsroom/fsdependentcoverage.html for the list of companies that agreed to implement the dependent mandate before the September 23, 2010 deadline.