

Minimum wage increase linked to small decrease in employer health insurance offerings

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A new study led by a researcher at the Johns Hopkins Bloomberg School of Public Health found that a \$1 increase in state and federal minimum

wages over the 2002–2020 period was associated with a small decrease in the percentage of employers offering health insurance.

The 0.92 percentage-point decrease in employers offering insurance was driven by [small firms](#) with fewer than 50 employees and a higher percentage of low-[wage](#) workers. The study also found that a \$1 dollar increase in [minimum wage](#) was linked to a 1.83 percentage-point increase in the prevalence of plans with a deductible requirement, driven by both large and small companies.

The study is thought to be among the first that analyzes how employers' responses to changes in minimum wage law may differ by [employer](#) size or its distribution of employees' wages.

The findings were published in the *Journal of Health Economics*.

The study also found no evidence that minimum wage increases led to changes in overall rates of insurance coverage, which the researchers say was likely explained by employees enrolling in Medicaid. The study noted that the minimum wage effects were larger after the Affordable Care Act was implemented. Signed into law in 2010, ACA's regulation of the small-group, employer-sponsored insurance market began in 2014.

"Millions of people in the United States rely on employers for their [health insurance](#), which means that changes to the labor market can impact many people's access to [health](#) insurance," says Mark Meiselbach, Ph.D., assistant professor in the Bloomberg School's Department of Health Policy and Management and the study's first author.

"These findings point to the importance of alternative insurance options for workers with low incomes as minimum wage increases are

considered at the state and federal level."

Meiselbach's co-author is Jean Abraham, Ph.D., professor at the University of Minnesota School of Public Health.

Most Americans get their health insurance through their employers. As of 2022, an estimated 178 million people were covered through employer-offered plans. Laws that increase minimum wages are a popular way to improve wages for low-income workers. Knowing how employers respond to increases can help policymakers prepare for possible impacts on the workforce.

In 2022, 30 states and the District of Columbia had minimum wage levels in excess of the federal level of \$7.25 per hour; 15 states had minimum wage levels equivalent to the federal level, and five states had no established minimum wage law and were subject to the federal law. In 2022, the highest state minimum wage was \$14.49 an hour in Washington state. Washington, D.C.'s minimum wage in 2022 was \$16.10.

The researchers analyzed data from the 2002–2020 Medical Expenditure Panel Survey-Insurance Component (MEPS-IC), a nationally representative annual survey that collects detailed information on U.S. employers' health insurance provisions and other workforce characteristics.

Their analysis, in addition to examining how changes in state and federal minimum wage laws have affected private-sector employers' health benefits offerings, looked at employee eligibility, benefit design, and out-of-pocket premium requirements. The authors used the University of Kentucky Center for Poverty Research National Welfare Data, 2002–2020 for state minimum wages.

The study corroborates previous research suggesting that minimum wage increases tend to result in lower enrollment in employer-sponsored insurance. The researchers suggest in their new study that the observed changes likely result from employer decisions about plan offerings rather than shifts in eligibility or individual enrollment decisions.

The new study highlighted that the most significant reductions in employer-sponsored insurance offerings were concentrated among small employers with fewer than 50 employees and a higher percentage of [low-wage workers](#), aligning with previous research demonstrating employer price sensitivity in insurance offerings. The research reveals that, aside from deductible changes, there was little evidence to suggest that minimum wage laws significantly influenced other dimensions of benefit design.

The researchers also explored the potential differing effects of minimum wage increases of different sizes, finding that both large and small increases were linked to decreases in employer health insurance offerings. The analysis found that these effects appeared to increase over time, particularly beyond the third year following a state's introduction of a minimum wage increase.

"For better or for worse, we've linked health insurance to employment. If a state is passing a minimum wage increase or if a federal minimum wage increase is being considered, making sure that there are good, affordable options for people outside of their employers is critically important in this context," says Meiselbach. "Policymakers should pay attention to the decline in employer-sponsored insurance coverage among small employers, as it may have future consequences."

Employers have several options to reimburse employees' medical expenses, including Qualified Small Employer Health Reimbursement Arrangements and Individual Coverage Health Reimbursement

Arrangements. These programs were part of the 2016 21st Century Cures Act. The researchers say the programs can play a role in mitigating potential gaps in coverage, as can expanding Medicaid and subsidies for purchasing health [insurance](#) on the individual market.

More information: Mark K. Meiselbach et al, Do minimum wage laws affect employer-sponsored insurance provision?, *Journal of Health Economics* (2023). [DOI: 10.1016/j.jhealeco.2023.102825](https://doi.org/10.1016/j.jhealeco.2023.102825)

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