The Impact of Massachusetts Health Insurance Reform on Labor Mobility

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The Patient Protection and Affordable Care Act (ACA) of 2010 was based on the Massachusetts health insurance reform enacted in 2006. The focus of most research on the Massachusetts reform has been on its effects on health and health coverage. But its effect on labor markets should also be of primary interest. Critics have long maintained that the U.S. employer-sponsored health insurance system preserves inferior matches between employers and employees in cases in which workers are worried that if they leave a job, they would lose their employer health insurance. This phenomenon, known as "job-lock," affects workers of all ages and can distort retirement decisions and reduce job turnover, among other labor market inefficiencies (Gruber and Madrian 2004).

This study examines the effect of the Massachusetts health reform on job mobility and employment exits. It takes advantage of administrative data with larger sample sizes than are available in public-use datasets, allowing the analysis to detect the influence of policy on even a fairly low probability event such as a job transition or labor force exit. Using a difference-in-differences approach, this paper assesses the impact of the Massachusetts health insurance reform in 2007 on job mobility and exits from employment. The estimates for Massachusetts help to clarify the effects of the ACA, since the national, all-at-once rollout of most of the ACA makes evaluating its effects on job mobility hard to identify.

Data and Methodology

This project uses administrative data from the U.S. Social Security Administration's Continuous Work History Sample merged with the Longitudinal Employee-Employer Data File for the years 2000-2011. These two datasets link a 1-percent sample of earnings and beneficiary records to a worker's state of residence and information on his primary employer.

The analysis examines whether prime-age individuals are more likely to move between employers, in particular from large to small firms, after implementation of the Massachusetts health insurance reform. It also examines whether workers, and in particular older individuals (ages 55-65), are more likely to exit employment. The analysis estimates difference-in-differences regressions, comparing the change in the rate of switching employers or exiting employment in Massachusetts before and after 2007 to the change in these same variables over the same time period in New York and the other New England states (excluding Vermont, which also reformed its health insurance market during this time). Job-lock theory suggests that the reform should increase employer changes, transitions from large to small firms that are less likely to provide employee health coverage (conditional on changing jobs), and employment exits, and reform should decrease transitions from small to large firms (conditional on changing jobs).

Results

Trend analysis and regression estimates indicate that Massachusetts residents were actually less likely to move to new employers after the reform, relative to workers in neighboring states that did not make structural changes to their health insurance markets. The rate of changing employers was lower in all states after reform – in part due to the Great Recession – but was particularly low in Massachusetts, contrary to the prediction of the job-lock model.

Massachusetts workers were also less likely to move from large firms, which likely offered insurance, to small firms – again, the opposite of what was expected. For the full sample period, Massachusetts workers were more likely to make this transition compared to residents of the other Northeastern states. But the gap with other states closed after reform – the interaction coefficient is negative and statistically significant and of almost the same magnitude as the Massachusetts indicator without an interaction. Also, small-firm workers do not appear to have reduced their probability of switching to large firms after reform, providing little evidence that jobs were "unlocked."

The reform was also expected to free up workers to leave the labor force, but estimates indicate it generally had no statistically significant effect on employment exits.

All of the results are similar by age. After reform, older Massachusetts workers were less likely to change employers and less likely to move from large to small firms (conditional on changing employers) than older workers in the rest of the Northeast. Older Massachusetts workers also showed no difference in the probability of moving to a large firm or exiting employment.

Conclusion

The Massachusetts health reform and the ACA were both expected to reduce job-lock, resulting in increased employer mobility, especially to small firms, and more employment exits. This study finds very little evidence that Massachusetts' reform eased job-lock. By some definitions of firm size, older workers decreased the rate at which they moved to large firms, as predicted. But most of the predictions about labor market mobility did not come to pass: employer transition rates decreased more in Massachusetts than in neighboring states, as did transitions from large to small firms and transitions out of employment altogether.

On the whole, the results suggest that: 1) job-lock was not tying workers to unproductive jobs in Massachusetts to the extent that earlier research had suggested; 2) the Massachusetts reform may not have eased workers' concerns about access to health insurance enough to make them consider changing jobs or leaving employment; or 3) the premiums, even when subsidized, for plans purchased on the Connector (Massachusetts' insurance exchange) did not make individual coverage attractive enough relative to employer-sponsored insurance to ease job-lock. While the null result runs contrary to well-established labor economic theory, it is consistent with recent literature, including the initial results from the ACA (e.g., Kaestner et al. 2015). The recent spate of null results suggests that COBRA and HIPAA may have reduced job-lock to the point where it would be hard to detect in policies that further increased access outside of the worker's current employer. In the case of the ACA in particular, null results are likely related to the uncertainty surrounding the law's permanence and concerns that the plans available on the exchange would not match employer-sponsored insurance in price and quality.

References

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