

THE VALUE OF EMPLOYER-SPONSORED HEALTH INSURANCE: *EXECUTIVE SUMMARY*

Casey B. Mulligan

New [economic analysis](#) of employer-sponsored health insurance finds that employer coverage provides significant economic, social, and public health benefits to the about 160 million Americans covered through their employer.

- 1. Employer-sponsored insurance provides at least \$1.5 trillion in social value annually.** The social value of employer coverage is the sum of private value and external value. Private value, the benefit that an individual family obtains from its access to employer health plans, amounts to \$800 billion in value. External value, the effect of the employer system on work and thereby tax revenue and business formation, its effect on the number of people insured, and its effect on the number of people on subsidized insurance, amounts to \$700 billion in value annually.
- 2. Revealed preference estimates suggest that workers value employer-sponsored insurance 75 to 84 percent more than employers and employees together pay for it.** Most policy holders value their coverage significantly more than they pay for it. This private surplus from employer-sponsored insurance significantly exceeds the tax subsidy implicit in the exclusion of premiums from taxable income. The employer system easily passes the market test, refuting the claim that it is a persistent anachronism from World War II that needs to be phased out because it supposedly costs more than it is worth.
- 3. Employer coverage produces \$100 billion in cost savings for consumers every year.** Employer health plans are a procompetitive force in health care markets, where providers frequently have market power. Due to constraints on competition, health care providers are able to exercise market power to sustain price increases. Just as Costco achieves cost savings for its members through group purchasing from suppliers, employer-sponsored insurance can extract lower prices from providers. Private insurers extract significant cost savings from care providers (40 percent discounts) and prescription drug manufacturers (12 percent discounts) that likely exceed \$100 billion in savings annually.
- 4. The employer system improves actual health outcomes, not just health coverage.** Large employers, where employer-sponsored insurance is nearly ubiquitous, play a vital role in preventing, detecting, and managing chronic disease, significantly improving public health outcomes. Employer coverage empowers better health care decision-making. Employer specialists can monitor employee experiences and present them with relevant data and context, supporting informed health care choices. Employers and insurers provide significant resources to fight infectious diseases in the workplace, arguably the best place to control the spread of a disease. Insurers also provide decentralized expertise and advice to employers on how to manage disease threats in evolving circumstances.
- 5. Employer-sponsored insurance provides important social benefits.** The social benefits of work are tremendous and accrue not only to individuals, but whole communities and the economy. One of the most important drivers of work is the opportunity to enjoy high-value, high-quality health coverage. In turn, this work directly generates the bulk of tax revenue and creates additional business formation because few businesses can earn a profit or pay taxes without finding the right personnel to join their workforce.