The Simple Analytics of Health Fringes and Job Lock

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This presentation gives a symbolic representation of a job locked consumer/worker. A job locked consumer worker stays in their current job only because health fringe benefits offered on that job make it a better than the best alternative. Job locking by health fringes is common in the U.S. Some proposed national health reforms would tend to equalize health fringe benefits across jobs, perhaps unlocking workers from their jobs. More generally, this is a topical instance of important notches in consumer budget constraints produced by public policy and private business decisions.

Health, medical care insurance and medical care are financially and politically salient issues. This presentation shows, symbolically, the "job lock" situation faced by many consumers. Leading medical sociologist Paul Starr recently spoke of job lock at a symposium on health care. He noted consumers living "constricted lives--people who can't change their lives because of the necessity to provide health care coverage." (Starr, 1992). According to Starr, three of four people say someone in their family is stuck in a job because of health benefits that are essential to the family. David Mechanic, also a prominent health care researcher, noted "more and more employees are unable or unwilling to change jobs because of potential loss of health coverage." (Mechanic, 1992). Gardiner reports that 30 percent of employees are afraid to change jobs for fear of losing health coverage (Gardiner, 1992, p. 222). Braus reports on a Gallup poll in 1991 in which "Good health insurance and other benefits" was named by a higher proportion of American workers as important in a job than any other job characteristic (Braus, August 1992, p. 34). Currently, employment and health care insurance are closely linked. Health care insurance "locks" many employees in jobs they would otherwise leave.

A variation of traditional indifference maps and budget constraints shows a consumer who is job locked. The consumer's current job, with its relatively generous health care insurance fringes, gives a budget constraint notched by deductibles, coinsurance and other insurance parameters. The budget line between all other goods and health care has a relatively shallow slope, reflecting a low copayment rate. A small premium and low copayment rate make a relatively generous health plan in the current job. The consumer maximizes welfare on an indifference curve designated U_0.

An alternative job exists which offers advantages. The alternative job may have better ambience, more agreeable coworkers, or more agreeable tasks. The figure's two axes do not capture these advantages that are beyond "All Other Goods" and health care. I assume the alternative job is better than the current job in terms of these advantages. It's superiority is symbolized by an indifference map that shows the level of welfare corresponding to U_0 lying closer to the origin in Other Goods and health care. The better amenities of the alternative job make up for the lower levels of Other Goods and health care in the new job.

The alternative job has a less generous health care fringe package. The premium may be higher, the coinsurance rate higher or the deductible higher. In the alternative job the consumer cannot reach welfare level U_0 but has to settle for a lower welfare level U_L. Indifference curve U_L is in the alternative job indifference map. The consumer remains in the current job, because the current welfare is not available in the alternative, despite the alternative's amenity advantage.

This consumer is "job locked." From a positive perspective, they have a job with relatively generous fringe benefits for health care. From a negative perspective, if the alternative job had the same benefit package, the consumer could reach a level of welfare higher than U_0 by moving to the alternative job. The best indifference curve would belong to the alternative job indifference map and be tangent to the budget constraint for the current job.

Some proposed national health coverage plans would equalize health insurance fringes among jobs. This seems to move budget constraints for different jobs closer together and seems to reduce job lock. Whether it would result in more people changing jobs would depend on related, but perhaps unforeseen, effects on wages and other amenities. There is a tradeoff for employers between wages and fringe benefits and tradeoffs among fringes. The net effect of changing health fringes and related tax laws is likely to be complex. The market is clever at evading or diverting the expected effects of public policies.

The diagram that shows job lock can be more or less complicated, depending on deductibles, coinsurance rates, premiums and catastrophic expenditure limits. Like simpler cases, these plans introduce "notches" into consumer budget

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constraints. It is important to introduce consumer policy students to notches. As Blinder and Rosen note in their important article (Binder and Rosen, 1985), notched budget constraints are common in public policy, and they may be more efficient than more traditional per-unit subsidies or taxes for many policy purposes.

This is one example of an important role for notches in the consumer budget constraint. Transitivity of preferences also play a key role in this illustration. Using two families of indifference curves on the same diagram requires a transitive relationship between indifference curves across maps.

References

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