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THE HEALTHCARE AFFORDABILITY AGENDA

Part I: The Economic Toll of Rising Private Health Insurance Costs

Prepared by The Fiscal Policy Institute

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Key Findings

- The annual average premium for a private family health insurance plan offered through an employer in New York has grown from \$5,000 to \$25,000 between 1996 and 2024—400 percent growth over twenty-eight years, or roughly 6 percent annual growth over a twenty-eight-year period.
- While average household labor income has roughly doubled between 2001 and 2024, health insurance premiums have on average more than tripled for a single user and nearly quadrupled for a family plan.
- If healthcare premiums had grown at the same pace as wages between 2001 and 2024, total accumulated worker compensation would be higher by \$45,300 per employee on a single-person plan and by \$133,200 per employee on a family plan.
- If cost growth had been held to 2 percent annually, worker compensation would be higher by \$55,700 per single-person plan and \$149,400 per family plan.
- The average family plan deductible rose from \$900 to \$3,400 between 2002 and 2024, an average annual growth rate of just under 5 percent—well above average inflation and wage growth over that period, particularly for low- and middle-income New Yorkers.
- If healthcare costs had grown at the same rate as wages over the past twenty-four years, New York's employment rate would be higher by nearly 8 percentage points—increasing total employment by approximately 1.3 million jobs.
- Annual growth rates in health costs of 6 percent—as has been the average in NY and the US over the past twenty-five years—increase flows into unemployment each year by 6 percent, or an additional 51,000 New York jobs lost.

Introduction

The cost of care has become a major constraint on family budgets and a growing part of the “affordability crisis” that currently dominates the political and economic landscape in the US. While Medicare, Medicaid, and ACA marketplace costs often occupy the center of the policy debate on healthcare costs, private employer-sponsored insurance costs have soared even more rapidly in the past thirty years, far exceeding price and wage increases seen in other sectors of the economy.

Research over the past decade has emphasized that rising healthcare costs are a major component of cost burden for households. Employers typically pay most of the cost of health insurance benefits, but employers are widely understood to pass at least some of these costs onto employees through depressed wages. Additionally, the rising cost of healthcare puts a strain on the labor market more broadly, potentially also increasing unemployment and dampening the quantity and quality of employment options.

This brief quantifies the private employer-sponsored health insurance premium increases in New York over the past twenty-five years and estimates the impact of these cost increases on worker wages as well as employment and unemployment. Assuming full pass through of insurance costs into wages, we find that if insurance cost growth had tracked wage growth, New York workers on single-individual plans would have earned an additional \$45,000 between 2001 and 2024, and New York workers on family plans would have earned an additional \$133,000 over those years. If we instead assume that the cost burden is shared between the employee and employer, we find that healthcare cost growth likely pushes approximately 50,000 additional New York workers into unemployment each year.

How Much Have Health Costs Grown in New York?

Approximately 54 percent of New York households get their health insurance through a private employer.¹ For these households, at least one member engages in an employment contract that includes compensation in part through wages (or salary) and in part through benefits such as health insurance and a tax-favored retirement account.

Most employers have offered health insurance benefits to full-time employees for decades, and in 2010, the Affordable Care Act (ACA) mandated that employers of more than fifty employees are statutorily required to offer health insurance to employees who work at least thirty hours per week. The ACA also regulated minimum benefits to be included in the health insurance and limited the share of the premium that employees can be required to pay.

According to data from Medical Expenditure Panel Survey—Insurance Component (MEPS-IC), the annual average premium for a private family health insurance plan offered through an employer has grown from \$5,300 in 1996, to over \$27,000 in 2024—a whopping 440 percent growth.² New York’s cost growth mirrors the United States. The average family plan provided through private employers grew from \$5,000 to \$25,000 over the same period—400 percent growth over twenty-eight years. For both New York and the United States as a whole, the rise in average premium costs is the equivalent of approximately 6 percent growth per year every year for all twenty-eight years—more than twice the rate of increase in prices and wages generally in the country over the same period.

Comparing these health insurance cost increases to the average increase in wages, we see that while wages have roughly doubled over 2001–2024, health insurance premiums have on average more than tripled for a single user and nearly quadrupled for a family plan. For a single person, the average premium cost about 6.5 percent of their total annual earnings in 2001—to-day it costs 10 percent of total annual earnings.

Since 2020, health insurance premiums provided through private employers have grown at approximately the same rate as wages for the average individual; this is due to wage growth picking up over these years rather than premium cost growth slowing down.

How Much Does Employer-Sponsored Insurance Cost New Yorkers?

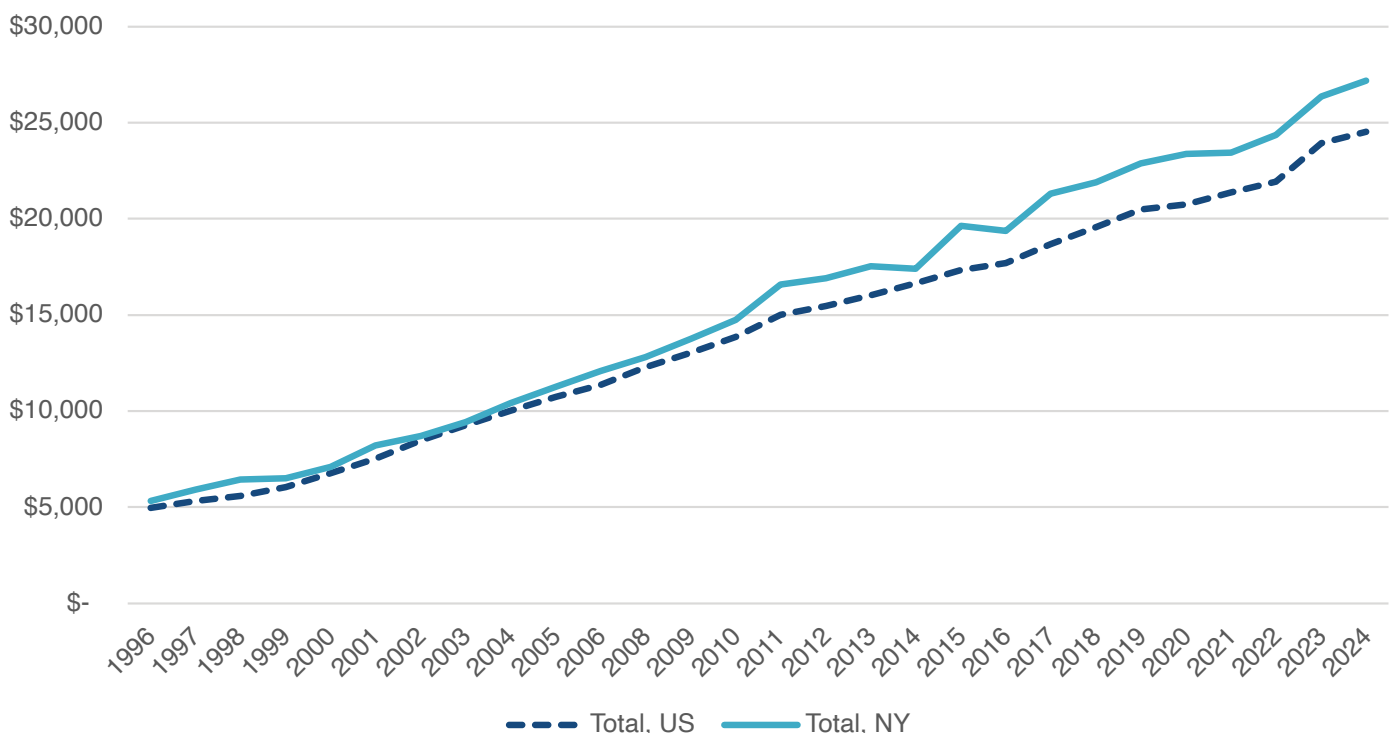
We see that employer-sponsored health insurance costs have grown rapidly over recent decades, but how do these costs impact workers and employers? There are a range of possibilities. First, health insurance costs are borne in a few different forms: premiums, deductibles, co-pays, and out-of-pocket spending due to coverage limitations. While each of these components is important to assessing overall health insurance cost burden, premium cost growth will be the focus of this analysis. When assessing the impact of premium cost

growth, it is challenging to identify how the cost burden is spread between the employer, the employee, and the labor market.

To demonstrate the range of possibilities, imagine an employer–employee relationship in which the employer is paying \$8,000 (80 percent) of the \$10,000 annual premium and the employee is paying the remaining \$2,000 (20 percent) of the insurance premium. If the overall premium cost increases by 5 percent then, that cost could be borne entirely by the employer (who now pays \$8,500), entirely by the employee (who now pays \$2,500) or, most likely, by some combination of the two. Let us say they retain their original 80/20 split and the employee now pays \$2,100 and the employer pays \$8,400. Now, say the firm’s revenue grew only by 3 percent in that same year, the employer must find a way to cover their portion of the additional health insurance costs, which are growing faster than the firm’s revenue. The employer will need to pay for these added costs out of the firm’s profits, and will likely also look to cut other costs.

For the employer, one possible means of cutting costs would be paying for the insurance coverage with the

Figure 1. Average total premiums from private employers, family plans



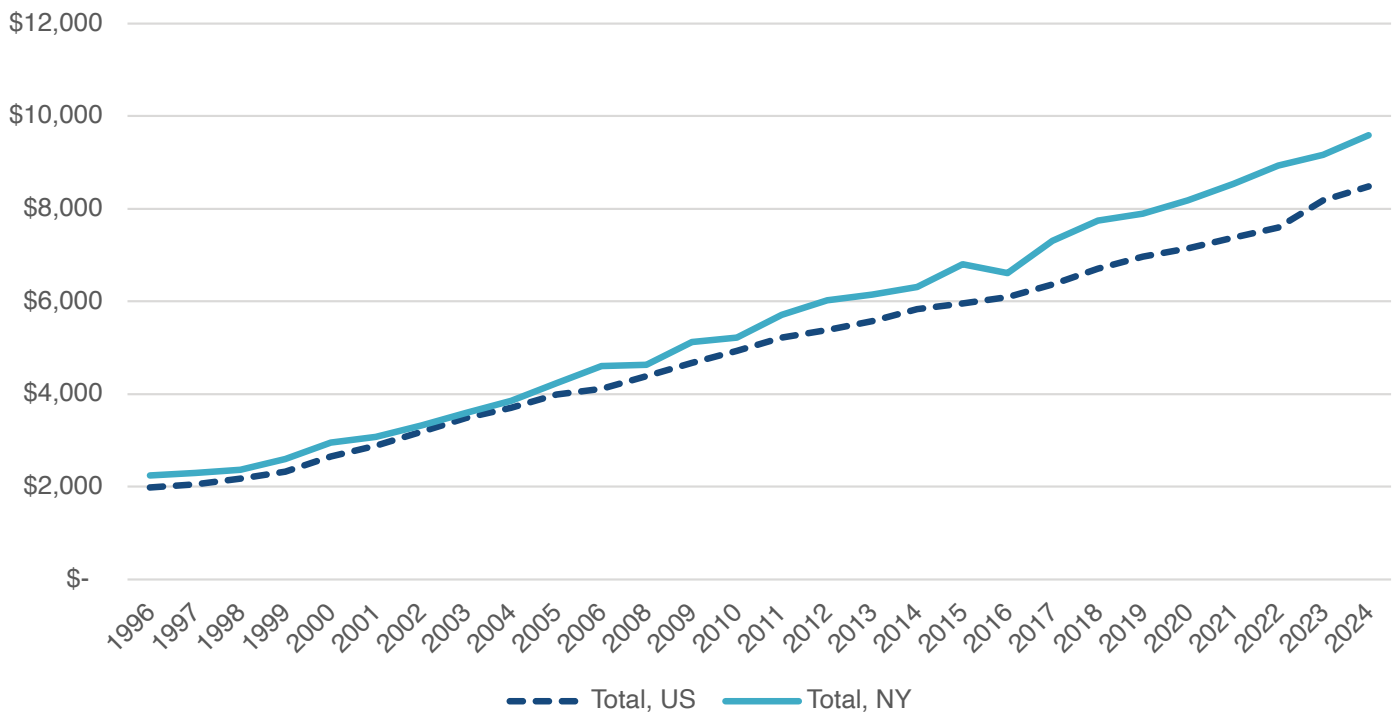
Source: MEPS-IC

remainder of the employee's wages: removing \$400 from the wages of the employee, dampening wage growth. How much rising healthcare costs (and other payroll tax-like costs) are covered by employee wages (rather than other cost-cutting such as reducing overall employment) has long been a subject of debate in the economic literature. The question of how these high premium costs are spread between worker wages and employment will be discussed in the next section. If, for now, we assume that they are entirely taken out of wages, we can estimate how much more an average employee in New York would have earned over the years 2001–2024 under counterfactual cost growth scenarios. Table 1 lays out three models of cost growth counterfactuals: one in which healthcare insurance costs grow at the same rate as wages, one in which health insurance costs grow at a 2 percent annual rate (target inflation), and one in which there is zero cost growth.

If healthcare premiums had grown at the same rate as average wages, the average premium for a single-person plan would have grown from \$3,000 in 2001 to \$6,000 in 2024, much less than its actual 2024 level of \$9,600. That's \$3,600 of additional cost burden that either could have been paid in wages to the employee or used by the employer to increase overall employment. If this above-trend healthcare cost growth had been spent on employee wages, a single New Yorker making average earnings would have earned an additional \$45,300 cumulatively between 2001 and 2024. If cost growth had been held to 2 percent per year over this period, total cumulative compensation would have been \$55,700 higher per single-person plan.

For family plans, the story is even more extreme. If healthcare costs had grown at the same rate as wages, a family plan that cost \$8,200 in 2001 would cost \$16,500 in 2024. However, instead, family plans today cost on

Figure 2. Average total premiums from private employers, single person plans

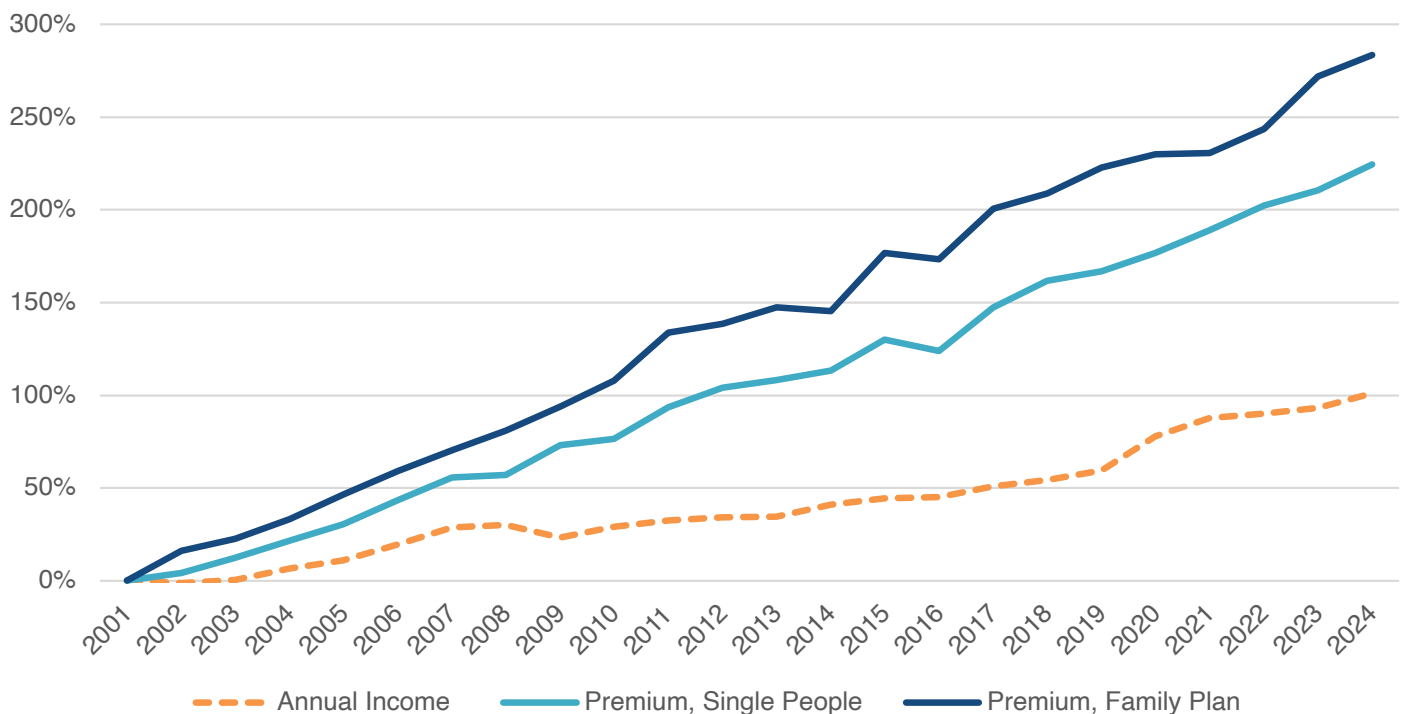


average \$27,200 in New York; had that additional cost gone toward wages, the average New Yorker on a family plan would have earned an additional \$133,200 cumulatively between 2001 and 2024. If cost growth had been held to 2 percent per year over this period, total cumulative compensation would have been \$149,400 higher per family plan.

In addition to the premium, workers have faced growing deductibles and out-of-pocket costs over recent decades. According to MEPS data, the average family plan deductible rose from \$900 to \$3,400 between 2002 and 2024, an average annual growth rate of just under 5 percent. Taking these costs into consideration in addition to premium costs and declines in coverage quality, the cost of healthcare has increased dramatically faster than the growth of the economy and wages over the past couple of decades. A recent FPI report also cited Disease Expenditure Project data, showing that out-of-pocket spending in New York grew by 59 percent

between 2010 and 2019 after adjusting for inflation.³ In 2019 dollars, total out-of-pocket spending by consumers rose from \$13.3 billion in 2010 to \$21.2 billion in 2019. That means average per person out-of-pocket spending went from about \$700 per year to more than \$1,000 per year, after accounting for inflation.

Figure 3. Average total premiums from private employers and average annual income



Source: MEPS-IC and QCEW

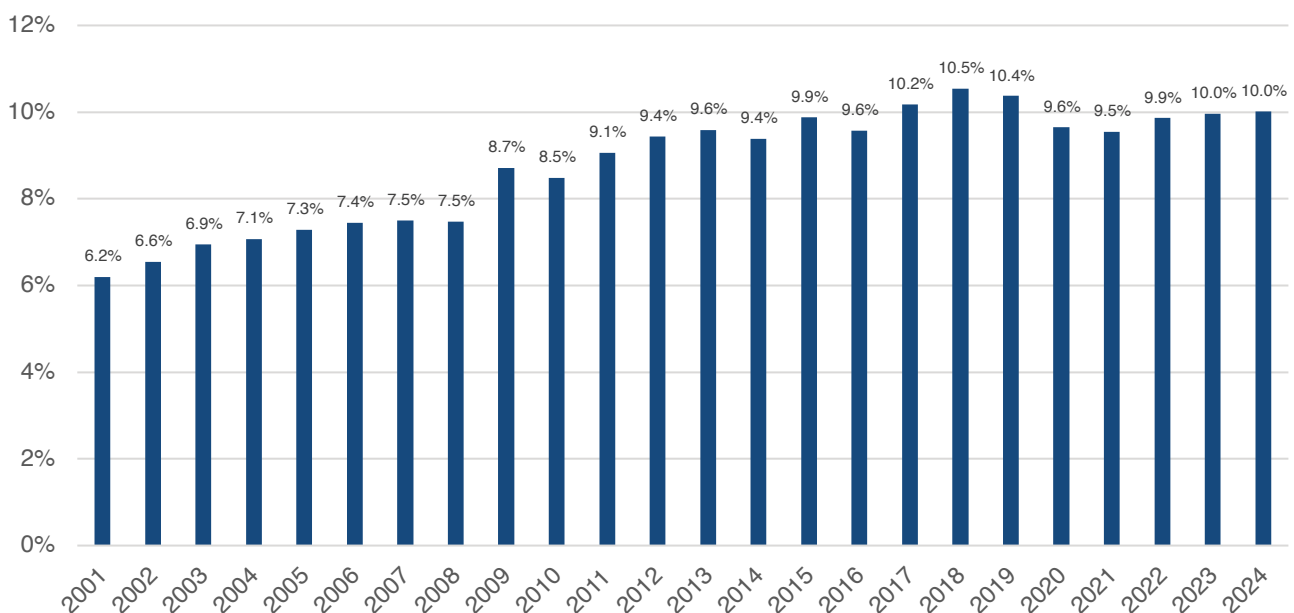
How Are Rising Healthcare Costs Spread Between Worker Wages and Depressed Employment?

Employees do not directly pay the entire cost of their health insurance. The total premium is typically split between the employer and the employee, with employers covering between 70 and 80 percent of the total premium cost while the employee pays the remaining 20 to 30 percent, typically through a payroll deduction. The employee's share of premium costs directly impacts employee take-home income: As premium costs increase, the amount paid by workers rises, shrinking their take-home pay.

But how does the employer share of healthcare premium increases impact workers? One could imagine two hypotheses here: First, employers may respond to rising employer-paid healthcare costs by lowering wages. Second, employers may treat rising healthcare costs as the equivalent of a rising payroll tax, reducing hiring in response to rising costs.

Why would the rising cost of insurance not be completely absorbed by lower wages? If an employer could lower wages to offset their share of insurance costs, wouldn't they? There are two main reasons why they might not. First, if employees do not value health insurance dollar-for-dollar with their wages, they may not accept a job that offers a lower wage in response to rising health care costs. Second, wage rigidities that prevent an employer from adjusting down employee wages, such as a minimum wage policy, can create frictions that prevent wages from absorbing the rising cost of insurance. Even if an employee does value health insurance as much as they value their wage income, restrictions on the employee-employer contract and norms of the professional world may limit the pass-through of insurance costs into wages.

Figure 4. Premiums as percent of average income (single person plan), NY



Source: MEPS-IC

Starting in the early 1990s, economic literature began to measure the impact of rising healthcare costs on both wages and employment (or hours worked). In an early example of this work, economists Jonathan Gruber and Alan Krueger studied variation in health insurance costs across time and states to show that a large proportion of health insurance costs technically borne by employers actually fall on worker wages (lowering wages relative to the counterfactual world of lower health insurance costs).⁴ They also found that rising healthcare costs have only a small impact on decreased total employment.

As data and statistical methods for identifying causal impacts have both improved, more papers have found that only a portion of rising healthcare costs are borne by wages, and that such costs make a relatively large impact on the labor market and overall employment.

A 1998 paper by David Cutler and Brigitte Madrian emphasizes the fact that healthcare costs are fixed costs per worker while wage costs vary by the number of hours worked; this may have the impact of incentivizing employers to hire fewer workers and increase the hours worked for each employee. The authors find that over the 1979–1992 period, hours worked per week increased by about 0.7 hours for workers with health insurance, relative to those without—a statistically significant increase of about 2 percent.⁵ Their work suggests that an employer-based health insurance system incentivizes longer hours for those workers afforded employer-provided health insurance.

Economists Katherine Baicker and Amitabh Chandra exploited a rapid increase in medical malpractice insurance costs that took place in the early 2000s to study the impact of rising health insurance costs on the labor market.⁶ They estimate that a 10% increase in health insurance premiums reduces the overall probability of being employed by 1.2 percentage points. If this estimate were to have held true in New York over the past twenty-five years, New York’s employment rate would be higher by nearly 8 percentage points—an increase in the employment rate from about 60 percent to about 68 percent, equivalent to about 1.3 million additional jobs.

The authors also find that an increase in health insurance premiums increases the probability of being employed part time (rather than full time). This finding confirms the fact that increased employment costs incentivize employers to structure their labor contracts so as to minimize benefit payments, either through limiting workers to part-time positions that do not require benefits or by classifying workers as contractors in order to bypass mandates to provide healthcare benefits. In addition to these large employment effects, the authors find that a 10 percent rise in health insurance premiums decreases wages by 2.3 percent.

One can interpret these result to mean that the rise in healthcare costs is not matched by improvements in healthcare quality, and so employees are not willing to accept lower wages in response to the higher costs of insurance. As described in the previous section, this

Table 1. Cumulative additional compensation per health plan under different cost growth models, 2001–2024

Health cost growth model	Single Plan	Family Plan
Costs grow at same rate as wages	\$45,297	\$133,244
Costs grow at 2%	\$55,694	\$149,403
Costs stay constant	\$74,677	\$202,236

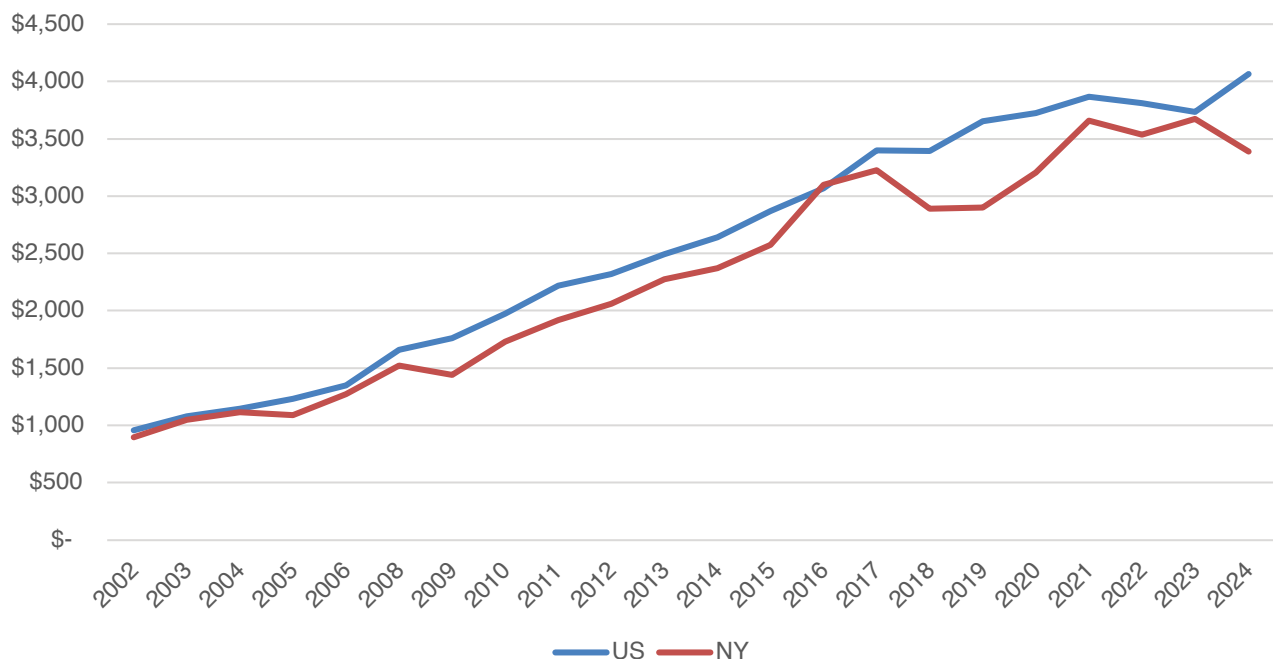
Source: MEPS-IC and author’s calculations.

result implies that if health costs had risen at a rate more comparable to wage growth or inflation, wages earned may have been significantly higher.

Finally, very recent work from the National Bureau of Economic Research that uses hospital mergers to identify exogenous healthcare cost increases has similarly found large impacts of health insurance prices on overall employment and wages.⁷ The authors find that a 1 percent increase in health care prices reduces labor income by 0.27 percent and increases flows into unemployment by 1 percent. That means that annual growth rates in health costs of 6 percent—as has been the average in New York and in the United States over the past twenty-five years—increase flows into unemployment each year by 6 percent, or an additional 51,000 New York jobs lost per year.⁸ This places burden not only on the individuals and families relying on wage earnings to pay for their basic needs, but also increases the cost to the State through added unemployment insurance claims.

Taking these results together, we see that the research clearly points to rising healthcare costs having impacts on both wages and employment. That is, as we have seen massive growth in the cost of healthcare, these cost increases are not only impacting household and employer budgets directly, but also causing there to be fewer and worse employment options for individuals.

Figure 5. Average deductible for employer provided family plan



Source: MEPS-IC and author's calculations.

Conclusion

The cost of health coverage has grown at an unsustainable rate for decades, suppressing both wages and total employment. New York's market for employer-sponsored healthcare has grown in parallel to the rest of the country, at an average 6 percent increase in premium costs per year over the past twenty-five years. Private employer-provided health insurance in particular has grown much faster than publicly provided health insurance and has an outsized impact on the labor market. New policy tools must be implemented in order to reign in these high costs of insurance and improve the labor market environment for both employers and workers. The next report in this series will identify the driver of cost increases and propose price regulation as the correct tool to bring cost growth down to a more sustainable rate.

Endnotes

- 1 Based on data from the American Community Survey and author's calculations. Steven Ruggles, Sarah Flood, Matthew Sobek, Daniel Backman, Grace Cooper, Julia A. Rivera Drew, Stephanie Richards, Renae Rodgers, Jonathan Schroeder, and Kari C.W. Williams. IPUMS USA: Version 16.0 ACS. Minneapolis, MN: IPUMS, 2025. <https://doi.org/10.18128/D010.V16.0>
- 2 Medical Expenditures Panel Survey – Insurance Component published by the U.S. Department of Health and Human Services Agency for Healthcare Research and Quality. https://meps.ahrq.gov/mepsweb/data_stats/download_data_files.jsp.
- 3 Bailey Hu, “Public payers control healthcare spending better than private insurers,” Fiscal Policy Institute, October 20, 2025, <https://fiscalpolicy.org/public-payers-control-healthcare-spending-better-than-private-insurers>
- 4 Jonathan Gruber and Alan B. Krueger, “The Incidence of Mandated Employer-Provided Insurance: Lessons from Workers’ Compensation Insurance,” *Tax Policy and the Economy* 5 (1991): 111–43, <https://doi.org/10.1086/tpe.5.20061800>.
- 5 David Cutler and Brigitte Madrian, “Labor market responses to rising health insurance costs: evidence on hours worked,” *RAND Journal of Economics* 29, no. 3 (Fall 1998): 509–30, <https://pubmed.ncbi.nlm.nih.gov/10342942/>.
- 6 Katherine Baicker and Amitabh Chandra, “The Labor Market Effects of Rising Health Insurance Premiums,” *Journal of Labor Economics* 24, no. 3 (2006): 609–634, <https://www.jstor.org/stable/10.1086/505049>.
- 7 Zarek Brot-Goldberg et al., “Who Pays for Rising Health Care Prices? Evidence from Hospital Mergers” NBER Working Papers 32613 (June 2024, revised December 2024), 1–51.
- 8 This calculation uses the fact that approximately 850,000 people have filed new unemployment insurance claims over the course of each year from 2021 to 2025, based on unemployment insurance data downloaded from the St. Louis Federal Reserve’s FRED (<https://fred.stlouisfed.org/series/NYICLAIMS#>). An increase of that number by 6 percent is an increase of 51,000 unemployed individuals over the course of the year.