What Drives Premium Costs in Employer-Sponsored Health Insurance?

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Employer-sponsored insurance remains the primary source of health insurance for working-age Americans, yet relatively little is known about why premiums differ across individual employers purchasing coverage in different local markets. We study this question using a newly assembled dataset of health insurance plans offered by approximately 1,100 representative U.S. colleges and universities in 2025-2026. Higher education provides a useful setting because institutions belong to the same broad industry but operate across geographically diverse health care and insurance markets.

We observe and document substantial variation in the structure and cost of employer-sponsored coverage. On average, higher education institutions offer three distinct health plans, with offerings ranging from one to twelve. Premiums also vary considerably. For PPO/POS coverage, the most commonly offered plan type, available at 93% of institutions, annual total premiums range from $1,310 to $25,671, with a mean of $11,730. Within-university campus mean spread between the least and most expensive plan is approximately $3,200 annually.

We examine the importance of several economic factors in explaining premium variation across universities, including the size of the purchasing or bargaining unit; local hospital market concentration; the market power of the insurer selected by the university; whether the institution operates a medical school; plan actuarial value; and the number and types of plans offered. Preliminary analyses suggest that multiple plan, market, and purchasing characteristics are associated with premium differences, while conventional institutional characteristics alone explain relatively little of the observed variation.

Our results thus provide new evidence on the economic determinants of employer health insurance costs and can inform employers seeking to control premium growth. The findings also inform policymakers evaluating how hospital and insurer market structure, employer purchasing arrangements, and benefit design contribute to the affordability of employer-sponsored coverage as states have emerged as laboratories for testing policies to contain health care spending.

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