

The Welfare Effects of Intermediation in the Employer-Sponsored Insurance Market

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Extended Abstract

Intermediaries play a central role in many markets—including finance, housing, used cars, and health insurance—serving as skilled experts who assist in consumer decision-making. While intermediaries can significantly reduce consumer search costs, they have drawn significant regulatory scrutiny in recent years, primarily driven by concerns about conflicts of interest and commission-based steering distorting market outcomes.¹ In this paper, we study the welfare effects of intermediaries in a crucial yet understudied setting: health insurance brokers in the employer-sponsored insurance (ESI) market. This market covers over 175 million Americans—roughly half the U.S. population—and accounts for approximately \$1.2 trillion in annual health care spending.

While existing literature focuses primarily on steering distortions—where commission incentives lead to suboptimal product recommendations and potentially higher prices—we identify an additional and novel channel through which intermediaries affect consumer welfare. In ESI, brokers selectively contract with only a subset of available insurers in local geographic markets. As such, they can create fragmented choice sets that reduce competitive pressure among insurers, leading to higher equilibrium prices even in the absence of steering. We refer to this as a “market segmentation distortion.” In this way, brokers may impact equilibrium outcomes not merely by altering consumer utility downstream, but through their effect on realized product menus, which impact market structure upstream. This poses a fundamental challenge for regulators: while capping commissions—a common policy approach—might mitigate steering distortions, it would not necessarily do so for segmentation distortions.

Motivated by these mechanisms, we investigate the extent to which brokers (a) reduce consumer search frictions in selecting insurance plans; (b) steer consumers towards less-preferred products; and (c) soften upstream competition through selective contracting. We do so by specifying and structurally estimating a model of employer choice of insurance plans and endogenous insurer-broker contracting networks. Using the model’s parameters, we simulate the pricing and welfare implications of regulating broker commissions, incorporating the impact that these regulations have on product variety.

¹The Medicare Advantage market has seen new restrictions on broker compensation, while financial markets have implemented fiduciary duty requirements. See <https://www.commonwealthfund.org/blog/2025/new-rule-protect-medicare-beneficiaries-against-inappropriate-sales-tactics-stuck-courts> and <https://www.nytimes.com/2020/07/16/your-money/fiduciary-duty-investments-best-interest.html>

We begin by presenting a stylized model highlighting how these two distortions arise and interact. Our main conceptual point is that steering and market segmentation effects operate in tension with each other: higher commissions paid by one insurer relative to another exacerbate steering distortions by increasing brokers’ incentives to direct employers toward financially lucrative rather than welfare-maximizing products. However, those higher commissions simultaneously encourage brokers to contract with more insurers to capture these commissions, thereby intensifying upstream competition and reducing prices. We show that optimal regulation cannot focus solely on eliminating steering, as doing so may inadvertently exacerbate the segmentation problem. The extent to which commissions could be capped depends on a series of primitives: brokers’ fundamental steering “ability” or “persuasiveness,” insurers’ ability to mark-up premiums, and employer preference heterogeneity across products.

We next test for the presence of steering and market segmentation.. To identify steering effects, we exploit sharp discontinuities in broker commission schedules using regression discontinuity and regression kink designs. Critical to these designs is the fact that commission schedules vary *within-insurer* by firm size, thereby mitigating concerns that unobserved quality differences across carriers are correlated with commissions. In particular, we find that when a major insurer discontinues its lump-sum bonus payments for 500 employees, the probability of employers choosing that insurer drops by 11 percentage points, with corresponding reductions in total premiums of about 9%. Similarly, discrete changes in commission rates lead to systematic shifts in insurer choice, premiums, and an *increase* in within-firm take-up of insurance. In particular, we find that a 1 p.p. decrease in commission rates leads to a 1% increase in the share of employees choosing to take up coverage for each additional 10 employees present in the firm. This suggests that broker compensation induces them to steer employers towards more expensive, and potentially less valuable, products.

Turning to market segmentation, we first investigate how financial incentives affect broker contracting decisions. We leverage a natural experiment where one insurer reduced per-enrollee compensation from \$18 to \$12 per month. Using an event study framework, we document both immediate steering away from that insurer and longer-term reductions in the share of brokers contracting with it. Specifically, this 33% decline in commissions resulted in a reduction of about 5% in the share of broker contracts. Finally, we present correlational evidence that markets with narrower broker networks—where brokers contract with fewer insurers on average—exhibit higher per-member premiums—moving from an exclusive contract to a full contract is associated with a 6% increase in marketwide premiums. This is consistent with the market segmentation mechanism.

To quantify the welfare implications of these competing effects and simulate counterfactual regulations, we next develop and estimate a structural model of demand, pricing, and network formation. The model features the role of brokers as intermediaries between employers and oligopoly insurers, with five sequential stages. First, insurers simultaneously set product premiums for employers and percentage commissions for brokers. Second, brokers select which insurers to include in their product offerings and incur the associated contracting costs. Third, employers quasi-randomly meet with a broker and decide whether to use the broker’s services. Fourth, employers choose insurers for their employees, either from the broker’s product offering or from the available set of products on the mar-

ket if not working with a broker. Finally, employees choose whether to participate in the insurance plan that their employer sponsors. A novel feature of our model is that we incorporate the brokers' contracting network choices into the analysis of the vertical market.

To estimate the model, we construct the first comprehensive dataset on the contracting relationship between small- to medium-sized employers, insurance brokers, and insurers in New York State. We collect employers' broker and insurance plan choices via publicly available Form 5500 data from the Department of Labor, commission schedules through FOIA requests, and manually scrape data from government portals to gather broker-insurer contracting records. We supplement these data with proprietary medical claims from Clarivate.

We estimate the model sequentially. On the demand side, we estimate employers' hassle costs of offering health plans and their preferences for each insurer using the generalized method of moments. The steering distortion is identified in a similar way as in the reduced-form: by rationalizing differences in employer choice of plan following plausibly exogenous variation in broke. We identify the hassle cost by comparing firms' propensities to work with brokers across similar geographic markets. On the supply side, we estimate brokers' costs of product menus using moment inequality estimators. We exploit brokers' revealed preferences, which indicate that adding or subtracting an insurer's plan results in profit losses compared to the status quo contracting network. These conditions generate bounds on the brokers' contracting costs. Finally, we estimate insurers' marginal costs of offering insurance using a first-order conditions approach: we find cost parameters that make the observed premium and commission choices generate the highest profit for insurers.

We are working on the following counterfactuals. We will first quantify the potential quality-access-price tradeoff induced by brokers: brokers could distort employers' plan choice (quality), reduce the administrative costs for employers of offering health insurance (access), or incentivize insurers to raise premiums in response to a lack of competition (price). This decomposition exercise enables us to assess how brokers impact the welfare of downstream employers in various aspects. It also quantifies the impact of brokers on upstream insurer competition, thus shedding light on how broker-insurer contracting can contribute to rising healthcare prices. Second, we plan to simulate proposed regulations, such as setting a ceiling for commission payments, banning commission payments altogether, or prohibiting exclusive contracts between insurers and brokers. These simulations enable us to assess the impact of various policy tools on employer welfare and insurer competition in the ESI market.

The results of this project help us understand a major driver of rising healthcare prices in the US and have important policy implications. First, third-party brokers that market directly to consumers in the Medicare Advantage (MA) market are already highly regulated by the Center for Medicare and Medicaid Services. Our project evaluates the effectiveness of these regulations in a broader market segment. Second, the results speak to antitrust policy by highlighting a potential friction inhibiting insurers from competing in ESI: broker-insurer contracting. Exclusive contracts and commission payments could reduce the effective number of insurers employers can choose from, thus softening insurers' competition.

Related Literature: This paper contributes to several literatures. First, we add to the growing body of work on intermediation in financial and insurance markets (Hastings et al., 2017; Bhattacharya et al., 2019; Egan et al., 2022; Boehm, 2023; Grennan et al., 2024; Grunewald et al., 2020; Salz, 2022; Barwick et al., 2017; Robles-Garcia, 2019; Kim, 2024; Hendel et al., 2009). While previous studies have focused primarily on agency problems between intermediaries and consumers, we highlight how intermediaries affect upstream competition through product assortment decisions. This mechanism may be relevant in many markets where intermediaries maintain selective relationships with suppliers.

Second, we contribute to the literature on vertical relationships and product variety (Hristakeva, 2022). Most work in this area examines retail settings where product assortment is constrained by physical shelf space. We analyze a setting where assortment is endogenously determined by contracting costs and steering incentives, providing new insights into how vertical relationships shape market structure.

Third, our work speaks to the health economics literature on employer-sponsored insurance and market power (Tilipman, 2022). We provide the first evidence on how intermediaries affect competition in health insurance markets, complementing existing work on insurer-provider bargaining and employer plan design. Our results also contribute to research on information gaps and decision support in health insurance markets (Gruber et al., 2021; Li et al., 2022; Myerson and Li, 2022; Tong, 2022).

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