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Private health insurance in rural areas: Challenges and opportunities

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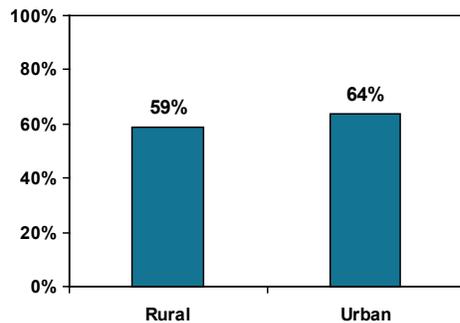
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Private Health Insurance in Rural Areas: Challenges and Opportunities

Private insurance is less common in rural areas

Rural residents under age 65 are less likely than their urban counterparts to have private health insurance coverage (59% vs 64%, Figure 1). This difference is driven by the unique characteristics of rural places that make it challenging to create and sustain viable private insurance pools. Chief among these are the predominance of small businesses and self employed, part time, and low wage workers.

Figure 1: Percent with Private Insurance, December 2006



Source: 2006 Medical Expenditure Panel Survey

Note: Includes those with private insurance only in December 2006; those dually covered by public and private are classified as public. Urban and rural are defined respectively as MSA or non-MSA county, based on Office of Management and Budget designation.

Rural workers are less likely to have an employer that offers coverage

Workers in rural areas are somewhat more likely than urban workers to be self-employed (14% versus 12%).¹ The self-employed may gain private coverage from another family member, although rural families are less likely to contain two full time workers.¹ They may also purchase private health insurance directly from an insurance company, becoming “individually” insured.

Among those employed by a business, only 67% of rural employees work for a firm that offers coverage compared to 71% of urban employees.¹ The principal reason is that rural employees are more likely to work for small businesses² that tend to face the combined pressures of higher health insurance premiums costs and smaller operating margins.

Rural workers are more likely to earn low wages or to work part time than their urban counterparts.¹ Firms employing more low-wage or part-time workers are much less likely to provide health insurance to any of their employees.³

Rural businesses, families and individuals pay more for the same benefits

Small employers face inherent challenges in providing coverage for themselves and their employees. Lower purchasing power compared to large firms, increased risk of adverse selection and higher marketing and administrative costs all contribute to insurers charging higher premium costs to smaller employers.⁴ Even after adjusting for business size, rural businesses pay more for the same plan than their urban counterparts.⁵ Because of the higher premiums paid by small businesses, employees’ share of premiums is often high. One study found that while many small businesses actually required lower premium contributions for single employees to improve the take-up rate (thereby lowering unit costs), the employer share for family coverage was much less generous than in larger businesses.⁴ Thus, rural families wanting to purchase coverage through a worker’s employer may find it unaffordable to do so.

More rural residents purchase individual insurance policies.⁶ Premiums for such policies tend to be high, and typically offer less generous coverage (fewer benefits and higher out-of-pocket costs).

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The rural privately insured are at greater risk of being “underinsured”

To reduce health plan costs, many small businesses limit the benefits they provide (e.g., buy plans without maternity care or dental benefits) or buy plans with higher employee cost-sharing requirements.⁴ Rural employers are more likely to buy plans with a deductible, and the amount is typically higher than for urban workers.⁵

As a combined result of these benefit limits and their generally lower incomes, rural residents are more likely to be underinsured (defined as having high out-of-pocket costs for health care compared to income).⁷ Individuals that are underinsured often experience the same financial barriers to getting needed health care as the uninsured.⁸

Policy options for increasing rural private insurance coverage

Strategies to improve access to private health insurance have particular implications for rural areas. Some of these strategies, and the rural considerations they raise, include:

Employer Mandate: Employers could be required to provide coverage directly, or be allowed to opt out and pay a tax that would fund worker subsidies (“pay or play”). One limitation of mandates is that they may exempt very small businesses (e.g. Massachusetts), limiting their effect in rural areas. Exclusions of part-time or seasonal workers would also diminish the rural impact of mandates as rural workers are more likely to fall into these categories.

Beyond the goal of expanding rural coverage, the economic impact of an employer mandate is an important consideration. Without financial subsidies and mechanisms to equalize premium costs, rural firms may face disproportionately higher costs in complying with a mandate.

Purchasing Pools/Alliances/Exchanges: Targeting problems of the small group market, insurance purchasing pools (called “alliances,” or “exchanges”) allow businesses and/or individuals to join together and negotiate with insurers for better premiums. This may increase affordability for rural businesses and individuals, although experience suggests that small group alliances have not increased coverage.⁹ Explanations may be unwillingness among some insurers to offer plans to alliances, or efforts to “cherry-pick” healthy firms into leaving pools.⁴ Possible solutions include requiring that small group insurers negotiate with all purchasing alliances, or that all small group plans be sold only through alliances.⁹

Alternatively, small groups and individuals could access existing public purchasing pools such as the Federal Employees Health Benefits Program (FEHBP). This may level the playing field for rural purchasers, both because the FEHBP guarantees access to a carrier, and because it could address rural price disadvantages. However, research indicates that even within the FEHBP, rural areas have many fewer plan choices.¹⁰ Ways to address this might require plans to offer coverage in all markets, or to develop a public plan buy-in option for rural areas where private plans are limited or non-existent.

Tax Credits for Individual Insurance: Because many uninsured do not have access to employer-based coverage, analysts suggest that tax credits for individual insurance would be an effective solution. Given rural residents’ looser connection to the full-time, year-round employment market, this option could have a distinct rural benefit. Seasonal, part-time, and self-employed workers could gain better access to private coverage that was portable if work circumstances changed. However, the lower incomes of rural residents suggest that credits need to be large, and paid when insurance premiums are due rather than as an annual tax refund. Also, without policy to make individual plans more affordable, subsidizing them may not be an efficient use of tax dollars.

For those interested in the Maine Rural Health Research Center’s recent policy brief on public coverage in rural areas, please see: <http://muskie.usm.maine.edu/Publications/rural/pb/Rural-Public-Health-Insurance.pdf>

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