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The Underinsured in Rural America: The Root of the Problem and Possible Solutions

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Outline

- Scope of the rural uninsurance and underinsurance problem
- Why are rural people and families more likely to be underinsured?
- Fitting solutions to the problem
Scope of the Problem: Insurance Coverage and Underinsurance
Insurance Status: Non-Elderly (0-64), by Rural-Urban Residence, 2004-05

- Urban:
  - Uninsured: 16.7%
  - Public: 18.7%
  - Private: 64.6%

- Rural, Adjacent:
  - Uninsured: 19.2%
  - Public: 19.0%
  - Private: 61.7%

- Rural, Not Adjacent:
  - Uninsured: 20.0%
  - Public: 20.8%
  - Private: 59.1%

- Rural, <2,500:
  - Uninsured: 22.7%
  - Public: 27.0%
  - Private: 50.3%
Uninsured All Year*: Non-Elderly Adults, 2004-05

*Among those ever uninsured during the year
Uninsured Rates: Non-Elderly (0-64) Population, 1998 & 2004-05

- Urban: 17.9% (1998) vs. 18.7% (2004-05)
- Rural, Adjacent: 18.5% (1998) vs. 19.3% (2004-05)
- Rural, Not Adjacent: 23.7% (1998) vs. 21.0% (2004-05)
Uninsured Rates: Adults (18-64), 1998 & 2004-05

- Urban: 19.6% (1998), 21.7% (2004-05)
- Rural, Adjacent: 19.9% (1998), 23.6% (2004-05)
- Rural, Not Adjacent: 25.4% (1998), 24.5% (2004-05)
Uninsured Rates: Children (0-18), 1998 & 2004-05

- Urban: 14.5% (1998), 11.8% (2004-05)
- Rural, Adjacent: 15.8% (1998), 8.5% (2004-05)
- Rural, Not Adjacent: 20.6% (1998), 11.3% (2004-05)
The Problem of Underinsurance Has Been Discovered in Rural, Farm States

“Health premiums distress families down on the farm”, Times-Herald, Vallejo, California, July 29, 2008

“California's Farmers and Ranchers Hit Hard by Health Care Costs”, Reuters, July 2008

“Farmers struggling with insurance costs”, Fox News Des Moines, Iowa, September 2007

“Healthcare costs imperil American farm and ranch families”, League of Rural Voters, November 2007
Underinsurance in Rural America

- Overall estimates of the problem are highly dependent on how “underinsurance” is defined
- Based on multiple definitions, rural residents are at risk of being underinsured
  - Gabel, McDevitt, Gandolfo, Pickreign, Hawkins & Fahlman (2006)
  - The Access Project (2007)
Based on the 2001 & 2002 Medical Expenditure Panel Survey (MEPS)

Compared rural-urban underinsured rates for privately insured based out-of-pocket (OOP) costs for medical care

Considered OOP costs in raw dollars, as a proportion of expenditures, and of income (10%/5% as advanced by Schoen et al.)
Percent of Privately Insured with $1000 or more in Out-of-Pocket Costs, 2001-02

Percent of Total Medical Costs Paid Out of Pocket by Privately Insured, 2001-02

Underinsurance Among Privately Insured (10%/5% Definition), 2001-02

Gabel et al. (2006)

- Used MEPS and KFF/HRET Employer Benefits Survey (2000-04) to assess the relative “generosity” of private employer-based health plans.

- Developed measures of “actuarial value” and “adjusted price” that standardize benefits and cost-sharing to allow for uniform comparisons.
### Deductibles in Private Employer Plans

<table>
<thead>
<tr>
<th></th>
<th>% with Deductible</th>
<th>Mean Deductible ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>69%</td>
<td>$463</td>
</tr>
<tr>
<td>Urban</td>
<td>43%</td>
<td>$437</td>
</tr>
<tr>
<td>Small Business (1-49)</td>
<td>52%</td>
<td>$599</td>
</tr>
<tr>
<td>Large Business (50+)</td>
<td>44%</td>
<td>$386</td>
</tr>
</tbody>
</table>

Actuarial Value of Plans
(Gabel et al. 2006)

-adjusted, actuarial value of rural plans lower than urban, with rural residents paying more for the same policy

- The three states with the lowest actuarial value were Iowa, Mississippi and Montana

- Controlling for firm size and plan type (PPO, POS, indemnity), urban plans still of higher actuarial value
2007 Health Insurance Survey of Farm and Ranch Operators

- Collaboration between the Access Project, Brandeis University and University of North Dakota Center for Rural Health
- Telephone survey of 2,000 non-corporate farm/ranch operators

2007 Survey of Farm Families

- Families on average spent $7,247 annually on insurance premiums and out-of-pocket costs, while individuals spent $3,619.
- Heavy reliance on individual policies with high out-of-pocket spending on premiums and cost sharing.

“We just make the deductible and then the year is over, so we never really feel the benefit from having the insurance. We are paying everything at 100%. If the deductibles were lower and the cost not so high, it would benefit the farmers and ranchers.”

Impact of Underinsurance

- Underinsured have access problems similar to uninsured: forgo/delay care, face medical debt, lack confidence in ability to access care (Schoen et al., 2005)
- 75% of medical-related bankruptcies filed by persons with insurance coverage (Himmelstein et al., 2005)
- Underinsurance exacerbates some rural health care providers’ financial stress
Factors Contributing to Rural Underinsurance
Population, Employment, and Insurance Market Differences

Population/Health Status
- Lower wages and lower incomes
- Poorer health, more chronic conditions

Employment
- More self-employed
- Smaller employers
- More part-time, seasonal workers
There are Also Significant Insurance Market Differences

- “Actuarial value” of health plans tends to be much lower in rural states (Gabel et al., 2006)
- Individual insurance market is more important for rural residents (Coburn, Ziller et al., 2005)
  - “Value” of those individual policies (cost/benefits) is much lower (Gabel et al., 2006)
- Likewise, rural ESI depends on small group market where value of insurance is lower
Fewer Safety Net Resources May Increase Rural Underinsurance

- Availability of free or reduced-cost care in rural areas is not known
  - Rural areas tend to have fewer formal safety net providers (e.g., public hospitals)
  - Rural providers less able to cross-subsidize free or reduced-cost care?
Policy Options
Reform Strategies: Rural Considerations

- Individual and/or employer mandates
- Expand higher value private coverage: ESI and individual plans
- Expand public coverage
- Strengthen the rural safety net
Individual and/or Employer Mandates

- Individual mandate without adequate subsidies likely to lead to coverage that promotes underinsurance and access problems
- Employer mandate impact depends on exemption levels
- Potential disproportionate effect on rural employers and employment with potentially serious impact on rural economies
Private Coverage: Expanding and Improving Individual Plans

- Individual market fixes: equalize tax deductibility, tax credits, reduce administrative expenses (e.g., Connector), insurance regulation, high risk pools, reinsurance

- Affordability and risk rating: Rural residents face higher costs due to age and chronic illness. Danger in expanding access to low-value plans that perpetuate underinsurance.
Expand ESI

Premium subsidies:

- Tax credits: Higher subsidies likely to be needed to purchase adequate coverage for low- and middle-income consumers
- Premium subsidies: High premiums make subsidies expensive; high administrative costs; high-deductible and consumer-driven plans can exacerbate underinsurance
Expand Public Coverage

- High rural take-up rates for previous expansions suggests that expanding public coverage would be a feasible and effective strategy.

- Premium assistance plans would likely be necessary—need standards for such plans to avoid low-value coverage.
Expand Rural Safety Net

- Expand direct subsidies to rural health care providers to subsidize un- and underinsured:
  - subsidize Rural Health Clinics (RHCs) for uncompensated/charity care
  - Expand Community Health Center program
Final Thoughts

- Not all rural is the same: problem more acute in non-adjacent rural areas
- Important to take income and employment differences into account in reform
- Public coverage especially important in rural America
- Expanding individual coverage and ESI more challenging without mandates
- Mandates will require significant subsidies to compensate for income differences.