

Research & Policy Brief

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Small and Rural: The Double Jeopardy in Expanding Employer-Based Health Insurance Coverage

The small business sector is by far the largest breach in our employer-sponsored health coverage system. Approximately two-thirds of the uninsured who are connected to the workforce are employed in businesses of under twenty-five employees. The controversy surrounding an employer mandate centers on the political and operational difficulties of imposing such an obligation on this economic sector.

The problem of insurance coverage in the small business sector has consistently been more severe in rural areas. Coverage barriers for the working uninsured in this sector can derive from one of two sources: their place of employment may not sponsor a group plan; or they may not be eligible for or financially able to take advantage of a plan, despite its availability. This study, based on a survey of small businesses (less than 16 employees) in Maine, identified rural disadvantages along both of these dimensions.

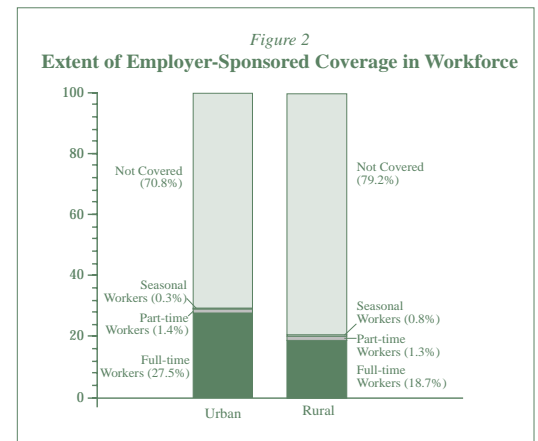
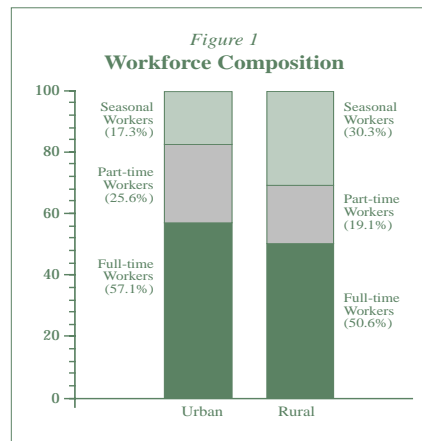
Consistent with national trends, Maine rural small business owners were far less likely to sponsor an insurance plan than were urban small employers. For every ten urban small businesses with coverage, fewer than seven comparable rural firms were insured. This difference in rates of sponsorship could not be explained by business size, years in business, mix of industry type, seasonal employment, or employee turnover.

When asked specifically for the reasons they did not offer coverage, rural small business employers were more likely than urban employers to cite lack of good information, problems with administering a plan, or that the company had been turned down because it was too small. Further, rural business owners were more likely to say that they are not interested in providing insurance. These responses may indicate a history, in rural areas, of reduced access to the brokers and agents on whom small businesses rely for insurance policy information. Further, the fact that rural businesses expressed less interest in insurance coverage may reflect less labor market competition from businesses with richer benefits, than might be found in urban labor markets. Alternatively (or in addition), this attitude could reflect a different business culture in rural areas in which employer-provided health coverage is not considered the norm.

Among all the small businesses where employer plans were available, employee participation was remarkably low, a phenomenon largely attributable to large numbers of seasonal and part-time workers in these small firms. This problem is even more

significant among rural businesses which have a higher concentration of seasonal employees (Figure 1). Thus, rural small business employees are doubly disadvantaged. Not only are their employers less likely to offer a plan, but even where a plan is available, the employees are less likely to be enrolled. The cumulative effect of these two factors is illustrated in Figure 2.

These rural coverage problems may not be easily remedied through policy initiatives. Incentives such as changes in tax treatment, reduced cost of coverage or small business subsidies do not address the labor market characteristics and cultural norms which discourage the adoption of health benefits coverage by



small rural employers. Similarly, there are likely to be high rates of non-compliance with employer mandates without accompanying initiatives to address structural and informational barriers.

If employers are to be the point of access to health coverage in rural areas, policymakers need to consider the characteristics of these communities. Among the issues that have to be addressed are the following:

- ◆ the need for enhanced marketing, brokering and insurance information dissemination to rural employers and employees;
- ◆ subsidy arrangements for both employers and employees which can accommodate seasonal fluctuations in cash flow; and
- ◆ methods for fairly distributing employer premium obligations for workers with more than one job.

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