The Causes and Consequences of the Rural Uninsured and Underinsured

a series examining health care issues in rural America

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Access to health care is one of the most compelling social, economic and political issues in the United States. In the early 1990s, the Clinton administration attempted to address health insurance through publicly sponsored universal coverage. However, no plan emerged from Congress and 15 years later the problems seem to be worsening.

Recent estimates show that about 47 million Americans lack health insurance, millions more are underinsured and health care costs continue to spiral.

Numerous reports have documented the problems of adequate insurance coverage. Among them, a 2004 report of the Center for Rural Affairs entitled *Health Care in Rural America*[20] outlines the parameters of the problem for rural citizens. This report continues the discussion by examining some recent research that delves into the causes and consequences of inadequate health care financing in rural areas.

There are many similarities between urban and rural areas regarding insurance coverage, yet critical differences exist. Health insurance is particularly important for rural areas as they have older, poorer and less educated populations that typically need more health care.[1] And while health care is an important part of any sound economy, rural economies are often more vulnerable to problems. Yet, a simple delineation between urban and rural does not always work, because rural areas differ in terms of their health care situations. For instance, problems with insurance are generally worse in more remote rural areas. Nevertheless, generalities about the state of rural health care financing are useful and instructive in understanding problems and crafting solutions.

This report details the unique situation of rural America when it comes to health insurance coverage by first looking at how rural citizens get insurance coverage and how it differs from urban America. This is followed by a review of recent research that explores some of the most important obstacles in attaining health insurance, particularly through employment. Next, the problem of underinsurance—insurance coverage that is inadequate—is considered within the rural context. Finally, the impact of inadequate financing for health care is examined, paying particular attention to the effects on the community as a whole.

How Does Rural America Get (or not get) Health Insurance?

Rural people, like urban residents, receive health insurance in three ways: through employment, individual purchasing and public insurance. Similar to urban residents, the rural insured rely on employers as the main source for insurance. However, urban residents are significantly more likely to get coverage through their employer. Overall, about 72 percent of the urban non-elderly have insurance through their employers, compared to approximately 61 percent of the rural non-elderly.[2]

There are two main reasons why rural workers are less likely to get coverage through their employment. First, a higher percentage of employment in rural areas comes from small businesses. Approximately 50 percent of rural

employees work for small businesses (i.e., fewer than 20 employees), significantly more than the roughly 37 percent of urban employees working for small business. People working for small businesses are twice as likely to be uninsured.[2] In fact, the most significant predictor of uninsurance in rural areas is the amount of small business employment. Second, rural workers are much more likely to work in low-wage employment. Workers making about seven dollars per hour are three times more likely to be uninsured.[3]

The amount of self-employment, another distinguishing characteristic of employment in rural areas, can be linked to greater health insurance vulnerability. About 33 percent of rural residents are self employed, a much higher rate than the roughly 21 percent of self-employed urban residents.[2]

Self-employment provides unique challenges to providing adequate health insurance coverage.

Public insurance is also a more important source of insurance in rural America than in urban areas. The demographics of rural America—older and with lower incomes, on average—make rural people more likely to have the need and eligibility for public programs, such as Medicare and Medicaid. Almost 16 percent of rural non-elderly residents rely on public insurance, compared to slightly less than 11 percent of urban non-elderly residents. There is a higher reliance on Medicare, as 23 percent of the rural elderly population receives Medicare benefits, compared to 20 percent of urban residents.[2]

Rural Voices: Barriers to Employment-Based Coverage

Since World War II, employment has been the most widely used means of providing health insurance. For many years there were only limited problems with this format as businesses were generally able to provide this benefit without a substantial drain on their operations. However, exploding health care costs have shaken this pillar of health insurance access, and many question the long-term viability of using employment as the major means of providing insurance.

As noted, the impact of rising costs of coverage is particularly problematic in rural areas where there is a higher percentage of workers employed by small businesses and in low-wage employment. While there is substantial research using statistics to describe the problems of uninsurance in rural America, often the voices of those who are actually involved in the issues are buried beneath the numbers. In their recent research, Mary Burman, Sydney Mawhorter and Fred Van Heede listened to the voices of rural America about the barriers to health insurance in rural Wyoming. Using focus group analysis and key informant interviews with individuals, businesses and health care providers in rural areas, they found that several factors affect insurance accessibility.[4]

Individuals cited cost as the number one reason for not being able to acquire insurance. Focus group respondents illustrated the stark financial realities of the working poor in rural areas. For instance, one focus group respondent noted that when an individual makes $7.50 an hour working 40 hours a week, the $80 premium due every two weeks was simply too much. Other important barriers mentioned by the focus group participants included age and having a pre-existing condition.[4] Employers also listed cost as one of the most important obstacles in providing their employees health care.

While employers generally wanted to provide their employees health care, in many cases it was not financially feasible.[4]

The affordability of health care is particularly problematic for rural employers as they face an aging workforce,

which requires higher premiums to pay for more and more demanding health care needs. For small businesses with only a few employees, even one employee with significant health problems can make the overall cost of providing insurance simply not possible. Also, many rural businesses rely heavily on part-time or seasonal workers, who are often ineligible for health insurance. Without enough full-time employees, a business cannot qualify for a group insurance plan. These problems are compounded by the fact that there is limited competition among insurance providers in rural areas, leaving business owners feeling they have little choice in insurance plans.[4]

Cost was not the only barrier described by employers. The amount of paperwork demanded for employee insurance coverage was noted as a significant problem. The paperwork problem is exacerbated by ever-changing insurance rules and regulations.[4] Small business owners often do not have the time or support staff to keep up on evolving insurance paperwork.

In reaction to these difficulties, particularly in response to cost, employers reported experimenting with ways of providing affordable health care to their employees, including sharing the cost of premiums with their employees, sharing the cost of deductibles, using a national union to provide coverage or paying their employees extra so that they could buy individual coverage.[4] Some employers are also turning to new products such as high-deductible plans, Health Savings Accounts or Medical Savings Accounts. While understandable, these strategies often force employees to make tough decisions about dropping coverage or accepting inadequate plans.

The Pitfalls of Public Insurance

The current role of government in financing rural health care has provided many obvious benefits, but it can also be problematic. The problems stem from the lower reimbursement rates for services provided in rural areas compared to urban areas. According to the National Rural Health Association, Medicare spending per capita in rural America is only 85 percent of the national average. The Medicare payment-to-hospital ratio for rural America is only 90 percent, compared to 100 percent for urban areas.[8] This means that rural providers earn less than urban providers for the same day's work and services. And the trend of underpayment does not seem to be getting any better. For instance, in the predominantly rural state of South Dakota it is expected that changes in Medicare through 2009 will decrease the revenue of South Dakota physicians by about $30 million. This means that on average South Dakota physicians will lose about $16,000 in revenue by the end of 2009.[9]

Disparity in Rural and Urban Reimbursement Rates

	Rural	Urban
Population covered by private insurance	64%	69%
Population who are Medicare beneficiaries	23%	20%
Medicare beneficiaries without drug coverage	45%	31%
Medicare spending per capita compared to USA average	85%	106%
Medicare hospital payment-to-cost ratio	90%	100%
Percentage of poor covered by Medicaid	45%	49%

Source: National Rural Health Association, 2008

The condition of Medicaid is particularly troublesome. As Medicaid costs increase and budgets become more unstable, states continually seek ways to control and cut costs, leaving this important source of health care coverage in a constant state of vulnerability to changing budget situations. Given how much rural providers rely on payments from public insurance, rural America is hurt by inadequate reimbursement rates and funding streams. The impact of inadequate coverage from public programs is considered in more detail in the next section.

The Causes and Consequences of the Rural Uninsured and Underinsured

Insured, but Not Enough

In recent years, underinsurance has been detailed as a significant and growing problem in rural areas. Underinsurance occurs when an individual or a family has insurance but the plan does not significantly prevent undue burden from health care costs.

Erika Ziller, Andrew Coburn and Anush Youseflan examined a national data set of 23,314 people (collected in 2001-2002) who live in urban areas, rural areas adjacent to urban areas, and rural areas non-adjacent to urban areas to determine if the problem of underinsurance differs by these regions.

> Underinsurance is defined by the researchers as out-of-pocket spending that exceeds 10 percent of family income, or five percent if the household income is 200 percent below the federal poverty level.[5]

They found that rural non-adjacent communities experience the greatest challenges with underinsurance. Seventeen percent of privately-insured rural non-adjacent residents spent more than $1,000 out-of-pocket on health spending, compared with only 13 percent of urban residents and 14 percent rural adjacent residents. In terms of total financing of health care, urban residents were responsible for 32 percent of their total health care costs, while rural non-adjacent residents paid 39 percent of their total costs.[5]

Using the definition of underinsurance described above, six percent of urban residents were underinsured, 10 percent of rural adjacent residents were underinsured and rural non-adjacent residents were twice as likely as urban residents to be underinsured (12 percent).[5] Thus, one out of eight rural non-adjacent residents is underinsured. Even when taking into consideration several demographic influences and health status, rural non-adjacent residents were still 70 percent more likely to be underinsured than urban residents.[5]

Like non-insurance, underinsurance is tied to the structure of business in rural areas. While there is not a significant difference in the premiums between smaller and big business, small businesses generally have higher deductibles and coinsurance requirements.[5] With an employment structure of small business, self-employment and low wages, rural residents are more likely to rely on individual and small group markets, leaving them subject to higher costs from administrative and loading fees (marketing costs, risk premiums, reserves and profits) and subject to greater vulnerability to price increases. For example, administrative and loading costs for large groups are set around 10 percent. This percent jumps to around 20-25 percent in the small group market, and 30-35 percent in the individual market.[2] This inequality is compounded by lower average income levels for rural residents. As a result, many rural residents must spend a higher proportion of their income for health insurance coverage.[2]

The problem of inadequate coverage is striking when considering one critical population in rural America, family farmers and ranchers. In 2006, The Access Project used survey data from over 2,000 non-corporate farm and ranch owners in Midwestern states to see how health insurance affected individuals and families involved in agriculture. Even though 95 percent of non-corporate farmers and ranchers had health insurance, it is clear that the coverage was generally inadequate. Twenty percent of the respondents said they had debt for medical expenses and around 25 percent reported that medical expenses "contribute to their financial problems."[10]

The main reason for the inadequate coverage is likely due to the fact that many family farmers and ranchers have to buy individual health insurance policies. Compared with group policies often offered by employers, individual policies generally provide less comprehensive coverage with high deductibles and co-pays. While only eight percent of the general population has individual policies, The Access Project found that around 33 percent of family farmers and ranchers surveyed relied on such policies.[10]

The Causes and Consequences of the Rural Uninsured and Underinsured

Inadequate coverage has significant long-term consequences for self-employed farmers and ranchers. For them, medical debt may not only hurt their individual finances, but it can put their farming and ranching business in jeopardy for a variety of reasons.

- Large portions of farm and ranch family wealth is generally nonliquid, tied up in assets they need for their operations (e.g., land). Using scarce liquid assets to pay for medical bills removes valuable cash flow that could be invested in the business.

- Farm and ranch income can vary dramatically from year to year, putting operations with high health care costs in peril during downturns in income.

- Many operators are forced to get health insurance coverage through off farm/ranch employment, often leaving operators and other family members with less time to put into their own businesses.[10]

- Individual policies with less extensive coverage may only be appropriate for younger and healthier people. When farmers and ranchers, an older population working in a relatively dangerous occupation, rely on limited insurance coverage, their health care needs may not be met. If they are not able to work because of illness, the whole operation can suffer.

- Farm and ranch families often have to incur more debt against their operational assets to satisfy medical debt.

As Alan Morgan, president of the National Rural Health Association noted, "You have a population that is in most need of health care services, having the fewest health care resources available."[12]

Inadequate Financing: Everyone Feels the Pain

The impact of uninsurance on individual health is clear and deadly. According to the Center for American Progress, approximately 18,000 people die each year because of a lack of health insurance.[13] Being uninsured has also been linked to overall lower health status, postponement of care and negative experiences with the health care system.[4] However, this is not just an individual problem; it has a multiplier effect on the cost and quality of health care for everyone.

> Uninsured individuals are more likely to receive expensive care from emergency rooms and are less likely to receive care for primary health problems, which can lead to much more complicated and costly care.

Of course, these costs must be paid by someone, often in higher taxes, higher premiums and higher health care costs in general.[14] In fact, the costs attributable to the lack of adequate, affordable health insurance shift to everyone directly or indirectly. It has been estimated that there is a nearly nine percent "hidden tax" on health insurance premiums to provide health care to those without health insurance or with inadequate insurance.[21] In 2005, it was estimated that uncompensated care totaled $43 billion, with two-thirds of that amount paid for by people with private health insurance.

While increased vulnerability to health problems and cost shifting are two obvious and generally well-known ramifications of inadequate insurance coverage, there are also strong and long-term effects on the health and economic well-being of the community as a whole. The negative health care system and community outcomes were noted in a 2003 report by the Committee on the Consequences of Uninsurance of the Institute of Medicine entitled

A Shared Destiny: Community Effects of Uninsurance.[15]

One of the most compelling effects can be found on the financial stability of the local health care system. At the heart of the rural health care system is the rural hospital. As noted, rural providers are often placed in precarious financial positions because of inadequate government reimbursement for their services. If hospitals are not able to receive adequate revenue they may close. In fact, rural hospitals close at a higher rate than urban hospitals. One study found that 17 percent of 246 rural counties were vulnerable to losing their hospitals because their hospitals had, on average, lost money over a three year period.[1]

Losing hospitals can lead to a domino effect with other providers, like physicians. Physicians rely on hospitals to build a foundation for their practice. If the hospital goes, a physician may leave or decide not to come at all.[15] Again this can lead to broader economic consequences. By one estimate, a new physician in a community leads to the creation of $500,000 in additional income and five new jobs.[15] Like other critical services, rural health care can be a magnet that spurs other economic activity in the community. Health care offices can bring people into a community who then stay to shop and spend money in other ways. In a study done for the rural community of Mapleton, Iowa, it was estimated that 66 percent of the community's business was generated directly or indirectly through a doctor's office.[16] Overall, it is estimated that rural health care accounts for about two million jobs and generates about 15-20 percent of jobs in many rural communities, and is often the second largest employer after schools.[2]

Underinsurance is also a problem for rural health care providers. Generally, private insurance is more lucrative for providers than government programs. However, when individuals who are privately insured in rural areas are underinsured, public insurance can actually be better for providers. It is estimated that 46 percent of people who are underinsured are delinquent in payment to health care providers.[5] Some degree of those delinquent payments will be written off, forgiven, decreased or never paid—further contributing to precarious financial position of many rural health care providers. Consequently, one study found that rural providers provide more "safety net" services for their community members than urban providers.[17]

As noted, employment is the most widely-used avenue for health insurance coverage, even in rural America. Having the burden of providing health insurance coverage is especially troubling for small, rural businesses, which are most vulnerable to health care costs. High health costs are often reported as one of the top major concerns of small business owners.[19]

Problems with health insurance coverage can put small businesses at a disadvantage. Larger businesses are more capable of handling health care costs and health care coverage is often seen as a key benefit for attracting and retaining workers. However, health care costs might also put small businesses at a disadvantage with businesses from other countries. Noted author on agriculture and business, Lee Egerstrom points out that Canadian businesses, which operate within a national health insurance system, do not have to pay for health care as a fixed business cost.[18] According to Egerstrom, this difference puts American businesses at a significant disadvantage when competing with companies from countries like Canada where businesses are not burdened by paying directly for employee health insurance.

Problems with health care coverage can also affect potential entrepreneurship. High insurance cost can discourage people from taking the leap from employment to self employment.

Leaving an employer to start up a business includes many financial risks, but the high cost of self-insurance or the risks of going without insurance can be too much.[18] This is particularly troubling for rural areas where small-scale entrepreneurship is so important for economic activity.

Related to the impact of uninsurance on the economic health of a community are the potential ramifications on

community cohesion, a vital component of rural life. The Committee on the Consequences of Uninsurance noted that there currently is no clear empirical research connecting uninsurance and community cohesion, but there are many plausible connections that can be drawn from existing research on community cohesion.[15] The Committee refers to research that suggests that uninsurance may diminish community social capital. High rates of uninsurance in a community can lead to a weakened belief by residents that they can take care of themselves or their community. It likely reflects other social ills such as high income inequality. On the other hand, strong social cohesion might have a positive influence on strengthening community health services, as it has been shown to have on the effectiveness of local government. Also, a community with a strong collective ethic may be more inclined to provide services for people who fall between the cracks of the health financing system.[15]

Conclusion

Clearly, rural Americans face more structural barriers to adequate health insurance coverage than urban Americans. With an economic foundation of small businesses, self-employment, and low wages, rural communities are not well served by a health insurance system that relies on employer-based coverage. Many families are forced to purchase from the individual insurance market where they all too often wind up underinsured, with coverage that costs too much and provides too little. Those who can't afford the significantly more expensive individual packages must go without or rely on public insurance. Unfortunately, these primary means of getting (or not getting) health insurance translate into weaker rural communities. A community's economic development, community cohesiveness, and health care infrastructure are all threatened by a lack of affordable health insurance that results in more families without health insurance or less than adequate insurance. And we all pay for the sky rocketing costs of health insurance. Like most issues facing rural America, everyone is in it together.

For healthier communities across rural America, health care reform must address the failings of our current employer-sponsored health insurance system. The most important move for legislation towards this end is to provide choice—including a public health insurance option—for small businesses and the self-employed. These options must provide comprehensive, affordable coverage in ways that are comparable to larger group coverage. Moreover, public insurance must better compensate rural health care providers to help alleviate issues related to the lack of affordable health insurance for many. Without these reforms, rural places and rural people will continue to suffer from a health care system that does not work for them.

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Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.