



Why Rural America Needs a Public Health Insurance Plan Option

a series examining health care issues in rural America



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The inclusion of a public health insurance plan in health care reform legislation as an option for individuals, families and businesses promises to be one of the most controversial and crucial decisions made by Congress. With the myriad health care challenges facing rural people and rural communities, the decision on whether to include a public health insurance plan option has significant potential consequences for rural America. Rural America has much to gain or lose from the public health insurance plan decision.

As we have written before, the potential strengths of public health insurance plans are what many rural people and businesses need—stability and cost controls while providing health insurance access to vulnerable populations like low- and moderate-income families, small business employers and employees and the self-employed.^{1,2} This paper will examine some of the arguments for a public health insurance plan, how the public health insurance plan would address the health care challenges that exist for rural areas, and, ultimately, why the choice of a public health insurance plan option is needed for rural America.

Key Points:

- The cost of health insurance is crushing the self-employed and microbusinesses that form the bulk of the rural economy.
- The availability of affordable and quality health insurance is the primary barrier to entrepreneurship—the most effective rural development strategy—reaching its potential for rural people and rural communities.
- Individual and business mandates with the current system as the only health insurance option are unlikely to address unique rural challenges.
- Workplace characteristics more common in rural areas are risk factors for higher rates of uninsurance, underinsurance and greater dependence on the individual insurance market, conditions all subject to issues of cost, choice and level of coverage that a public health insurance plan could address.
- Public health insurance plan available as an option helps address the rural risk factors leading to rural insurance instability and would act as a backup for all of the rural factors leading to greater insurance instability.
- A public health insurance plan could lead to significantly lower costs for businesses and households. Models show public health insurance plan premiums would be 16 to 30 percent lower than private plans, and premium savings would be up to 41 percent greater with a public health insurance plan.

Reasons Why Rural America Needs a Public Health Insurance Plan Option

Better Coverage and Better Health in Rural Areas

Rural America has higher rates of uninsured adults under 65, with 24 percent of such rural adults uninsured compared to 22 percent in urban areas.⁵ The gaps grow wider in rural areas nonadjacent to urban areas and in more remote and smaller rural areas.⁷ For all uninsured, it is clear that a lack of insurance coverage results in less health care services and poorer health outcomes. For the rural uninsured, ultimate health status has much to do with

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health insurance coverage and the type of health insurance coverage. The Kaiser Commission on Medicaid and the Uninsured found that despite an older population and higher rates of disability and chronic conditions in rural areas—which should require higher health care utilization—rural residents actually receive comparable or less care in many measures than those in urban areas, suggesting that rural residents may not be receiving adequate care.⁶

The result of less than adequate care is worsening health status and increasing chronic conditions—exactly the case in rural America. To provide the needed tests, checkups and care—particularly preventive care—more rural Americans need affordable and quality health insurance options.

The different and improving circumstances of uninsured rural children provides lessons for health care reform efforts. In 1997, one-third more rural children were uninsured than urban children. By 2005, the situation was reversed. While uninsured rates declined in both rural and urban areas, by 2005 more urban children were uninsured, and the rural uninsured rate had been cut by more than half. The reason was a significant increase in the number of children enrolled in public health insurance programs, particularly the State Children’s Health Insurance Program (SCHIP).⁵ An expansion of coverage—and health care services—for a large segment of the uninsured rural population shows how a public health insurance plan could expand coverage and needed health care services for other segments of the rural population.

A system that relies on private, employer-based insurance does not provide effective alternatives for many rural uninsured. Rural areas already have lower rates of employer-provided coverage and the rural uninsured have weaker connections to formal employment; for example, the rural uninsured are more likely to be families without any full-time workers or to be self-employed.^{5,7,8} The rural uninsured also tend to have lower family incomes; nearly 60 percent of uninsured rural adults have income below 200 percent of the federal poverty level (approximately \$42,400 for a family of four under the 2008 guidelines) compared to half of urban uninsured.^{7,8}

Therefore, a system that relies on costly private insurance and attempts to strengthen employer-provided insurance, no matter how regulated or reformed, will be irrelevant to a large number of rural people. The alternative espoused by many is to pour massive government-funded subsidies for low-income individuals and families and small businesses into private coverage that has resulted in inadequate coverage and medical debt for many rural individuals and families.

As discussed herein, the current health insurance system is unstable and risky for many rural individuals and families. Ultimately, insurance instability leads to poorer health. Research has shown that insurance has the greatest association with health care utilization and that the uninsured are 60 percent less likely to use health care and medical services.²¹ This effect is even greater for the rural uninsured—the fact of rural residence lowers the likelihood of the uninsured seeing a physician during a previous 12 month period.²¹ And the longer one is without insurance, the more likely one is to suffer adverse health consequences.²⁰

With evidence that rural people may actually obtain fewer health and medical services than they should considering their age and health status, there appears to be a clear correlation between the lack of adequate insurance and fewer preventive tests and procedures.⁶ The primary goal and outcome of health care reform should be to help make healthier individuals and families. The bottom line of lower rates of health insurance coverage and insurance instability is sicker people in rural America.

Most proposals now being discussed in Congress contain the so-called “individual mandate” and business mandate requirements that every individual purchase or be covered by health insurance with limited exceptions and that every business offer health insurance to full-time employees (generally with small business exceptions). The interrelationship of an individual mandate and health insurance options contains many pitfalls for rural individuals

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and families. How rural residents and families comply with such a mandate given the economic circumstances and the issues related to current insurance coverage will determine the relevance of health care reform to vast numbers of rural individuals and families.

As the Maine Rural Health Research Center has noted, rural residents are less likely to purchase voluntary plans because of lower incomes and are “more likely to face financial hardship under a mandatory program.”⁵ Further, the business mandates are less likely to be effective in rural areas with small businesses and part-time employees exempted—a large percentage of businesses in rural areas will be exempted, the vast majority of the rural uninsured are connected to small businesses, and higher rates of rural part-time workers are uninsured.⁷ These mandates, intended to expand health insurance, will only perpetuate the costly and inaccessible status quo for many rural people and businesses. Rural people need insurance options that provide both affordable and quality coverage, characteristics a public health insurance plan option is likely to provide.

Rural reliance on small businesses and self-employment, lower rural incomes, and the characteristics of the rural uninsured beg for more health insurance options for rural individuals and families. These unique rural traits and the familiarity rural people have with public health insurance programs demonstrate that a public health insurance plan could greatly enhance rural insurance coverage by providing an option that could benefit rural families. Requiring individuals and families to purchase health insurance and then providing the current system that leaves too many without insurance or with inadequate insurance as the only option does little to address unique rural challenges.

Strengthen and Build the Unique Rural Economy

Workplace characteristics more common in rural areas are risk factors for higher uninsured rates.⁷ The rural economy is largely based on self-employment and small businesses. Since 1969, the number of self-employed workers in rural areas has grown by over 240 percent. By comparison, rural workers who are paid wages or salaries witnessed only a 61 percent growth over the same period.⁹ Approximately 50 percent of rural employees work for small businesses (fewer than 20 employees), compared to the roughly 37 percent of urban employees working for small businesses.¹⁰ About 33 percent of rural residents are self-employed, compared to the roughly 21 percent of self-employed urban residents.¹⁰ Workers in low-wage employment (about seven dollars per hour) are three times more likely to be uninsured, and are more likely to be rural workers.¹¹

Generally, rural residents receive less and pay more for health insurance. Rural residents living nonadjacent to urban areas are responsible for nearly 22 percent more of their total health care costs (premiums and out-of-pocket costs) than are urban or rural residents living adjacent to urban areas.¹² Furthermore, the odds of rural residents being underinsured are 70 percent higher than for urban residents, suggesting the “actuarial value of private health plans held by rural residents is lower than for urban residents.”¹²

The cost of health insurance is crushing many small businesses, particularly the self-employed and microbusinesses that form the bulk of rural businesses and job creation. According to a 2008 survey by the National Association for the Self-Employed (NASE), microbusinesses are spending a median of nearly six percent of their total sales on health insurance benefits, an increase of over 48 percent since 2005. Health insurance cost increases are also significant for the self-employed; according to the NASE, they are spending over 28 percent more of their total sales on health insurance compared to three years ago. And most significant for the health care reform debate—the number of microbusinesses that provided health care coverage to full-time employees declined by nearly 60 percent from 2005 to 2008, so that now less than one-in-five microbusinesses provide health insurance to their full-time employees.²⁷

In response to premium increases, nearly all small businesses who do provide coverage to employees also are either switching to policies that require greater out-of-pocket costs and/or cover fewer services.³⁰ It is no wonder that 69

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percent of the rural uninsured (compared to 60 percent nationally) are owners and workers in small businesses they simply cannot afford private health insurance and the double-digit increases year after year.^{7,13,14}

Issues of cost and inadequate coverage for family farmers and ranchers, a critical population in rural America, are striking. In 2007, The Access Project surveyed over 2,000 family farm and ranch owners in Midwestern states to see how health insurance affected individuals and families involved in agriculture. Even though 95 percent of family farmers and ranchers had health insurance, it is clear that the coverage was inadequate for many. 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.”¹⁵

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 frequently offered by employers, individual policies generally provide less comprehensive coverage with high deductibles and co-pays. While only eight percent of the U.S. population has individual policies, the survey found that around 33 percent of family farmers and ranchers relied on such policies.¹⁵

The cost of health care premiums and out-of-pocket expenses was twice as high for those farm and ranch families purchasing insurance through the individual market compared to costs in employer-provided insurance; individual market costs were nearly three times higher than those who received health care from government-sponsored programs.¹⁵ Inadequate and costly coverage have significant long-term consequences for self-employed farm and ranch families. Medical debt not only influences individual finances, but can put farm and ranch businesses in jeopardy due to the need to use savings and other assets to pay debt, the need to incur additional debt and/or the inability to invest in the business. Given the similarities between insurance costs and the lower rates of employer provided insurance in all of rural America, the outcomes are likely the same for non-agricultural rural small businesses.

The conditions rooted in the rural economy—greater risk of being uninsured, more underinsured, and more dependent on the individual insurance market—are all subject to issues of cost, choice and level of coverage. A properly designed and functioning public health insurance option would address these issues and force private plans to address them to the benefit of rural people.

All these results from the current health insurance system have long-term consequences for the rural economy. The rural economy is based on entrepreneurship, both agricultural and non-agricultural, and entrepreneurship has been lifted up as an economic development model that will better serve rural people and rural places. For example, the Federal Reserve Bank of Kansas City states that, “Rural policymakers, who once followed traditional strategies of recruiting manufacturers that export low-value products, have realized that entrepreneurs can generate new economic value for their communities. Entrepreneurs add jobs, raise incomes, create wealth, improve the quality of life of citizens, and help rural communities operate in the global economy.”¹⁶ Spurring innovation and job creation in rural communities through entrepreneurship is the key to revitalizing rural communities and ensuring the long-term future of rural America, where many areas suffer from high poverty, low incomes and declining populations.

Yet the lack of availability of affordable and quality health insurance is the primary barrier to entrepreneurship reaching its potential for rural people and rural communities. The cost of health insurance prevents small businesses and entrepreneurs from expanding their businesses and creating jobs; the cost of health insurance makes it less likely for rural small businesses to provide health insurance to their employees, affecting the health of their employees and making it more likely they will seek employment in urban areas. The cost of health insurance also affects the dreams of potential rural entrepreneurs, delaying or killing an idea by making it too risky for one to

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leave employer-provided insurance at a current job, the so-called “job lock” phenomena.

It is estimated that nationally 1.6 million small business employees suffer “job lock,” roughly six percent of all small business employees.²⁴ Overall, it is estimated that job mobility is reduced by nearly a third because of employer-provided health insurance, particularly among married men aged 25 to 55.^{28,29} Because of the dominance of small business in the rural economy, the percentage of rural small business employees suffering “job lock” is likely higher. The cost and inadequacy of health insurance creates debt, requiring business owners to delay expansion and investment in the business, farm or ranch. The cost and inadequacy of health insurance is killing the entrepreneurial dreams and opportunities needed to reinvigorate much of rural America.

Properly developed and administered, a public health insurance plan could provide an affordable and quality choice to benefit the entrepreneurs of rural America. It would provide a coverage option that does not currently exist for rural small businesses to provide health care coverage for owners and employees, and for rural families that are pursuing their entrepreneurial dreams.

Competition, Corporations, Choice

Rural Americans are well aware of what occurs when a marketplace contains too few competitors. Farmers and ranchers, particularly small and medium-size operations, are well-versed in being left without access to markets, or certainly access to competitive markets when grain and livestock markets are dominated by only a few companies that can set unfair or discriminatory prices. Rural retail business and customers are also familiar with the results of mega-retailers moving into the community or a nearby town—low prices that entice customers and often put the locally-owned business out of business with no assurances the low prices will continue.

The history of rural America in the industrial age is very much one of consolidation and the consequences of corporate mergers and corporate power, whether it is in agricultural, mining, forestry or main street businesses. Rural people, rural businesses, and the economy of rural communities are in large measure at the whim of corporations located in faraway cities and whose decisions are made by unknown people in distant boardrooms.

Consolidation and a lack of competition apply to health insurance costs as well. The recent report *Premiums Soaring in Consolidated Health Insurance Market* shows that in the past 13 years more than 400 corporate mergers have involved health insurers, resulting in a “small number of companies” now dominating local markets.¹⁸ During the same period, average health insurance premium growth outpaced average wage growth in the United States by over 300 percent.¹⁸

These concentrated health insurance markets appear to affect smaller, predominately rural states more than larger states. According to the report, of the 10 states with the most consolidated health insurance markets, only two Hawaii and Rhode Island—have a rural population of less than 30 percent of their total populations. States such as Alaska, Vermont, Alabama, Maine, Montana, Wyoming, Arkansas and Iowa—all with large rural populations—face a combined market share of their two largest health insurance companies of between 80 and 95 percent.¹⁸

With concentration and consolidation comes a lack of choice. As discussed throughout this paper, a lack of health insurance choice for rural individuals, businesses and families has myriad consequences—higher costs, greater rates of uninsurance and underinsurance, greater financial stress on health care providers as premiums increase and more cost responsibility is placed on individuals, potentially fewer health care providers as it becomes less economically attractive to practice or provide services in rural areas, and ultimately less healthy individuals and communities.²⁰ Health insurance providers should compete for business rather than rural individuals, businesses and families competing for health care coverage. With health and health care such an important aspect of daily life, choice should be different for health insurance coverage compared to other facets of the rural economy where little or no

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choice is available. Rural people and families deserve health insurance coverage that costs less and covers more. A way to do so is to offer a high quality, affordable public health insurance plan option.

Rural areas are also familiar with being unattractive objects for private, corporate-run segments of the economy. Rural residents and communities have suffered from a lack of private investment in needed items such as electrification and internet capacity primarily because it is difficult to serve rural areas and the lack of population may not allow a sufficient return on private investment. As a result, the public arena has had to step in and provide is necessary technology and services to rural areas.

Health insurance is no different. As a result of income, health status and occupation there are significant portions of rural America that are not attractive to private insurers, or who are out of range of private insurance due to cost. A public health insurance plan may be a means of reaching those rural residents while providing affordable and quality health insurance coverage.¹⁷

Healthy competition does not “require an endless array of choices,” but rather a “reasonable number of meaningful choices.”¹ A public health insurance plan can provide consumers a number of choices on price and coverage features that private insurance does not or cannot provide, while also recognizing that private plans have unique features that may be attractive to consumers.¹ It’s ultimately about competing options and the choices that come out of that competition—something rural Americans are familiar with being denied.

Stability: Coverage When You Need It

A study of Nebraska households found that the median spells of uninsurance were approximately six months for urban residents, 16 months for rural residents, and 22 months for more remote rural residents. In addition, spells are more likely to end for urban residents regardless of the length of the spell.¹⁹ Health care and medical utilization following a spell of uninsurance (that is, once residents gained insurance) also differ by geography. After gaining insurance rural residents increase their utilization.¹⁹ This is a demonstration of the instability of insurance coverage for many rural people and the affect it has on health.

A number of factors work together to place rural residents at greater risk of being uninsured, to destabilize their health care utilization, and, ultimately, to negatively affect their health. The high cost of insurance in the individual market; generally higher insurance premiums in rural areas; the large annual increases in premiums in recent years; less employer-provided insurance; and lower incomes and higher rates of poverty all act together to leave rural residents with a greater likelihood of being without insurance.²⁰

The rural insured are also at risk of losing their insurance—and as the research outlined above suggests, stay uninsured for longer periods—due to rising costs and health status. Taken together, all these rural factors make insurance coverage less stable for rural individuals and families. For many rural people the health insurance they need is not available or could be gone when they need it most.

Families that are denied, lose, or cannot afford insurance have few places to turn—the employer-based system often does not exist, and any other private options generally will provide the same limited coverage at high cost. Relying solely on a private health insurance system too often leaves too many rural residents and rural families without health insurance or without affordable and quality coverage.

The “problem of being uninsured is not a temporary one, certainly not a problem of only a few months” duration.”^{20,22} Reforming and regulating insurance may certainly help some rural residents, but it “does not address what is close to a permanent status of uninsurance among many rural residents” and the health consequences that result.^{20,22} An affordably priced public health insurance plan available as an option helps address the rural risk

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factors leading to being without insurance and rural insurance instability and would act as a backup for all of the rural factors leading to greater insurance instability. More importantly, properly crafted, a public health insurance plan can ensure health insurance coverage that is there when an individual or family needs it and can help make healthier individuals, families and communities.

A Public Plan, the Issue of Cost and Rural

For the self-employed and microbusinesses, health insurance premiums and other health care costs appear to be the primary barrier to obtaining health insurance coverage for business owners and employees. Surveys by the National Association for the Self-Employed revealed that nearly two-thirds of microbusiness owners and self-employed cited "cost/affordability" as the most important factor in terms of health insurance coverage, the most popular response.²⁷ In another survey, nearly a third of uninsured self-employed or microbusiness owners cited "cost affordability" as the main reason they were without health insurance, again the most popular response. Of those indicating they had been uninsured at some point (almost three-quarters), nearly half indicated that the main reason they had been uninsured at some point in time was because they were unable to afford premium costs. Close to half of survey respondents indicated that they would be most encouraged to purchase health insurance if insurance premium costs became more affordable.²³

With a rural economy dominated by the type of businesses citing cost as the primary barrier to health insurance and with rural population median family income nearly a quarter less than urban family income, options that make health insurance more affordable are critical. As discussed elsewhere in this paper, expanded coverage in rural America has the potential to create more entrepreneurial opportunities, help spur job creation and economic development in rural communities, and make individuals, families and communities healthier.

A public health insurance plan would have much lower administrative costs than private plans and has the potential for larger volume discounts in paying for care because of its potential broad reach.¹ A public health insurance plan also does not have to earn a profit like many private plans must. Thus, a public health insurance plan could offer significantly lower premiums, estimated at a 20 to 30 percent advantage over private plans.^{1,25,26}

A recent study examining different paths to health care reform also found that a public health insurance plan, depending on the provider reimbursement rates, would have average annual premium costs of 16 to 25 percent below current private health insurance premiums.³¹ Over 10 years (2010 to 2020) the lower premiums from a public health insurance plan could produce up to \$78 billion in employer savings, and between over \$1,600 and over \$2,200 in average annual household savings.³¹ Under these models, a public health insurance plan would save American households up to 41 percent more in premium savings than would private plans, and American businesses would realize cost savings of between 255 percent and 842 percent more under a public health insurance compared to private plans.³¹

Over time, a benefit of the public health insurance plan would be the competition it potentially provides to private plans and the cost savings realized from such competition. A pillar of American capitalism is the benefit consumers derive from competition, and a public health insurance plan, properly constructed, would make health insurance truly competitive.

What a Public Health Insurance Plan Option Should Contain

For a public health insurance plan to meet the needs and challenges of rural individuals, families and businesses, it must contain the following:

- True accessibility as an option that is available to anyone who chooses to participate (including individual and

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group plans and available to businesses) and with subsidies on a sliding scale for individuals, families and small businesses that can be used to purchase either public or private health insurance plans. Subsidy levels should also take into account potential geographic differences in pricing of available plans in the proposed Health Insurance Exchange. If health insurance premiums end up higher in rural areas, as they are now, subsidies that are consistent no matter the location will have less effect for rural people and businesses. The public plan should also be designed to avoid adverse selection so that poorer and sicker citizens are not the exclusive purchasers and consumers of any plan.

- Affordability through real bargaining and negotiating power to control costs and compete with private plans.
- High quality by providing coverage that is adequate for preventive care and mental health services as well as normal health care needs and which limits health care costs (premiums and out-of-pocket costs).
- Fair competition with private plans so that the choice of public or private plans are true choices based on “level playing field” criteria and coverage.
- Nondiscriminatory by not excluding those with pre-existing conditions, through elimination of premium markups due to health status (with the possible exception of tobacco use), minimizing premium variations based on age and family status, and providing a standard coverage package. Such provisions will help promote entrepreneurial activity in rural areas and discourage “job lock.”
- Stability by making a public health insurance plan a national plan (which could be administered in lower units of government such as state or regional plans), but which provides the same level of coverage and quality everywhere.
- Equitable to rural areas by providing rural provider reimbursement rates that have less disparity than exist under current public programs such as Medicare. The enhanced coverage and lower costs a public health insurance plan could bring to rural people are of little consolation if rural providers are unable to provide services to public plan consumers if the reimbursement rates are too low. The public health insurance plan should also recognize the importance of special reimbursement rates established by Congress for Critical Access Hospitals, Rural Health Clinics, Sole Community Hospitals, Medicare Dependent Hospitals and Rural Referral Clinics. Rural areas already face a crisis in access to health care providers, especially primary care providers. A public health insurance plan—for all the benefits it could bring to rural areas—should not aggravate the problem. Health care reform should not seek to contain costs on the backs of rural people and rural providers.

Conclusion

Rural people have much to gain from inclusion of a public health insurance plan option in health care reform legislation, possibly more than any other group in the nation. The current system of health insurance does not serve rural areas well. Rural people are among the most vulnerable populations in the nation in regard to the affordability, accessibility and instability of health care coverage. Many rural communities lack true choice in health insurance, often having a choice of one or two plans. With lower rates of employer-provided health insurance and a greater reliance on self-employment and small businesses, many rural households are forced into a series of unattractive choices—more expensive health insurance, health insurance that provides less coverage, public health insurance for one’s children and no insurance for parents, or no insurance for the entire family.

It seems folly to depend solely on the current system that does not work for large numbers of rural people. Reforms to the current system, while often necessary, only marginally improve an ineffective status quo for many rural people. A public health insurance plan option offers to expand the choices available to rural individuals and

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families. There are myriad unique rural challenges that result in less insurance coverage, inadequate insurance coverage and poorer health outcomes. The bottom line is that rural individuals and families deserve health insurance coverage that costs less and covers more. For health care reform to work and be relevant for rural people and rural places we must change the current situation where rural people pay more and receive less. A public health insurance plan option not only addresses the unique circumstances faced by rural people, but ensures health care coverage when it is needed to help create healthier individuals, families and communities.

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About the Center for Rural Affairs

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.

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