



The Iowa Policy Project

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POLICY SNAPSHOT

Spurring Innovation

Health Reform Will Remove a Barrier to Entrepreneurship in Iowa

By Andrew Cannon

Obtaining health insurance coverage is a tremendous challenge for self-employed Iowans. While 9.5 percent of all Iowans lacked health insurance in 2008,¹ over 12 percent of the self-employed — more than 23,000 Iowans — lacked health insurance.² Many workers who might otherwise have started their own businesses remain in jobs for which they are either overqualified or underpaid, simply because of the assurance of health insurance benefits. As *New York Times* columnist David Leonhardt noted,

*“[W]orkers are making career choices based on co-payments, pre-existing conditions, and other minutiae of health insurance. They are not necessarily making decisions based on what would be best for their careers and, in turn, for the American economy[.]”*³

Many would-be entrepreneurs not only risk their livelihoods on their ideas, but also the stability of their health insurance situation. A recent study suggests that some entrepreneurs may be waiting to pursue their business idea until they qualify for the most stable of health insurance arrangements in the United States: Medicare. Scholars Robert Fairlie, Kanika Kapur and Susan Gates found that business ownership rates increased by nearly 3.5 percent after a person turns 65 and is eligible for Medicare.⁴ The same study found that workers with access to insurance coverage through a spouse are more likely to start businesses than workers who receive their insurance through their own job.⁵

“Job lock,” as this phenomenon is known, hinders both the individual workers and the overall economy. Start-ups and small businesses are the primary engine of job creation in the American economy.⁶ The health reform proposals being considered by Congress would alleviate this problem and allow Iowa workers to pursue entrepreneurial opportunities by making health insurance easier and more affordable to obtain.

The Current Health Care System Impedes Entrepreneurship

Self-employed individuals face several key impediments in obtaining health insurance:

- Insurers can deny individuals coverage.
- Pre-existing conditions can be excluded from coverage altogether.

“I feel like my life revolves around health insurance policies,” says Steve Pelz of Cambridge, Iowa. “I am constantly trying to figure out what is best for my family.”

Pelz is an entrepreneur who also works a full-time job so he has health benefits. He owns car washes and a storage facility plus does snow removal and other work, but has to keep his 8-5 job for his health insurance. So his nights and weekends are filled with running his own business and taking care of his family. His wife died suddenly from a heart condition seven years ago, leaving him with two young sons. The boys are insured through a private health insurance policy.

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- Individually purchased insurance is generally much more expensive than insuring a large group of people.

Federal and state law prohibits insurers from *denying coverage* to those within a group plan — usually provided by an employer.⁷ However, individuals purchasing insurance on their own have no such protection. If an individual starting a new business wants to purchase insurance on his own to cover himself and his family, insurers may deny coverage based on his or his family members' medical history. An insurer may even rescind the individual's coverage if health costs are excessive.

Individuals who receive insurance coverage through an employer are also protected against *pre-existing condition exclusions*. Individuals, however, have no such protection. A diabetic seeking individual insurance on the private market may be able to find a policy that covers everything but costs related to diabetes.

Insurance purchased on the individual, non-group market is typically *far more expensive* than insurance obtained through an employer. Insurers estimate the calculated risk of insuring an individual — a practice known as underwriting — rather than calculating the risk for an entire group of employees.⁸ The risk of health insurance is concentrated within one individual, rather than spread among a group of 50 or even 100 employees. Individuals also lack the tax advantages that businesses have in obtaining insurance. While both employer and employee contributions to employer-sponsored insurance are made with pre-tax dollars, individuals purchasing insurance on their own must use after-tax dollars.^{9, 10}

Congress' Health Reform Proposals Would Improve the Climate for Entrepreneurship

Though the Senate and House bills vary in some details, both would go a long way to improve the climate for the self-employed and would-be entrepreneurs.

- No one could be denied coverage for any reason.
- Insurers would be required to cover pre-existing conditions.
- Insurance on the individual market would be more affordable.

Individuals seeking to start their own businesses, or those who are currently self-employed, would be able to *purchase health insurance, regardless of their medical history*. The proposals in Congress prohibit denial of coverage under any circumstance. Both proposals also *bar any pre-existing condition exclusions*. A diabetic, in the earlier example, would have all medical costs related to diabetes covered.

Individual insurance would be more affordable under the congressional proposals. Rather than assessing the risk based on an individual's medical history, insurance premiums could only vary by an individual's age, region of the country, and smoking status. Insurance would also be more affordable by virtue of an enlarged risk pool. Both bills create "exchanges" — marketplaces in which insurers would offer their products to individuals and small businesses who have previously had difficulty obtaining affordable insurance coverage.¹¹ Perhaps most importantly, low- and moderate-income individuals would receive financial assistance to help defray the cost of purchasing health insurance.

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"There's no way I could change policies for the boys now," Pelz said. "They have had tests to check for hereditary heart problems and if we would try to change policies or lose this one for some reason, I'm sure we could never get them insured again. It would be cheaper to put them on my family policy through work, but if my employment would change, I'd lose that policy."

Over the past few years, the private insurance plan's prices have skyrocketed making it even harder for Steve to think about going out totally on his own in business. In February 2010, Pelz received another insurance hike of about \$500 per year just to cover his sons. "I'm not asking for a hand out, just a fair playing field so I can run my own business and take the best care possible of my family," Pelz concludes.

Health reform will help alleviate one giant hurdle to entrepreneurship and small business creation — the accessibility of affordable insurance. Providing individuals with alternatives to job-based insurance will allow individuals to pursue their ideas and create jobs. Health reform will not only help individuals who lack insurance, but will help boost America’s economy. Health reform will increase America’s spirit of innovation and invention.

¹ Current Population Survey, Annual Social and Economic Supplement 2009, U.S. Census Bureau.

² 2008 American Community Survey, U.S. Census Bureau. Analysis performed using the University of Minnesota’s Integrated Public Use Microdata Series, January 14, 2010.

³ Leonhardt, “If Health Reform Fails, America’s Innovation Gap Will Grow,” *New York Times*. December 16, 2009. <<http://www.nytimes.com/2009/12/16/business/economy/16leonhardt.html>>.

⁴ Robert W. Fairlie, Kanika Kapur, and Susan Gates, “Is Employer-Based Health Insurance a Barrier to Entrepreneurship?” *RAND Corporation*, November 2008. <http://www.rand.org/pubs/working_papers/2008/RAND_WR637.pdf>.

⁵ Ibid.

⁶ David Neumark, Brandon Wall, and Junfu Zhang, “Do Small Businesses Create More Jobs? New Evidence from the National Establishment Time Series,” *National Bureau of Economic Research*. February 2008.

⁷ Portability of Health Coverage (HIPPA),” U.S. Department of Labor. Accessed January 14, 2010. <<http://www.dol.gov/dol/topic/health-plans/portability.htm>>.

⁸ “How Private Health Insurance Works: A Primer (2008 Update),” *Kaiser Family Foundation*. April 2008. <<http://kff.org/insurance/upload/7766.pdf>>.

⁹ “Tax Subsidies for Health Insurance: An Issue Brief,” *Kaiser Family Foundation*. July 2008. <<http://www.kff.org/insurance/upload/7779.pdf>>.

¹⁰ Out-of-pocket expenses, including deductibles and co-insurance, are tax deductible whether one’s insurance is job-based or purchased individually.

¹¹ The size of the insurance exchanges is one detail that will be worked out between the two chambers of Congress. The House bill created a national exchange, while the Senate bill creates state-based exchanges.

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The Iowa Policy Project

Formed in 2001, the Iowa Policy Project is a nonpartisan, nonprofit organization based in Mount Vernon, with its principal office at 20 E. Market Street, Iowa City, IA 52245.

The Iowa Policy Project promotes public policy that fosters economic opportunity while safeguarding the health and well-being of Iowa's people and the environment. By providing a foundation of fact-based, objective research and engaging the public in an informed discussion of policy alternatives, IPP advances effective, accountable and fair government.

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