

**Kauffman-RAND Institute for  
Entrepreneurship Public Policy**  
A RAND INSTITUTE FOR CIVIL JUSTICE CENTER

# ***Does Employer-Based Health Insurance Restrict Entrepreneurship?***

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## ***Employer-provided Health Insurance***

- **In the US, nearly three-quarters of all full-time workers get health insurance from their employers**
- **Individually purchased insurance can be expensive**
  - **Premiums depend on expected health costs**
- **Insured workers may be less inclined to leave their jobs to start a new businesses**
  - **Disruption in insurance coverage**
  - **Considerable cost of health insurance**
  - **Potential exclusions**

## HEALTH NEWS

### Health Insurance Costs May Kill New-Business Dreams



19 August, 2005 23:58 GMT

Jeff Kushner seems perfectly poised to start a company helping families fight cybercrime soaring as and other

With start-\$5,000 fro

## High Cost Of Health Insurance Hinders Start-Up Companies

Main Category: [Health Insurance / Medical Insurance](#)

Article Date: 04 Dec 2006 - 14:00 PDT

## Health insurance: The big bump in the road to entrepreneurship

BY LEE EGERSTROM , MINNESOTA 2020

August 28, 2007

*Limited access to health insurance and its daunting cost are discouraging Minnesotans from starting or expanding businesses and standing in the way of small towns seeking revitalization through entrepreneurship.*

The dual problems of finding and paying for health plans to cover business owners' families and a small number of

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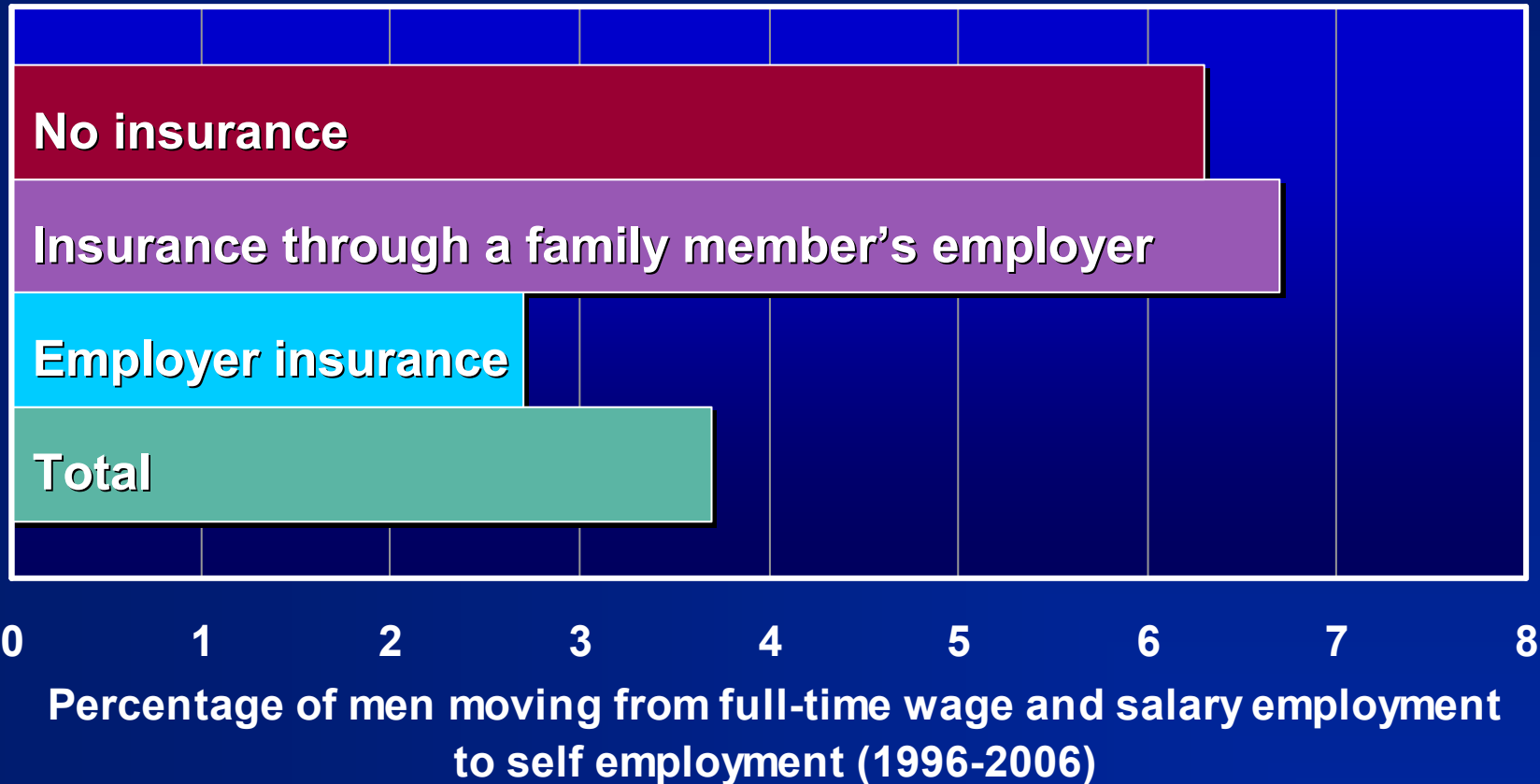
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## ***There Is Evidence for Such Fears***

- **The self-employed are nearly twice as likely to be uninsured than wage/salary workers**
- **Small firms are less likely to offer health insurance to their employees**
  - **49 percent of firms with 3-9 employees**
  - **95 percent of firms with over 100 employees**
- **Small businesses that offer health insurance face high and growing costs**
  - **Grew from from 8% to 11% share of payroll from 2000 to 2005**

## *The Data Suggest This May Be True*



*But can we tell whether health insurance status is really driving these decisions?*

## ***No, for a Variety of Reasons***

- **Other factors may discourage people with employer insurance from starting a business**
  - **They may have better jobs**
  - **They may be less inclined to take risks**
  - **They may work in industries or occupations where self-employment is less attractive**
  - **They may be sicker (or have sicker dependents)**

## ***Our Approach Accounts for These Issues***

- **We identified comparable groups of workers who are likely to differ in the value they place on employer insurance**
  - **People who have access to health insurance through a spouse's plan vs. those who don't**
  - **People who are eligible for Medicare vs. those who are not yet eligible**
- **For each group, we examine:**
  - **The probability of moving to self-employment**
  - **The role of employer-based health insurance in that decision**

## ***Our Research Questions***

- 1. Are people with employer-based health insurance more likely to become self-employed if they can get coverage through their spouse?**
- 2. Are people who become eligible for Medicare at age 65 more likely to start their own business?**

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***Each question required its own model***

# *Data*

- **Used data from Current Population Surveys (CPS)**
  - **Contains data on employment, business ownership, health insurance coverage, health status, including spouse and others**
  - **Representative of entire U.S. population**

## ***Question 1: How the Model Worked***

- 1. Difference - in – Difference Model**
- 2. Estimate factors that influence whether a wage and salary worker becomes self-employed in a given year**
- 3. Control for the direct effect of having employer-provided health insurance and of having spouse health insurance**
- 4. Focus on *interaction* between having employer health insurance and no spouse health insurance**
- 5. Test robustness of the model**

# ***Access to Spouse's Plan Makes a Big Difference***

**(Predicted Transition Rates to Self-Employment)**

**No access  
to spouse's  
health insurance**

<b>Employees whose employer provides health insurance</b>	<b>1.7%</b>
<b>Employees whose employer does not provide health insurance</b>	<b>6.4%</b>
<b>Difference</b>	<b>4.7</b>

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<b>Employees whose employer provides health insurance</b>	<b>1.7%</b>	<b>1.9%</b>
<b>Employees whose employer does not provide health insurance</b>	<b>6.4%</b>	<b>3.8%</b>
<b>Difference</b>	<b>4.7</b>	<b>1.9</b>

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<b>Difference</b>	<b>4.7</b>	<b>1.9</b>

**2.8 percentage points**

***The difference is over twice as large for those with no access to a spouse's health insurance plan***

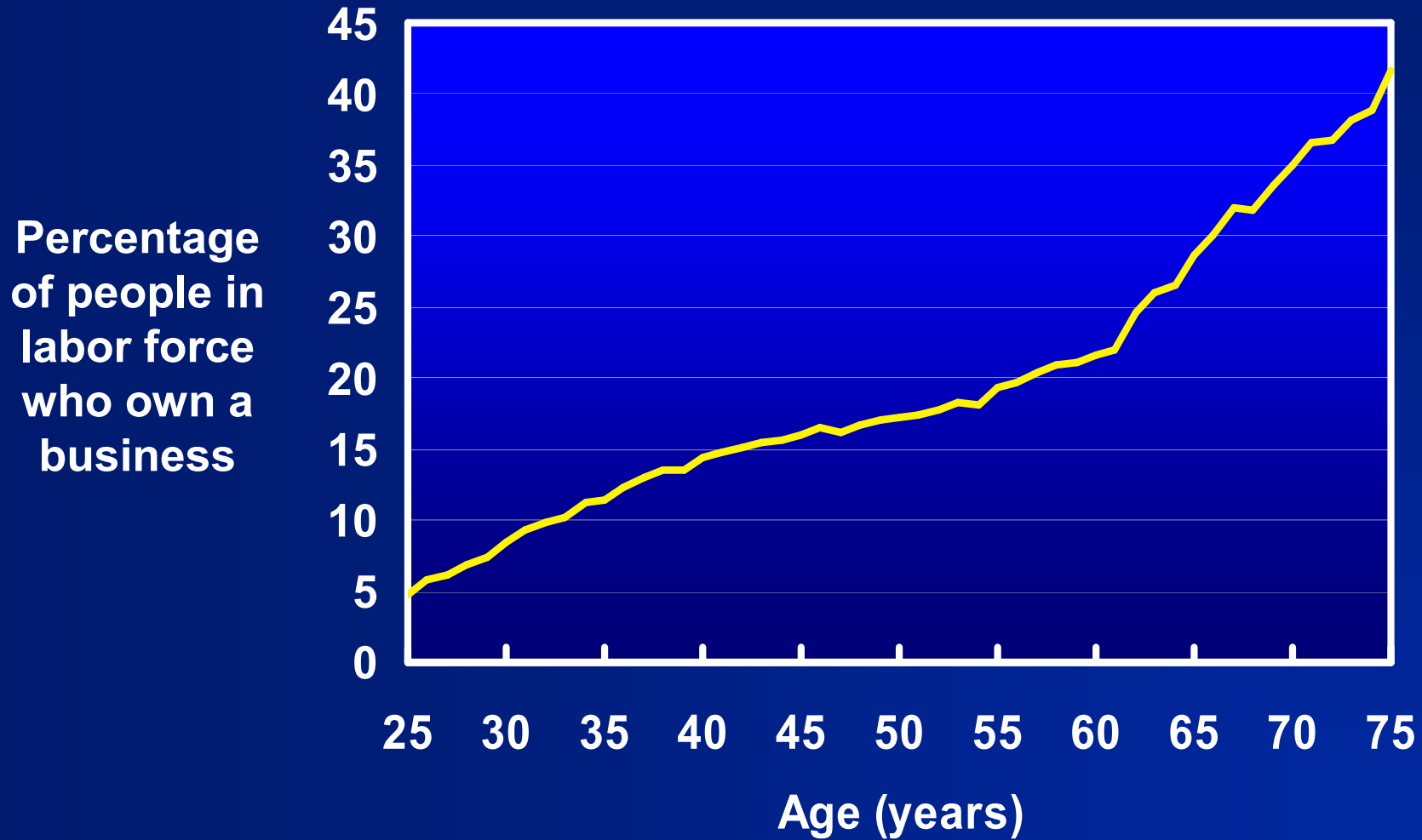
# ***Alternative Difference-in-Difference Models***

- **Estimated variants of the model just described**
- **We identified comparable groups of workers who are likely to differ in the value they place on employer insurance**
  - **People who have access to health insurance through a spouse's plan vs. those who don't**
  - **People who have family members in poor health vs. those who don't**
- **We also restricted the sample to only those with employer health insurance**
  - **Interaction of family health and access to spouse's plan**

## ***Our Research Questions***

- 1. Are people with employer-based health insurance more likely to become self-employed if they can get coverage through their spouse?**
- 2. Are people who become eligible for Medicare at age 65 more likely to start their own business?**

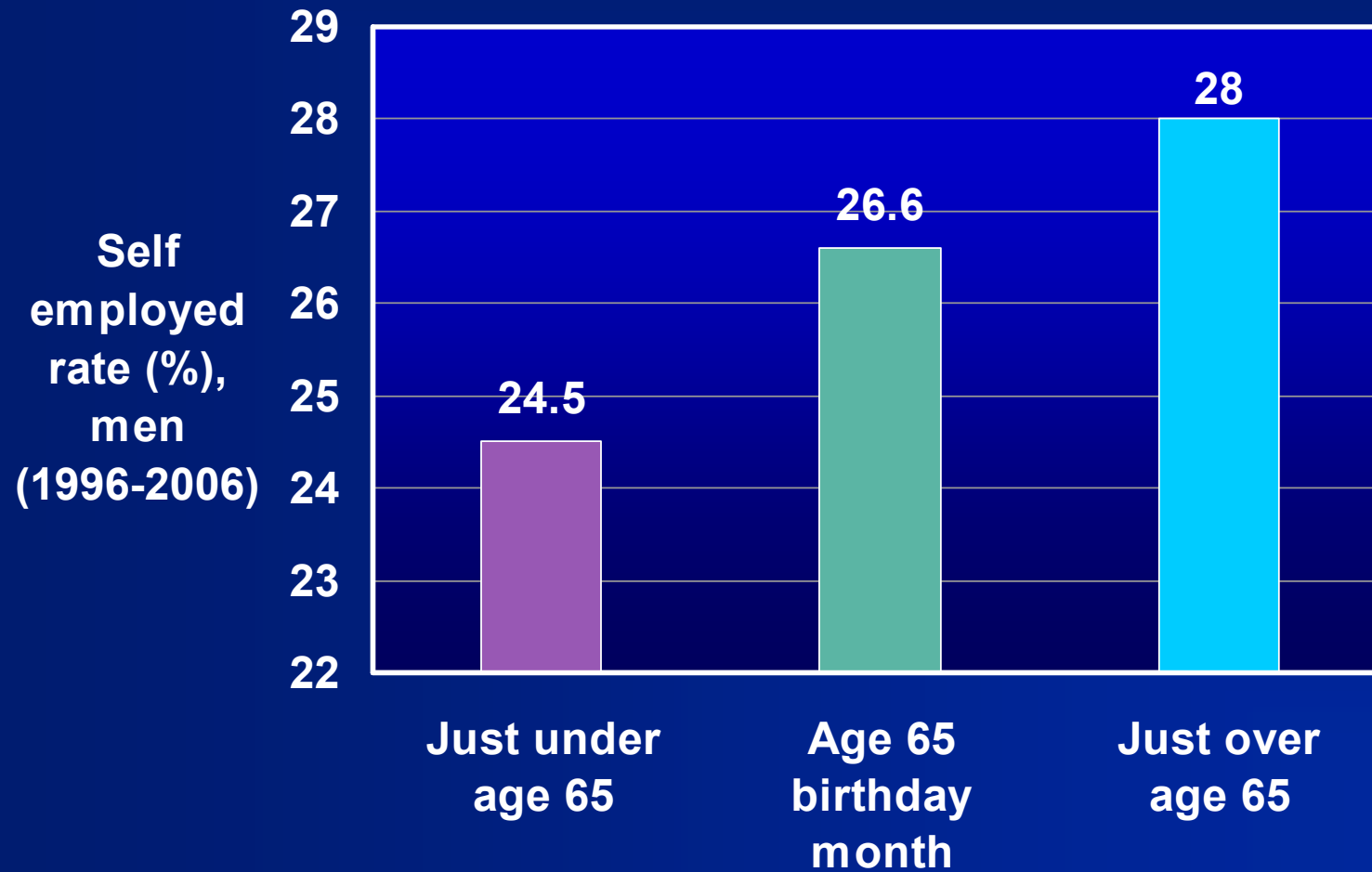
# *The Rate of Business Ownership Increases with Age*



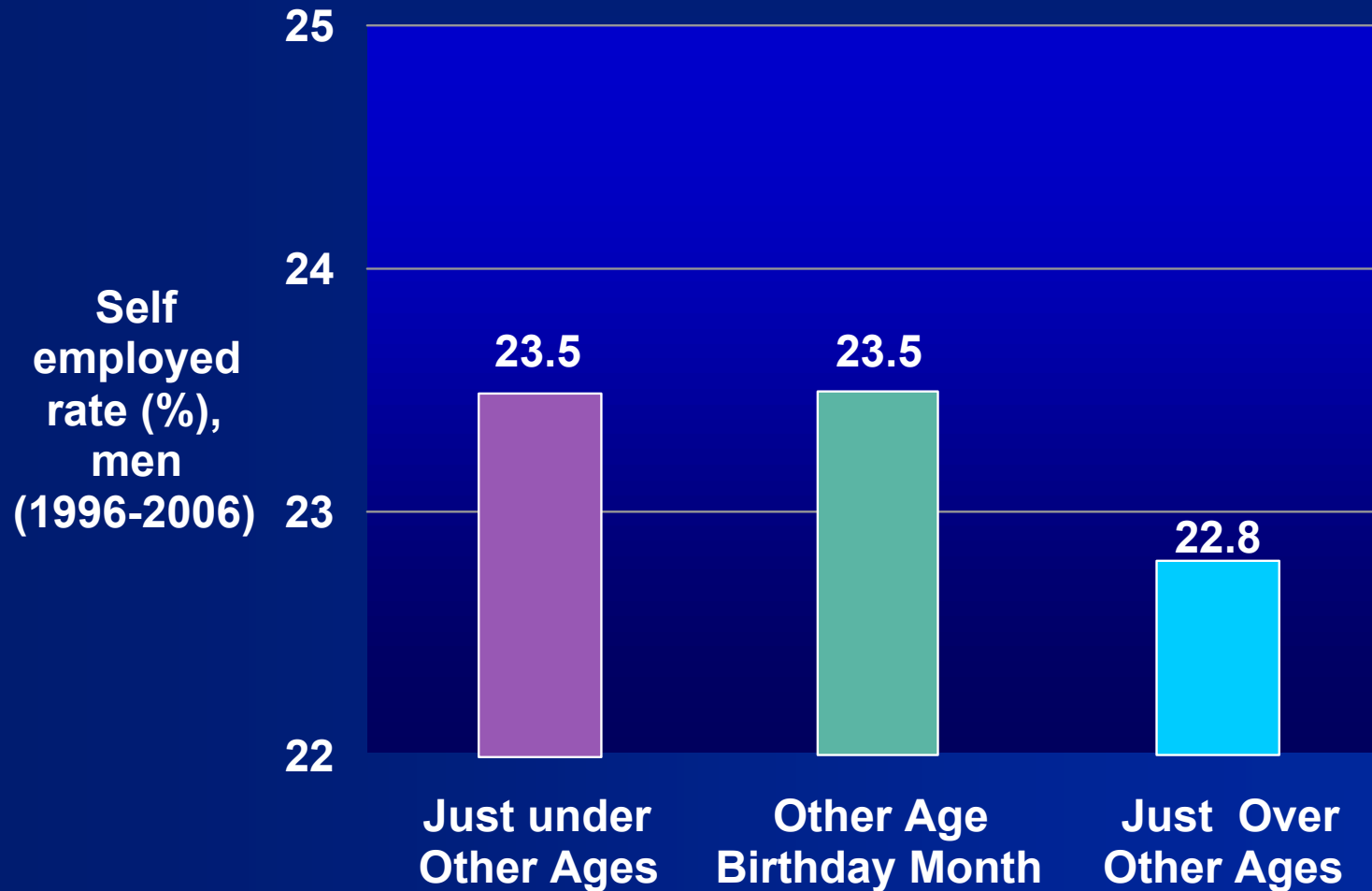
## ***Question 2: How the Model Worked***

- 1. Regression Discontinuity Model**
- 2. Used matched monthly CPS data to identify age in months**
- 3. Estimated probability of being self-employed for men around age 65**
  - Created three bins: Before 65, at 65, just over 65**
- 4. Considered whether rates of self-employment differed**
- 5. Checked robustness**

# ***Results: Self-Employment Rates Rise When Medicare Becomes Available***



# *Self-Employment Rates Do Not Jump Up at Other Ages (55-64; 66-75)*



## ***Robustness Checks***

- 1. Analyzed workers between 60 and 70 years of age**
- 2. Focused on those working at least 30 hours/week both before and after reaching 65**
- 3. Confirmed that retirement doesn't spike in the month an individual turns 65**
- 4. Examined transitions to self-employment around age 65**
  - Estimated effect is 29 percent**

## ***Conclusions***

- 1. Are people with employer-based health insurance more likely to become self-employed if they can get coverage through their spouse?** **Yes**
- 2. Are people who become eligible for Medicare at age 65 more likely to start their own business?** **Yes**

## ***Two Kinds of Policies Could Help Mitigate These Effects***

- **Policies that provide access to affordable group health insurance**
  - **Association Health Plans**
  - **Allowing individuals to buy into the health insurance program for federal employees**
- **Universal health insurance that is independent of employment**