



Munich Personal RePEc Archive

Relationship Between Health Insurance and Self-employment: A Systematic Review

Hossain, Md. Mobarak

University of Nevada, Reno

28 January 2021

Online at <https://mpra.ub.uni-muenchen.de/105634/>
MPRA Paper No. 105634, posted 01 Feb 2021 10:17 UTC

Relationship Between Health Insurance and Self-employment: A Systematic Review ^{*}

Mobarak Hossain[†]

January 28, 2021

Abstract

This paper performs a systematic review on whether there is a relationship between health insurance and self-employment. There are three types of findings available regarding this issue in the entrepreneurship literature. First, health insurance clearly plays a vital role when individuals choose to become self-employed. Second, there is some evidence of the effect of health insurance on entrepreneurial choices for some individuals with some demographic characteristics, like married women, students, people with disabilities, etc. Third, the evidence of relationship between health insurance and entrepreneurial choices is anecdotal.

Keywords: health insurance, entrepreneurship, self-employment

JEL codes: J2, J230, L26

^{*}Acknowledgements: We thank ..., and participants at ... for their valuable comments.

[†]University of Nevada, Reno. Corresponding address: University of Nevada, Reno, Department of Economics, 1664 N. Virginia Street, Reno, NV 89557-0030, U.S.A.. Phone: +1 775-357-6435. E-mail: mhossain@nevada.unr.edu.

1 Introduction

About ten percent of the workforce individuals are entrepreneurs. Solo-entrepreneurs create jobs for themselves and employer-entrepreneurs creates jobs for themselves as well as others. Entrepreneurs are the individuals who strive to come up with world changing innovative ideas. These individuals are also key driving forces of a developed nation. Because of that policy makers are always eager to understand what makes an individual become an entrepreneur. Research on entrepreneurial activities helps the policy makers to understand what type of policies open doors for entrepreneurial activities. However, if research findings are not consistent then it's puzzling for the policy makers to come up with effective policies. Evolving literature of entrepreneurship sheds light on many facets of entrepreneurial activities. Some researchers in the entrepreneurial literature have a thought that health insurance may have effect on entrepreneurial choices. For instance, one of the TRA86¹ was to reduce the tax for the self-employed individuals. Gumus and Regan (2015) analyze and find that this tax reform act has no effect on entry decision and limited effect on exit of entrepreneurial choices, and they conclude that health care system may have implication on entrepreneurial activities because it is so expensive. Medical scientists are not only innovating new technologies to determine the fundamental causes of deadly diseases but also innovating potential medicine and new tools to fight with those diseases. These emerging technologies as well as medicines are sky rocketing the healthcare cost in the U.S (Bodenheimer, 2005; Ghinea et al., 2016). The U.S. spent nearly twice as much as 10 highest-income countries on health care (Papanicolas et al., 2018). The per capita cost is even higher for the individuals who want to buy health insurance from the private market relative to the individuals who are provided health insurance from other sources.

¹The Tax Reform Act of 1986 (TRA86) introduced a tax subsidy for the self-employed to purchase their own health insurance.

Barber III and Kavoori (2018) conclude that the high price of health insurance might be a potential barrier to entry into self-employment.

Most of the people in the U.S. are covered by employer provided health insurance (Majerol et al., 2015). Some of the individuals who are not covered by employer provided health insurance have government provided health insurance (Smith et al., 2014). The most available programs, Medicaid and Medicare are funded by the federal government. Medicaid provides health insurance for low income individuals while Medicare provides health insurance for individuals who are at least 65 years old. Moreover, Medicare also provides health insurance for people with disabilities as well as people who have certain diseases. Individuals, who do not have coverage from employers or government, buy health insurance from the private market. Health insurance providers could deny the sale of insurance to the individuals who had preexisting condition or could price it higher. Denial of selling insurance definitely could make it unavailable, and higher price could make it not affordable. However, the Patient Protection and Affordable Care Act(PPACA) of 2010, forces health insurance providers to sell health insurance regardless of preexisting condition. This provision makes insurance available for each individual. Moreover, PPACA imposed a health insurance mandate for the legal residents of the U.S. which called individual mandate. This mandate was passed to reduce the adverse selection and keep the price of health insurance affordable. Under the PPACA provision, federal government as well as the states create a marketplace to sell health insurance. If anyone wants to become an entrepreneur then he/she needs to buy health insurance from the private market or marketplace unless the person is covered by another source.

The relationship between health insurance and entrepreneurial choices has been studied rigorously. Researchers argue whether health insurance is one of the most important components or not when individuals make a decision to become entrepreneurs. En-

entrepreneurial literature argues that some people do not want to leave their jobs and start entrepreneurial activities because of high prices or unavailability of health insurance and literature coined a term, “entrepreneurship-lock”, for this phenomenon. According to this literature “entrepreneurship-lock” is even stronger if someone has a chronic health condition. This paper performs a systematic review of empirical literature on whether there is a relationship between health insurance and entrepreneurial choices. After a careful review three different conclusions have been found in the entrepreneurial literature. First, there is a clear and unambiguous relationship between health insurance and entrepreneurial choices where health insurance is a potential catalyst to become self-employed. Second, health insurance plays a role in becoming self-employed for individuals with some demographic characteristics, like people with disabilities, older people, young individuals, female, etc. Third, health insurance virtually does not have any potential effect on choosing self-employment.

2 Discussion

2.1 Unambiguous relationship between health insurance and self-employment

Entrepreneurship literature shows that the unavailability of health insurance discourages potential entrepreneurs to start a business. One of the most important findings of entrepreneurial literature is that employer provided health insurance is a potential barrier to become self-employed for the individuals who are policy holders. Another finding is that the availability of health insurance is also a potential barrier to become a self-employed.

DeCicca (2007, 2010) studies New Jersey’s Individual Health Coverage Plan (IHCP²) on

²New Jersey’s Individual Health Coverage Plan on self-employment (IHCP) which was implemented in August 1993, included an extensive set of reforms that loosened the historical connection between traditional employment and health insurance by facilitating access to coverage that was not employer-linked.

self-employment and finds that it increases self-employment among New Jersey residents, relative to residents of Pennsylvania which do not substantially alter its non-group market over this period. DeCicca also concludes that finding is robust to a number of sensitivity checks, including choice of comparison states and length of post-policy period. The author also finds larger average behavioral responses for unmarried, older and observably less-healthy individuals. Heim and Lurie (2014) studies one of the pioneers of the PPACA, 2006 Massachusetts Health Reform Act, and show that this health reform act reduces uninsured rate dramatically, and the likelihood of being self-employed increases. They also find this affects women, younger adults, and prime-age adults with kids more. Wellington (2001) estimates the importance of health insurance coverage on the probability of self-employment using data from the 1993 Current Population Survey (CPS). The author focuses on the impact of having health insurance through one's spouse on the likelihood of self-employment. The author's best estimates suggest that a guaranteed alternative source of health insurance would increase the probability of self-employment between 2.3 and 4.4 percentage points for husbands and 1.2 and 4.6 percentage points for wives. The author's more conservative estimates suggest that universal coverage could increase the percentage of self-employment in the workforce by 2 to 3.5 percentage points. Along the same line, using CPS data Fairlie et al. (2011) find that the individuals without spousal coverage are significantly less likely to start a business than the individuals who have spousal coverage. Salvino et al. (2014) examine over 60 years of annual healthcare and employment data and find that there is a negative and significant relationship between employer-provided healthcare insurance and self-employment rates. Using a panel of tax returns from 1999 to 2004 Heim and Lurie (2010) estimate the effect of an increase in the deductibility of health insurance premiums for self-employed individuals and find that this policy increases the probability of being self-employed by 1.5 percentage points, probability of entering

self-employment by 0.8 percentage points and exiting decreases by 2.8 percentage points. Aggarwal et al. (2013) use primary data from a representative survey of entrepreneurs and conclude that the lack of health insurance has a significant inhibiting impact on entrepreneurs.

The PPACA creates further opportunity for researchers to examine whether “entrepreneurship-lock” exists or not. Some articles show that the PPACA has increased the self-employment rate, and likelihood of being self-employed. For instance, Bailey and Dave (2019) show that the PPACA has increased self-employment rate by 2-4 percent, and likelihood of being self-employed increases by 9 percent. Along the same line Li et al. (2017) find that the self-employment rate increases by 0.4 percentage point because of the PPACA, however the result is driven by unincorporated business. Lee (2019) examine whether the expansion of Medicaid eligibility under the PPACA increases the supply of entrepreneurs as measured by self-employment. Using the 2003-2017 CPS data and focusing on childless adults in low-income households, the author applies difference-in-differences, propensity score weighting, and instrumental variable (IV) methods. The author finds that expanding Medicaid eligibility raises the self-employment rate by 0.8 to 1.6 percentage points, without increasing self-employment exit. The author’s IV estimates imply that covered individuals have 8 to 11 percentage points higher probability to become self-employed. Lee concludes that limited access to health insurance may be a barrier to entrepreneurship. Moreover, Blumberg et al. (2014) conclude that the number of self-employed people in the U.S. will be 1.5 million higher because of the PPACA than it would otherwise have been.

2.2 Relationship between health insurance and self-employment with certain demographic characteristics

Heim and Lurie (2013) study OCESA³ and estimate whether the decision to be self-

³The Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1998 (OCESA) in-

employed in response to a change in the after-tax price of health insurance while self-employed differed between states that passed these regulations and those that did not. They show that heavily regulated states experienced a larger increase in exclusive self-employment, particularly among older taxpayers. Velamuri (2012) studies TRA86 and examine whether the availability of health coverage through the spouse's health plan influences a married woman's decision to become self-employed. The author finds that probability of self-employment increases by 10 percent to 13 percent. Aggarwal et al. (2013) show that the importance of health insurance availability increases for entrepreneurs who are self-funded, married, have children, are from less privileged backgrounds and are in advanced stages of their lives as indicated by having advanced degrees or long work experience when they become entrepreneurs.

Moreover, a few of the researchers conclude that the PPACA has an effect of raising self-employment for certain demographics. For instance, Condliffe et al. (2017) find that the PPACA has positive and significant effect on likelihood of students being self-employed. Bailey (2017) concludes that the dependent coverage mandate has increased the self-employment on people with disabilities by 19-23 percent. Jia (2014) finds that the older women who gain dependent coverage are more likely to start a business, however it has little impact on entry decisions of more serious entrepreneurs, who started a corporation.

2.3 Health insurance is not a potential determinant of choosing self-employment

Most of the articles in the entrepreneurial literature regarding health insurance and entrepreneurship focus on the effects of provisions of health insurance coverage on the decision of entry into or exit from self-employment. However, some of them take a different

creased the-deductibility of health insurance premiums and in effect reduced the price of health insurance while self-employed.

approach and investigate the decision to purchase health insurance once self-employed. In other words, they are focusing on whether entrepreneurs care about health insurance or not. Using the Survey of Income and Program Participation, and the Panel Study of Income Dynamics Holtz-Eakin et al. (1996) do not find any evidence of “entrepreneurship-lock”. They also examine the impact of state mandates⁴ and do not find any evidence that the presence of such laws affects transitions to self-employment. The authors argue that the evidence of “entrepreneurship-lock” is anecdotal, because transition to entrepreneurship is very risky and perhaps it should not be surprising that individuals who are willing to undertake such risky ventures are unimpeded by the prospect of not having health insurance. Using data from the US Federal Reserve Board’s 2016 Survey of Consumer Finances Kwapisz (2020) find that in 2016 (when full provisions of the PPACA were in place) the self-employed were less likely to be insured, especially females who in the general population are more likely to be insured. The author also compares to the general population, where the odds of being covered by health insurance were 62 percent lower for self-employed males and 83 percent lower for self-employed females. Additionally, self-employed females were less likely to be insured when they reported using friends and family as a source of financial information.

Heim and Lurie (2013) study OCESA and suggest that states with community ratings and guaranteed issue regulations had significantly smaller increases in probability of being self-employed. Chavda (2016) studies the effect of improved access to health insurance on entrepreneurial rates across industries using the 2006 Massachusetts Health Reform Act market shock. In contrast to previous research, the author uses shock to test which kinds of startups were more likely to be created in addition to whether individuals became more likely to become entrepreneurs. Chavda develops a theoretical model which uses institutional heterogeneity to make predictions on how the reform should affect the distribution

⁴When an employee leaves a firm he or she has to be given the option to purchase health insurance from the firm for some length of time.

of entrepreneurs across industries. The authors see evidence that although non-profit entrepreneurship was significantly affected, overall entrepreneurship is constrained by factors other than access to health care. Along the same line, Niu (2014) studies the effect of health insurance availability and price on the likelihood of self-employment by examining the 2006 Massachusetts Health Reform Act. A model of compensating differentials predicts that the effect of the reform on the likelihood of self-employment is theoretically ambiguous because different components of the reform should have opposing effects. In addition to that Zissimopoulos and Karoly (2007) find that men with a spouse who has health insurance on their current job or women whose spouse has retiree health coverage are less likely to move to self-employment, a result that goes against the “entrepreneurship-lock” hypothesis.

Moreover, some researchers find that the PPACA has no effect on self-employment. For example, Barber III and Kavoori (2015) find that participation in self-employment and likelihood of being self-employed do not increase due to PPACA. On the same side Heim and Yang (2014) find that the PPACA does not have a differential impact on self-employment. Condliffe et al. (2017) find that the PPACA has no effect of being self-employed on all young adults except students and conclude that the PPACA could not free the potential entrepreneurs from “entrepreneurship-lock”. In the same fashion, Bailey (2017) concludes that the dependent coverage mandate has not increased the self-employment except on people with disabilities.

3 Conclusion

The relationship between health insurance and entrepreneurship has been studied rigorously. However, it is obvious that research findings are not consistent across the board. Generally, three types of findings are available in the entrepreneurial literature regarding this issue. First, there is an unambiguous relation between health insurance and en-

trepreneurial choices, in other words, “entrepreneurship-lock” clearly exists due to high cost of healthcare in the U.S.A. Second, this lock exists not for all of the workforce but for the individuals with some demographic characteristics, like students, females, people with disabilities, etc. Third, potential entrepreneurs virtually do not care about health insurance, and “entrepreneurship-lock” is anecdotal because entrepreneurship is a risky venture which should not be impeded by the prospect of not having health insurance. Therefore, further investigation is required to see if there is any significant relation between health insurance and entrepreneurial choices.

References

- Aggarwal, R., K. Holly, and V. Wadhwa (2013). Health insurance availability and entrepreneurship. *Journal of Developmental Entrepreneurship* 18(04), 1350025.
- Bailey, J. (2017). Health insurance and the supply of entrepreneurs: New evidence from the affordable care act. *Small Business Economics* 49(3), 627–646.
- Bailey, J. and D. Dave (2019). The effect of the affordable care act on entrepreneurship among older adults. *Eastern Economic Journal* 45(1), 141–159.
- Barber III, D. and T. Kavoori (2015). The effects of the affordable care act on the self-employed. *Academy of Economics and Finance Journal* 6, 15–23.
- Barber III, D. and T. Kavoori (2018). The affordable care act, state exchanges and the self-employed in the usa. *Journal of Small Business & Entrepreneurship* 30(6), 499–517.
- Blumberg, L. J., S. Corlette, and K. Lucia (2014). The affordable care act: Improving incentives for entrepreneurship and self-employment. *Public Policy & Aging Report* 24(4), 162–167.
- Bodenheimer, T. (2005). High and rising health care costs. part 2: technologic innovation. *Annals of internal medicine* 142(11), 932–937.
- Chavda, A. (2016). *Does health insurance matter for entrepreneurship?* Ph. D. thesis, Massachusetts Institute of Technology.
- Condliffe, S., M. B. Saboe, and S. Terrizzi (2017). Did the aca reduce job-lock and spur entrepreneurship? *Journal of Entrepreneurship and Public Policy* 6(2), 150–163.
- DeCicca, P. (2007). Health insurance availability and entrepreneurship: evidence from new jersey. *Available at SSRN 1003309*.
- DeCicca, P. (2010). Health insurance availability and entrepreneurship.
- Fairlie, R. W., K. Kapur, and S. Gates (2011). Is employer-based health insurance a barrier to entrepreneurship? *Journal of Health Economics* 30(1), 146–162.
- Ghinea, N., W. Lipworth, and I. Kerridge (2016). Propaganda or the cost of innovation? challenging the high price of new drugs. *Bmj* 352, i1284.
- Gumus, G. and T. L. Regan (2015). Self-employment and the role of health insurance in the us. *Journal of Business Venturing* 30(3), 357–374.
- Heim, B. T. and I. Z. Lurie (2010). The effect of self-employed health insurance subsidies on self-employment. *Journal of Public Economics* 94(11-12), 995–1007.
- Heim, B. T. and I. Z. Lurie (2013). The impact of insurance subsidies on self-employment: Do state non-group health insurance regulations matter? *Contemporary Economic Policy* 31(1), 94–109.
- Heim, B. T. and I. Z. Lurie (2014). Does health reform affect self-employment? evidence from massachusetts. *Small Business Economics* 43(4), 917–930.

- Heim, B. T. and K. Yang (2014). The impact of the affordable care act on self-employment: Early evidence.
- Holtz-Eakin, D., J. R. Penrod, and H. S. Rosen (1996). Health insurance and the supply of entrepreneurs. *Journal of Public Economics* 62(1-2), 209–235.
- Jia, Y. G. (2014). Health insurance coverage and self-employment among young us adults. Available at SSRN 2533648.
- Kwapisz, A. (2020). Health insurance coverage and sources of advice in entrepreneurship: Gender differences. *Journal of Business Venturing Insights* 14, e00177.
- Lee, K. M. (2019). Health insurance and the supply of entrepreneurs: Evidence from the aca medicaid expansion. Available at SSRN 3462896.
- Li, Y., M. A. Palma, and S. Towne (2017). Does health insurance provision improve self-employment and entrepreneurship? evidence from state insurance mandates.
- Majerol, M., V. Newkirk, and R. Garfield (2015). The uninsured: A primer. *Kaiser Family Foundation Publication*, 7451–10.
- Niu, X. (2014). Health insurance and self-employment: Evidence from massachusetts. *ILR Review* 67(4), 1235–1273.
- Papanicolas, I., L. R. Woskie, and A. K. Jha (2018). Health care spending in the united states and other high-income countries. *Jama* 319(10), 1024–1039.
- Salvino, R., M. Tasto, and G. Randolph (2014). Entrepreneurship and the consequences of healthcare policy. *Journal of Entrepreneurship and Public Policy*.
- Smith, J. C., C. Medalia, et al. (2014). *Health insurance coverage in the United States: 2013*. US Department of Commerce, Economics and Statistics Administration, Bureau.
- Velamuri, M. (2012). Taxes, health insurance, and women’s self-employment. *Contemporary Economic Policy* 30(2), 162–177.
- Wellington, A. J. (2001). Health insurance coverage and entrepreneurship. *Contemporary Economic Policy* 19(4), 465–478.
- Zissimopoulos, J. M. and L. A. Karoly (2007). Transitions to self-employment at older ages: The role of wealth, health, health insurance and other factors. *Labour economics* 14(2), 269–295.