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Does Employer-Based Health Insurance Discourage Entrepreneurship and New Business Creation?

Nearly three-quarters of all full-time workers in the United States get health insurance from their employers. Concerns have long been voiced that workers with employer-based insurance may be reluctant to leave their jobs to start new businesses because of the high cost of premiums or the possibility of disrupting or losing insurance coverage—a phenomenon referred to as “entrepreneurship lock.”

To examine these issues, researchers at the Kauffman-RAND Institute for Entrepreneurship Public Policy (KRI) conducted a study to determine whether the U.S. health insurance system impedes business creation. The study considered whether people with employer-based health insurance are more likely to become self-employed (1) if they have an alternate source of health insurance through a spouse or (2) if they have reached the age of 65 and become eligible for Medicare. Researchers developed two models to examine these possibilities, both using data from the Current Population Survey, which contains representative data on U.S. employment, business ownership, health insurance coverage, and health status. The following are the study’s key findings:

- Individuals with access to a spouse’s health insurance plan are much more likely to become self-employed. The study found consistent evidence that men and women with poor family health and no access to spouse health insurance were significantly less likely to give up an employer plan and start a new business than were those with access to insurance through their spouses. RAND’s estimates suggest that entrepreneurship lock for men is just over 1 percentage point relative to the annual base business creation rate of 3 percent. Although business entry rates were lower for women, similar patterns across health insurance coverage emerged.
- Self-employment rates rise when Medicare becomes available. The study also found a large and statistically significant increase in business ownership rates during the month when a worker turns 65 and qualifies for Medicare. Analyses determined that self-employment rates did not jump up at other ages (55–64, 66–75). Further, the increase in business ownership in the month an individual turns 65 was not due to other factors, such as retirement, Social Security, or pension eligibility.

In conclusion, KRI’s analyses provide some evidence that entrepreneurship lock exists, which raises concerns that the bundling of health insurance and employment may discourage business creation. The implication of this research is that the availability of affordable health insurance for the self-employed has an important impact on whether individuals are likely to become entrepreneurs.

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Headquarters Campus
 1776 Main Street
 P.O. Box 2138
 Santa Monica, California
 90407-2138
 TEL 310.393.0411
 FAX 310.393.4818

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