

THE PERSISTENCE OF AGRICULTURE AT THE RURAL-URBAN INTERFACE: DOES THE COST OF HEALTH INSURANCE MAKE A DIFFERENCE?

SOCIAL RESPONSIBILITY INITIATIVE TOPICAL REPORT 09-05

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October 2009

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HIGHLIGHTS

We find that the cost of health insurance is a serious concern of farmers operating at the Rural-Urban Interface (RUI) across the United States. Key findings of our research include:

- Health insurance is identified as a very serious issue for the majority of RUI farmers.
- The cost of health insurance limits the number of full-time employees a farm can employ, thereby limiting enterprise growth.
- To access affordable health care the farm operator or spouse may seek benefits through an off-farm job, thereby limiting the time farm families can devote to the farm and grow their business.
- When designing local land protection and agricultural economic development policies at the RUI it is important to account for how the issue of health insurance impacts farm persistence and adaptation
- An affordable and accessible national health care program would free up time and resources farmers at the RUI could reinvest in their enterprises, households and local economies.

STUDY BACKGROUND AND PURPOSE

The project "Agricultural Adaptation at the Rural-Urban Interface: Can Communities make a Difference?" is a joint project undertaken by researchers at The Ohio State University and Utah State University. The goal of this national study is to identify the challenges and opportunities of farming in urbanizing areas.

Despite the fact farmland at the RUI is vulnerable to nonfarm development, a substantial proportion of U.S. agricultural production occurs at the RUI.

- Just under half of total agricultural crop sales, 95% of U.S. fruit and nut sales, 84% of U.S. vegetable sales and 95% of nursery green house sales originated in metropolitan counties in 2007.
- Counties considered to be agriculturally important¹ and located at the RUI represent less than 20% of all U.S. counties, but accounted for 41% of U.S. agricultural sales.

Researchers examining agricultural change at the RUI have identified a range of issues beyond land costs and farmland conversion that affect the future of agriculture in urbanizing environments. In this research brief we report on the possible influence of health insurance access and affordability on farmer decisions and the structure of agriculture at the RUI.

Regardless of whether the farm is at the RUI or not, the cost of health care has been cited as a significant problem for farmers in general (Ohio Rural Development Partnership 2006). A 2009 study by the USDA- Economic Research Service found farm operator households spend more on health care compared to all U.S. households due to their greater reliance on direct purchase private health insurance policies. In 2007 farm households spent an average of \$5,200 for both health insurance premiums and out-of-pocket health costs, farm operator households for

¹ For a detailed explanation of agriculturally important-RUI counties see Jackson-Smith and Sharp 2008.

whom farming is their primary occupation spent an average of \$6,000, and farm operator households who rely only on direct purchase private insurance policies spent an average of \$10,000 for coverage (Jones et al. 2009). Studies conducted by Whitaker and Slesinger (2002) found farmers paid more than three times as much in health insurance premiums as wage and salary workers, and twice as much as other self-employed business owners. They also found that farmers are more likely to purchase private insurance policies that often contain disincentives for preventative care visits. Zheng and Zimmer (2008) note the high rates of uninsured and underinsured farmers can have severe macroeconomic consequences for farm productivity and welfare.

This report builds on these previous studies by examining how the cost of health insurance can influence the persistence of agriculture at the RUI.

METHODOLOGY

The 2007 *Agriculture at the Rural Urban Interface* survey was sent to 2,176 randomly selected owners of agricultural parcels across 8 U.S. counties. Data collection took place between May and October 2007.

Respondents were located in Frederick County, MD; Kent County, MI; Hall County, GA; Forsyth County, GA; Shelby County, KY; Spencer County, KY; Yamhill County, OR, and; Cache County, UT (Figure 1).

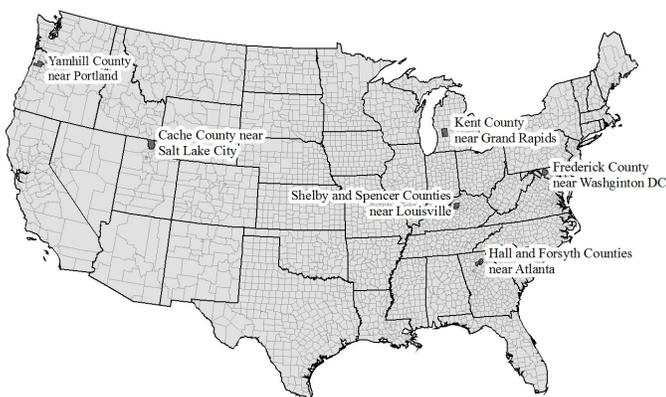


FIGURE 1: MAP OF CASE STUDY COUNTIES

Roughly 49% of respondents (or a total of 853 landowners) returned useable surveys. Among the respondents, 44% reported they currently farm on the land they own, and an additional 10% reported operating a commercial farm in the past. Respondents represented a diversity of farm types (operating at

different scales, producing a variety of grain, fruit, vegetable, nursery greenhouse crops and livestock, and sell through a variety of different markets).

In addition to the survey, face-to-face semi-structured interviews of 53 individuals associated with a total of 35 different farm families were conducted in the Columbus metropolitan area in Ohio and the Grand Rapids metropolitan area in Michigan. Both metro regions are agriculturally diverse and have substantial RUI areas.

COST OF HEALTH INSURANCE

In the landowner mail survey, respondents were asked to assess the influence of 25 different local, regional, national and international conditions on their farm operations. Respondents were asked to rate the degree to which these issues were a problem on a five point scale, ranging from 'not a problem' to a 'severe problem'.

Among the 453 landowner-farmers who responded to the survey, the cost of health insurance emerged as the most serious problem they face. Overall, 57% of respondents reported the availability of health insurance was a serious problem for their operation (Figure 2).

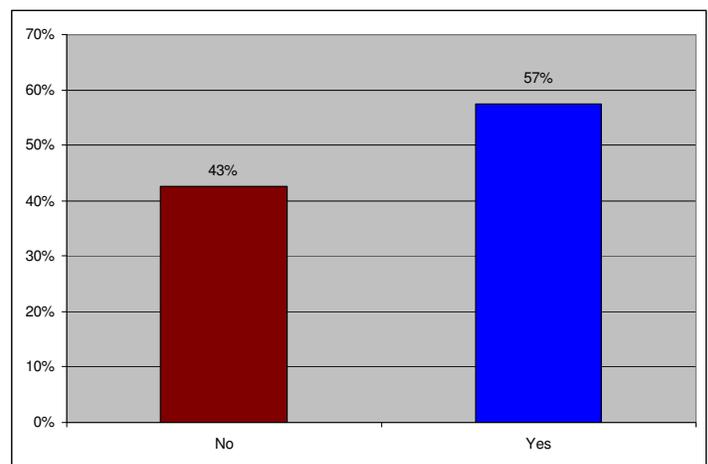


FIGURE 2. PERCENTAGE OF RESPONDENTS WHO REPORTED HEALTH INSURANCE WAS A SERIOUS PROBLEM.

The following sections of this report break down how the cost of health insurance affects commercial and rural residential farmers at the RUI.

DIFFERENCES AMONG COMMERCIAL AND RURAL RESIDENTIAL FARMERS

There is a diversity of farm types at the RUI. Differences can often be categorized by variation in the scale and intensity of farm operations. One important question is whether the issue of health insurance is equally experienced by these different scale operations. We focus on differences between commercial farmers, who produce the bulk of agricultural goods (commodity crops and/or specialty crops) at the RUI, and smaller scale rural residential farmers, who often do not rely on the farm as their main source of income.

With our sample, we were able to classify farm respondents as “commercial” or “rural residential” operators using three indicators: 2006 farm receipts, total household income, and the proportion of household income from farm sources.

We classified 293 respondents (or 69% of the sample) as commercial farmers and 133 (or 31% of the sample) as rural residential farmers.

We find some differences between commercial and rural residential farmers regarding the most serious threat to their operations (Tables 1 and 2). Both groups identify health insurance and the cost of farmland as top threats, although in both cases a larger proportion of commercial farmers reported these as serious threats compared to rural residential farmers. For example, 65% of commercial farmers report cost of health insurance as a serious threat compared to only 40% of rural residential farmers.

<u>Commercial Farmer Issues</u>	<u>% Serious Threat</u>
1. Cost of health insurance	65%
2. Cost of farm inputs	61%
3. Cost of farmland	58%
4. Net income from farm	44%
5. Current prices for my farm products	44%

TABLE 1: TOP FIVE ISSUES COMMERCIAL FARMERS IDENTIFIED AS SERIOUS PROBLEMS.

<u>Rural Residential Farmer Issues</u>	<u>% Serious Threat</u>
1. Cost of health insurance	40%
2. Cost of farmland	40%
3. New housing developments near my farm	29%
4. County land-use policies	27%
5. Long term weather issues (e.g. drought, climate changes)	21%

TABLE 2: TOP FIVE ISSUES RURAL RESIDENTIAL FARMERS IDENTIFIED AS SERIOUS PROBLEMS.

In general, the commercial farmers consistently reported issues related to on-farm economics as serious threats (Table 1), while rural residential farmers reported a greater variety of issues as threats and also in lower proportions (Table 2).

While the cost of health insurance was a top concern of both commercial and residential farmers, it is interesting to note that 43% of rural residential farmers report the cost of health insurance is not a problem compared to only 12% of commercial farmers who do so (Figure 3). Overall 66% of commercial farmers reported the cost of health insurance was a serious problem for their farm emphasizing the importance of this topic as an issue of concern.

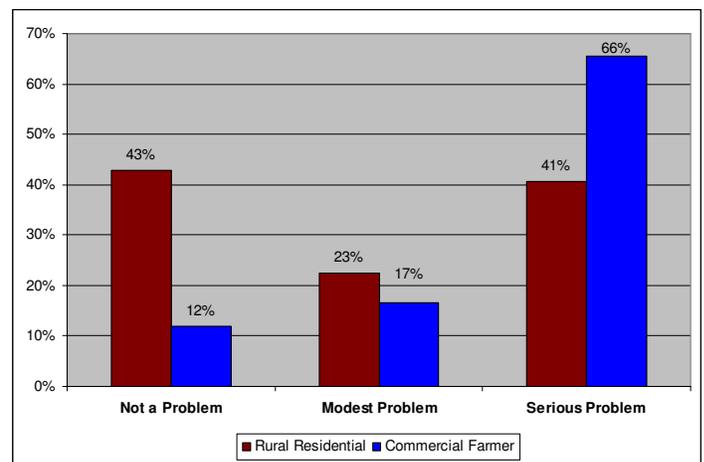


FIGURE 3: PERCENT OF COMMERCIAL AND RURAL RESIDENTIAL FARMERS THAT PERCEIVE HEALTH INSURANCE IS A PROBLEM.

THE DIRECT EFFECT OF HEALTH INSURANCE COSTS ON COMMERCIAL FAMILY FARMS

To better understand the challenges of RUI farmers, interviews with 35 commercial farm families were conducted to complement the survey research so far reported. From these interviews, we identified:

- The cost of health insurance limits the number of full-time employees a farm can employ. This is especially problematic for labor intensive operations that thrive at the RUI, such as fruit, vegetable, nursery green house and direct marketing farms
- Farm operators and/or their spouse often have an off-farm job for the benefits, decreasing the amount of time available for farming and marketing.
- Resources are re-directed towards health insurance rather than being reinvested in the operation.

A number of direct quotes from these farm family interviews are illustrative of the challenges associated with health care costs.

One commercial fruit grower who sells wholesale and through direct markets noted:

“Two things are working as hard against the configuration of the business. One is rising land value and the other is rising healthcare costs that have completely gone out of control. Healthcare costs are driving everything. Everybody is afraid to have any full-time employees for fear you are going to have to pay for their health care costs because nobody is able to afford it.”

The ability to join insurance groups and the cost of workers compensation affects the ability of the enterprise to expand by hiring more labor (especially for labor intensive crops). Another fruit farmer noted:

“We had one claim, one incident and they threw us out of the group and we just got the envelope in the mail the other day that Worker’s Comp is now \$40,000 a year. Well we can’t just like call up [our grocery buyer] and say okay the apples are now this much money because the Worker’s Comp went to \$40,000.”

Among some of these families at least one member of the household had a full time or seasonal off farm job to support the farm and access health benefits. As one respondent explained:

“You have to have some other way to support it, sustain it [the farm], otherwise you couldn’t do it. We are at a point now where, yeah we could probably make a living off of it, but when you sit back and think about paying your own health insurance and trying to invest in a retirement, it’s not there.”

CONCLUSIONS AND POLICY RECOMMENDATIONS

At the RUI all respondents are sensitive to land access and land price. However, beyond these obvious challenges, issues such as the cost of health care are impacting farm persistence and growth. In this study we find that health insurance is perceived as a serious problem and our interviews with RUI farm families highlight how the availability and cost of health insurance influence the operation.

Policy addressing the affordability and accessibility of health insurance can directly impact the future of agriculture at the RUI. The following policy recommendations address farm viability, farm profitability and agriculturally based economic development. Policy considerations should include:

- When designing local land protection and agricultural economic development policies at the RUI it is also important to consider the impact of non-land issues, such as the cost of health insurance on farm persistence and adaptation.
- Agriculturally based economic development is tied to health care. Currently farmers are limited in their ability to hire on-farm employees needed for labor intensive crops and direct marketing operations due to health care costs. Creating an affordable and accessible national health care program can directly contribute to farm based job creation and enterprise expansion.
- National or state level policies that deal with the challenges of health care access and affordability could have the important impact of freeing up time and resources farm families at the RUI could reinvest in their enterprises thereby contributing to their resilience and persistence.

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ACKNOWLEDGMENTS

This project titled *Agricultural Adaptation at the Rural-Urban Interface: Can Communities Make a Difference?*, aims to identify how local communities are able to influence the trajectory of agricultural change and adaptation at the RUI. This study was funded by the National Research Initiative of the Cooperative State Research, Education and Extension Service, USDA, Grant # 2005-35401-15272; with additional support from the North Central SARE Graduate Student Research Program and; an OSU-OARDC Graduate Student Research Grant.

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