

MEDICAL COSTS AND BANKRUPTCY

Stephen L. Bakke – July 27, 2009

This is one of several topics which lead into my attempt at identifying reasonable and viable elements of health care reform – “soon to be completed”. My suggestions will recognize the compelling need for reform, accept those aspects which virtually all citizens agree must change, and provide an alternative to the undesirable, and ever less popular, government imposed system.

Unfortunately, personal bankruptcy filings are way too high, but the hyperbole which has surrounded the relationship of personal bankruptcies to health care costs is simply indefensible.

I have noticed several bold declarations, including some by our President, that medical costs are a major cause of personal bankruptcies. President Obama even said that medical expenses cause a bankruptcy in America every 30 seconds. Others have gone so far as stating medical expenses are **the cause** of the bankruptcy in over half of all filings. One authoritative source was careful enough to state that over 60% of all personal bankruptcies were “related” to, not caused by, medical problems. These claims appear to have their basis in several research studies coming out of Harvard University.

The methods used in the Harvard study of medical bankruptcies show some surprises. Among other questionable assumptions, the researchers, who are single payer advocates, attributed bankruptcy to medical reasons if the debtor reported uncovered medical bills exceeding \$1,000 in two years, or lost at least two weeks worth of income because of illness or injury – **even if there weren’t any unpaid medical bills**. Talk about creating a “tenuous thread” of evidence for associating filings with medical expenses! It appears that they made it rather difficult **NOT** to have a finding that a bankruptcy was medically related.

It’s not easy to find, but the Harvard study noted the following caveat: **“Even when data are reliable, making causal inferences from a cross-sectional study such as ours is perilous. Many debtors described a complex web of problems involving illness, work, and family. Dissecting medical from other causes of bankruptcy is difficult. We cannot presume that eliminating the medical antecedents of bankruptcy would have prevented all of the filings we classified as ‘medical bankruptcies’ more stigmatized causes of bankruptcy (such as addiction, mental illness, or profligate spending) may be underreported.”** That’s one heck of an admission, and an important one. I should also note, the researchers relied significantly upon interviews of the filers – always risky when looking for hard facts and objective evaluations. Given the context of procedures and these admissions, our President really went out on a limb using this study as a basis for his claims.

There's a lot more. Medical costs were present in the list of debts of a significant percentage of bankruptcy filers – like consumer debt, car loans, mortgages, and the like. But the number of filings that were caused by medical expenses was very small as a percentage of total filings. In fact, unpaid medical costs were a major concern only for a very few filers. Almost always, unpaid medical bills were a minor percentage of a long list of unsecured claims by creditors.

A study conducted by the University of California at Davis backs this up and presents information which dramatically contrasts the Harvard study. **The report states: “Although our research supports the notion that adverse life events, like losing one’s health or job, contribute to personal bankruptcy filings, excessive consumption contributes more to the recent increase in personal bankruptcy filing”. Overall, the study concluded that debt (not medical related) accounted for more than 50% of recent bankruptcies, while medical problems caused just 5% and unemployment led to only 13%.** My understanding is that this information was obtained from information filed with the bankruptcy court. Extrapolating the President’s “one every 30 seconds” comment would mean there are 1,051,200 annual bankruptcy filings caused by medical expenses. In fact, according to this study, the number of filings caused by medical costs is approximately 41,000. Our President wasn’t even close on that one!

This topic doesn’t deserve, or require, significant space to dismiss – particularly now that the argument seems to have diminished. Perhaps some of the President’s “handlers” took him aside and advised him that he’s really “reaching” with this one. Once a politician starts on the road to hyperbole and demagoguery, it’s hard to stop. If one is not a detail person, and Obama obviously is not, it is sometimes too easy to quickly grasp concepts that sound good, elicit emotion, and support his cause.

Misleading the public in this way, and particularly about this topic, is very irresponsible of our President and other political leaders. But as with many politicians, good intentions are the most important thing – “hang” the damaging results.

Sources of Information

The major sources of information used in developing my health care commentaries will be included in my future report on health care reform recommendations. A preliminary, but not complete, list of sources can be found in my April 2009 report on the status of our health care system and reform.