

Health Care Bill Bankruptcies

By *Lori Robertson* Posted on December 18, 2008

Q: What is the percentage of total personal bankruptcies caused by health care bills?

A: A Harvard study published in 2005 found that about half of those who filed for bankruptcy said health care expenses, illness or related job-loss led them to do so. Twenty-seven percent cited uncovered medical bills specifically, and 2 percent said they had mortgaged their home to pay what they owed.

FULL ANSWER

The "about half" statistic has been cited by politicians and others as an example of why the health care system in the U.S. needs to be changed to control costs and provide more people with coverage. At a Dec. 11 press conference to introduce his pick for secretary of the Department of Health and Human Services, President-elect Barack Obama [said](#) that "close to 50 percent of family bankruptcies are caused because of a health care crisis." And the likely-to-be head of HHS, Tom Daschle, used the same figure in his book on health care, writing: "No wonder medical bills are the leading cause of bankruptcy in the United States, accounting for about half of them." Obama and Vice President-elect Joe Biden [have proposed](#) a bankruptcy law exemption, which would forgive debt, for those who can prove that medical expenses led them to file.

It's worth noting, though, that the figure from the [Harvard study](#) includes those who lost their jobs or significant income due to illness – even if they didn't cite mounting health care bills as a direct cause of their bankruptcy. That makes Daschle's specific mention of "medical bills" not quite correct, though several newspaper headlines characterized the findings that way, too. The study, published in the Feb. 2, 2005, issue of the journal *Health Affairs*, based its findings on surveys completed by 1,771 Americans in bankruptcy courts in 2001, financial information available in public court records and follow-up interviews with 931 of the respondents. It [determined](#) that 46.2 percent of bankruptcies were attributable to a major medical reason. Debtors cited at least one of the following specific causes: illness or injury (28.3 percent of respondents), uncovered medical bills exceeding \$1,000 in the past two years (27 percent), loss of at least two weeks of work-related income because of illness (21.3 percent), or mortgaging a home to pay medical bills (2 percent). (A larger category – "any medical bankruptcy" – also covered those who cited addiction, or uncontrolled gambling, childbirth, or the death of a

family member. Including that group brought the total percentage of "medical bankruptcies" up to 54.5.)

The authors – David U. Himmelstein, Elizabeth Warren, Deborah Thorne and Steffie Woolhandler – indicated that they believed theirs was a more thorough look at this topic than other reports: "Most previous studies of medical bankruptcy, however, have relied on court records—where medical debts may be subsumed under credit card or mortgage debt—or on responses to a single survey question," they wrote. Surveys and interviews were conducted in five states: California, Illinois, Pennsylvania, Tennessee and Texas. The study also refers to some convincing stats from other research. For example, 8 percent of the insured and 31 percent of the uninsured said they had been contacted by a collection agency about medical bills, according to a 2002 [NPR/Kaiser Family Foundation/Harvard Kennedy School of Government survey](#).

But it's difficult to say for certain whether the much-touted finding – that half of all bankruptcies are due to medical issues (though not necessarily medical bills) – is correct. Other factors may well be in play, and the authors themselves acknowledge that if some respondents hadn't faced health care problems, they may still have found themselves in court, filing for bankruptcy. "[M]aking causal inferences from a cross-sectional study such as ours is perilous," the authors wrote. "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.' "

The Only Cause?

It's possible that at least some of those who cited medical reasons had debt from other causes, a history of not paying their bills or other complicating issues that led to bankruptcy filing – not just health care. Health costs also could have been the final straw after a long, bruising battle with finances.

The study did note that those in the major medical issues group were "16 percent less likely than other debtors to cite trouble managing money as a cause of their bankruptcy." But in the end, the study relies mainly on people being honest. Since these results are self-reported, people could blame money troubles on their medical bills without justification.

The authors acknowledge this, too, but counter that respondents were likely being truthful for several reasons: Before filling out the survey, debtors had given financial information to the courts under the penalty of perjury, and that information "virtually never contradicted the questionnaire data." Also, it would have been difficult for anyone faking a medical issue to answer the detailed interview questions. And some were interviewed in their homes, which the interviewee found to be modest.

There has been some criticism of the study, along with reports that have echoed, and others that have contradicted, the Harvard findings. Gail Heriot, a law professor at the University of San Diego, [took issue](#) with the relatively low level of out-of-pocket costs that could qualify as a cause of a "major medical bankruptcy." In February 2005, she wrote for the *National Review*:

Heriot: Buried in the study is the fact that only 27 percent of the surveyed debtors had unreimbursed medical expenses exceeding \$1,000 over the course of the two years prior to their bankruptcy. ... Nobody likes to pay \$1,000 in medical expenses even when they get two years to do it in, but for most Americans (particularly those with enough at stake to seek the protection of bankruptcy) it is not catastrophic.

In fact, the study said that the out-of-pocket costs cited by those interviewed were "often below levels that are commonly labeled catastrophic." The authors hypothesized that other related factors, such as the loss of a job, helped push families into bankruptcy: "Presumably, such costs were often ruinous because of concomitant income loss or because the need for costly care persisted over several years."

When the study was released, another bankruptcy expert backed it up, to some degree. A 1996 study by the American Bankruptcy Institute found 57 percent of filers said medical problems were a primary cause of their bankruptcy, according to a Feb. 2005 [Associated Press report](#). However, Jeff Morris, an ABI scholar, told the AP that respondents were more likely to point to other root causes: easy access to credit, loss of work and bad financial management. An ABI spokesman told us the group doesn't have more recent statistics on why consumers file for bankruptcy.

A [study published in 1999](#) by Pennsylvania State University and Abt Associates researchers looked at filings in five court districts, determining that medical bills and credit card debt were the biggest factors leading to bankruptcy. But a [2008 study](#) by a business professor at the University of California, Davis, said that while medical issues certainly caused bankruptcy, the bigger problem was that families spent beyond their means, leaving them vulnerable to even minor disruptions. "Although our study supports the notion that adverse events contribute to personal bankruptcy filings, the findings emphasize that excessive consumption probably contributes more to the recent increase in personal bankruptcy filing." That study looked at filings in Delaware in 2003.

– *Lori Robertson*

Sources

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