New Fed Study Says Health Reform Can Reduce Financial Stress

Thursday, 27 February 2014 13:11

By Wendell Potter, The Center for Public Integrity | News Analysis

Study of Massachusetts health law cited personal bankruptcy reduction, fewer delinquencies, improved credit scores.

One of the great hopes of health care reform is that it will reduce the number of Americans who file for bankruptcy because of medical debt. A new study in Massachusetts is providing evidence that the reform law passed in that state in 2006, and which served as the model for the Affordable Care Act, is indeed making a significant dent in bankruptcy filings.

The study, conducted by economists at the Federal Reserve Bank of Chicago, found that the Massachusetts reform law, often called RomneyCare after then GOP Gov. Mitt Romney, has reduced personal bankruptcies in the state by 20 percent.

In no other country in the developed world is medical debt a leading cause of personal bankruptcy. But in the U.S. it is *the* leading cause, a phenomenon even FOXBusiness News highlighted in a report last week.

Citing a 2013 study by NerdWallet Health, an online service that helps people make more informed health care decisions, FOX reported that unpaid medical bills were the number one cause of bankruptcy filings in this country, surpassing both credit card and mortgage debt.

Fox quoted bankruptcy lawyer Mazyar Hedayat as saying that, "Starting in about 2007/2008, medical expenses went from being a primary component of a lot of cases to becoming the dominant factor."

The NerdWallet Health study findings were consistent with previous research conducted by the Commonwealth Fund and other organizations. A study released in 2008 by the Commonwealth Fund found that an estimated 72 million Americans between the ages of 19 and 64, or 41 percent, said they had trouble paying for medical care in 2007. That compared to 58 million, or 34 percent, just two years earlier.

The Federal Reserve of Chicago researchers found that the Massachusetts reform law, which reduced the rate of uninsured residents from 8.4 percent in 2006 to 3 percent in 2012, has helped in many ways to improve the financial well-being of Bay Staters. In addition to reducing bankruptcies, the law also helped improve credit scores and reduce overall debt.

"We find that the Massachusetts reform improved financial outcomes across many dimensions," Federal Reserve researchers Bhashkar Mazumder and Sarah Miller wrote. "It improved credit scores, reduced delinquencies, lowered the fraction of debt past due and reduced the incidence of personal bankruptcy." Reduction in large delinquencies of over $5,000 was "particularly pronounced," they wrote.

The *Wall Street Journal's* MarketWatch quoted MIT economics professor Jonathan Gruber as saying that the Federal Reserve study supported similar findings in other parts of the country. He cited a report in the *Quarterly Journal of Economics* that showed "enormous reductions in financial stress" among Oregon residents who became insured after the state broadened access to coverage in 2008.

One of the ways that both the Massachusetts reform law and the Affordable Care Act can benefit family finances is that they both limit the amount of money folks have to spend out of pocket if they get sick or injured. Under the Affordable Care Act, for example, the maximum out-of-pocket limit for any health plan offered on the state and federally operated health insurance exchanges is $6,350 for an individual and $12,700 for a family.

While that's still a lot of money for the majority American households — median household income in this country was just $51,371 in 2012, according to the U.S. Census Bureau — it still represents a significant improvement. Prior to the ACA, insurance companies were able to sell policies that had no out-of-pocket maximums. I saw policies when I was in the industry that had $50,000 annual family deductibles. Insurers can no longer market health plans with such exorbitant out-of-pocket requirements.

While the reforms enacted in Massachusetts and Washington are helping, other researchers, including Dr.

Stephanie Woolhandler, professor of public health at Hunter College in New York, warn that the laws will by no means end medical bankruptcies. Woolhandler and her fellow researcher Dr. David Himmelstein, both advocates of a single-payer health care system and founders of Physicians for a National Health Program, have done significant research on medical debt. Woolhandler has expressed concern that while the ACA will reduce the number of people without insurance, it might increase the number of people who are *under*-insured. That's because many people likely will enroll in plans that have relatively low premiums but high deductibles. Even with the out-of-pocket caps under the ACA, many folks will still rack up medical debt if they get seriously sick or injured.

Nevertheless, the Federal Reserve research is encouraging. "These results show that health care reform legislation has a strong effect not just on health and the use of health services, but across many measures of household well-being," the researchers concluded.

That's a big step in the right direction.

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