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Before the:
House Judiciary Committee, Subcommittee on Administrative and Commercial Law

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I am senior author on two studies on medical bankruptcy, the most recent of which appears in the August 2009 issue of the American Journal of Medicine. For this study we surveyed 2,314 American families filing for bankruptcy and found that medical problems contributed to 62.1 percent of all bankruptcies in 2007. In addition to obtaining written surveys from all 2,314 families, we also carried out extensive telephone interviews with 1,032 of these debtors.

Between 2001 and 2007, the proportion of all bankruptcies attributable to medical problems rose by nearly half. In order to compare the medical bankruptcy rates in 2007 and in our 2001 study we had to use the same definitions in both years. Our 2001 study had used a less stringent ("legacy") definition of medical bankruptcy that included families with more than $1000 in unpaid medical bills. Using this "legacy" definition, the medical bankruptcy rate rose from 46.2% in 2001 to 69.1% in 2007 - a 49.6% increase. This is clear evidence that health care is becoming less affordable to American families, including American families with health insurance.

Most of the medically bankrupt were solidly middle class before financial disaster hit. More than sixty percent of them had attended college and 66.4% had owned a home; 20% of families included a military veteran or active duty soldier. In many cases, high medical bills coincided with a loss of income as illness forced breadwinners to lose time from work. Often illness led to job loss, and with it the loss of health insurance.

Surprisingly, most of those bankrupted by medical problems had health insurance. More than three-quarters (77.9 percent) were insured at the start of the bankrupting illness, including 60.3 percent who had private coverage. By comparison, 80% of the non-elderly adult population and 85% of the entire U.S. population had health insurance in 2007. Hence, it appears that health insurance offers little protection against medical bankruptcy.

At the time of their filing, 69% of debtor families had coverage, and 60% of families had maintained continuous coverage for all family members. Yet even apparently well-insured families with continuous coverage faced ruinous out-of-pocket medical costs for co-payments, deductibles and uncovered services such as physical therapy, mental health care, and home care.

Providing coverage is not enough. Private health insurance is a defective consumer product, and neither private insurance, nor a public plan option that imitate private insurance can protect American families from bankruptcy. In order to provide real financial security, health coverage must be continuous and comprehensive.

Individuals with diabetes and those with neurological disorders such as multiple sclerosis had the highest costs, an average of $26,971 and $34,167 respectively. Hospital bills were the largest single expense for about half of all medically bankrupt families; prescription drugs were the largest expense for 18.6 percent. Among medical debtors, hospital bills were the largest medical expense for 48%, drug costs for 19%, doctors' bills for 15% and insurance premiums for 4%. In 38% of cases lost income due to illness was a factor.

Medically bankrupt families with private insurance reported medical bills that averaged $17,749 vs. $26,971 for the uninsured. Most of those who lost coverage lost it because they lost their jobs or otherwise became unable to pay their premiums. Hence regulations to prohibit insurance companies from cancelling coverage for medical reasons would NOT have prevented most of these bankruptcies.

We were also able to take a preliminary look at the subsample of our 2007 bankrupt respondents who lived in the state of Massachusetts. Massachusetts had only 5.4% uninsured in 2007. Somewhat surprisingly, the share of personal bankruptcies related to medical illness and medical bills was no different than our national result. That is, about 3 out of every 5 bankrupties in Massachusetts - as elsewhere in the nation - occurred in the wake of illness. Although we are currently looking at a larger sample of bankruptcy filers in Massachusetts, the preliminary findings from our 2007 data indicate that a Massachusetts-style reform will not protect middle-class Americans from medical bankruptcy.

Unfortunately, Massachusetts-style reform has not made health care affordable for middle class families. Our individual mandate forces middle-income residents to purchase private insurance or pay a fine of about $1000. Yet the cheapest coverage available to a 56 year old (according to the state's Connector website) forces her to lay out $4900 for a policy with a $2,000 deductible before it pays for any care, and a 20% co-payment after that. Skimpy, overpriced coverage like that would not have protected the families in our survey from bankruptcy.

It is not surprising that one in six Massachusetts residents reported that they were unable to pay their medical bills last year. Access to an insurance policy is not the same thing as access to health care. An insurance policy with unaffordable deductibles, co-payments and the like may protect hospitals by assuring that at least part of each hospital bill gets paid, but it won't protect families. Even among Massachusetts residents WITH health insurance, 18% skipped care because they couldn't afford it. In the first year of Massachusetts' reform the state expanded Medicaid and Medicaid-like subsidized coverage and access improved, albeit at enormous cost to the state and federal governments. In the second year of the reform, access to health care in Massachusetts has actually deteriorated.

There is considerable controversy over the definition of medical bankruptcy, given the complexity of the financial problems many American families face. Families characterize their problems differently. Someone may mortgage a home to pay for surgery, and then be unable to pay off the mortgage, describing the reason for filing bankruptcy as "unable to pay the mortgage." Similarly, some people explain that they have lost too much time from work when they have taken off to care for a child who has been hospitalized. We believe that multiple ways of asking about medical bankruptcies give the most complete picture, but we publish the breakdown in responses so that any other researcher or commentator can draw his or her own conclusions.

To help other researchers who might choose to use different definitions, we have supplied a detailed analysis of debtors who:

- Specifically identified medical problem of the debtor or spouse (32.1%) or another family member (10.8%) as a reason for filing bankruptcy.
- Specifically said medical bills were a reason for bankruptcy. (29.0%)
- Lost two or more weeks of wages because of lost time from work to deal with a medical problem for themselves or a family member. (40.3%)
- Mortgaged their homes to pay medical bills. (5.7%)
- Spent more than $5000 or 10% of annual household income in out-of-pocket medical bills (34.7%)

- Total, one or more of the above criteria: 62.1%

The vast majority (92%) of bankruptcies that we classified as medical had medical bill problems as indicated by: listing medical bills as a specific reason for their bankruptcy, or having medical bills of bills $5000 or 10% of household income, or that forced them to mortgage their home. The remaining 8% whose bankruptcy was classified as "medical" indicated that a medical problem or income loss due to illness was a cause of bankruptcy.

Ours is the only study based on direct surveys and interviews with a large sample of families filing for bankruptcy. Others have based their findings on bankruptcy court records alone (with no direct surveys or interviews) or on surveys of the general public that inquire about bankruptcy filings. Court records fail to identify medical bankruptcies because many medical bills are charged to credit cards and hence cannot be identified as "medical" in court records. Similarly, when medical providers turn debts over to collection agencies they would not appear on court documents as "medical." Moreover, one cannot study bankruptcy by phone surveys or other population-based methods. Because bankruptcy carries a substantial stigma, about half of all respondents who are bankrupt deny that fact. As a result, surveys of the general public are an unreliable source of information on medical bankruptcy

Subsequent to the 2001 study, Congress made it harder to file for bankruptcy, causing a sharp drop in filings. However, personal bankruptcy filings have soared as the economy has soured. In May 2009, more than 5,000 families filed for bankruptcy every business day. For all of 2009, the total is expected to reach about 1.4 million. The average personal bankruptcy involves 2.71 debtors and dependents. In total, an estimated 3.8 million Americans will be involved in personal bankruptcy filings this year. Based on the current bankruptcy filing rate, we predict that medical bankruptcies will total 866,000 and involve 2.346 million Americans this year – about one person every 15 seconds.

Medical bankruptcy is uncommon in countries with national health insurance. For instance, one study found that only 14.3% of Canadian bankruptcies are due to "health/misfortune" (a category that includes non-medical problems).

Our findings are frightening. Unless you’re Bill and Melinda Gates, your family is just one serious illness away from bankruptcy. For middle-class Americans, health insurance offers little protection. Most of us have policies with so many loopholes, co-payments and deductibles that illness can put you in the poorhouse. And even the best job-based health insurance often vanishes when prolonged illness causes job loss – precisely when families need it most. Private health insurance is a defective product, akin to an umbrella that melts in the rain.

We need to rethink health reform. Getting everyone a private insurance policy is not a solution. Reform also needs to help families who already have insurance by upgrading their coverage and assuring that they never lose it. Only single-payer national health insurance can make universal, comprehensive coverage affordable by saving the hundreds of billions we now waste on insurance overhead and bureaucracy. Unfortunately, insurance firms are pushing hard to keep themselves and their defective insurance policies at the core of our system. Reforms that expand this phony insurance - stripped-down plans riddled with co-payments, deductibles and exclusions – won’t stem the rising tide of medical bankruptcy.

A copy of the study is available at http://pnhp.org/new_bankruptcy_study or through the American Journal of Medicine, ajmmedia@elsevier.com , 212-633-3944.