Chapter 15: Health, Wealth, and Debt

By:
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Medical Industry Leadership Institute Open Education Hub

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Chapter 1

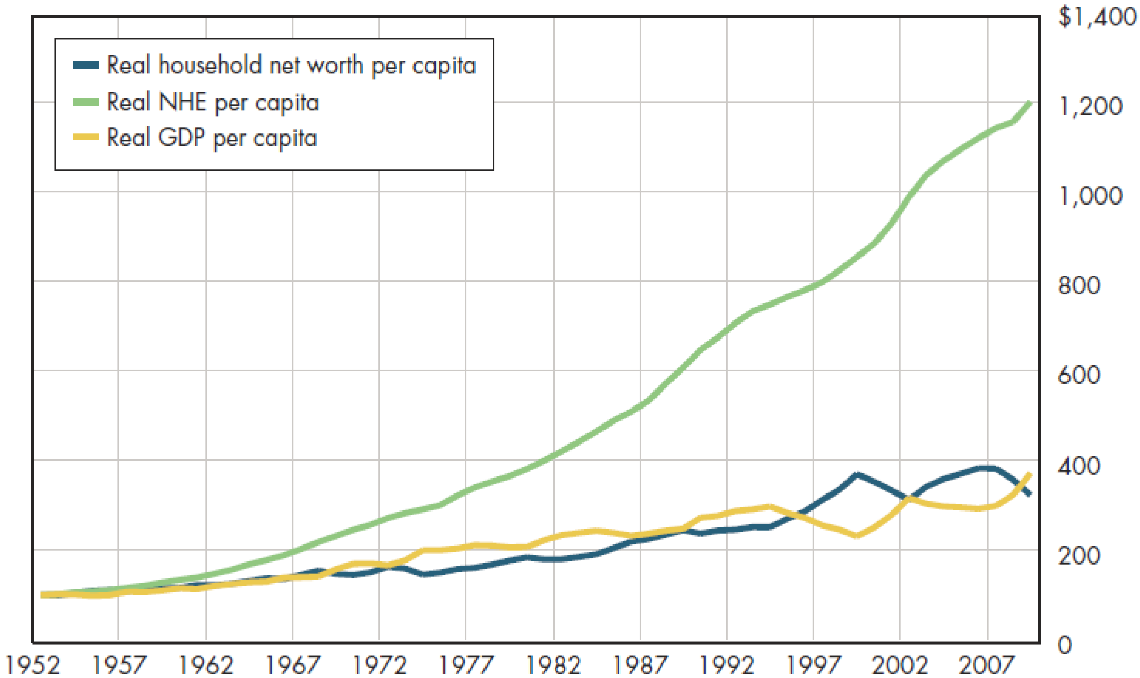
15.1 Health Spending per Capita Has Grown Twice as Fast as per Capita Net Worth[1]

Since 1952, inflation-adjusted health spending per capita rose much faster than per capita net worth or GDP (figure 15.1a). Net worth is the excess of assets over liabilities. According to Federal Reserve data, the net worth of U.S. households at the end of 2008 was $56 trillion. The nation's net worth includes the net worth held by house- holds and non-profit organizations. This represents the total wealth of the nation because assets held at the household level reflect any net worth held by corporations and non-corporate businesses.

[1] This content is available online at <https://hub.mili.csom.umn.edu/content/m10085/1.1/>.

15.1a Since 1952, inflation-adjusted health spending per capita increased much faster than per capita household net worth or GDP

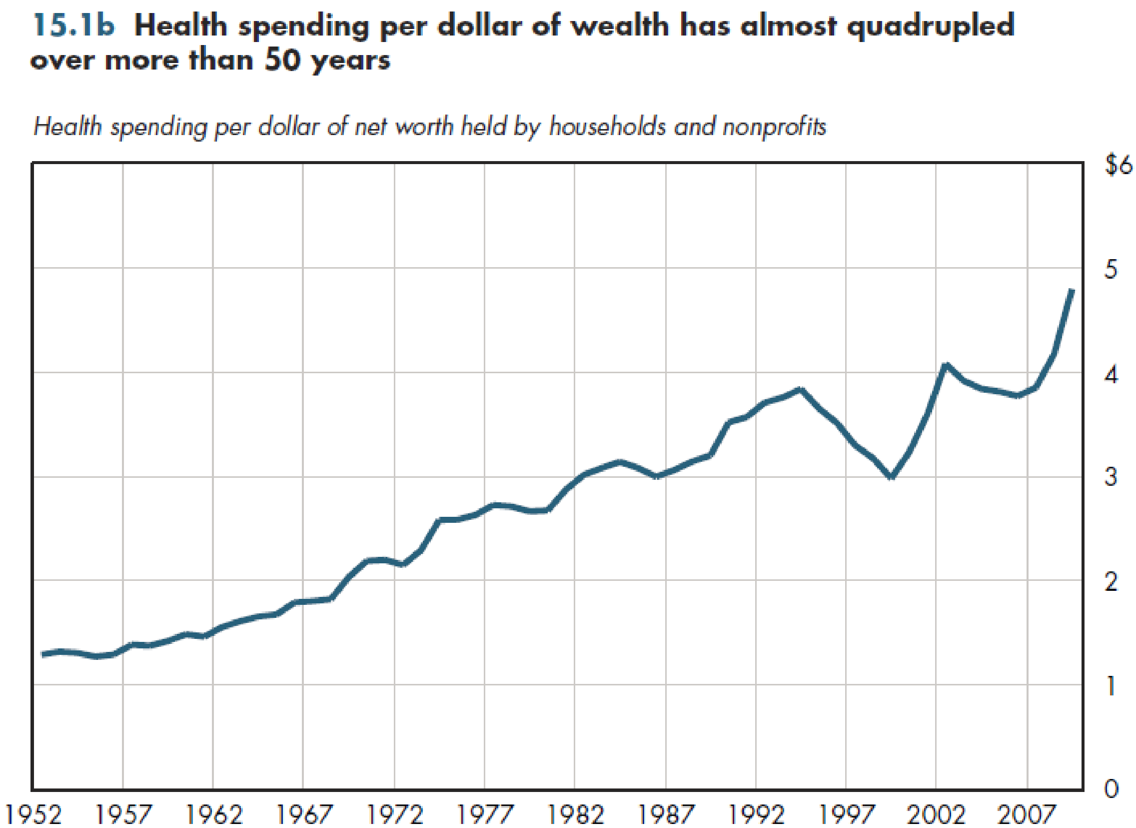
Index of real amounts per capita, 2005 chained dollars: 1952=100



Over 55 years starting in 1952—that is, excluding the most recent economic downturn—net worth increased at an annual rate of 7.3 percent, as compared with an increase of 6.8 percent in GDP. Adjusting for general inflation and population growth, these numbers decline to 2.5 percent and 2.0 percent, respectively. These numbers imply that on a per-person basis, real wealth doubles every 29 years and real GDP doubles every 35 years.

Real per capita health spending grew 4.5 percent over the same period. This was 80 percent faster than the pace at which net wealth increased. This pace implies a doubling of real per-person spending (in general purchasing power terms, not medical dollars) every 16 years.

A clearer way to see this difference is to calculate health spending for every $100 of net worth. When Mr. Eisenhower was elected president in 1952, this ratio was $1.29 in spending per $100 of wealth. By 2007, this amount had increased to $3.86 (figure 15.1b). Because of the steep decline in net worth from 2007 to 2009, coupled with ever-rising health costs, this ratio had reached $4.80 by the end of 2009. Health spending does not put us in danger of eradicating national wealth, but it is steadily chipping away at it, decade after decade. Health spending has not yet resulted in a reversal of real gains in national income (GDP) (refer to figure 20.4a). Likewise, increasing medical costs have not prevented real national wealth from increasing. However, less rapid increases in health spending in principle might have allowed for more rapid gains in wealth.



1.1 Downloads

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- Figure 15.1a Image Slide (as it appears above)[2]
- Figure 15.1a Editable Slide (can be formatted as desired)[3]
- Figure 15.1b Image Slide (as it appears above)[4]
- Figure 15.1b Editable Slide (can be formatted as desired)[5]

1.2 References

A. Author's calculations.
B. Department of Commerce. Bureau of Economic Analysis.
C. Department of Health and Human Services. Centers for Medicare and Medicaid Services.
D. Federal Reserve Bank.

[2]https://hub.mili.csom.umn.edu/content/m10085/latest/15.1aIMG.ppt
[3]https://hub.mili.csom.umn.edu/content/m10085/latest/15.1aDATA.ppt
[4]https://hub.mili.csom.umn.edu/content/m10085/latest/15.1bIMG.ppt
[5]https://hub.mili.csom.umn.edu/content/m10085/latest/15.1bDATA.ppt

Chapter 2

15.2 Low-Income US Family May Incur Health Spending that Exceeds Their Net Worth[1]

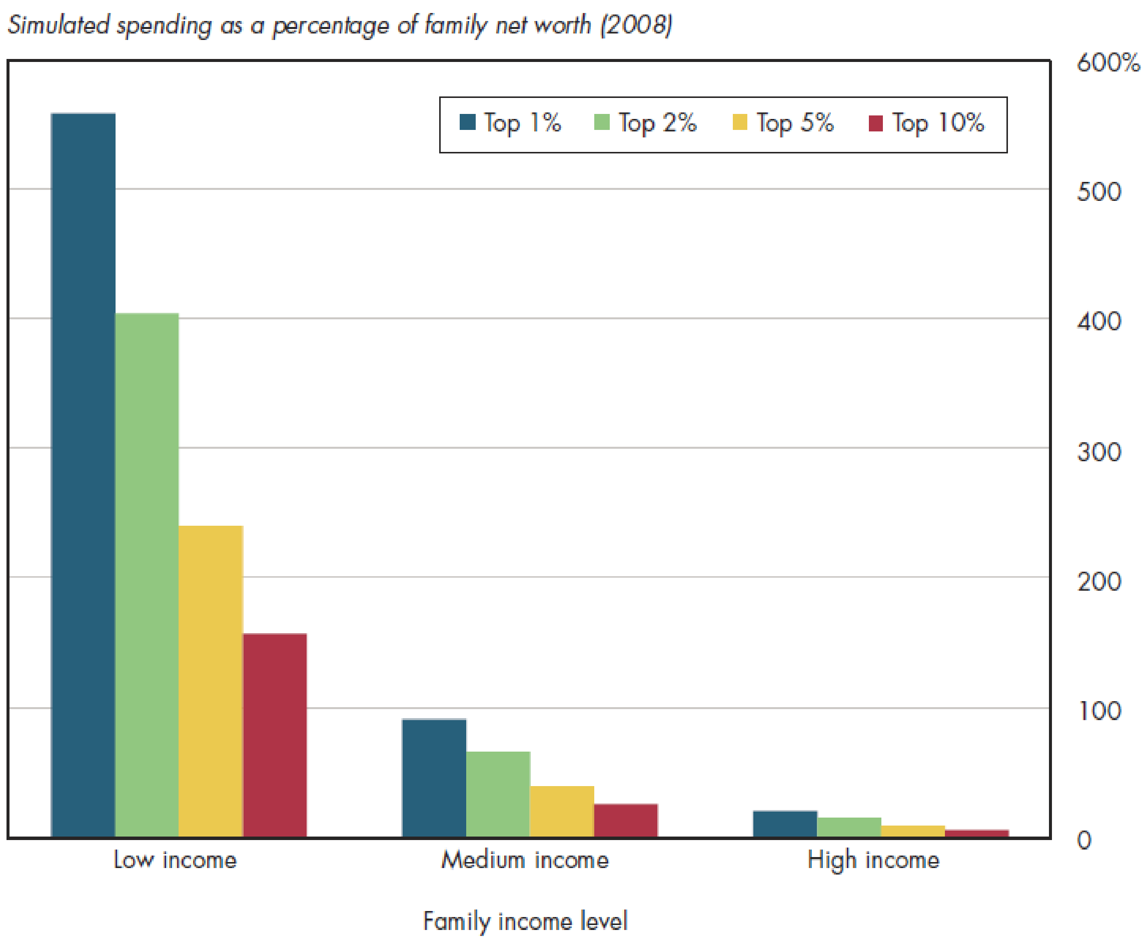
For low-income families, the cost of having one member in the top 10 percent of health spending would exceed their net worth. Thus, low-income households are more vulnerable to bankruptcy risk from medical expenses. The question is how large a risk they face.

Our conventional sources of health spending at the household level do not provide information on household wealth. Therefore, as an approximation, available information on the distribution of net worth across households was compared with the average per capita spending amounts for individuals in particular parts of the spending distribution (refer to figure 12.1a). This gives an approximate sense of the vulnerability to bankruptcy risk, but it is not equivalent to determining that a specified fraction of low-income families actually undergoes a bankruptcy caused by medical bills.

As an example, a low-income household having just one member whose medical spending fell into the top 1 percent of spending, would, on average, incur medical bills more than five times their net worth (figure 15.2). This is no guarantee of bankruptcy because if they are Medicaid-eligible, their third-party coverage finances all or almost all of such bills. Likewise, if such a family had private medical insurance, much of this hypothetical burden would be shifted onto others. Even if such a family were entirely uninsured, the safety net absorbs a considerable fraction of health expenditures (refer to figure 3.9b).

[1] This content is available online at <https://hub.mili.csom.umn.edu/content/m10086/1.1/>.

15.2 For low-income families, the cost of having one member in the top 10 percent of health spending would exceed their net worth



Note: Simulated spending estimated assuming one family member had health spending in the top 1, 2, 5, or 10 percent of individuals ranked by expenditures. Figure 12.1a shows the estimated annual amount of spending for each of these percentiles.

For a middle-income family, having one member in the top 1 percent would result in bills almost equal to the family's net worth. Again, whether this circumstance would actually force the family to declare bankruptcy would depend on the particular situation. A large public or teaching hospital might be in a better position to write off an expensive stay than would a small community hospital with low or negative operating margins. In contrast, for the highest income families, paying the bill theoretically ought to be relatively easy even if they lacked insurance and were responsible for the entire bill. It would wipe out 20 percent of their net worth, but presumably, this would not trigger bankruptcy.

2.1 Downloads

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- Figure 15.2 Image Slide (as it appears above)[2]

[2] https://hub.mili.csom.umn.edu/content/m10086/latest/15.2IMG.ppt

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2.2 References

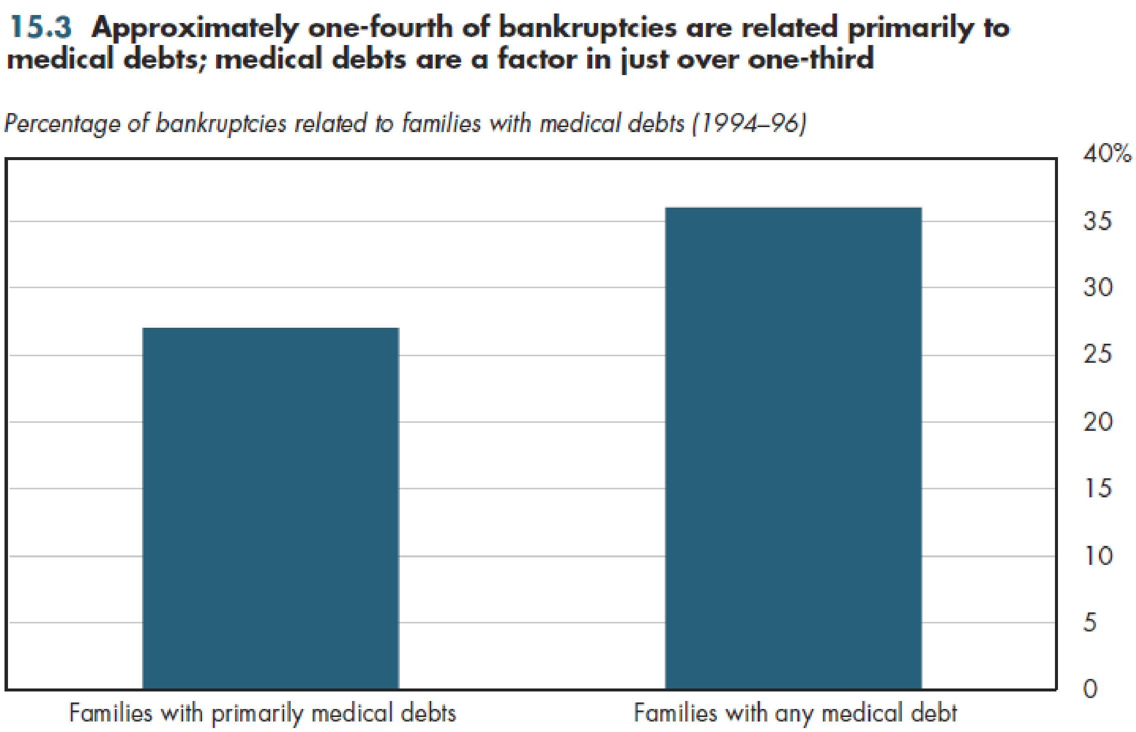
A. Author's calculations.
B. Department of Health and Human Services. Centers for Medicare and Medicaid Services.
C. Federal Reserve Bank.

[3]https://hub.mili.csom.umn.edu/content/m10086/latest/15.2DATA.ppt

Chapter 3

15.3 "Medical" Bankruptcies Account for 25-35% of US Bankruptcies[1]

Families whose principal reason for debt relates to medical bills account for approximately 25 percent of all bankruptcies. Other experts have suggested that this number might be much more than this, but this assumption uses an overly broad definition of a medical bankruptcy. The numbers shown in figure 15.3 represent evidence from the first study that separates the problem of paying medical bills from other problems that bankruptcy filers face, including loss of employment, low income, or other sources of debt, particularly credit card debt. According to this study, even if medical bankruptcy were defined to include all families having any medical debt, such families would account for just over 35 percent of bankruptcies.



Poor health can result in loss of income or even loss of a job—an impact that can greatly exceed the effects of medical bills. Thus, even for families whose debt primarily relates to medical bills, there is no

[1] This content is available online at <https://hub.mili.csom.umn.edu/content/m10087/1.1/>.

guarantee that bankruptcy could have been avoided had their medical bills been eradicated, that is, paid by someone else. The average amounts of the medical bills involved in bankruptcy cases are surprisingly small. One study by the U.S. Department of Justice (DOJ) found that only 11 percent of bankruptcy filers had medical bills in excess of $5,000. Medical debt accounted for 50 percent or more of total unsecured debt in only one of 20 cases. Across all filers, medical debt averaged only approximately 6 percent of all unsecured debt.

The limited available evidence suggests that fluctuations in the cost of health care are not linked to increases or decreases in bankruptcy rates. There has been a secular increase in bankruptcy filings entirely independent of increases in medical expenditures. There is more mixed evidence about whether bankruptcy rates have been affected by trends in insurance coverage. Approximately 60 percent of bankruptcies are filed by families who have health insurance. Thus, if the new health reform law results in expanded coverage, in principle this will reduce bankruptcy risk. The new law eliminates ceilings on lifetime coverage and places maximum limits on out-of-pocket spending. This too will lower bankruptcy risk, but for all the reasons reviewed, it seems unlikely that bankruptcies would decline by 25 percent.

3.1 Downloads

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- Figure 15.3 Image Slide (as it appears above)[2]
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3.2 References

A. Mathur A. Medical Bills and Bankruptcy Filings. American Enterprise Institute. http://www.aei.org/docLib/20060719_MedicalBillsAndBankruptcy.pdf (accessed July 28, 2010).

[2]https://hub.mili.csom.umn.edu/content/m10087/latest/15.3IMG.ppt
[3]https://hub.mili.csom.umn.edu/content/m10087/latest/15.3DATA.ppt

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