Medical Bankruptcy – Q&A

David U. Himmelstein, M.D., Deborah Thorne, Ph.D., Elizabeth Warren, J.D., Steffie Woolhandler, M.D., M.P.H.

1- What is a "medical bankruptcy"?

A number of medical factors can contribute to a family's financial collapse, including high medical bills or lost time from work. Because different researchers use different definitions, we 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 $5,000 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 $5,000 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.

2- Why do only 29% of bankrupt people identify medical bills as a reason for filing bankruptcy, but you say the total percentage of medical bankruptcies is 62.1%?

Families characterize their problems differently. Someone may mortgage a home to pay for surgery, 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 research or commentator can draw his or her own conclusions.

Finally, it should be noted that many people who are financially ruined by illness are undoubtedly too ill, too poor or demoralized to pursue formal bankruptcy, and are not counted in our study.

3- What is the impact of health insurance?

More than three-quarters (78%) of the families that met the criteria for medical bankruptcy had health insurance at the onset of their illness or accident. 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 only modest protection against medical bankruptcy.

4- Is the problem of medical bankruptcies just because of the recession?

No. The families in this study filed for bankruptcy between January-April of 2007, before the recession began. Since then, the financial stress on families has grown.

5- Is this a national sample of all families filing for bankruptcy?

Yes. The sample was drawn from bankruptcy filings across the country.

6- How did you get your information?

We contacted a random sample of all personal bankruptcy filers in the U.S. during the winter of 2007. Written questionnaires were returned by 2,314 debtors, and we also analyzed their bankruptcy court records. We also carried out extensive telephone interviews with 1,032 of these debtors.

Finally, to be sure that the debtors who returned our survey were similar to those who did not, we also analyzed the court records of 99 of the non-respondents. They were almost identical to those who returned the survey in terms of debts, income, assets and other characteristics.

7- What's the basis for saying that the proportion of bankruptcies that are medical rose by 50% between 2001 and 2007?

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. The 2001 estimate relied on data collected from bankruptcy filers in five states. Analysis of the 2007 data confirmed that the five states included in the 2001 survey also saw a 50% increase in medical bankruptcies.

8- Would health reform eliminate the problem of medical bankruptcy?

Many debtors described a complex web of problems involving illness, work, and family. Separating medical from other causes of bankruptcy is difficult. Hence, we cannot presume that eliminating the medical antecedents of bankruptcy would have prevented all of the filings we classified as “medical bankruptcies.” The high rate of insurance among the medical bankrupts suggests that any health reform that fails to improve existing private coverage is unlikely to make a major impact on medical bankruptcy. Moreover, our data also highlight the need for improved disability coverage.

9- Why do some others claim that medical bankruptcy rates are much lower?

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 as “medical.” 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. For these reasons, the only way to accurately assess medical bankruptcy is to directly survey families who file for bankruptcy.