

findings brief

key findings

- The uninsured, near-elderly who suffer a new, major illness lose between one-third and one-half of their assets to medical expenses.
- A comparable group of insured individuals experience no significant loss in assets.

Major Illness and Financial Disaster: How Close Is the Connection?

Covering the uninsured in America remains an elusive goal, but one that continues to be pursued. Discussions tend to focus on the health implications of lack of coverage, yet the economic consequences are equally significant. For some, lack of health insurance can be an inconvenience; for others, it can mean financial devastation.

Study Overview

In an HCFO-funded study, David Dranove, Ph.D., Northwestern University, and colleagues compared the financial experience of insured and uninsured individuals who suffer a major illness.¹ The researchers focused on the near-elderly age 51 to 64, a portion of the population that is typically accumulating assets to fund retirement. Dranove explains that the study's objective was to "better understand the indirect effects of lack of insurance on individuals' overall financial well-being."

Analysis

The research team calculated its estimates by using panel data from the Health and Retirement Study (HRS), a longitudinal sur-

vey that samples groups of non-institutionalized Americans born between 1931 and 1941 and their spouses. Surveyed every two years between 1992 and 2006, participants responded to questions about their household finances, health status, labor force participation, and retirement plans.

The researchers engaged in an intricate matching process across a number of measures, including marital status, assets, income, pre-illness homeownership, existing medical condition(s), type of new illness, number of other new diagnoses, and previous medical conditions for the newly ill. The researchers ultimately matched a set of uninsured households experiencing a new illness with three comparison groups: healthy/uninsured households, newly ill/insured households, and healthy insured households.

Included in the study sample were 454 uninsured households and 3,175 insured households in which one member of the household under age 65 suffered a new illness in the past year. The researchers



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excluded housing assets from their financial measures but included both public and private coverage among their insurance variables. They defined new illness to include diabetes, cancer, lung disease, heart problems, stroke, or psychiatric problems. Each of these illnesses results in more than \$5,000 in medical expenses for uninsured individuals.

Key Findings

The researchers found that uninsured, near-elderly individuals who suffer a new, major illness lose between one-third and one-half of their assets to medical expenses. A comparable group of insured individuals experience no significant loss in assets. The financial risks for the uninsured are even more pronounced when considering the top three major illnesses—cancer, heart disease, and stroke—and may persist for many years.

Study Limitations

The researchers note that the comparison group of insured individuals was not a representative sample insofar as the group had relatively low incomes and assets, similar to the uninsured sample. Moreover, insured individuals were more likely to have group rather than individual insurance. The protections of group coverage, note the researchers, could account for the

ability of insured individuals to maintain their assets despite a new illness. However, the researchers also recognize that, over a longer period, insured individuals might eventually experience asset depletion.

Implications for Policy and Practice

Among the several at-risk groups of uninsured are children and individuals with multiple chronic illnesses. Dranove adds that more than 4 million uninsured Americans are over age 55. “For this at-risk group, a serious illness jeopardizes not only their health, but their retirement savings and current standard of living.” Policymakers who are working to develop ways to cover the uninsured should consider the economic risk for targeted age groups.

The consequences of rising health care costs are numerous and pose a further challenge to the financial instability of the near-elderly uninsured. As health reform is implemented, policymakers should not lose sight of the critical need to change the upward trajectory of health care costs.

“It is important to consider that being uninsured has serious implications beyond one’s physical health,” says Dranove. The uninsured population tends to have lower

incomes and is more likely than insured individuals to experience difficulty in paying for even basic necessities. While the study focused on the financial implications of suffering a significant illness while uninsured, the consequences can be even more far-reaching and include risks to employment, home equity, and a household’s overall consumption patterns.

Conclusion

“There are many compelling reasons to cover the uninsured in this country,” says Dranove. “One of the most compelling may be that millions of Americans are potentially one illness away from financial catastrophe.”

For More Information

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Endnotes

- 1 For additional details on the analysis and complete findings, see Cook, K. et al., “Does Major Illness Cause Financial Catastrophe?” *Health Services Research*, Vol. 45, Issue 2, April 2010.