

Key Points

1. In 2001, 1.458 million American families filed for personal bankruptcy
2. Study used questionnaires during bankruptcy proceedings, and follow-up interviews, to examine the role of medical problems in personal bankruptcies
3. Found that nearly half of personal bankruptcies are due to major medical problems
4. Loss of health insurance coverage in the prior 2 years was associated with a medical bankruptcy
5. Many families went without food, utilities, and access to medical care prior to bankruptcy
6. Among medical bankruptcies, out of pocket medical costs averaged \$11,854
7. Many families suffered from the dual effects of losing jobs/income and incurring high medical bills at the same time

Definitions

asset - something of monetary value that is owned by a person; such as property

bankruptcy - a court proceeding where someone asks for protection from creditors under bankruptcy laws

Chapter 7 - section of the Bankruptcy Code which deal with the liquidation of assets and distribution of the proceeds to creditors; most common form of personal bankruptcy

Chapter 13 - section of the Bankruptcy Code which deals with establishing a repayment plan to pay off debts over 3-5 years

creditor - someone to whom money, or a debt, is owed

debt - money owed to someone

debtor - person who owes money to a creditor

Medical Problems Account For Half Of Personal Bankruptcies

October 2005 - Nearly half of the personal bankruptcies in the US are caused by medical problems. This was the major finding in a recently published study by Dr. Himmelstein and his colleagues at Harvard University. The research group used questionnaires administered during bankruptcy proceedings, along with follow-up interviews, to examine the role that medical problems play in bankruptcy. They published their report, which received national media attention, in February, 2005, in the on-line version of the journal Health Affairs.

In 2001, nearly one and a half million American families declared bankruptcy. Bankruptcy is an official filing with the courts whereby someone seeks protection from their creditors. Most people file bankruptcy under what is known as Chapter 7, resulting in the liquidation of their personal assets in exchange for relief from their debts. Alternately, some seek protection under Chapter 13, which allows for the creation of a repayment schedule over a period of years. Either way, bankruptcy results in a stain on people's financial records which can be hard to overcome. Subsequent loans can be expensive and difficult to secure, and today, many employers run credit checks on potential employees, which would reveal a prior bankruptcy.

Given the obvious financial burdens associated with medical conditions, Himmelstein and his group decided to collect data from a representative sample of families going through the bankruptcy process. They received permission from the courts to have the bankruptcy trustee administer a questionnaire to people to collect information on demographics, employment, housing, reason for bankruptcy, medical debts, loss of income due to illness, and health insurance coverage. Using this questionnaire, the team collected data from 1,771 families. In addition, these families were offered \$50 to participate in a follow-up phone interview, of which 931 agreed to do so. The phone interviews collected more information on the families' financial and medical situations and allowed them to offer a narrative of their story.

From the collected data, the researchers developed a definition of a Major Medical Bankruptcy as anyone who either: 1) specifically stated illness or injury as the reason for bankruptcy, 2) had unpaid medical bills of over \$1,000, 3) had lost two or more weeks of income due to medical reasons, or 4) had mortgaged a home to pay medical bills.

The group found that over 28% of people cited illness/injury as the specific reason for bankruptcy (see Table 1), and when they looked at the expanded definition of Major Medical Bankruptcy, found that 46% of the bankruptcy filers fit at least one of the four criteria. This extrapolates to more than 1.8 million people a year (including dependents) being affected by medical bankruptcies.

The data also revealed that while medical bankruptcy families were not any less likely to have health insurance at the time of the bankruptcy filing, a lapse in coverage during the prior two years was a significant predictor of bankruptcy. Specifically, 38% of the Major Medical Bankruptcy group had experienced just such a lapse in coverage, compared to only 27% of the non-medical bankruptcy group.

Table 1
Specific Reasons Cited For Bankruptcy

Reason	% of Bank.	# of people affected in US annually
Illness/injury	28.3	1,039,880
New Birth	7.7	421,256
Death	7.6	281,309
Alcohol/drug Addiction	2.5	109,180
Gambling	1.2	39,566

Dispelling the myth that bankruptcy is an easy way out, the study also found that the bankruptcy families went through quite a few hardships during this time period (see Table 2). Many went without food and basic utilities and more than 60% of the Major Medical Bankruptcy group went without needed medical care. In addition, for many, medical debt had led to extra mortgages.

Table 2
Privations Experienced By Families Around Bankruptcy Period

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liability - a legal obligation to pay money to someone else

liquidate - the act of selling assets, such as a car, for cash

privation - going without food or other necessities

trustee - in a bankruptcy, someone appointed by the court to oversee the inventory and liquidation of assets and the distribution of proceeds to creditors

Privation	% of Medical Bank.	% of Non-Medical Bank.
Went without food	21.8	17.0
Water, electric shut off	29.6	26.4
Lost phone	43.6	35.9
Moved due to financial reasons	17.8	14.3
Lost insurance	46.7	34.6
Went without medical visits	60.7	45.0
Failed to fill a prescription	49.6	37.6
Changed care arrangements	6.7	2.7

Sources

Himmelstein DU, Warren E, Thorne D, Woolhandler S. MarketWatch: [Illness And Injury As Contributors To Bankruptcy](#). Health Aff (Millwood). 2005 Feb 2; [Epub ahead of print]

Unfortunately, these troubles continued for some even after the bankruptcy filing, with one-third of the families reporting problems paying bills even after the filing. In addition, many reported having already been turned down for jobs, mortgages, apartments, and loans because of their financial problems.

Medical problems led to financial problems through both direct medical costs and loss of income. On average, the Medical Bankruptcy group had incurred close to \$12,000 in out-of-pocket costs. These expenses varied by illness, with cancer averaging over \$35,000 in medical expenses, and neurological problems coming in at over \$15,000. Adding insult to injury, over 35% of the Medical Bankruptcy families had limited employment - and lost income - due to either medical problems or having to care for someone else.

This publication has often said that being diagnosed with an illness like Chiari can impact every aspect of a person's life. This study clearly demonstrates the severe financial impact that a major medical crisis - like Chiari and syringomyelia - can have. Unfortunately, as is often the case, the answers are not as easily identified as the problem, as the people struggling to get by every day know all too well.

--Rick Labuda

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