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Sarah Cohen

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# THE AILING MIDDLE CLASS

*by* SARAH COHEN

Elected officials, public policy advocates and health care professionals continue to grapple with health care reform proposals as a lack of affordable health insurance and increasing health care costs have led to a greater number of bankruptcy filings among the middle class.

## AMERICAN HEALTH CARE TODAY

The health insurance system in this country is almost entirely based on employer provided coverage.<sup>1</sup> When a person receives coverage through work, they are one of many individuals grouped together into a “pool”.<sup>2</sup> The larger the pool, the lower the cost to the individual because the risk to insurers is spread over a larger number of people.<sup>3</sup>

Yet the availability of employer-backed insurance has been in decline.<sup>4</sup> The result is that fewer middle-class Americans have health insurance than ever before.<sup>5</sup> There are around 11 million middle income Americans uninsured, a number that accounts for nearly a quarter of the nations 46 million uninsured.<sup>6</sup> A majority, 91%, of the middle-class uninsured come from working families but many of these workers are in jobs that either do not offer insurance coverage or offer it with a premium so high that coverage is unaffordable.<sup>7</sup>

In order to determine why the number of uninsured middle-class Americans is growing, it is important to look at who can get insurance and how much it costs. From 2000 to 2006, the number of employers providing health care coverage fell from 69% to 61%.<sup>8</sup> During the same time period the increase in the cost of premiums for employer-based insurance was 87%<sup>9</sup> And while the cost of premiums has skyrocketed, wages have only increased 20% and inflation increased 18% - meaning that in 2006 premiums grew twice as fast as wages and inflation.<sup>10</sup> The result of such high premiums is that, of the uninsured employees who are eligible for coverage through their employer, around 52% decline due to cost.<sup>11</sup>

For those employees that decline coverage due to cost, buying non-group coverage, or individual coverage, is not an option.<sup>12</sup> Of those without an offer of coverage from an employer, less than 25% of those who are middle income purchased non-group insurance due to its high cost.<sup>13</sup>

The effect of the instability of the insurance system in the United States is debt. More of the middle class, both the insured and uninsured are dealing with budget consuming bills due to medical expenses that in turn is leading to bankruptcy.

#### MEDICAL BANKRUPTCY

Bankruptcy is often an option of last resort for many families in the United States with nearly 2 million couples or individuals who file bankruptcy each year because of medical bills and expenses.<sup>14</sup> Of that number, more than 25% cited illness or injury as a reason for bankruptcy, and 75.7% of those citing illness were privately insured at the onset of the bankrupting illness.<sup>15</sup> The bankrupt Americans who had private insurance at the onset of illness were largely from middle-class families who held full time jobs.<sup>16</sup> Most of those

people reported underestimating what their health plan would pay towards their medical bills as a partial reason for their debt.<sup>17</sup>

Not everyone is convinced that medical bankruptcy is as large a problem for the middle class as some public policy advocates have asserted. Critics of the reported number of medical debt filings argue that the statistics surrounding this issue are misleading.<sup>18</sup> They cite a U.S. Department of Justice survey that reported 90% of bankruptcy filers had medical debt of less than \$5,000.<sup>19</sup> Furthermore, critics point to a study by the Congressional Budget Office that states that many factors contribute to bankruptcy, including medical bills, but also listing factors such as divorce, loss of employment, credit card debt and poor debt management.<sup>20</sup>

In addition, studies show that many of the individuals who claim medical bankruptcy have already paid for most of their medical debt before another event, such as a lost job, precipitates bankruptcy.<sup>21</sup> This information leads many critics to argue that medical debt is not a crisis in this country.<sup>22</sup> They contend that medical debt is just like any other debt, a factor for the middle class in choosing to file for bankruptcy but not the only or even the most important factor.<sup>23</sup> Critics of the medical bankruptcy “phenomenon” believe that bankruptcy is the “response to an accumulation of debt, not to one particular factor such as a health problem.”<sup>24</sup>

However, the views of those advocates who fear medical debt is bankrupting middle income Americans is that the amount of medical bill debt is just one factor of overall debt due to illness.<sup>25</sup> They also state that the most significant financial effects of a medical problem may be indirect costs that result from illness.<sup>26</sup> Indirect costs in the form of high co-payments or on-going drug and equipment costs may erode a family’s financial well-being over time, making them more vulnerable to bankruptcy.<sup>27</sup> Furthermore, pre-existing conditions may be written out of health insurance policies, which in turn can lead to medical bills that are not covered.<sup>28</sup> Job loss can also be a direct result of illness, causing not only a loss of income but also the loss of insurance to pay for on-going medical costs.<sup>29</sup>

Credit card debt is another major contributor to the medical bankruptcy. Critics of medical bankruptcy acknowledge the role that credit cards play in middle class debt but many believe these critics fail to connect credit card debt with medical debt.<sup>30</sup> As more medical facilities ask for payment upfront, more

people are putting their health care related costs on credit cards.<sup>31</sup> In response to a growing market, the credit card industry has even developed “medical credit cards,” cards designed specifically for the payment of medical debt.<sup>32</sup> The result is that middle income Americans are paying high interest rates and late charges in addition to their debt.<sup>33</sup> The amount of medical costs being charged by middle class Americans is staggering; for example, in 2001, patients charged \$19.5 billion in medical expenses on VISA cards.<sup>34</sup>

Basic insurance coverage ensures that health care is provided and paid for, but it does not ensure coverage of the direct or indirect financial effects of a major illness.<sup>35</sup>

As some critics debate the existence of medical bankruptcy, a growing number of public policy researchers and advocates have connected the issue to the need for health care system reform.

#### HEALTH CARE REFORM

While there are many different thoughts on what should be done to reform the health care system in the United States, two options have emerged as the front-runners in the debate. Diametrically opposed to one another, one system seeks to place responsibility for health care coverage on the individual and the other entirely on the government.

In recognition of the need for health care reform, President Bush has tried to implement a new system of insurance based on tax credits and personal accountability.<sup>36</sup> Called Health Savings Accounts (“HSA”), the purpose of this style of health plan is to enable individuals and families to save today for future health expenses in a way the current system is unable to do.<sup>37</sup> In addition, with the current system of third-party payment, some critics argue that patients do not think about the cost of care and in the new system, because a person is putting their own money into their HSA, there will be an incentive to be cost conscious.<sup>38</sup>

Enrollment in HSAs is low yet growing. According to a January 2006 survey by America’s Health Insurance Plans, around 3.2 million individuals are enrolled in this type of plan.<sup>39</sup> Health savings accounts provide tax-favored treatment for current medical expenses as well as the opportunity to save, tax-free,

for future medical expenses.<sup>40</sup> Any individual in a high deductible health plan is eligible to enroll in a HSA, meaning that anyone with a deductible that is at least \$1,100 for individual coverage or \$2,200 for family coverage may apply.<sup>41</sup> Once enrolled, there is a maximum annual contribution of \$2,850 for individuals or \$5,650 for families that will be considered as tax-free income.<sup>42</sup> In addition, an employer can make comparable contributions that are also tax-free.<sup>43</sup> This would benefit American companies that contend health care costs have eaten up too much of their profits.<sup>44</sup> Finally, depending on income, Americans would also receive a tax deduction for participating in a HSA that could be used to offset the high deductible a HSA has.<sup>45</sup>

The theory behind why HSAs will work is that the tax deductions help to make health insurance affordable for more people, while helping employers cope with the cost of providing health coverage.<sup>46</sup> Furthermore, by eliminating third-party payments, individuals would have more control over their care rather than putting it in the hands of bureaucracies or the government.<sup>47</sup>

While the push for this system of health care reform appears to primarily come from President Bush and his supporters, there are many who criticize HSA-style plans and say that instead of helping to reform health care, it may cause a collapse of the insurance system.<sup>48</sup>

Opponents believe that HSAs have the potential to alter the traditional health insurance industry to the detriment of those who do not choose to have a HSA because of the likely change to insurance pools.<sup>49</sup> These critics contend that HSAs will likely appeal to healthy individuals who do not spend much annually on health care.<sup>50</sup> As these healthy people leave their old insurance pools, the pools become riskier to insure, leading to higher premiums for those left behind.<sup>51</sup>

Cost is an umbrella concern to critics of HSAs because it is expected that individuals with HSAs are more likely to spend a larger portion of their income on out-of-pocket costs than those in traditional plans.<sup>52</sup> Critics worry that the method HSA supporters have created to handle the increase in spending will not work for much of the population.<sup>53</sup>

The tax benefits of the President's plan faces heavy fire from opponents who fear the high cost of HSAs and believe the deductions favor high income families over those with lower or middle incomes.<sup>54</sup> For instance, a family of four

with an income of \$20,000, who puts \$2,000 in a HSA would see \$0 in tax deductions, whereas a family with income of \$120,000 would receive tax savings of \$620.<sup>55</sup> Since the tax break is supposed to be used to help off-set the out of pocket expenses associated with the higher than normal deductible rate, many believe tying it to income shows favoritism for higher wage earners.<sup>56</sup>

Furthermore, economists fear that allowing employers to write off the total cost of their contributions to HSAs will lead many companies to decrease or even eliminate traditional health care plans, leaving those who choose not to enroll without any insurance coverage at all.<sup>57</sup> This issue is of particular concern to those low and middle income individuals who will not receive as much in tax deductions due to their annual earnings.<sup>58</sup>

Another major concern related to HSAs is in the expansion of health insurance coverage. Opponents argue that HSAs will not increase coverage among the uninsured because the large majority of the uninsured lack coverage simply because they cannot afford it.<sup>59</sup> It is doubtful that most of the 11 million uninsured middle class would be able to afford the high out-of-pocket-expenses required to participate in a HSA, notwithstanding the ability to contribute in a meaningful way to the savings account.

Finally, it appears that HSA-style health care reform does little to resolve the problems within the insurance system or to fix the problem of cost. There are no plans to change the actual cost of health care in the United States under HSA-style care, only to try to remove a third-party payment system in order to make individuals more accountable for their actions.<sup>60</sup> Since the cost of health care would remain unchanged, it would mean that insured and uninsured middle income families would still hover on the brink financial ruin when facing a serious illness.

As Anthony Wright, executive director of Health Access, California stated, "Rather than expanding public programs or expanding group coverage, he [Bush] is encouraging people to get coverage in the most expensive way possible."<sup>61</sup>

In response to the plan to expand HSA-style health care, opponents have backed health care reform that would create a National Health Care ("NHC") system. Using models in Europe and Canada, a NHC system would provide every individual in the United States with health care coverage as part of a

federal program.<sup>62</sup> Funds would be raised through taxes, with contributions based on income.<sup>63</sup> The central focus of a NHC system would be to use public funds in a more efficient way “to enable every household to obtain at least an acceptable level of health care.”<sup>64</sup>

The theory behind NHC -style reform is the belief that every individual should receive some level of coverage regardless of income.<sup>65</sup> Proponents of NHC feel that it is important to de-link insurance coverage and employment status.<sup>66</sup>

Furthermore, supporters of NHC, like HSA supporters, cite the inefficiency of the current system as a reason for the problems associated with health care coverage today.<sup>67</sup> A recent study estimated that \$38 billion dollars is spent annually on health care services for the uninsured.<sup>68</sup> NHC supporters believe that this is inefficient since the services being offered are often provided in the most expensive settings.<sup>69</sup> They claim that a more centralized health care system that provided coverage to every individual would eliminate that type of spending, lowering the cost of health care coverage overall.<sup>70</sup>

While some fear the cost of a NHC system, it is thought that the amount the United States spends on healthcare now, \$1.4 trillion dollars, would be enough to fund a single publicly-administered insurance program.<sup>71</sup> And while implementing a NHC system would require a fundamental restructuring of the healthcare system in this country, a national poll by Harris Interactive, in 2002, found that half of the respondents favored radical reform to the health care system.<sup>72</sup>

Opponents of an NHC system cite cost and loss of a free-market system as the main reasons for why this program cannot work.<sup>73</sup> There is also the worry that the funds necessary to pay for a NHC system would result in drastically higher taxes for all Americans.<sup>74</sup>

Opponents warn that waiting lists will likely be an inevitable by-product of any form of NHC.<sup>75</sup> This problem is due, they contend, to the fact that demand will outpace supply and the only way for a government-run program to control demand is to reduce supply.<sup>76</sup> Proof of this contention can be found in the Canadian and British socialized health care systems, where waiting lists exist for even emergency care.<sup>77</sup>

In addition, there is a fear that government-run universal health care will also subject patients to substandard care.<sup>78</sup> This would be the result of budget-conscious bureaucrats who would be reluctant to approve pricey new technologies when faced with a tight budget.<sup>79</sup> Again, proof of this behavior can be found in the Canadian and British health care system where a lack of the most modern technologies can pose a risk to patients compared to the current American system.<sup>80</sup>

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