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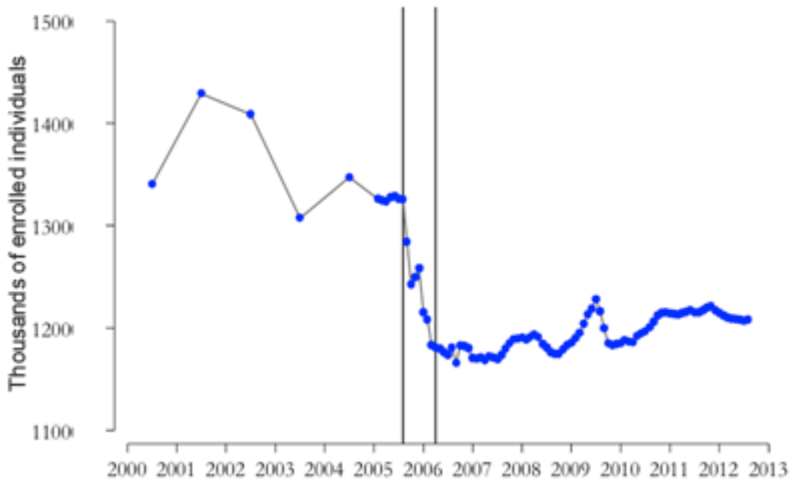
When Health Insurance and Its Financial Cushion Disappear

Personal health care costs can skyrocket with a new diagnosis or accident, often leading to catastrophic financial costs for people. Health insurance plays an important role in protecting individuals from unexpected large financial shocks as a result of adverse health events. Just as homeowner's insurance helps protect you from financial devastation if your house burns down, health insurance helps protects you from burning through your savings because of a heart attack. This 2008 report from the Commonwealth Fund shows that the uninsured are far more likely to have to use their savings and reduce other types of spending to pay medical bills.

Much research has been done on the impact of health insurance on financial and health outcomes. (This paper, for example, summarizes the history and impact of Medicaid.) However, most of the studies look at the case of individuals who are *gaining* health insurance. In a recent Atlanta Fed working paper and the related podcast episode, we measure the impact of losing public health insurance on measures of financial well-being such as credit scores, delinquent debt eligible to be sent to debt collectors, and bankruptcies. We performed these measurements by studying the case of Tennessee's Medicaid program, known as TennCare, in the mid-2000s. At that time, a large statewide Medicaid expansion that began in the 1990s ran into financial difficulties and was scaled back. As the following chart shows, some 170,000 individuals were removed from TennCare rolls between 2005 and 2006.

TennCare Enrollment, 2000–13



Sources: TennCare enrollment data and authors' calculations

Our analysis of this episode, using data from the New York Fed's Consumer Credit Panel/Equifax, revealed some striking findings. Individuals who lost health insurance experienced lower credit scores, more debt eligible to be sent to collections, and a higher incidence of bankruptcy. Those who were already financially vulnerable suffered the worst. In particular, individuals who already had poor credit, as measured by Fannie Mae's lowest creditworthiness categories, and then lost Medicaid see their credit scores fall by close to 40 points on average and are almost 17 percent more likely to have their debt sent to collection agencies. Our analysis also finds that gaining or losing health insurance is not symmetric in its impact—losing insurance has larger negative financial effects than the positive financial impacts of gaining insurance.

Our results provide evidence that losing Medicaid coverage not only removes inexpensive access to health care but also eliminates an important layer of financial protection. A cost-benefit analysis of proposed cuts to Medicaid coverage (see here, here, and here for a discussion of recent legislative efforts in the U.S. Congress) would need to consider the negative financial consequences for individuals of the type that we have identified.

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