CENTER for STUDYING HEALTH SYSTEM CHANGE

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Living on the Edge: Health Care Expenses Strain Family Budgets

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Executive Summary

As a renewed national discussion of comprehensive health reform gets underway, the affordability of medical care is a central focus. Much attention has focused on the affordability of health insurance premiums, with less emphasis on affordability of out-of-pocket medical expenses, such as deductibles and copayments. But as health care costs continue to rise rapidly amid a sharp economic downturn, out-of-pocket medical expenses are straining family budgets, leaving even insured families with little cushion to weather unexpected illnesses or injuries.

This study's primary objective was to identify the level of out-of-pocket medical expenses that results in a large number of families experiencing financial difficulties with medical bills, with a goal of assisting policy makers in identifying and setting affordability standards for out-of-pocket spending. In addition, in-depth interviews with people experiencing problems paying medical bills help demonstrate the difficult trade-offs facing people with large medical expenses, as well as the consequences on their overall financial situation, health and medical care.

The study also includes selected findings for the state of California regarding the affordability of medical care, comparing the experience of California residents with the general U.S. population. Key findings of the study include:

- Financial strain arising from medical bills increases substantially when out-of-pocket spending exceeds 2.5 percent of family income. Fifteen percent of families that spend less than 2.5 percent of family income report medical bill problems, compared with 33 percent reporting medical bill problems when spending is between 2.5 percent and 5 percent of income.
- Lower affordability standards (i.e. less than 2.5 percent of family income) should be considered for lower-income people and those in poor health. A high percentage of lower-income people and those in poor health have problems paying medical bills at very low spending levels in large part because of large medical debt incurred in prior years.
- Fewer nonelderly California residents experienced problems paying medical bills in 2007 (13.5%) compared with the general U.S. nonelderly population (20.9%). This reflects lower health care costs in California compared with the overall United States, including lower out-of-pocket spending. Lower costs in California likely reflect higher health maintenance organization (HMO) penetration, a somewhat larger proportion of uninsured residents, and a much higher proportion of Hispanics and foreign-born residents who tend to use less health care.

A number of the respondents included in the in-depth interviews were in dire financial straits in large part because of medical bills, often resulting in extremely difficult choices between paying medical bills and paying for other necessities, such food, shelter and clothing. Other families' situations were somewhat less severe, although many reported that family budgets are so tight that an unexpected medical expense would put them over the edge into extreme financial trouble. Virtually all families with problems paying medical bills reported putting off or going without medical care to avoid additional expenses, and the recent financial crisis and rising fuel and other costs are intensifying the strain on family budgets.

The findings may help inform health reform policy proposals. They spotlight the inherent challenges of attempting to contain health care costs by shifting more financial responsibility onto economically vulnerable families. On the other hand, alternatives for lowering the burden on families may not be feasible or desirable in the short term, as seriously strained federal and state budgets may prohibit greater subsidies for out-of-pocket costs. Ultimately, the findings provide more evidence that system-wide efforts to control health care costs must be employed to make health care affordable for families over time.