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The effect of the affordable care act Medicaid expansions on financial wellbeing☆

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ABSTRACT

We examine the effect of the Medicaid expansions under the 2010 Patient Protection and Affordable Care Act (ACA) on consumer financial outcomes using data from a major credit reporting agency for a large, national sample of adults. We employ the synthetic control method to compare individuals living in states that expanded Medicaid to those that did not. We find that the Medicaid expansions significantly reduced the number of unpaid bills and the amount of debt sent to third-party collection agencies among those residing in zip codes with the highest share of low-income, uninsured individuals. Our estimates imply a reduction in collection balances of approximately $1140 among those who gain Medicaid coverage due to the ACA. Our findings suggest that the ACA Medicaid expansions had important financial impacts beyond increasing health care use.

1. Introduction

In 2010, President Barack Obama signed the Patient Protection and Affordable Care Act (ACA) into law, which included a provision to expand Medicaid eligibility to low-income adults, many of whom were previously ineligible. A major motivation for this expansion was to provide financial security to individuals if they experience a sudden deterioration in their health and cannot afford to pay for their medical expenses.

Indeed, the financial consequences of not having health insurance can be severe for individuals who become seriously ill or injured. According to data from the 2012 Medical Expenditure Panel Survey (MEPS), the annual cost of inpatient care for a person aged 18 to 64 who was hospitalized was approximately $15,000, and the annual cost of all types of care for that person was $25,000. Studies using survey data suggest that the uninsured often have difficulty paying medical expenses, become delinquent on their medical and non-medical bills, and are more likely to be contacted by collection agencies.[1] Dobkin et al. (2017) find that uninsured individuals who become hospitalized experience a host of financial setbacks over the next four years including reduced access to credit, a 170% increase in unpaid medical bills, and a more than doubling in the likelihood of filing for bankruptcy.

These statistics highlight how the Medicaid expansions under the ACA could play an important role in providing low-income individuals with financial protection by improving their ability to pay their medical expenses. Additionally, expanded health care coverage may also have

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[1] Cunningham (2008) reported that 34% of those without medical insurance had trouble paying their medical bills, and among this group, 62% had been contacted by a collection agency. Doty et al. (2008) found that 62% of persons that had trouble paying medical bills reported having more than $2000 of outstanding medical bills, while 20% reported having more than $8000 in outstanding medical bills. Finkelstein et al. (2012) reported that approximately 60% of participants in the control group of the Oregon Health Insurance Experiment currently owe money for a medical expense, and 36% indicated that they borrowed money or skipped other bills to pay for medical expenses. Nunez et al. (2016) show that medical debt incurred during periods of un-insurance spills over into other forms of debt.

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indirect effects on financial wellbeing. Access to health insurance and a reduction in medical expenses has the potential to improve access to credit markets, increase savings, and facilitate consumption of other goods and services. These other channels can potentially have salutary effects on the wellbeing of low-income individuals.[2]

Despite the potentially important role that publicly provided health insurance plays in the financial wellbeing of low-income individuals, only three studies have evaluated the role of Medicaid on consumer financial wellbeing. Gross and Notowidigdo (2011) examined the effect of Medicaid eligibility expansions in the 1990s, which were mostly for children, on bankruptcy. They found that increasing Medicaid eligibility by 10 percentage points reduced personal bankruptcy by about 8%. The Oregon Health Insurance Experiment (Baicker et al., 2013; Finkelstein et al., 2012) found that Medicaid coverage of low-income adults in Oregon reduced the likelihood of borrowing money or skipping bills to pay for medical care by 44% and reduced the probability of having a medical collection by 23%. Finally, a recent study by Brevoort et al. (2017) examined the effect of the ACA Medicaid expansions on new medical collections. Estimates from this study indicate that the expansions substantially reduced the incidence of new medical debt in expansionary states relative to controls. Other studies have evaluated the effects of other types of health insurance coverage on financial outcomes and have also documented substantial improvements in financial wellbeing (Barcellos and Jacobson, 2015; Mazumder and Miller, 2016; Dobkin et al., 2017).

We extend this literature by evaluating the effect of the expansion of Medicaid under the ACA to low-income adults on consumer financial wellbeing. Although originally intended to apply to all states, in 2012, the U.S. Supreme Court decision in the *National Federation of Independent Business v. Sebelius* case made the Medicaid expansions optional for states. As of the end of 2015, 29 states and the District of Columbia had chosen to expand Medicaid coverage (at least in some form) and 21 states had opted not to expand Medicaid coverage.[3] Rates of health insurance coverage have improved substantially more in the states that offer expanded Medicaid coverage than in those that do not (Black and Cohen, 2015; Kaestner et al., 2017; Sommers, 2014; Wherry and Miller, 2016; Miller and Wherry, 2017), and total Medicaid enrollment in these states increased by 12.3 million between 2013 and 2015 (Centers for Medicare and Medicaid Services, 2015). We exploit the variation in Medicaid eligibility and coverage induced by these state-level policy choices to estimate the effect of the Medicaid expansions on individual financial outcomes. We use the synthetic control approach (Abadie et al., 2010) to address concerns about the potential non-randomness of states' decisions to expand Medicaid.

As far as we are aware, ours is the first national study that evaluates how public health insurance coverage for non-elderly adults affects financial wellbeing. We use data from a large, nationally-representative sample of credit reports, the Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP) dataset to conduct our analysis. The CCP data contain timely information on a random sample of the credit reports of approximately 38 million adults in the United States each quarter (covering about 17% of the adult population) and provide many indicators of financial wellbeing. We focus on a few, broad measures of financial wellbeing where the effects of the 2014 Medicaid expansion could potentially be detected during our sample period. Specifically, we examine credit score, total debt, total debt past due, credit card debt, credit card debt past due, the number of bills sent to collections, the total balance outstanding in collections, and bankruptcy.

Our main finding is that Medicaid expansions that began in 2014 significantly reduced the number of unpaid bills and the amount of debt sent to third-party collection agencies among people living in zip codes that are most likely affected by the expansions. Our baseline intention-to-treat (ITT) estimates indicate that the Medicaid expansions are associated with a decrease in the amount of unpaid balances in collections of between $65 and $88. This effect is an average over the entire sample and includes many individuals who did not obtain Medicaid insurance coverage through the expansion. Rescaling this estimate based on the fraction of the target population who were likely to have obtained insurance coverage yields estimates of the effect of obtaining Medicaid (i.e., treatment on the treated) on collection balances of approximately $1140. These estimates indicate a substantial improvement in financial well-being for individuals who gained coverage. We also found some suggestive evidence that the Medicaid expansion reduced the total amount of consumer debt. While we do not find evidence of a reduction in other type of delinquencies, the improvement in financial well-being may provide benefits beyond the direct benefit of eliminating medical debt, which is an interesting area for future study. The reduction in unpaid bills in collection also implies that the benefits of expanding Medicaid likely include hospitals and creditors that serve the low-income population.

2. Framework for the analysis

2.1. Conceptual framework

Medicaid provides health insurance coverage at no, or very low, cost to the enrollee. Given the low income of individuals who became eligible for Medicaid through the ACA (<138% of federal poverty), even relatively minor, unexpected medical expenses can represent a substantial fraction of their total income, and more serious illness may be catastrophic financially for them. Consequently, we hypothesize that the financial protection provided by Medicaid for low-income individuals should largely eliminate most of their significant medical expenses, as well as reduce delinquencies and other indicators of financial distress that are the focus of our study.

While the Medicaid expansion will decrease the amount of unpaid medical bills and delinquencies, the effects of gaining Medicaid eligibility on other debt and borrowing are theoretically ambiguous. The financial protection afforded by Medicaid coverage should reduce the need for low-income individuals to borrow to smooth consumption when medical issues arise. Thus, Medicaid has the potential to decrease a person's borrowing and total debt. Alternatively, Medicaid may reduce the need for individuals to save for precautionary reasons, which may increase consumption and borrowing. In this case, the Medicaid expansions would be associated with increases in total debt for low-income individuals. In sum, the effect of the Medicaid expansions on measures of debt are ambiguous and an empirical question.

Although our analysis focuses on measuring the effect of the Medicaid expansions on individuals, the potential benefits of the Medicaid expansions extend to hospitals (healthcare providers) and consumer financial services companies. Research has shown that improving the capacity of low-income, uninsured individuals to pay for medical care through Medicaid expansions can improve hospital profitability (Garthwaite et al., 2018; Nikpay et al., 2016). Finally, we note that even if the financial benefits accrue entirely to hospitals or other creditors (i.e., medical bills would never have been otherwise paid), Medicaid recipients likely gain a psychological benefit as a result of not having to interact with debt collectors or worry about medical bills.

[2] Doty et al. (2008) found that among the uninsured who were paying off medical bills, 47% stated that they had exhausted their savings and 40% reported that they had foregone other necessities such as food, heat, or rent in order to pay medical bills. Leininger et al. (2010) reported that SCHIP expansions were associated with increased consumption and savings. In contrast, Gruber and Yelowitz (1999) found that savings and asset accumulation were reduced as Medicaid eligibility expanded in late 1980s and early 1990s.

[3] As we discuss below, for our analysis, the classification of treatment and control states differs from this simple distinction, and we consider various groupings of states based on their implementation dates.

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