

July 2009

## Health Insurance and Bankruptcy Rates in Canada and the United States

### Main Conclusions

- Unlike the United States, Canada has a universal, single-payer, government-run, socialized health insurance system.
- Advocates of socialized medicine argue that the mixed public-private health insurance system in the United States causes many Americans to become financially bankrupt, and that this would not occur if the US adopted the Canadian health system.
- Following this logic, we should expect to observe a lower rate of personal bankruptcy in Canada than in the United States.
- Yet the most recent data (2006 and 2007) shows that personal bankruptcy rates are actually higher in Canada (.30% for both years) than in the United States (.20% and .27%).
- Research indicates that medical spending was only one of several contributing factors in 17 percent of US bankruptcies, and that medical debts accounted for only 12 to 13 percent of the total debts among American bankruptcy filers who cited medical debt as one of their reasons for bankruptcy.
- Research also indicates that medical reasons were cited as the primary cause of bankruptcy by approximately 15 percent of bankrupt Canadian seniors (55 years of age and older).
- The US-Canada comparative analysis strongly suggests that bankruptcy statistics do not support arguments for a government-run health insurance system.



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**Table 1: Consumer (non-business) Bankruptcies Filed  
in Canada and the United States, 2006 and 2007**

	<b>2006</b>	<b>2007</b>		
	<b>Canada</b>	<b>USA</b>	<b>Canada</b>	<b>USA</b>
Total Consumer Bankruptcy Filings	98,400	597,965	99,282	822,590
Total Population	32,576,100	298,754,819	32,927,400	301,621,157
Consumer Bankruptcy Filings as a Percentage of Population	0.30%	0.20%	0.30%	0.27%

Notes: Table includes total non-business bankruptcy filings only in both countries. Canadian data include bankruptcy and consumer proposals, which are conceptually similar to American bankruptcy Chapters 7 and 13 respectively (Bankruptcy Canada, 2009a; 2009b).

Sources: Office of the Superintendent of Bankruptcies, Canada, 2006, 2007, 2008, 2009; US Courts, 2009; Statistics Canada, 2009a; US Census Bureau, 2009.

## Introduction

In a recent update to a previous study, Himmelstein et al (2009) concluded that in 2007, uninsured medical expenses or loss of income due to illness “caused”

(Himmelstein et al., 2009, “Table 2: Medical Causes of Bankruptcy, 2007,” p. 3) nearly two-thirds (62.1 percent) of all non-business bankruptcies in the United States. The authors blame this on America’s pluralistic health insurance system.<sup>1</sup> Himmelstein and co-author Woolhandler are well-known proponents of Canada’s government-run, single-payer medical insurance system (e.g. Woolhandler et al., 2003; McCormick et al., 2004; Woolhandler and Himmelstein, 2004).<sup>2</sup> The implicit assumption of their study is that a single-payer system would have prevented or significantly reduced the number of bankruptcies observed in the United States. Following this logic, we should expect to observe a lower rate of bankruptcy in Canada

compared to the United States, all else being equal. Yet the most recent data shows that the non-business bankruptcy rate in Canada is statistically the same as it is in the United States.

Aside from universal single-payer health insurance, there are few other significant health, social, or legal policy differences between the two countries that could be causally linked to bankruptcy rates. For example,

## Data and analysis

Table 1 shows the number of consumer or personal bankruptcies, excluding business bankruptcies, in both countries for 2006 and 2007—the two most recent years for which we have data. All data are taken directly from government sources in both countries. All data are defined in conceptually similar ways for both countries. The data show that the total number of non-business bankruptcy filings represented less than one-third of one percent of the total population in both countries. There is no significant difference between the percentages. Where there is a difference, the data show that non-business bankruptcy rates are actually higher in Canada.

- The 2005 reforms to US bankruptcy laws have produced legal standards that are very similar to Canadian standards (Bankruptcy Canada, 2009a; 2009b).
- Drug insurance is structured almost identically, so exposure to drug costs is similar in both countries. While the entire Canadian population is universally eligible for publicly funded insurance for hospital and physician services, only about one-third of the Canadian population is publicly insured for prescription drugs. In Canada, as in the US, low-income people, disabled populations, and seniors are eligible for separate publicly

funded drug programs, while most employed people obtain drug insurance as a benefit of employment, and the rest of the population pays with their own money.

- Both countries have employment insurance programs that provide income support in the event of job loss (US Department of Labor, 2004; Service Canada, 2009). Unemployment occurs with roughly similar frequency among Canadians and Americans. National unemployment rates in 2007 were 5.3 percent in Canada versus 4.6 percent in the United States (Statistics Canada, 2009b).
- Access to medical care for people who experience long-term unemployment, disability from illness, and chronic low-income status is practically the same in both countries, being facilitated by non-profit, publicly funded community health centers (NACHC, 2009) and public programs like Medicaid in the US, and government-run systems in Canada.

## Medical bankruptcies in Canada

Medical reasons for bankruptcies are not unique to the US. Research commissioned by the Canadian government (Redish et al., 2006) indicates that medical reasons were cited as the primary cause of bankruptcy for approximately 15 percent of bankrupt Canadian seniors (55 years of age and older). Medical

reasons included lost income or employment due to illness, as well as uninsured medical expenses.

## Other research

These findings reinforce earlier criticisms of Himmelstein et al (2005). In particular, Dranove and Millenson (2006) reviewed the literature on medical bankruptcy and found that, “studies since the mid-1960s have consistently concluded that medical bills are a relatively minor part of the debt problem” (Dranove and Millenson, 2006: w78). Studies the two researchers reviewed, including one by the US Department of Justice, estimated that medical debts accounted for only between 12 and 13 percent of total unsecured debt among bankruptcy filers who cited medical debts as a contributing factor to their bankruptcy (Dranove and Millenson, 2006). More specifically, they examined the data and methodology in Himmelstein et al (2005) and concluded that the study

fail[ed] to provide a causal relationship to support the claim that medical spending contributes to “half of all bankruptcies” (54.5 percent). Our analysis of their data finds a causal link in only 17 percent of personal bankruptcies... the authors’ methodology does not provide a definitive answer to the policy question they implicitly pose: how national health insurance would affect the rate of personal bankruptcy. At best, they show that medical bills are a cause of 17 percent of bankruptcies but are not necessarily the most important cause. They fail to

perform the multivariate statistical analysis necessary to determine the magnitude of the causal relationship or to rule out other factors such as loss of job, education expenses, or housing costs. (Dranove and Millenson, 2006: w75)

## Conclusion

Canada’s universal, government-run, monopoly health insurance system was not associated with lower rates of bankruptcy in Canada compared with the United States in either 2006 or 2007. It is incorrect to assume that adopting such an insurance system in the US will have a significant impact on bankruptcy rates. Bankruptcy and a lack of health insurance coverage are both caused by the same thing—a lack of income, which in turn is usually a result of unemployment. Illness can certainly cause unemployment, which can lead to bankruptcy if people have unsustainable debt loads. However, non-medical expenditures comprise the majority of debt among bankrupt consumers in both Canada and the US. The inability to earn sufficient income to cover these costs—not exposure to uninsured medical costs—is the real explanation for almost all bankruptcies in either country. The US-Canada comparative analysis strongly suggests that bankruptcy statistics do not support arguments for a government-run, single-payer, socialized health insurance system.

## Notes

1 Himmelstein et al (2009) conclude that, “Medical impoverishment, although common in poor nations, is almost unheard of in wealthy

countries other than the US. Most provide a stronger safety net of disability income support. All have some form of national health insurance. The US health care financing system is broken, and not only for the poor and uninsured. Middle-class families frequently collapse under the strain of a health care system that treats physical wounds, but often inflicts fiscal ones" (Himmelstein et al 2009: 5-6).

2 Himmelstein's and Woolhandler's advocacy of Canada's single-payer health insurance system is also reflected in several other studies, commentaries and opinion editorials.

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ISSN 1714-6720

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McCormick, Danny, David U. Himmelstein, Steffie Woolhandler, and David H. Bor (2004). Single-Payer National Health Insurance: Physicians' Views. *Archives of Internal Medicine*, 164(3): 300-304.

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