

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.



Brett Skinner is a PhD candidate and the Director of Bio-Pharma and Health Policy Research at the Fraser Institute.



Mark Rovere is a Senior Policy Analyst in the Fraser Institute's Department of Bio-Pharma and Health Policy Research.

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

	2006		2007	
	Canada	USA	Canada	USA
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.¹ 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).² 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.

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.

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,

- The 2005 reforms to US bankruptcy laws have produced legal standards that are very similar to Canadian standards (BankruptcyCanada, 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.

References

BankruptcyCanada (2009a). Bankruptcy in America. Web page. <http://www.bankruptcy-canada.ca/bankruptcy/bankruptcy-america.htm>, as of June 17, 2009.

BankruptcyCanada.com (2009b). Canadian vs. American Personal Bankruptcy—Which is Better? Bankruptcy Canada Blog. <http://www.bankruptcycanada.com/blog/canadian-vs-us-bankruptcy/>

Dranove, David, and Michael L. Millenson (2006, February 28). Medical Bankruptcy: Myth versus Fact. *Health Affairs*—Web Exclusive, 25(2006): w74-w83. DOI 10.1377/hlthaff.25.w74. <http://content.healthaffairs.org/cgi/content/abstract/25/2/w74>, published February 28, 2006.

Himmelstein, David U., Deborah Thorne, Elizabeth Warren, and Steffie Woolhandler (2009). Medical Bankruptcy in the United States, 2007: Results of a National Study. *American Journal of Medicine*. http://pnhp.org/new_bankruptcy_study/Bankruptcy-2009.pdf as of June 15, 2009.

Himmelstein, David U., Elizabeth Warren, Deborah Thorne, and Steffie Woolhandler (2005). Illness and Injury as Contributors to Bankruptcy. *Health Affairs*—Web Exclusive. DOI 10.1377/hlthaff.W5.63. <http://content.healthaffairs.org/cgi/reprint/hlthaff.w5.63v1.pdf>, as of June 15, 2009.

Fraser Alerts are published from time to time by the Fraser Institute to provide, in a format easily accessible online, short, timely studies of current issues in economics and public policy.

Our mission

Our vision is a free and prosperous world where individuals benefit from greater choice, competitive markets, and personal responsibility. Our mission is to measure, study, and communicate the impact of competitive markets and government interventions on the welfare of individuals.

Founded in 1974, we are an independent research and educational organization with locations throughout North America, and international partners in over 70 countries. Our work is financed by tax-deductible contributions from thousands of individuals, organizations, and foundations. In order to protect its independence, the Institute does not accept grants from government or contracts for research.

Distribution

These publications are available from <http://www.fraseramerica.org> in Portable Document Format (PDF) and can be read with Adobe Acrobat® version 7 or later or with Adobe Reader® version 7 or later. Adobe Reader® version 9, the most recent version, is available free of charge from Adobe Systems Inc. and may be downloaded from: <http://get.adobe.com/reader/>. We encourage you to install the most recent version.

Disclaimer

The authors of this publication have worked independently and opinions expressed by them are, therefore, their own, and do not necessarily reflect

About this publication

the opinions of the supporters, other staff, or trustees of the Fraser Institute. This publication in no way implies that the Fraser Institute, its trustees, or staff are in favor of, or oppose the passage of, any bill; or that they support or oppose any particular political party or candidate.

Copyright and ISSN

Copyright © 2009 by the Fraser Institute.

All rights reserved. No part of this publication may be reproduced in any manner whatsoever without written permission except in the case of brief passages quoted in critical articles and reviews.

ISSN 1714-6720

Media inquiries and information

For media inquiries, please contact our Communications department by telephone at 604.714.4582 or e-mail communications@fraserinstitute.org

Our web sites, <http://www.fraseramerica.org> and www.fraserinstitute.org, contain more information on Fraser Institute events, publications, and staff.

Development

For information about becoming a Fraser Institute supporter, please contact the Development Department via e-mail at development@fraserinstitute.org; or via telephone: 1-800-665-3558, ext. 586

Editing, design, and production

Kristin McCahon

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.

National Association of Community Health Centers [NACHC] (2009). *America’s Health Centers*. Fact Sheet #0109 (March).

Office of the Superintendent of Bankruptcies, Canada (2006). *An Overview of Canadian Insolvency Statistics: Up to 2006*. [http://www.ic.gc.ca/eic/site/bsf-osb.nsf/vwapj/Statsbooklet2007-EN.pdf/\\$FILE/Statsbooklet2007-EN.pdf](http://www.ic.gc.ca/eic/site/bsf-osb.nsf/vwapj/Statsbooklet2007-EN.pdf/$FILE/Statsbooklet2007-EN.pdf), as of June 12, 2009.

Office of the Superintendent of Bankruptcies, Canada (2007). *Annual Statistical Report, 2007*. [http://www.ic.gc.ca/eic/site/bsf-osb.nsf/vwapj/annual-report2007.pdf/\\$FILE/annual-report2007.pdf](http://www.ic.gc.ca/eic/site/bsf-osb.nsf/vwapj/annual-report2007.pdf/$FILE/annual-report2007.pdf), as of June 12, 2009.

Office of the Superintendent of Bankruptcies, Canada (2008). *Insolvency Statistics in Canada—2008*. [http://www.ic.gc.ca/eic/site/bsf-osb.nsf/vwapj/Annual%20report%202008_eng.pdf/\\$FILE/Annual%20report%202008_eng.pdf](http://www.ic.gc.ca/eic/site/bsf-osb.nsf/vwapj/Annual%20report%202008_eng.pdf/$FILE/Annual%20report%202008_eng.pdf), as of June 12, 2009.

Office of the Superintendent of Bankruptcies, Canada (2009). *Annual Consumer Insolvency Rates by Province and*

- Economic Region, 2000-2008. <http://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br01820.html> (date modified: 2009-05-21), as of June 12, 2009.
- Redish, Angela, Janis Sarra, and Margaret Schabas (2006). Table 4: Primary Causes of Bankruptcy, Reported—By Age. *Growing Old Gracefully: An Investigation into the Growing Number of Bankrupt Canadians over age 55*. Office of the Superintendent of Bankruptcy. [http://www.ic.gc.ca/eic/site/bsf-osb.nsf/vwapj/Redish-Sarra-Schabas-2006-ENG.pdf/\\$FILE/Redish-Sarra-Schabas-2006-ENG.pdf](http://www.ic.gc.ca/eic/site/bsf-osb.nsf/vwapj/Redish-Sarra-Schabas-2006-ENG.pdf/$FILE/Redish-Sarra-Schabas-2006-ENG.pdf), as of June 17, 2009. See also Chart 6: Causes of Bankruptcy—Reported Primary Cause. In *Growing Old Gracefully: An Investigation into the Growing Number of Bankrupt Canadians over age 55*, Part 6. <http://www.ic.gc.ca/eic/site/bsf-osb.nsf/eng/br01686.html>, as of June 17, 2009.
- Service Canada (2009). Employment Insurance. Web page. <http://www.servicecanada.gc.ca/eng/sc/ei/index.shtml> (date modified: 2009-06-11), as of June 17, 2009.
- Statistics Canada (2009a). Population by year, by province and territory. As of July 1. CANSIM, table (for fee) 051-0001. <http://www40.statcan.ca/l01/cst01/demo02a-eng.htm> (last modified: 2009-01-15), as of June 12, 2009.
- Statistics Canada (2009b). Unemployment rates, Canada and the United States. Web page. <http://www.statcan.gc.ca/pub/71-222-x/2008001/sectionp/p-unemployment-chomage-eng.htm> (date modified: 2008-11-25), as of June 16, 2009.
- US Census Bureau (2009). Annual Estimates of the Population for the United States, Regions, States, and Puerto Rico: April 1, 2000 to July 1, 2007 (NST-EST2007-01). <http://www.census.gov/popest/estimates.php> (last modified: March 18, 2009), as of June 12, 2009.
- US Courts (2009). Bankruptcy Statistics. Table F-2: U.S. Bankruptcy Courts, Business and Nonbusiness Bankruptcy Cases Commenced, by Chapter of the Bankruptcy Code, During the Twelve-Month Period Ended Dec. 31, 2006 and Dec. 31, 2007. <http://www.uscourts.gov/bkprctystats/statistics.htm#calendar>, as of June 12, 2009.
- US Department of Labor (2004). State Unemployment Insurance Benefits. Web page. <http://workforcesecurity.doleta.gov/unemploy/uifactsheet.asp> (updated December 2, 2008), as of June 17, 2009.
- Woolhandler, Steffie, and David U. Himmelstein (2004). The high costs of for-profit care. Commentary. *Canadian Medical Association Journal*, 170(12): 1814-1815.
- Woolhandler, Steffie, Terry Campbell, and David U. Himmelstein (2003). Costs of Health Care Administration in the United States and Canada. *New England Journal of Medicine*, 349(8) (August 21): 768-775.