The Impact of Social Insurance on Household Debt

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Summary

- **Context**
  - The US low-income population has benefited from a staggered expansions of public health insurance
  - Credit card debt is most largely held form of debt in the US
- **Question**
  - Has Medicaid lead to an increase in credit card debt? Is it welfare improving?
- **Results**
  1. One percentage point increase in a ZIP code's Medicaid-eligible population increases credit card aggregaed borrowing by 1.17%
  2. The effect is mostly driven by credit supply

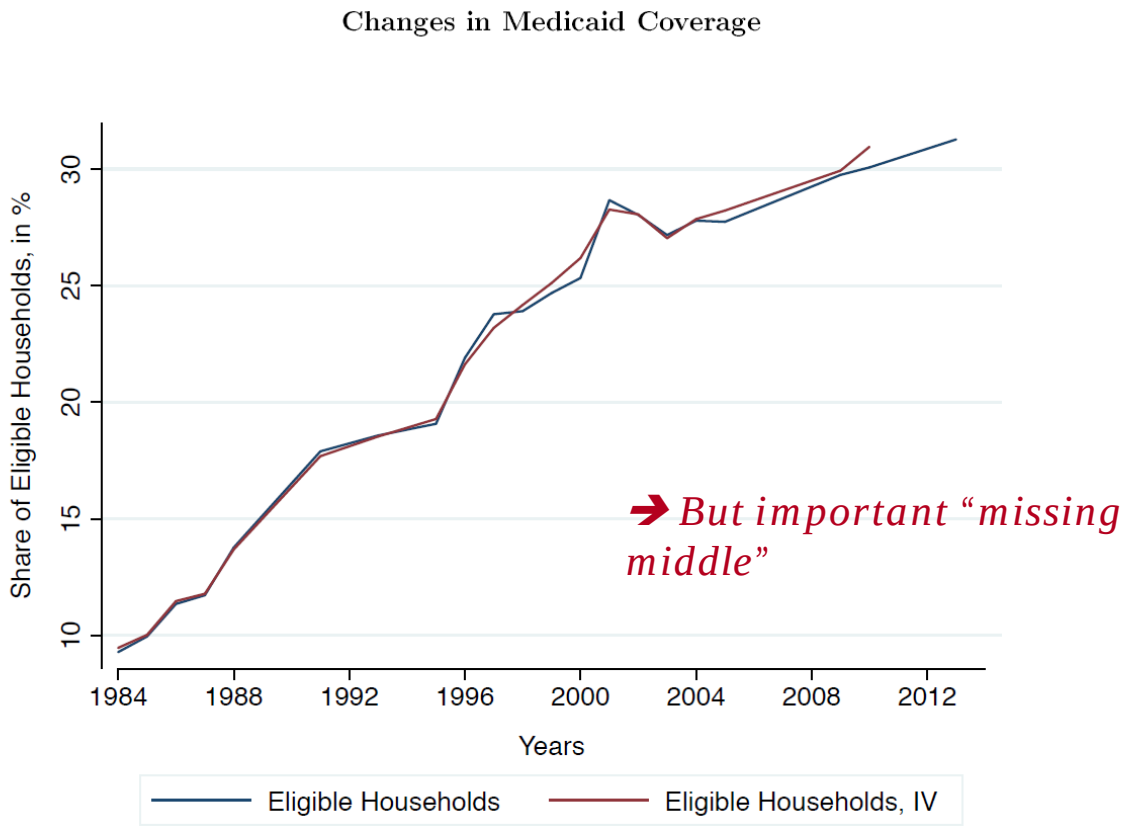
Why do we care?

The Origins of Medicaid

- Over the long run, the largest single expansion in the US welfare state was the introduction of Medicare and Medicaid in the mid-1960s
- By 2015, these programs accounted for government expenditures of $1.2 trillion, which is 37 percent of total national health expenditures and is larger than total private health insurance expenditure (Gruber, 2017)
- Medicaid was established as a state program to cover individuals who had low income and assets, but it also covers single mothers, children, elderly, and disabled.
- Over time, the program has expanded to have higher income limits for certain groups, such as children and pregnant mothers, along with a broader expansion under the Affordable Care Act to all low-income families (in participating states).

Why was ACA adopted?

- Increase coverage via Medicaid
  - Biggest expansion: 1997 State Children's Health Insurance Program



Célerier and Matray (2017)

The “missing middle”

- “Missing middle”
  - Not poor enough to benefit from Medicaid
  - Too poor to have a ***private*** health insurance

Debate on the Costs and Benefits of Public Health Insurance

- Physical health:
  - Consensus on the increase in insurance take-up and health care use
  - Improvement in self-reported health
  - But debate on health outcomes, except for children (Currie and Gruber, 1996)

- Financial health:
  - Income transfer to low income populations (opting out of private insurance)
  - Lower expense volatility
  - Lower medical debt
  - Lower reliance on fringe bank (paydayloans)
  - **Effects on bankruptcy?**

The Medical Bankruptcy Myth?

- Elizabeth Warren wrote that “More than 40 percent of all bankruptcies in America were a result of medical problems” in 2009
- While Dobkin et al (2018) find that hospitalization accounts for less than 4% of bankruptcies and find **no significant difference** between insured and uninsured as the effect comes mostly from **the loss of income**

=> This paper: 1 pp in eligibility up from 17% decreases debt in collection by 0.5 pp done from 24.5% => high elasticity!

Ambiguous Effect on Credit Card Borrowing

- Demand:

⇒Decrease due to lower need to smooth consumption, or access to other sources of credit

⇒Increase because of higher FICO scores, implying lower cost of borrowing

- Supply

⇒Increase in supply because of lower bankruptcy <= underlying assumptions: credit markets are imperfect

Question: which effect dominates?

Comments

Empirical Design

- Collapse credit card volumes at the zip level:

$$Y_{zcst} = \alpha_1 \text{Post}_{st} + \alpha_2 \Delta\text{Elig}_{zs} + \beta\,(\text{Post}_{st} \times \Delta\text{Elig}_{zs}) + \phi_{ct} + \gamma X_{zcst} + \varepsilon_{zcst}.$$

- Quarterly observations from 2010 to 2021
- Control for county-year and state-year fixed effects + logged income per households

Possible Biases - Suggestions

- Confounding factors:

Eligibility => other characteristics that affect borrowing

- Endogeneity

Access to Medicaid => effect on income and wealth

- Suggestions:
  - Control for deciles of income
  - Interact income deciles with year fixed effects: effect of income might vary across time! This is a long time period
  - Show parallel trends for counties at the threshold
  - Instrument for eligibility computed at the beginning of the sample period

Robustness - Suggestions

- Exploit individual level data and proxy for low-income households using:
  - Credit card provider
  - Credit limits
  - Number of credit cards
  - Interest rates

If possible!

- Any **qualitative evidence** on the usage of credit cards for low income households?

- Are all type of credit cards equivalent? Are there some good versus bad credit cards?

Welfare Analysis

- Second order effects compared to health
- Should mention the negative effects of some widespread features of credit card contracts, which lead to **over borrowing** and **excess fees** (Heidhues and Koszegi, AER 2010)

Minor Comment

- I would refer to “public health insurance” instead of “social insurance”
- Social insurance also include public pensions, medicare etc.

Conclusion

Does Public Health Insurance Improve Financial Health?

- This paper: Yes, through an increase in the supply of credit card debt

- Questions:
  - is credit card debt welfare improving?
  - Is credit supply welfare improving? See the debate on subprime mortgages and the housing bubble, credit cycles and asset bubbles etc.

- First order effects:
  - lower expense volatility
  - redistribution

Thank you!