

Expanding Healthcare to Shrink Poverty

The Safeguard Effects of Health Coverage on
Family Financial Stability in North Carolina



Whitney Tucker | *Research Director, whitney@ncchild.org*

Fumi Agboola | *2018-19 Policy Research Intern*

Introduction

Health insurance coverage is a key element to family financial health. The U.S. Census Bureau reports that medical expenses are the largest contributor to the increasing number of people in poverty nationwide. In 2017, out-of-pocket spending on healthcare pushed over 10.9 million Americans into poverty.¹ Coverage prevents families from falling into financial ruin due to high costs of medical care, and it leads to increased economic stability^a as well as improved health outcomes.² Children living in financially secure families are more likely to stay healthy, to succeed in school, and to become economically self-sufficient as adults.³

Of all forms of health insurance, Medicaid has proven the most successful in reducing poverty rates.⁴ Medicaid coverage at different points during an individual's lifespan has been tied to economic mobility across generations as well as greater educational attainment and higher income earned as adults.⁵ Unfortunately, in North Carolina, more than 100,000 parents are without health coverage due to high costs.⁶

Current income eligibility for Medicaid coverage is so low that many low-income adults who need it cannot qualify. A family of three earning \$10,000 per year earns too much to receive Medicaid coverage in North Carolina. However, parents cannot qualify for a subsidy to buy health insurance through Healthcare.gov until they earn at least \$21,330. These eligibility restrictions have resulted in what is known as the 'coverage gap', the situation in which a person remains uninsured

because they earn too much to garner Medicaid, and too little for private health insurance.

In North Carolina, 59% of people in the coverage gap are working adults who are unable to gain health insurance through their employer.⁷ Many of those caught in the gap work in industries vital to North Carolina. More than one quarter of all the state's residents work in retail, construction, or food service – industries that rarely offer health insurance to employees. Moreover, despite their significant impact on children's success, 1 in 5 early childhood educators in the state has no health coverage.⁸ Without employer-sponsored insurance, it can be nearly impossible for low-income working parents to afford health care when they need it. When parents cannot manage their health, families are less financially stable, and children are at risk of losing their health coverage and experiencing poorer outcomes.⁹

Increasing the availability of affordable health coverage in North Carolina may be the key to reducing the state's persistently high poverty rate and unlocking opportunity for the next generation of children. This brief will explore impacts of uninsurance on family financial stability and the potential of expanding Medicaid eligibility to 138% of the federal poverty line to promote greater economic prosperity across North Carolina.

^a Economic *instability* refers to a decrease in family income (for any reason) from which families may or may not recover

Unaffordable Health Insurance Traps Families in Poverty

Health insurance has been long recognized as a powerful financial tool to protect families against exorbitant medical costs. A growing body of research amassed since the passage of the Affordable Care Act (ACA) has shown Medicaid to be the particular form of coverage pulling many families out of poverty and preventing others from falling deeper into economic uncertainty.¹⁰

Medicaid provides an affordable option for otherwise prohibitively expensive health coverage to poor and near-poor children and adults. This affordable health insurance has a variety of economic benefits for families, including:

- Lower out-of-pocket medical costs;¹¹
- Preventive health care benefits that result in fewer lost wages;¹² and
- Higher credit scores by avoiding medical debt.¹³

Medicaid helps low-income adults avoid the cascading financial damage of unaffordable healthcare. It also helps children in low-income households to avoid some of the lifelong negative impacts of growing up in poverty.

Debt and Credit Consequences

States that expanded Medicaid coverage under the ACA are seeing benefits through increased savings and decreased family medical debt. By closing the coverage gap, expansion states have prevented an estimated 25,000 personal bankruptcies each year and decreased newly-acquired medical debt by 35%. Between 2014 and 2016, Medicaid expansion under the ACA is

What is the Coverage Gap?

A family of three that makes \$10,000/year earns too much to qualify for health insurance through Medicaid.

They also cannot get a subsidy to buy private insurance in the marketplace until they earn \$21,330.



estimated to have reduced \$5.89 billion in new medical debt collections in the United States.¹⁴

It is a widely held misconception that the uninsured receive charity care at hospitals, and that their healthcare is therefore "free". This is not usually the case for poor and low-income families. The uninsured population in the U.S. pays an average of 20% of all medical bills out-of-pocket; the remaining balance is left as uncompensated care.

Uncompensated care can be billed as either:

- 1) **Charity care**, indicating that the hospital or clinic never expected and never received payment; or
- 2) **Bad debt**, indicating that the hospital or clinic expected but did not receive payment.

While charity care is not billed, bad debt is billed to consumers via collection agencies. Third-party collection accounts reported to credit bureaus can severely affect measures of creditworthiness. This leads to outsized negative impacts for low-income people in a range of contexts extending far beyond their health care. These impacts — like the inability to purchase a car or home — are major roadblocks for a family lifting itself out of poverty.

"By guarding against unpaid medical bills, health insurance provides both cost savings and greater economic mobility for families."

By guarding against unpaid medical bills, health insurance provides both cost savings through lower out-of-pocket expenditures and greater economic mobility for families through debt avoidance. With fewer unmanageable medical debts being sent to collections, low-income parents are able to focus on other priorities, such as paying the rent or getting a better job, while also receiving more favorable lending terms^b and higher credit scores.¹⁵

The credit effects of health coverage are significant for children in many ways, because credit scores are so often the yardstick that determines whether parents can build a better future for their children: lenders, insurance brokers, and employers all review credit scores before making decisions. Access and lack of access to credit is one the most salient factors impacting whether parents pass assets or debt on to the next generation.¹⁶ In the United States, children whose parents have high credit scores have been found more likely to attend college and to obtain a four-year degree.¹⁷ Health insurance decreases consumer debt and promotes good credit, helping to create more opportunity for both parents and their children.

Rent and Mortgage Delinquency

A child's housing situation is a critical factor in their development and overall sense of well-

being. Unfortunately, as medical debt eats an increasingly large portion of family budgets statewide, parents near the poverty line are having to make the difficult choice between housing security and the crushing medical bills that accompany needed care.

In 2017, nearly half of all renters (46%) and almost one quarter of homeowners (24%) in North Carolina spent at least 30% of income on their rent or mortgage.¹⁸ This constitutes what field experts consider 'unaffordable' or 'unsustainable' housing¹⁹, and the reality plays out in the state's eviction rates, which are among the highest in the country. In fiscal year 2016-17, there were 163,818 rental eviction filings in North Carolina — a rate of 12 evictions per 100 renter households.²⁰

Evictions have been linked to poor child outcomes, including physical and mental health issues, lower graduation rates, and greater exposure to neighborhood crime.²¹ Closing the coverage gap could ease this burden for North Carolina's families.

"Poor adults in states that expanded Medicaid were 25% less likely to miss rent or mortgage payments than those in non-expansion states."

In a 2018 study, researchers found that poor adults in states that expanded Medicaid eligibility up to 138% of the federal poverty line (FPL) were 25% less likely to miss rent or mortgage payments than those in non-expansion states. For the

^b Brevoort et al. (2018) valued credit terms post-Medicaid expansion at \$670 million annually nationwide

uninsured, the chance of having a delinquent payment in a non-expansion state (such as North Carolina) was approximately 1 in 3, compared to roughly 1 in 5 in a state that had expanded eligibility.

Employment Considerations

Researchers estimate that expanding health coverage through Medicaid would help North Carolina's families earn money as well as save it. Expanding program eligibility to 138% of the federal poverty line would unlock an estimated \$13 billion dollars in federal funding to North Carolina over the next decade, fueling the state's economy and job growth.²² Those jobs are sorely needed. In 2017, 28% of North Carolina's children lived in families where no parent had regular, full-time employment.²³ Without steady employment, parents struggle to afford basic needs and to regulate their schedules in ways that best benefit their families.

Independent estimates suggest that closing the coverage gap would create between 39,000-40,000 new jobs in North Carolina. In stark contrast, if the state continues to refuse expansion and reject federal ACA funding, an estimated 43,000 jobs will have been forfeited in the period between 2014 and 2020.²⁴

Furthermore, studies in expansion states have found that enrollment in Medicaid promotes employment simply by enabling adults to work.²⁵ In Michigan, 69% of enrollees reported that the program has made it easier for them to remain employed. In Ohio, 83% of enrollees agreed.²⁶ This phenomenon calls into question the efficacy of imposing a work reporting requirement into a state plan for closing the coverage gap.

Financial Divides by Race and Geography are Widened by Healthcare Unaffordability

Expanding income eligibility for health insurance has the potential to not only increase access to care, but to narrow longstanding racial and ethnic disparities in coverage. The higher a North Carolina household's income, the more likely the household members are to be insured.²⁷ As a result, people of color are more likely to go without health insurance than their white peers. Historical discrimination by race persists today in many areas of the state as income segregation, which is bolstered by a legacy of racially discriminatory housing, education, and tax policy decisions.²⁸

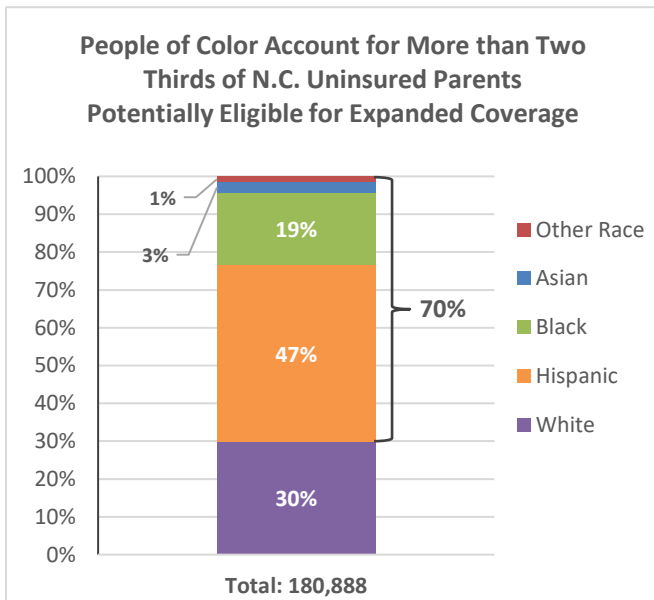
"Racial and ethnic minorities constitute just over one third of North Carolina's total population, but more than two thirds of uninsured parents with incomes below the threshold for Medicaid expansion."

This systemic disadvantage has resulted in a massive racial wealth gap^c, as well as a variety of negative outcomes statewide that can be predicted for children and their families on the basis of race.²⁹ In 2017, median income for white families with children in North Carolina (\$81,500) was more than twice that of American Indian families (\$40,600), Black families (\$39,400) and Hispanic or Latino families (\$35,600).

^c Median wealth of white households is roughly seven times that of Black households in North Carolina.

Due to the impacts of both income and race, families of these backgrounds are more likely to experience negative health outcomes such as heart disease and preterm birth,³⁰ to be evicted from their homes,³¹ and to have trouble gaining full-time employment above minimum wage.³² Affording health insurance without expanded eligibility is nearly impossible under their fiscal constraints while taking care of other financial responsibilities.

In the event of a catastrophic health event, American Indian, Black, and Latino children and their families are therefore most vulnerable to the high costs of health care. This also means that they stand to benefit most if our state moves forward with expansion as outlined in the ACA.



SOURCE: US Census Bureau, Public Use Microdata Sample (PUMS), 2017 American Community Survey. Analysis of uninsured North Carolina parents ages 18-64 with family incomes up to 138% of poverty (\$29,435 for a family of three in 2019).

NOTE: Persons of Hispanic origin may be of any race but are characterized as Hispanic for this analysis; other groups are non-Hispanic.

In states that have already expanded, people of color experienced large gains in both Medicaid and private coverage. Research suggests these gains will likely lead to reductions in disparities in access to and use of health care as well as health

outcomes over the long-term.³³ As it stands, racial and ethnic minorities constitute just over one third (36%) of North Carolina's total population, but more than two thirds (70%) of uninsured parents with incomes below the threshold for Medicaid expansion.

Conclusion

Economic security increasingly goes hand-in-hand with healthcare affordability for American families. North Carolina is no exception to that rule. Children in our state will thrive when their families are healthy and financially stable. The data are clear that closing the coverage gap can help us to meet that goal. Medicaid expansion, or a North Carolina plan to expand coverage to all adults under 138% of the federal poverty line, is a promising opportunity to ensure North Carolina's families experience the gains that other states are enjoying: lower medical debt, greater family savings, and more equitable access to care for every family.

End Notes

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