

NO ACCESS | Datawatch

A Look at Catastrophic Medical Expenses and the Poor

Author: [S.E. Berki](#) | [AUTHORS INFO & AFFILIATIONS](#)Winter 1986 • <https://doi.org/10.1377/hlthaff.5.4.138>

DataWatch

A Look At Catastrophic Medical Expenses And The Poor

by S. E. Berki

Catastrophic illness, or, more precisely, financially catastrophic illness, affects a relatively small percentage of the population, yet it accounts for a substantial share of national health expenditures. The relative national magnitude of the problem depends entirely on how one defines a catastrophic level of expenditure, and who incurs the expense. Several coronary artery bypass procedures at \$25,000 to \$30,000 apiece may represent a catastrophic expenditure for a small, newly established health maintenance organization (HMO) even though it may not be financially catastrophic for the patients if their health benefits pay for them. On the other hand, even a relatively low-cost disease, involving no more than a \$2,000 expenditure, may be financially disastrous for a low-income family without health insurance. From society's perspective, a disease may have catastrophic financial implications if it results in high productivity losses, what economists call the indirect costs of illness, resulting from premature mortality and high morbidity in the working-age population. It is important, therefore, to distinguish between high-cost and financially catastrophic illness and to specify both the bearer of cost for whom financial catastrophe is implied as well as the point at which expenditures become catastrophic.

Current discussion of catastrophic health insurance focuses on expenditures by the family. An expenditure for medical care becomes financially catastrophic when it endangers the family's ability to maintain its customary standard of living. Based on the belief that the basic spending unit is the family and not the individual (since the welfare of each individual within the family is interdependent), expenditures per family rather than per capita are the appropriate units of analysis and of policy. Thus the threshold at which a level of out-of-pocket expenditure becomes financially catastrophic should be defined relative to family income.¹ A hospital episode costing \$5,000 is not financially catastrophic for any family whose health insurance (whether private, Medicare, or Medicaid) fully pays for it. It may not be catastrophic for a family—even

S.E. Berki is professor of health services management and policy at the University of Michigan School of Public Health. He is an economist who has resided at the University of Michigan for two decades.

Topics:

[Clinical care](#)[Costs and spending](#)[Out-of-pocket expenses](#)[Catastrophic health insurance](#)[Low income](#)[Private health insurance](#)[Health services](#)[Income levels](#)[National health expenditures](#)[Health maintenance organizations](#)

Get full access to this article

View all available purchase options and get full access to this article.

NOTES

1.

Although both government and academic studies have defined financially catastrophic illness in various ways, it is generally agreed that measures based on out-of-pocket expenditures relative to family income are the most appropriate. See Feldstein M.S., "A New Approach To National Health Insurance," *The Public Interest* 23 (1971): 93 ;

[Google Scholar](#)

Feder J., Hadley J., Holahan H., *Insuring the Nation's Health* (Washington, D.C. : The Urban Institute, 1981);

[Google Scholar](#)

Kasper J.A., Anderson R.O., Brown C., *The Financial Impact of Catastrophic Illness As Measured In The CHAS-NORC National Survey* (Chicago : University of Chicago, 1975);

[Google Scholar](#)

Congressional Budget Office, *Catastrophic Health Insurance* (Washington, D.C. : CBO, 1982). Most state catastrophic health insurance programs take the same approach. See

[Google Scholar](#)

Ellet T Van, *State Comprehensive and Catastrophic Health Insurance Programs: An Overview* (Washington, D.C. : Intergovernmental Health Policy Project, Georgetown University, 1981);

[Google Scholar](#)

Needleman J., Anderson M., Jaffe R., *State Options for Addressing Catastrophic Health Expense* (Washington, D.C. : Lewin and Associates, Inc., 1983). There is no agreement, however, on the threshold—the percentage of income spent for medical care beyond which such expenditures become financially catastrophic .

[Google Scholar](#)

2.

Rossiter L.F., Wilensky G.R., *Out-of-Pocket Expenditure for Personal Health Services, Data Preview 13*, DHHS Pub. no. (PHS) 82-3332, (Washington, D.C. : National Center for Health Services Research, 1982).

[Google Scholar](#)

3.

For a detailed report of findings on which this paper is based, see

[Google Scholar](#)

Berki S.E., Wyszewianski L., *Families with High Out-of-Pocket Expenditures*, Final Report on Phase II of Contract No. 233-81-3032, Pub. no. (NTIS) PB86-173473/AS (Washington, D.C. : National Technical Information Service, 1986); and

[Google Scholar](#)

Wyszewianski L., "Families with Catastrophic Health Care Expenditures," *Health Services Research*, forthcoming. Detailed descriptions of NMCES procedures are found in

[Google Scholar](#)

Bonham G.S., Corder L.S., *National Health Care Expenditures Study, Instruments and Procedures 1: NMCES Household Interview Instruments*, DHHS Pub. no. (PHS) 81-3280 (Washington, D.C. : 1981); and

[Google Scholar](#)

Cohen S.B., Kalsbeek WD., *National Health Care Expenditures Study, Instruments and Procedures 2: NMCES Estimation and Sampling Variances in the Household Survey*, DHHS Pub. no. (PHS) 81-3281 (Washington, D.C. : National Center for Health Services Research, 1981).

[Google Scholar](#)

4.

Berki, Wyszewianski, *Families with High Out-of-Pocket Expenditures*.

[Google Scholar](#)

[SHOW ALL REFERENCES](#)

[View full text](#) | [Download PDF](#)



[Reviewers](#)
[Subscribers](#)
[Advertisers](#)
[Media](#)
[Funders](#)

[Subscribe](#)
[Renew](#)
[Manage My Account](#)
[Newsletter Sign Up](#)
[FAQs](#)
[Contact Us](#)

[Health Equity](#)
[Fellowships](#)
[Terms & Conditions](#)
[Privacy Policy](#)
[Accessibility](#)
[Permissions](#)



Health Affairs Publishing, LLC, is a subsidiary of [Project Hope](#), a nonprofit global health and humanitarian organization. Health Affairs Publishing is editorially independent from Project HOPE.

Health Affairs is an official journal of [AcademyHealth](#).

Copyright 1995 - 2026 by Health Affairs Publishing, LLC, eISSN 2694-233X.

[Terms and conditions](#)[Privacy](#)[Accessibility](#)[Project HOPE](#)