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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

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