Health Insurance and High Cost Borrowing: The Effect of Medicaid on Pawn Loans, Payday Loans, and other Non-Bank Financial Products

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Motivation: Fringe Banks

Fringe banks: non-bank source of financial services
- Check cashers, money orders, remittances, payday loans, pawn loans, auto title loans, tax refund anticipation loans, and more

Fringe banks are an important source of financial services
- 28.6 million households (22.1%) use fringe banks
- More than $320 billion in annual transactions & annual revenues exceed $25 billion

Controversial and understudied area of financial behavior
Motivation: Health Insurance & Financial Well-being

Affordable Care Act (ACA) expanded access to Medicaid

– Nearly 50 million uninsured (16.3%)

– Recent studies find insurance improves household finances

– Those most likely to be newly eligible for Medicaid share many characteristics of those who use fringe banks

  – Pre-ACA, lack of health insurance associated with financial hardship: 41% struggled with medical bills or debt
Research Question

What is the effect of ACA’s on use of fringe banks?

– Any Fringe Bank Use

– Types of Fringe Bank Products
  – Transaction services: check cashing, money orders, remittances
  – Credit services: payday loans, pawn shops, auto title loans, tax refund anticipation loans, rent-to-own contracts

– Owning a Bank Account
Background: The Affordable Care Act (ACA)

Prior to ACA, significant variation across states in Medicaid eligibility for different groups

- Federal government set minimum eligibility requirements
- No requirement to cover childless adults

Medicaid expansion intended to cover those at 138% of FPL

- Supreme Court in *National Federation of Independent Business vs Sebelius* allowed states to opt-out of expansion
- Not all states went forward with Medicaid expansion
Data: Current Population Survey (CPS)

Link households in:

- March Supplement for health insurance and medical expenditures
- FDIC Unbanked and Underbanked Supplement for financial products
  - January (2009)

Drop households with all members over 65
Methodology: Use Medicaid expansion to compare “treatment” states to “control” states with synthetic control approach

January 2014: 26 States
January 2017: 32 States

Implementing Expansion
Not Implementing Expansion
Open Debate

Source: Kaiser Family Foundation
Result 1: Medicaid Expansion Significantly Increases Insurance Rates

Anyone on Medicaid
- All Households: 0.067***
- All Childless Households: 0.08***

Entire Household Uninsured
- All Households: -0.049***
- All Childless Households: -0.033***
Result 2: Declines in Any Fringe Bank Use, Any Fringe Bank Credit Use, & Unbanked with Medicaid Expansion

In Medicaid Expansion States Large Decreases up to:

- 3.4% for Fringe Bank Use (3.4%); Fringe Bank Credit (32.5%); Unbanked Households (31.3%)
Result 3: Use of Payday Loans and Pawn Loans Declines with Medicaid Expansion

In Medicaid Expansion States Decreases Fringe Bank Credit up to:

- 53.3% - 120% Payday Loans
- 33.3% for Pawn Loans

No significant effects for:
Money Orders or Check Cashers
Result 4: Health Spending Decreases

Out-of-Pocket Expenditures
-570.28

Over-the-Counter Expenditures
-31.31

Medical Expenditures
-388.63

-467.31

All Households
Childless Households

* Significant at the 0.10 level
** Significant at the 0.05 level
*** Significant at the 0.01 level
Result 5: Reported Health Disabilities Increase

- Inconsistent with improved productivity/health
- Diagnosis Effect?
Policy Implications

Health insurance alleviated some financial strain for households and reduced their reliance on more expensive sources of credit

- Study adds to the body of research that Medicaid improves the financial health and security of low and moderate-income households

Additional health insurance expansions would protect families from high-cost credit and increase their connection with banks
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