

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

Anne Fitzpatrick

University of Massachusetts-Boston

Katie Fitzpatrick

University of Delaware

This project was supported with a grant from
the Russell Sage Foundation



Joseph R. Biden, Jr. School of
Public Policy & Administration

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

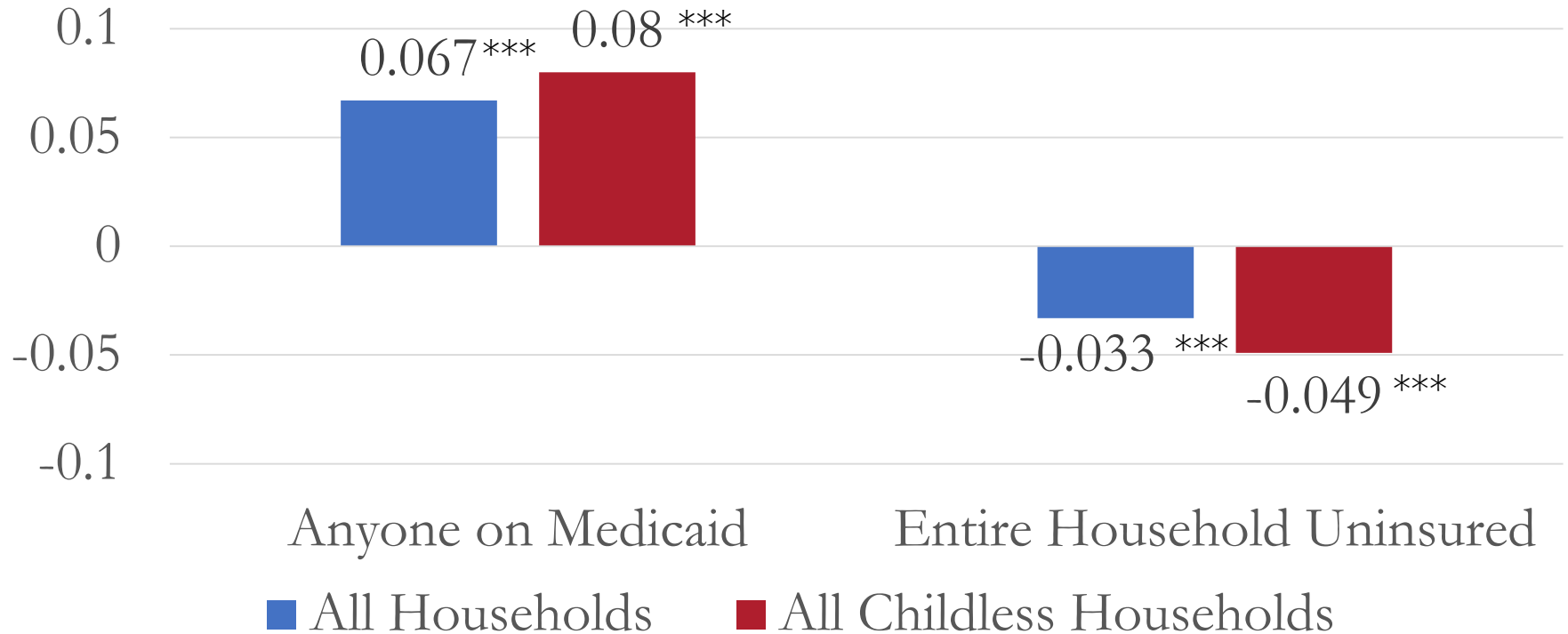
Data: Current Population Survey (CPS)

Link households in:

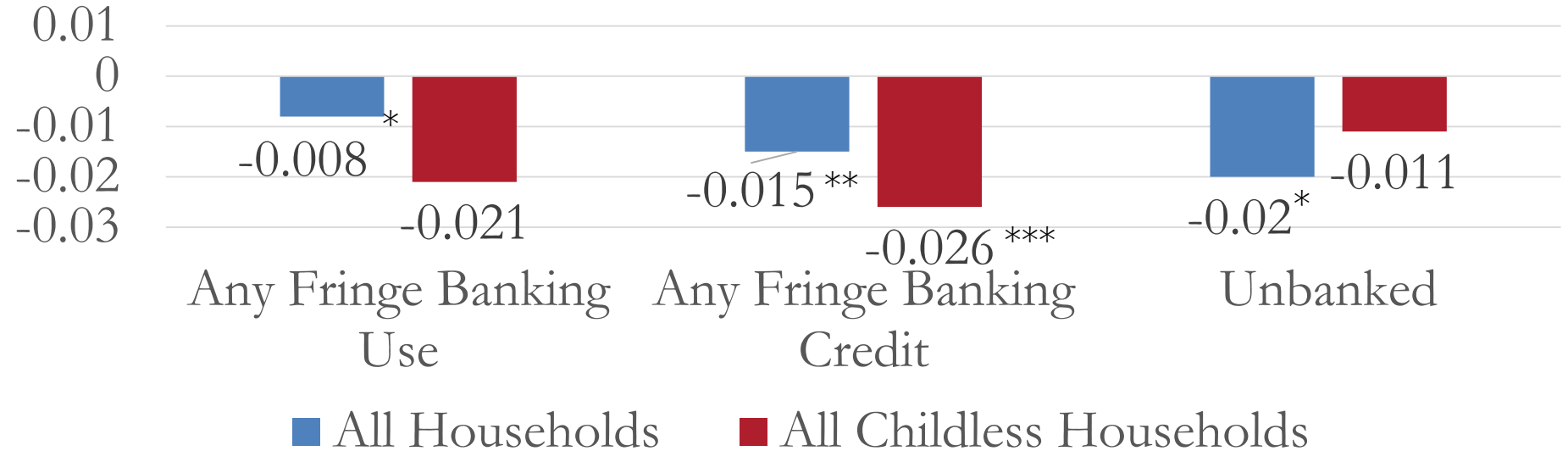
- March Supplement for health insurance and medical expenditures
- FDIC Unbanked and Underbanked Supplement for financial products
 - January (2009)
 - June (2011, 2013, 2015, 2017)

Drop households with all members over 65

Result 1: Medicaid Expansion Significantly Increases Insurance Rates



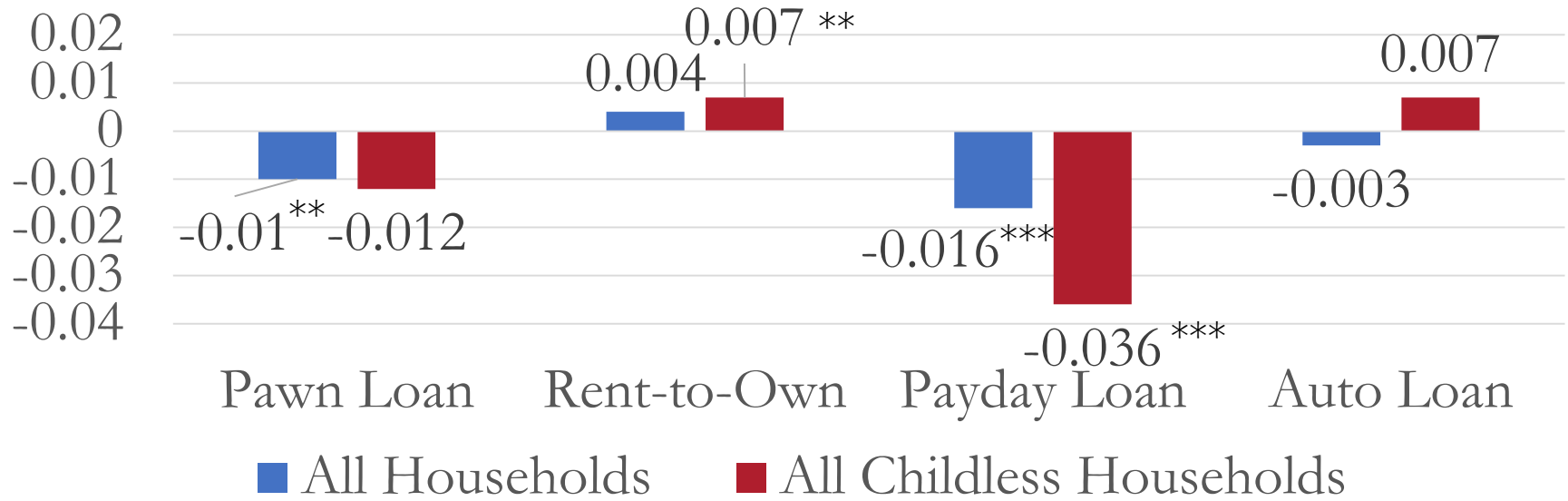
Result 2: Declines in Any Fringe Bank Use, Any Fringe Bank Credit Use, & Unbanked with Medicaid Expansion



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

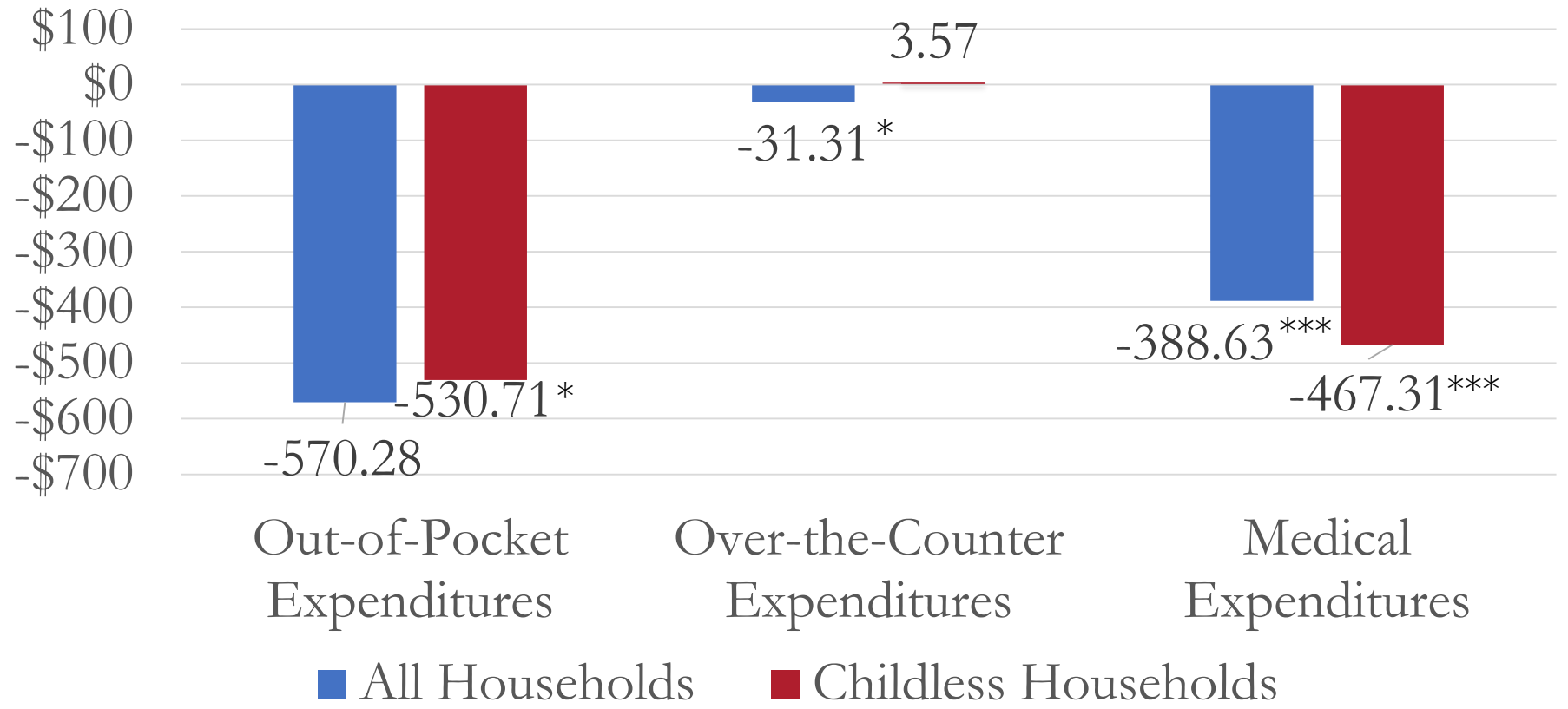


In Medicaid Expansion States Decreases Fringe Bank Credit up to:

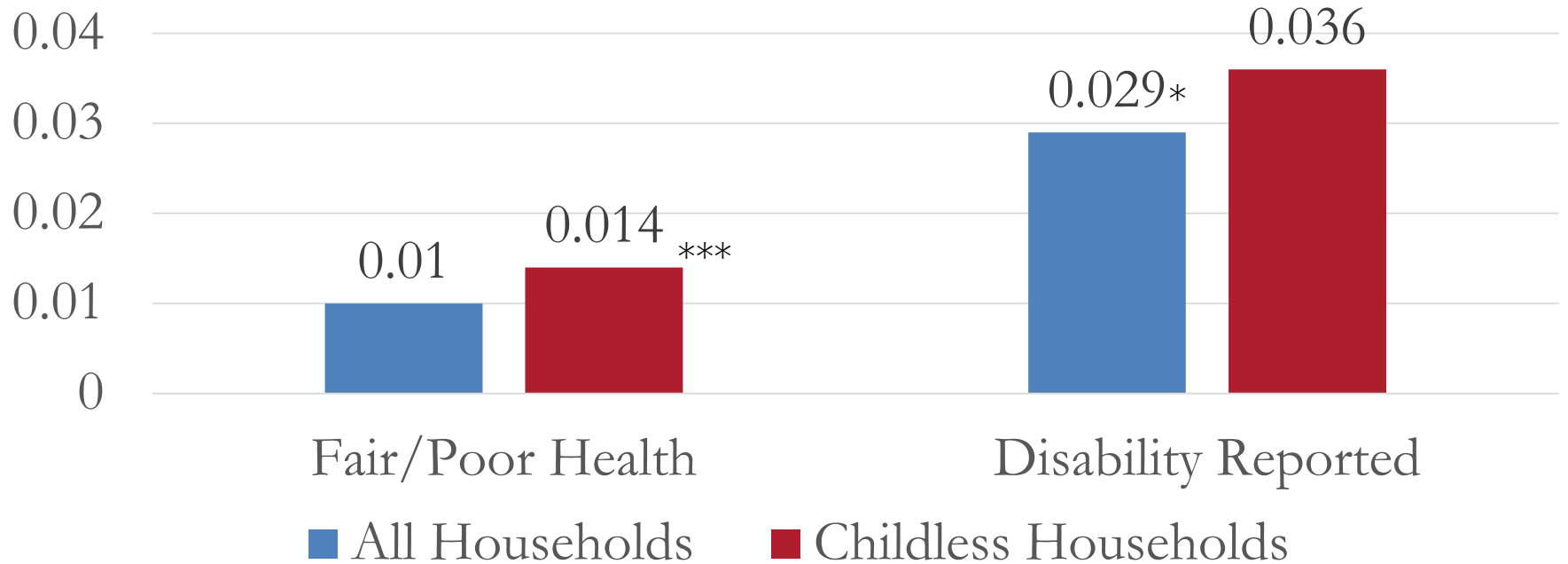
- 53.3% - 120% Payday Loans
- 33.3% for Pawn Loans

No significant effects for:
Money Orders or Check Cashers

Result 4: Health Spending Decreases



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

Katie Fitzpatrick

Associate Professor

Biden School of Public Policy & Administration

kfitzpat@udel.edu | 302-831-6281

www.bidenschool.udel.edu