

Center for American Progress Action Fund



Statement of

Elizabeth Edwards

Senior Fellow

Center for American Progress Action Fund

Before the

Subcommittee on Commercial and Administrative Law

Committee on the Judiciary

United States House of Representatives

Hearing on: “Medical Debt: Is Our Healthcare System

Bankrupting Americans?”

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Chairman Cohen and Members of the Subcommittee, thank you for inviting me here today to discuss the problems individuals face when they cannot afford health insurance or health care. We are in the middle of a great national debate on health care. For the first time in more than 15 years, we are truly trying to fix the broken health care system – and deal with the twin problems of the status quo, skyrocketing health care costs and the millions of Americans living without health coverage. As Congress and the Administration wrestle with the big picture and the very important details, it will be critically important to ensure that health reform guarantees that coverage and care will be affordable for Americans of all incomes.

I know that the Committee is particularly interested in the financial hardships that many Americans experience due to health care costs. As Dr. Woolhandler will note, medical expenses are a major factor in a majority of bankruptcy filings. People with poor or no health insurance coverage and a significant health problem are particularly likely to accrue considerable medical debt – and thus are particularly vulnerable to bankruptcy. Yet when they reach bankruptcy court, the bankruptcy trustee has little ability and little incentive to address the underlying factors that have led to medical debt and medical bankruptcy, including insurance company denials and aggressive collection efforts by medical debt collectors. Medical debt is, of course, a symptom of larger problems in our health care system – and the solution to medical debt and medical bankruptcy is real health reform that results in affordable, reliable health coverage and affordable health care for all Americans.

The problem of unaffordability is most apparent for the nearly 47 million Americans who lack health insurance. Roughly two thirds of Americans without health insurance have incomes

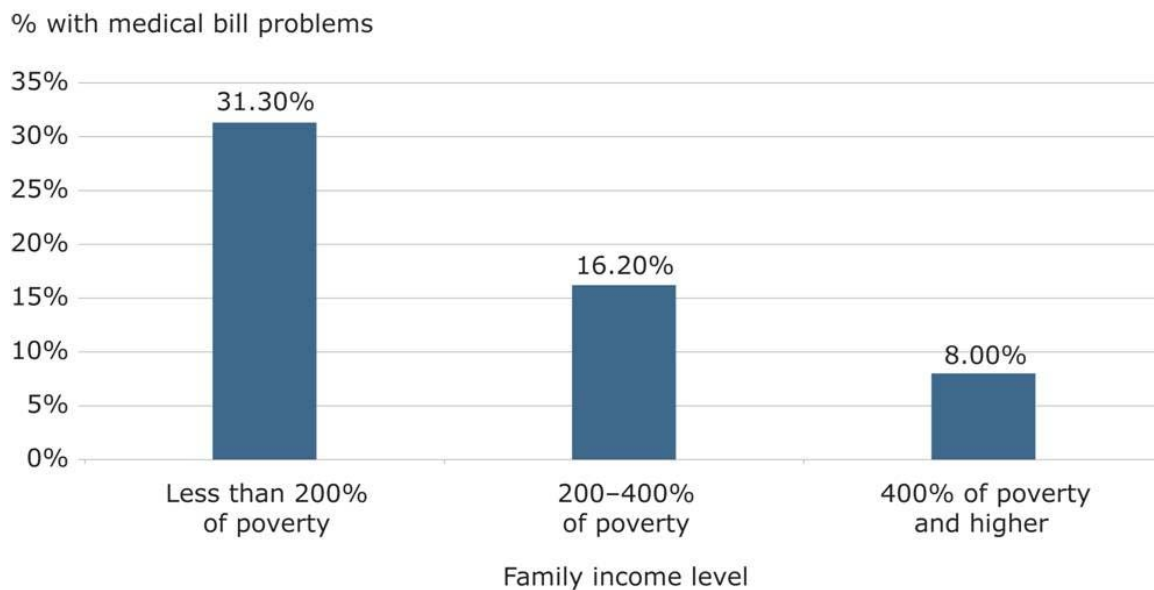
below 200 percent of the federal poverty level—or approximately \$44,000 for a family of four. Most people without health insurance are workers or live in families with a worker, but do not have health coverage through an employer.¹ With the annual average cost of employer-sponsored health insurance nearing \$13,000 in 2008, health insurance is clearly unaffordable for families who must purchase it on their own.²

Sadly, even people who actually have health insurance increasingly face problems paying for health care. Research documents that a growing number of Americans with health insurance face affordability problems for health insurance and for health care. For example, a recent analysis by the Commonwealth Fund identified 25 million adults with health coverage as underinsured – that is, they had out-of-pocket medical spending that absorbed at least 10 percent of family income, or, for low-income adults (defined as 200 percent of the federal poverty level), at least 5 percent of family income; **or** if they faced deductibles of at least 5 percent of family income. This represents a 60 percent increase from the 15.6 million Americans who were underinsured in 2003.³

Another study, which explored families' actual problems paying medical bills, found that one in five Americans reported problems paying medical bills in 2007. This work from the Center for Studying Health System Change indicates that even moderate levels of out-of-pocket spending relative to family income – that is, spending that is well below the 5 or 10-percent of family income considered to be underinsured by the studies just cited – created medical bill problems. For example, two-thirds of the individuals who reported trouble paying medical bills spent 5 percent or less of their family income on health care.⁴ As author Peter Cunningham

noted, many families have little wiggle room within their family budgets for large or unexpected out-of-pocket health care expenses. And even a relatively low level of health care spending compared to family income can create financial stress for low-income families. (See chart below.)

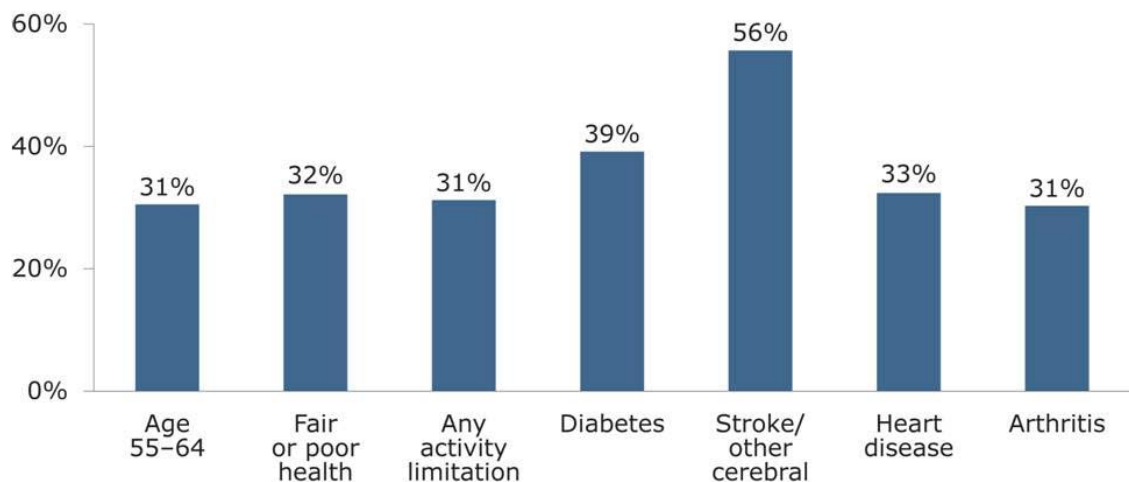
Burden of medical bills for families spending 2.5% or less of family income



The risk of being underinsured or experiencing financial problems due to health spending varies not only by family income but also by health status. Health care affordability is particularly elusive for individuals with chronic illness and other conditions that require ongoing, often costly, medical care. In particular, individuals who are older, have an activity limitation, have a chronic condition such as diabetes, heart disease, or arthritis, or have experienced stroke, are more likely to spend a high proportion of their income on health expenses. (See chart next page.) If these individuals are not covered by an employer-sponsored health plan, or lose this coverage, their ability to purchase coverage in the non-group

market is limited at best. Far from serving as a safety-net, the non-group market systematically denies coverage, limits benefits or charges excessive premiums to individuals with pre-existing conditions or whom they perceive as likely to need care. And if these individuals do have coverage through the non-group market, they are more likely to have their coverage unfairly rescinded by their insurance company or experience a rapid increase in premiums to maintain their coverage. Ironically, then, underinsurance or financial problems are most likely to arise for people who get sick—the very population that insurance is supposed to protect.

Groups at high risk of having high financial burden for health care, 2003



Note: High Financial Burden defined as families spending more than 10% of their after-tax income on health care, including premiums and out-of-pocket health costs.

Source: Kaiser Family Foundation, based on Banthin, JS and DM Bernard. "Changes in Financial Burdens for Health Care," JAMA 296(22), December 2006.

The Consequences of Affordability Problems

We know that unaffordable health insurance makes health care itself unaffordable and unavailable. As the Institute of Medicine recently noted, there is a chasm between the health

care needs of people without health insurance and access to effective health care services.

People without health insurance are more likely to delay care, to get less care, and to die when they get sick.⁵

People who are underinsured can experience very similar problems getting needed care. According to the Commonwealth Fund, underinsured individuals are two to three times as likely as insured individuals to forgo various needed medical services because of cost⁶ Of sicker underinsured adults, a full two-thirds went without needed care due to cost, including half of individuals with a chronic condition forgoing necessary medications.⁷ According to a recent Kaiser Family Foundation survey, concerns about affording needed medical care led insured individuals to cut back on care due to cost. Responses included postponing care (34%), skipping a recommended medical visit or treatment (30%), not filling prescriptions (27%), and skipping doses or cutting pills (21%).⁸

People who are under-insured not only face the medical problems of inadequate treatment; they also face financial problems from the treatment they actually get. Of sicker underinsured adults, three-fifths reported having been contacted by a collections agency. In a 2007 survey, respondents reported making difficult choices between using up a lifetime of savings, running up credit card debt, skipping the purchase of other necessities, or adding a mortgage against their home in order to pay medical bills.⁹

Home mortgage foreclosure, another personal financial catastrophe, is also related to health care expenses. Seven out of ten respondents in a recent survey of borrowers in

foreclosure reported unmanageable medical bills as an underlying cause of their foreclosure, or had experienced other medical disruptions to their income, such as lost work due to illness or using home equity to pay medical bills.¹⁰

Finally, medical bankruptcy represents the far extreme of the financial problems individuals without health insurance or with inadequate insurance can face. Hard-to-manage health care spending may not appear as easily-identifiable medical debt, but may instead be hidden in second mortgages, large credit card debt or unsecured loans. Many medical debtors turn to borrowing to cover accrued medical expenses in order to continue treatment – and continuing treatment may be their highest priority. For example, a recent debtor in eastern North Carolina incurred \$30,000 in medical expenses for a child who needed cardiac surgery that were not covered by insurance. He borrowed \$30,000 to pay for that first surgery because a necessary second surgery was withheld until the first bill had been paid. With \$30,000 in unreimbursed medical expenses from the second surgery, as well as loans to cover the initial surgery, the father was forced into bankruptcy.

In some cases, bankruptcy may be driven not by underinsurance but by bad insurance company practices. Unfortunately, bankruptcy trustees have little opportunity or incentive to look into unwarranted denial of claims or unwarranted rescission of coverage – even though these practices may push individuals with health coverage into bankruptcy. And those who suffer from a wrongful rescission or denial include not only the debtor, but also all the other creditors, whose debts are devalued by the bankruptcy filing.

The Role of Reform

Patients with cancer and other chronic conditions, low-income families and individuals who are currently uninsured all hope to gain greater financial stability and access to health care with health reform. Successful health reform must not just make health insurance affordable; affordable health insurance has to make health care affordable.

I am confident that Congress will conclude that the problems I have outlined in my testimony – families forced into bankruptcy, people with chronic conditions going without necessary care, low-income families experiencing the squeeze of unexpected medical bills – are merely a symptom of the larger problems in our health care system. Today we leave too many Americans without health insurance – and even more without adequate coverage. High deductibles and unrealistic copayment responsibilities leave people with chronic illness at perpetual risk of financial ruin. Health insurance companies are able to deny coverage to people with health problems, exclude pre-existing conditions from coverage when they offer it, charge unmanageable premiums. They can even rescind coverage when their policyholders get sick, leaving people who had faithfully paid their premiums without the financial protection they thought they had paid for.

Congress can fix these problems. Health reforms that ensure that all Americans have health insurance coverage with adequate benefits and reasonable copayment responsibilities will provide real financial protection and real access to health care services. Health reforms that curb insurance companies' discriminatory practices will ensure that everyone can purchase and retain

comprehensive coverage, including coverage for pre-existing conditions. And health reforms that require everyone to have coverage, while guaranteeing that individual and family premium contributions are affordable, will end the cost-shifting and uninsurance that are hallmarks of the current system.

A Chance Not to be Missed

I along with every other American are counting on the Congress and the President to enact reform that will provide answers to these question—answers that will give all of us affordable coverage and affordable, quality health care. I can't help asking myself how things would be different if we had achieved health reform in 1993 or 1994. Would 14,000 people be losing health coverage every day in this recession? Would millions of people be going without needed treatment? Would families be facing medical bills they cannot pay? We've asked these questions for too many years and watched too many families suffer. It's time to stop asking questions and provide the answers Americans are looking for. We can and must seize this opportunity to effectively reform our health care system for the American people.

¹ Kaiser Family Foundation, *The Uninsured: A Primer*, October 2008, available at: <http://www.kff.org/uninsured/upload/7451-04.pdf>.

² Kaiser Family Foundation/Health Research and Education Trust, "Employer Health Benefits 2008 Annual Survey," available at: <http://ehbs.kff.org/?page=charts&id=1&sn=6&p=1>.

³ C. Schoen, S. Collins, J. Kriss and M. Doty, "How Many are Underinsured? Trends Among U.S. adults, 2003 and 2007," *Health Affairs* 27 no. 4 (2008):w298-2309.

⁴ P. Cunningham, C. Miller and A. Cassil, "Living on the Edge: Health Care Expenses Strain Family Budgets," *Research Brief*, Center for Studying Health System Change, No. 10, December 2008.

⁵ Institute of Medicine, "America's Uninsured Crisis: Consequences for Health and Health Care," *Report Brief*, February 2009, available at:

<http://www.iom.edu/Object.File/Master/63/122/America%27s%20Uninsured%206%20pager%20FINAL%20for%20web.pdf>

⁶ C. Schoen, "Insured But Not Protected," *Health Affairs* 2005: hlthaff.w5.289v1.

⁷ C. Schoen, "Insured But Not Protected," *Health Affairs* 2005: hlthaff.w5.289v1.

⁸ D. Rowland, "The Adequacy of Health Insurance," Testimony before the United States Senate Committee on Health, Education, Labor and Pensions, February 24, 2009, available at: <http://www.kff.org/uninsured/upload/7870.pdf>.

⁹ C. Schoen, "Insurance Design Matters," Testimony before the United States Senate Committee on Health, Education and Pensions, available at:

<http://www.commonwealthfund.org/~media/Files/Publications/Testimony/2009/Feb/Testimony%20Insurance%20Design%20Matters%20Underinsured%20Trends%20Health%20and%20Financial%20Risks/1240%20Schoen%20SenateHELP%20underinsured%20testimony%20Feb%202009.pdf>.

¹⁰ C.T. Robertson, R. Egelhof, and M. Hoke, "Get Sick, Get Out: The Medical Causes of Home Foreclosures," *Health Matrix*, 18 (2008): 65-105, available at: http://works.bepress.com/christopher_robertson/2