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"Hearing on Working Families in Financial Crisis: Medical Debt and Bankruptcy"

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Subcommittee on Commercial and Administrative Law

The problem of Americans filing for personal bankruptcy due to a medical incident, tells only part of the medical debt story. Many more Americans suffer from the financial burden of medical costs and medical debt. Even if they are not forced into bankruptcy, the consequences are serious and sometimes devastating.

Medical Debt

Medical debt is money owed for medical services or products, such as hospital or physician care, ambulance services, prescription drugs or durable medical supplies. It may be owed directly to a provider, a collection agent serving the provider, a credit card company, another lender, a family member or a friend. Medical debt is usually involuntary—that is, it is accrued because of events that cannot be predicted or avoided.

The Financial Burden of Health Care Costs

Between 2000 and 2005 health insurance premiums increased by 73 percent, while workers' wages rose by only 15 percent.[i] Increasing costs have forced many people to drop insurance coverage while other have maintained coverage but with diminished benefits due to higher deductibles, co-insurance, co-payments, limits on benefits, and gaps in coverage.

Researchers have projected that American consumers will spend approximately $250 billions in out-of-pocket costs in 2007.[ii] This is in addition to the premiums paid directly by consumers for their health insurance coverage. For many Americans, these out-of-pocket costs will result in medical debt.

The Prevalence of Medical Debt

The problem of medical debt is widespread. According to a national study done by the Commonwealth Fund, approximately 21% of Americans adults—36 million people—under the age of 65 have medical bills or accrued medical debt that they are paying off over time.[iii]

Other studies estimate that even more are at risk of medical debt. A 2005 study by the Kaiser Family Foundation estimated that 58 million Americans are at risk of incurring medical bills they may not be able to repay; included are Americans uninsured for any part of the year and an estimated 17.6 million people with private insurance coverage that provides them with insufficient protection.[iv]

Nationally, one-quarter of those with medical debt have bills of $4,000 or more and more than three and a half million Americans are carrying more than $10,000 in medical debt.[v] The prevalence of medical debt is even more severe for those with moderate incomes. The Access Project conducted a survey of people seeking assistance through Volunteer Income Tax Assistance sites in early 2005. Most of the respondents had household incomes of less than $36,000. Among this population, nearly half (46%) had medical debt.[vi]

Medical Debt Plagues Americans with Health Insurance

It may come as a surprise to learn that most Americans with medical debt have health insurance. People buy health insurance to protect them from financial ruin should they experience illness or injury. However, nearly two-thirds (62%) of those with medical debt had insurance at the time of their medical incident. The Commonwealth Fund found that nearly one in five (18%) Americans with health insurance medical had bills they could not pay. One-third of these insured Americans who incurred medical debt used all or most of their savings paying health care costs.[vii] The purpose of insurance is to spread risk among a group of people and protect individuals' financial assets in the case of unforeseen incidents. The cases cited above clearly demonstrate that health insurance fails many Americans' in its primary purpose. In the automobile or airline industries, this level of product failure would not be tolerated by consumers or regulators.

Similarly, the Kaiser Family Foundation found that 18 million (16%) of privately insured adults reported significant problems with paying their medical bills.[viii] In an Access Project study linking medical debt and housing problems, we found that slightly more of the respondents with debt had health insurance at the time they received the care for which they owed money. Though a lack of insurance puts people at great risk for medical debt and the problems resulting from it, those with health insurance are in not way immune from unaffordable medical bills.

Medical Debt is a Barrier to Health Care

The tragedy of medical debt is that it is involuntary incurred for services on which a person's well-being or life may depend. It is debt that cannot be easily planned for and it has far reaching health access and financial implications.

Over and over again, Access Project studies have found that medical debt is linked to delayed care. In our study of uninsured patients with medical debt served by safety-net providers—providers with a mission to serve the uninsured—one-quarter said that medical debt would make them reluctant to seek care at that facility in the future.[ix] Another study examining medical debt among patients at community health centers in Massachusetts found that three in five of those with medical debt delayed getting needed care,[x] slightly more than in Kansas where just under half delayed care.[xi] Reasons for the delay included being embarrassed by outstanding bills, a desire not to take on additional debt or being refused an appointment by a provider because bills were not paid. In the Kansas study, just over one-quarter or respondents changed primary care doctors because of money they owed to their medical provider.

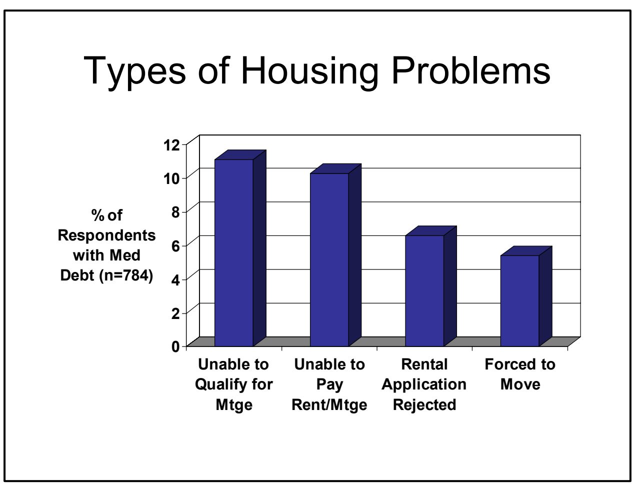
There is a significant body of research documenting that that those without health insurance are more likely to delay care or forego treatment than people with insurance coverage. However, research done by the Kaiser Family Foundation found that the presence of medical debt is also an access risk factor. Insured people with medical debt are nearly four times more likely than those with insurance and no debt to skip a recommended test or treatment (30% vs. 8%) or not get needed care (12% vs. 3%) and more than twice as likely to not fill an order for a prescription drug due to cost (24% vs. 9%). In general, the care seeking patterns among those with private insurance who have medical debt resemble the patterns of people with no insurance coverage. [xii]

Medical Debt Tarnishes Credit

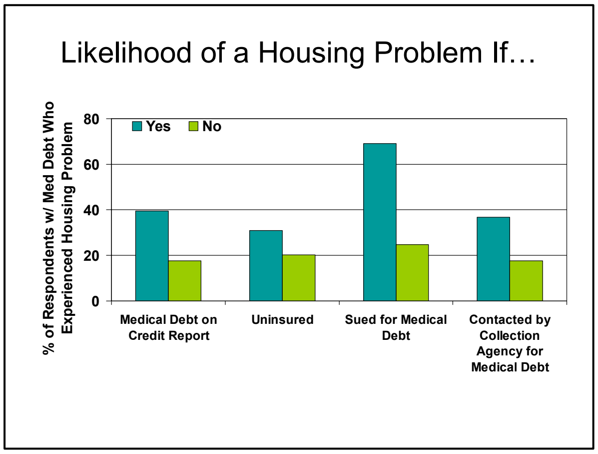
The financial burdens of health care and medical debt deplete savings, destroy credit and threaten the American dream of homeownership.

In a study conducted by The Access Project with clients at a consumer credit counseling service, two in five were seeking counseling because a medical incident contributed to the debt problem.[xiii] This surprised even the counselors since medical debt is often masked as credit card debt.

Many medical bills ultimately end up in the hands of the collection industry. One study found that one in five American adults under the age of 65 had been contacted by a collection agency for medical bills.[xiv] Our study of people seeking help through the Volunteer Income Tax Assistance sites found that more than one-quarter said housing problems resulted from medical debt. Problems ranged from being unable to qualify for a mortgage, being turned down from renting a home, and even eviction or foreclosure.



Of the respondents with medical debt, slightly less than half (46%) did not know whether the medical debt was on their credit report. For those who did know, the respondents with medical debt on their reports were more than twice as likely to report housing problems (39%) than those who said it was not on their reports (18%).

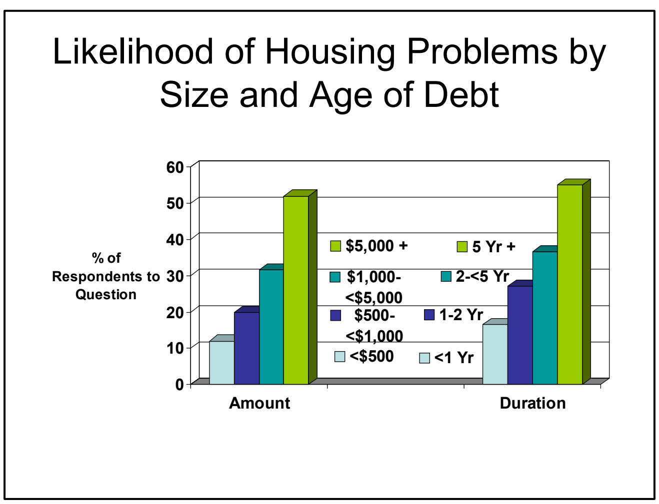


The results were similar for the respondents with medical debt who had been had been contacted by a collection agency. Those contacted by collection agencies were also much more likely to (37%) to report housing problems than those not contacted (18%). Though a small percentage of respondents (5%) had been sued in small claims court, the ramifications loomed large with nearly seven in ten of this group reporting housing problems. Seven percent of those with medical debt filed for personal bankruptcy because of it. [xv]

Earlier this year, The Access Project worked with Demos examining medical debt on credit cards. Demos had commissioned a study of low and middle income households, those with income between 50-120% of local median income, carrying credit card debt for three months or longer. We examined these data and found that 29% of respondents reported that medical expenses contributed to their current level of credit card debt. Of this group, nearly 7 in ten (69%) had a major medical expense in the previous three years. Among the overall sample, 20% reported a major medical expense in the previous three years and that medical expenses contributed to their current credit card debt; we categorized this group as the medically indebted. When we analyzed the data for the medically indebted group, we found that their average credit card debt was significantly higher ($11,623) than those not medically indebted ($7,964). We also found that the medically indebted were far more likely to be contacted by collection agencies (62%) than those not medically indebted. [xvi]

The Access Project has also learned much about billing and debt problems through direct assistance that we provide to people with medical debt. In helping them resolve their debt problems, we gain insight into the complexity of systems encountered by people with these debts. For example, hospital patients often receive individual invoices for ambulance, hospital, physician, prescription drug, and lab services. All of these bills are potential strikes against them in terms of their credit report.

If medical bills are unpaid, they can linger for years, often long after medical providers have written them off the books as bad debt. Even medical bills with small balances can have significant and detrimental influence over one's credit. Again, our study of housing problems resulting from medical debt is instructive. We found that even respondents with what might be considered small levels of outstanding bills ($500 or less), one in eight reported housing problems with the percentages increasing along with the level of debt



Conclusion

People are at their most vulnerable when they or a loved one experience illness or injury. Being ill and in debt can be a frightening, or even devastating, experience. At present, the American health care system puts far too many American at financial risk. As a result, millions of Americans incur medical debt each year. This debt constricts access to health care and can block access to affordable credit. Repairing the American health care system must be a national priority.

In the long term, American must have universal access to comprehensive benefits. Tens of millions of Americans are uninsured or underinsured. Health insurance does not effectively protect families from financial exposure if they experience illness or injury. The Access Project encourages regulators to carefully consider the wisdom of insurance products that shift the financial burden of health care to Americans through various out-of-pocket expenses but rather establish standards for adequate insurance protection including cost-sharing obligations that are proportionate to household income. Ultimately, Americans must have universal access to comprehensive benefits.

However, in the near term, relief from credit problems related to medical debt could be achieve by limiting medical providers, and their agents, from reporting medical debt to credit agencies. America has some of the world's finest medical institutions staffed by caring and compassionate people committed to healing. However, medical debt can cause harm to these patients. Credit reports marred by medical debt may limit a person's ability to access affordable credit, limit employment and housing opportunities, result in higher costs for homeowners, and increase the costs of other insurance products. The Access Project encourages regulators to consider ways to prevent involuntary medical debt from tarnishing a credit report by prohibiting medical providers and their agents from reporting such debt to credit agencies.

On behalf of The Access Project, thank you for calling attention to this important issue. We hope that you consider this testimony when developing new public policies related to health care, insurance coverage or consumer credit.

[i] *Employer Health Benefits 2005 Annual Survey*, The Henry J. Kaiser Family Foundation and Health Research and Educational Trust, 2005.

[ii] C. Borger, "Health Spending Projections Through 2015: Changes On The Horizon" *Health Affairs Web Exclusive*, February 2006.

[iii] S. Collins et al, Gaps in Health Insurance: An All-American Problem: Findings from the Commonwealth Fund Biennial Health Insurance Survey, Commonwealth Fund, April 2006.

[iv] C. Hoffman et al, *Medical Debt and Access to Health Care*, Kaiser Commission on Medicaid and the Uninsured, September 2005.

[v] S. Collins, et al, *Gaps.*

[vi] R. Seifert, *Home Sick: How Medical Debt Undermines Housing Security*, November 2005.

[vii] S. Collins, et al, *Gaps*, April 2006.

[viii] C. Hoffman et al, *Medical Debt and Access,* September 2005.

[ix] D. Andrulis et al, *Paying for Health Care When You're Uninsured*: How Much Support Does the Safety Net Offer?, 2003.

[x] C. Pryor et al, Getting Care but Paying the Price: How Medical Debt Leaves Many in Massachusetts Facing Tough Choices, 2004.

[xi] C. Pryor et al, *Playing by the Rules but Losing: How Medical Debt Threatens Kansans' Healthcare Access and Financial Security*, 2006.

[xii] C. Hoffman, et al, *Medical Debt and Access,* September 2005.

[xiii] D. Gurewich et al, *Medical Debt and Consumer Credit Counseling Services*, 2004 (Published in Journal of Health Care for the Poor and Underserved).

[xiv] S. Collins, et al *Gaps,* April 2006.

[xv] R. Seifert, *Home Sick,* November 2005.

[xvi] C. Zeldin et al, *Borrowing to Stay Healthy: How Credit Card Debt is Related to Medical Expenses*, (with Demos), 2007.