

SICK

— and in the —

RED

Medical Debt and its Economic Impact

JOSÉ GARCIA • MARK RUKAVINA

“No one in America should go broke because they got sick.” - President Obama, August 2009 radio address

ABOUT DĚMOS

DĚmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, DĚmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world. DĚmos was founded in 2000.

In 2010, DĚmos entered into a publishing partnership with *The American Prospect*, one of the nation's premier magazines focussing policy analysis, investigative journalism, and forward-looking solutions for the nation's greatest challenges.

ABOUT THE ACCESS PROJECT

The Access Project (TAP), which was founded in 1998, serves as a resource center for local communities working to improve health and healthcare access. Third Sector New England, a non-profit with more than 40 years of experience managing public and community health projects, serves as TAP's fiscal sponsor. The Access Project has a research affiliation with The Schneider Institute for Health Policy at Brandeis University and collaborates closely with Community Catalyst on issues related to medical debt and charity care.

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As Associate Director for Research and Policy, José is responsible for providing statistical and policy analysis for the Economic Opportunity Program on issues such as household debt and assets.

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As executive director of The Access Project, Mark is responsible for overall management. He is a nationally recognized expert on issues related to medical debt and health care affordability, especially as they pertain to low and moderate income Americans.

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INTRODUCTION

For many years, health care costs have been steadily rising. As employers have moved into insurance coverage options with greater out-of-pocket expenses or have stopped providing health care coverage altogether, American families have struggled with the burden of healthcare costs. Americans spent a total of \$2.3 trillion on health care in 2008.¹ This amounted to \$7,681 for every man, woman and child and was slightly more than 16 % of the gross domestic product. During this same year, median household income was \$50,303.

Over the past decade, health insurance premiums have climbed dramatically. Between 1999 and 2009, the cost for a family health insurance policy increased by 131 percent.² The cost of premiums for family insurance coverage purchased by employers averaged \$13,375 in 2009.³ Such rates put stress on the budgets of employers and workers alike. These premium increases occurred as deductibles, co-payments and other out-of-pocket costs also rose. It is estimated that Americans spent \$277 billion on out-of-pocket costs in 2008; a figure over and above the cost of health insurance premiums.⁴

It should come as no surprise that millions of American families find health care costs to be burdensome. Health costs have created medical bill problems or medical debt for tens of millions of Americans.⁵ One recent survey examining the consequences of the current recession found that nearly half of the American public felt they are now worse off financially than before the recession began and more than one-quarter (27%) reported trouble getting or paying for medical care for themselves or their families.⁶

As Americans have struggled to deal with job loss, reduction in wages, increased energy costs and escalating health care expenses, many families have depleted their savings to cover basic living expenses. At their peril, millions of Americans turned to credit cards – possibly the only source of credit available to them - as a means of dealing with burdensome medical expenses. The use of credit cards to cover medical expenses can be problematic. If not promptly paid, those using plastic could find themselves subject to a maze of penalties, fees and increased interest rates.

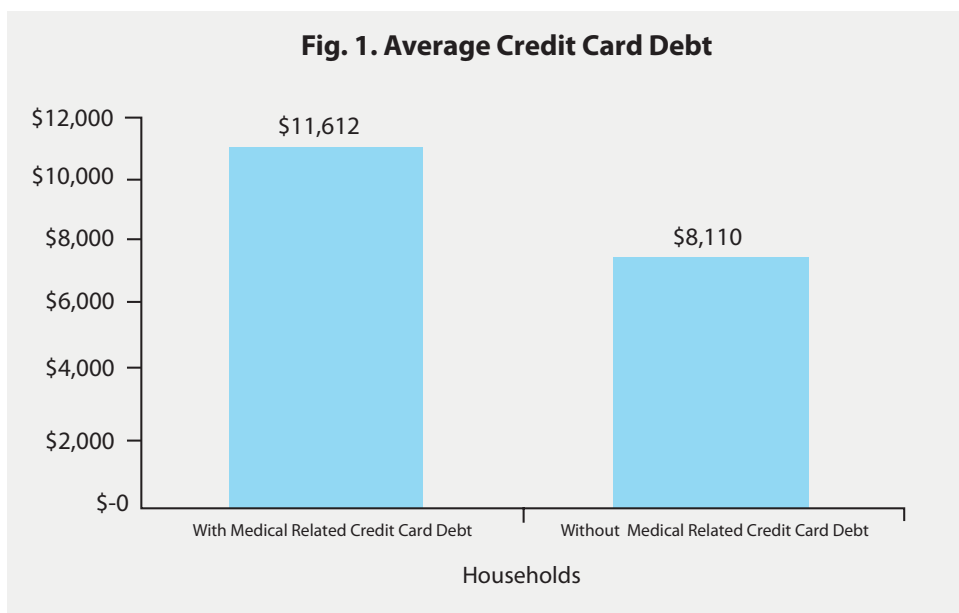
This report was written after passage of the Patient Protection and Affordable Care Act (PPACA), the largest piece of social legislation passed since 1965. When the PPACA was signed into law by President Obama in March 2010, it marked the beginning of a new era for health care in the United States. Up to this time, national health reform had eluded elected officials for decades. The law aims to make health care more accessible and affordable for all Americans, especially those from low- and middle- income households. New programs and reforms will provide relief for millions of Americans when the law is fully implemented in 2014. Until then, many families will face medical bills they are unable to pay and many will struggle to pay off existing medical debt. Even after full implementation of the PPACA, many families will continue to face out-of-pocket costs that are a challenge to pay and groups such as undocumented workers and those unable to purchase affordable health coverage will remain uninsured.

To gain a better understanding of how medical debt impacts families' debt and assets, Demos collaborated with The Access Project to analyze data from its 2008 national household survey of low- and middle-income households with credit card debt. This survey, which consisted of 2,248 phone interviews with low- and middle-income households, collected information about the scope and nature of credit card debt—from the amount and duration of debt to the types of expenses that contribute to household indebtedness.. This report will explore the extent to which medical debt adds to the general credit card debt of households and will examine the impact of such debt on families' economic security. We hope that it helps to inform the public policy discussion on health care affordability and insurance product design.

KEY FINDINGS

In 2008, more than one-half- 52% -of indebted low- and middle-income households cited medical expenses as contributing to their credit card debt. Throughout this report, we will refer to this group as “medically indebted households” When compared to all other expenses we inquired about in the survey, out-of-pocket medical expenses were the most frequently reported expense contributing to credit card debt.

Medical Expenses Can Be Hazardous to Financial Health



Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

- Medically indebted households averaged \$11,612 in credit card debt compared with \$8,110 for other respondents (see Fig.1).

- Medically indebted households carried an average of \$2,194 in credit card debt that they attributed directly to medical expenses. Nearly one-third (30 percent) of medically indebted households carry additional medical debt averaging \$3,174, owed to other creditors and not reflected on their credit cards.

- Households with medical debt were further burdened by the rate of interest paid on their credit cards; those without medical expenses on their credit cards had an average annual percentage rate (APR) of 14% while the medically indebted had an APR of 16%.

DATA AND METHODS

The data in this report is derived from a household survey, commissioned by Dēmos in 2008, on credit card debt among low- and middle-income households. The findings update and expand upon results from a similar survey commissioned by Dēmos in 2005. Both surveys collected information about the scope and nature of credit card debt—from the amount and duration of debt to the types of expenses that contribute to household indebtedness. (Please see the report “Plastic Safety Net” for more information.) The 2008 survey, however, included more in-depth questions about medical expenses and health insurance coverage.

Dēmos’ 2008 household survey—conducted by Macro International between April and August 2008—consisted of 2,248 phone interviews with low- and middle-income households whose incomes fell between 50 percent and 120 percent of local median income; such households comprise roughly 78 percent of the low- and middle-income households in the country. In order to participate, a household had to have either credit card debt for three months or longer at the time of the survey for the credit card indebted sample, or have at least one credit card without credit card debt for the credit card non-debted sample. The sample size for the credit card indebted sample was 1,200 households and the credit card non-debted sample was 1,048 households.

The findings of the 2008 National Survey on Credit Card Debt of Low- and Middle- Income Households survey represent 80.7 million people in 30.1 million households, broken down as 46.6 million people in 17.4 million households with credit card debt and 34 million people in 12.7 million households with a credit card but no credit card debt. The margin of error for the survey is plus or minus 3.7 percentage points for total respondents.

Credit card indebted households are defined as those household at the time of the interview that reported having credit card debt for more than three months. Credit card indebted households were identified based on the question “Do you or your spouse have any credit card debt; that is, money due on credit cards that you did not pay off in full at the end of last month?” To ensure that we were capturing households with credit card debt, as opposed to those households who may be temporarily carrying a balance, we chose to exclude from the survey any households who reported having credit card debt for less than three months.

The screening questions also ensured that the respondent was a head of the household and that s/he was involved in making financial decisions. Credit card non-debted households were indentified based on the questions “Do you, or does your spouse or partner, currently have at least one credit card?” followed by “Do you or your spouse or partner have any credit card debt? By credit card debt, I mean money due on credit cards that you did not pay off in full at the end of last month?”

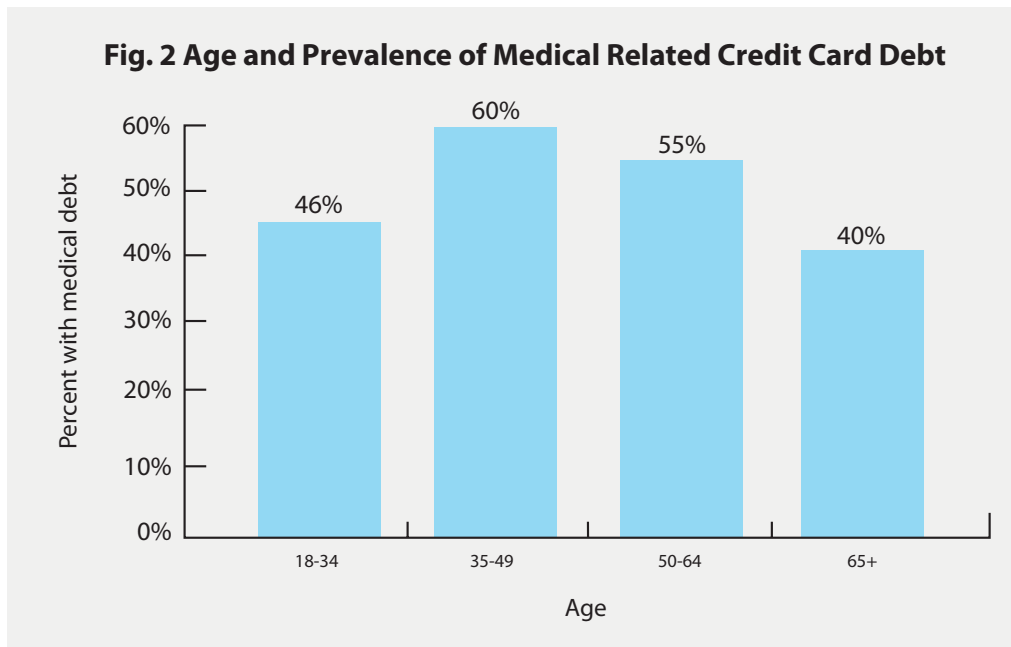
To identify the role of medical expenses, the survey asked respondents questions about their medical expenses, health insurance status, and whether medical expenses contributed to their current level of credit card debt. Most of the findings in this report look specifically at the subset of households that reported that medical expenses contributed to their current level of credit card which was 52% of the credit card indebted sample.

Macro International developed the survey instrument in close consultation with Dēmos. The survey was given in either English or Spanish, based on the respondent's preference. Households were contacted by phone using nationwide random-digit dialing. The final sample included oversamples of Hispanics and African-Americans to allow for greater data analysis of these groups. For this random-digit dial survey, the 95% confidence interval has a margin of error of plus or minus 3.73 percentage points. The Hispanic sample has a margin of error of plus or minus 10.5 percentage points and the African-American sample has a margin of error of plus or minus 9.4 percentage points. Weights have been added to account for disproportionate probabilities of selection.

THE MEDICALLY INDEBTED

In 2008, more than half or 52% of indebted low- and middle-income households cited out-of-pocket medical expenses as contributing to their credit card debt. Throughout this report, we will refer to this group as “medically indebted households.”

TRENDS BY AGE



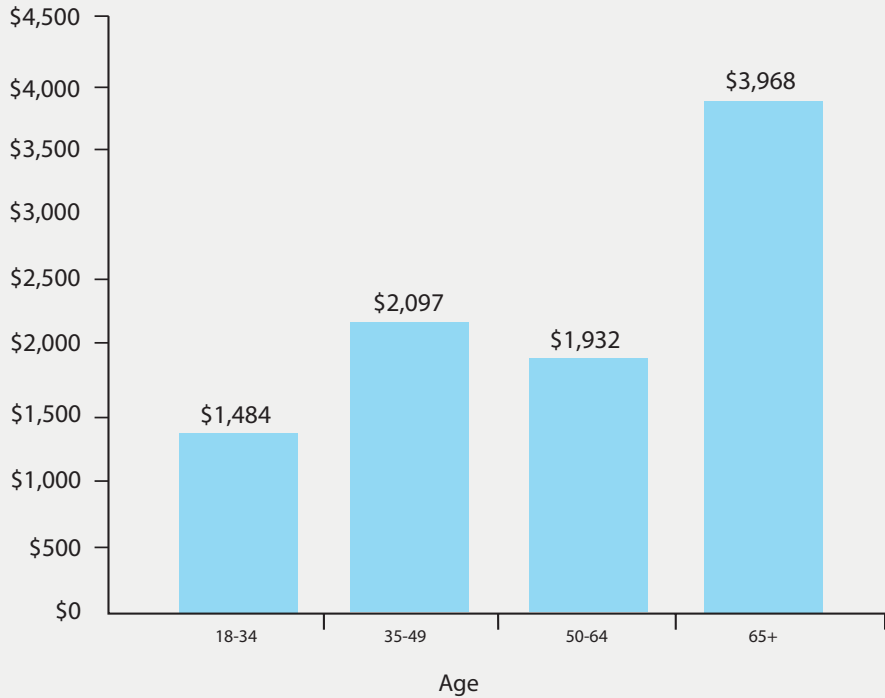
Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

Middle-Aged Respondents: Credit card debt attributed to out-of-pocket medical expenses was most prevalent among middle-aged respondents. Sixty percent of 35 to 49 years olds were medically indebted, as were more than half (55 percent) of those aged 50 to 64. These age groups carried an average of \$2,097 and \$1,932 in credit card debt, respectively, that resulted from medical expenses (See Fig.3). The

youngest and oldest respondents were less likely to have medical expenses on their credit cards than those ages 35 to 64, however even debt among these groups raises concern for their long term financial security. (see Fig. 2).

Young Adults: While households headed by younger adults (ages 18 to 34) tend to be relatively healthy, nearly half (46 percent) were medically indebted (Figure 2). This is possibly due to the fact that young adults (ages 19- 29) have the highest uninsured rate of any age group in the U.S. and represent nearly one-third of the overall uninsured population. This is because some are employed in low wage, entry-level, or temporary positions that are typically less likely to provide insurance coverage to their employees. Others likely lost the coverage they received as dependent children under their parents’ private insurance or through a public program such as Medicaid or a Children’s Health Insurance Plan which terminate eligibility at age 19.⁷ Given that the PPACA requires that private health insurers offer dependent coverage to children up to age 26 thus allowing them to remain on their parents’ insurance plan, it is expected that the uninsured rate among young adults will decline, as will the rate of medical indebtedness among this group.

Fig. 3 Average Credit Card Debt Due to Out- of- Pocket Medical Expenses



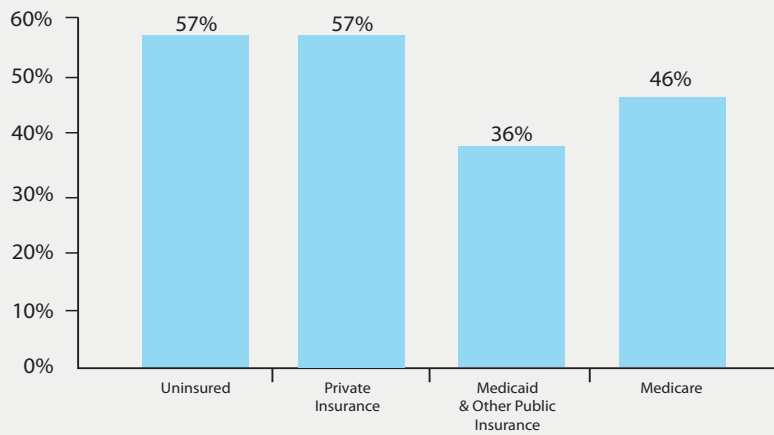
Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

Older Adults: Americans 65 years and older reported the lowest percentage of medical expenses on credit cards of any age group despite being the group most likely to have health problems. The lower prevalence of medical indebtedness among the elderly is consistent with national data. One national household survey found that in 2007, adults age 65 or older were far less likely than working age adults to report medical bill problems or medical debt.⁸ It is likely that this is due to the fact that Medicare, a public health insurance program for the

elderly, provides nearly universal health insurance coverage for older Americans. Most seniors on Medicare either purchase private Medicare supplemental insurance or, if they are low income, qualify for other public support which may limit or eliminate out- of- pocket medical expenses. The finding that two out of five older respondents are medically indebted may be an indication that Medicare protection from out-of-pockets expenses may not be keeping up with the rising cost of health care.

TRENDS BY HEALTH INSURANCE STATUS

Fig. 4. Percentage with Medical Related Credit Card Debt By Type of Health Insurance



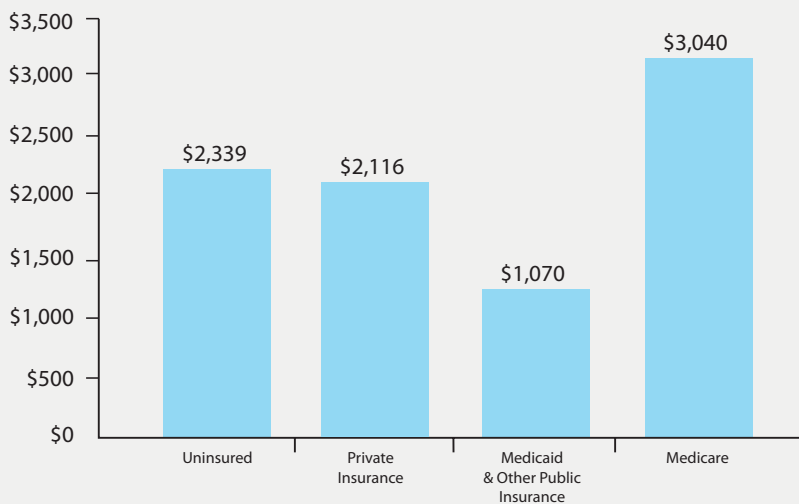
Source: Demos 2008 National Survey of Credit Card Debt Among Low- and Middle-Income Households.

Public Insurance: Respondents from households with public insurance coverage such as Medicare, Medicaid or other programs were least likely to be medically indebted (see Fig. 4).⁹ Those with Medicaid or other public insurance fared most favorably regarding medical expenses on credit cards. This may be the result of public policy that provides coverage which limits the out-of-pocket expenditures for the beneficiaries of these programs, typically low- and middle- income populations. The PPACA includes a significant expansion

of the Medicaid program by increasing eligibility to everyone with incomes at or below 133% of the federal poverty level. It is estimated that up to 20 million people will be provided with coverage as a result of this provision; we expect that the incidence of medical indebtedness will decline accordingly.

Private Insurance: Respondents with private insurance reported rates of medically indebtedness similar to households that reported having no coverage. More than half (57 percent) of households with private

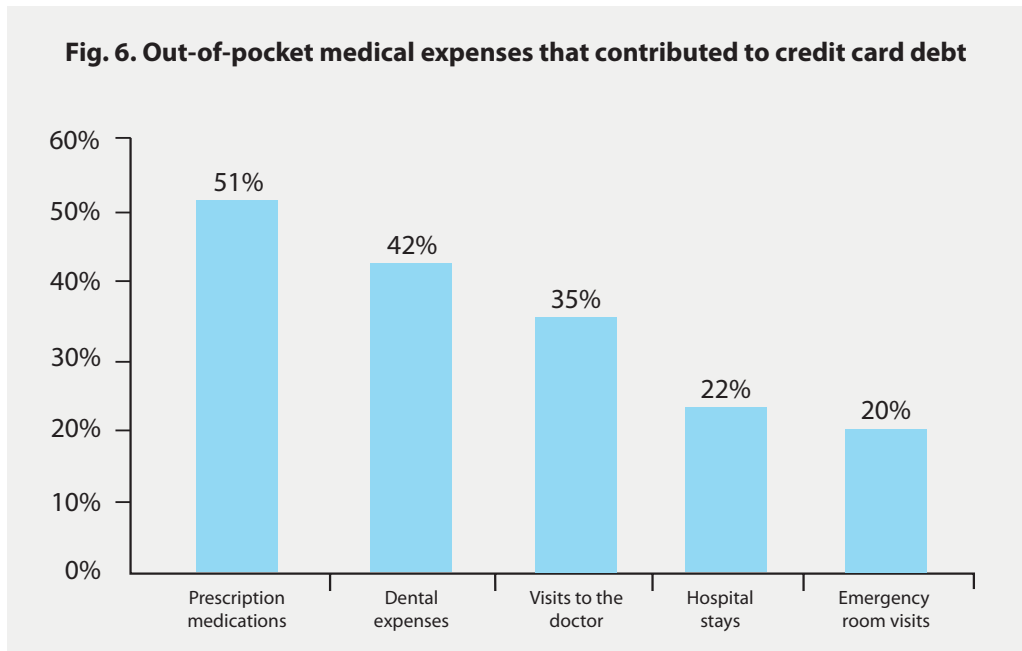
Fig. 5. Average Credit Card Debt Attributed to Medical Expenses by Health Insurance Type



Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

insurance carried medical expenses on credit cards with average amounts totaling \$2,116, the same percentage as those with no health insurance coverage. However, respondents with no insurance reported slightly higher comparison of the level of medical expenses carried on credit cards by insurance type/status is included in Figure 4. It is notable that respondents from households with Medicare and Medi-gap coverage have a lower prevalence of medical indebtedness on their credit cards but carry higher amounts of medical debt on their credit cards. Those respondents with Medicare report an average of \$3,040 in medical debt on their credit cards, the highest level among the various insurance types. One possible explanation for the higher rate is that the 65 and older population tend to use medical services with greater frequency. As older Americans retire with fewer assets and more credit card debt, despite the lower co-payments associated with Medicare, older Americans must turn to credit to cover those costs.

OUT-OF-POCKET MEDICAL EXPENSES



Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

costs (51%) and two in five (42%) cited dental expenses (see Fig. 6) as the contributing factors for the medical debt on their credit cards.

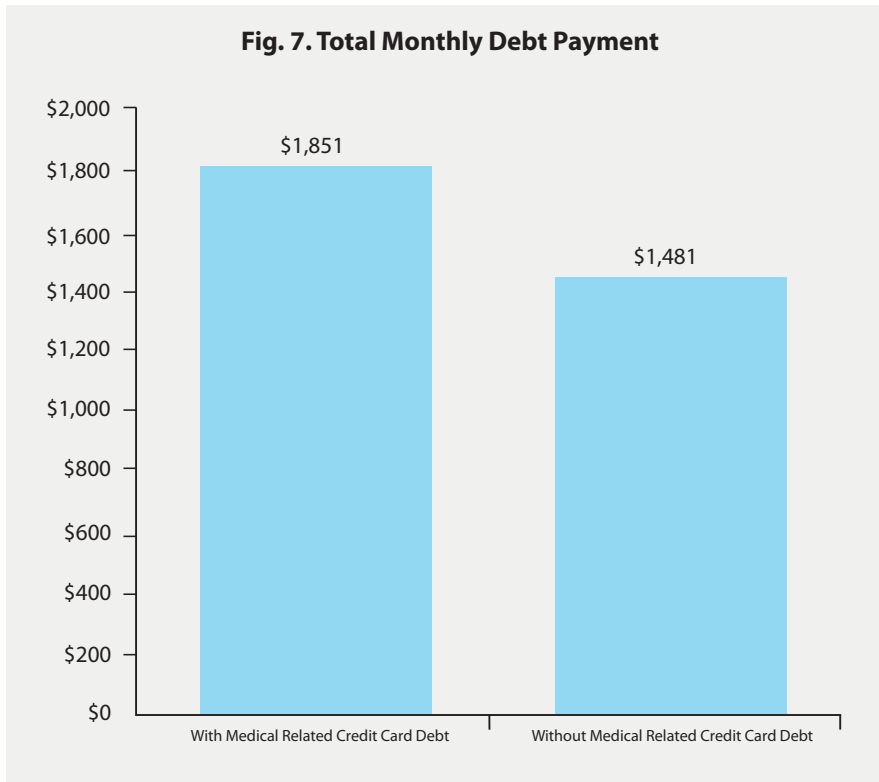
Out-of-pocket medical expenses, such as co-payments for office visits, deductibles, or the cost of prescription drugs are some of the commonly reported medical expenses contributing to credit card debt. Respondents were asked what type of out-of-pocket expenses, incurred over the past three years, contributed to their current credit card debt. More than half cited prescription drug

MEDICAL CARE DECISIONS

Delayed Care: The prospect of incurring medical debt often influences whether a person seeks needed care. Medically indebted respondents were asked whether their medical bills influenced their decisions to access needed medical care. Nearly half (45%) reported not seeking care when they had a medical problem and two in five reported skipping a medical test or not filling a prescription in order to avoid adding further to their debt load. This is consistent with findings from other studies that have linked medical debt and delayed care.¹⁰

FINANCIAL IMPLICATIONS

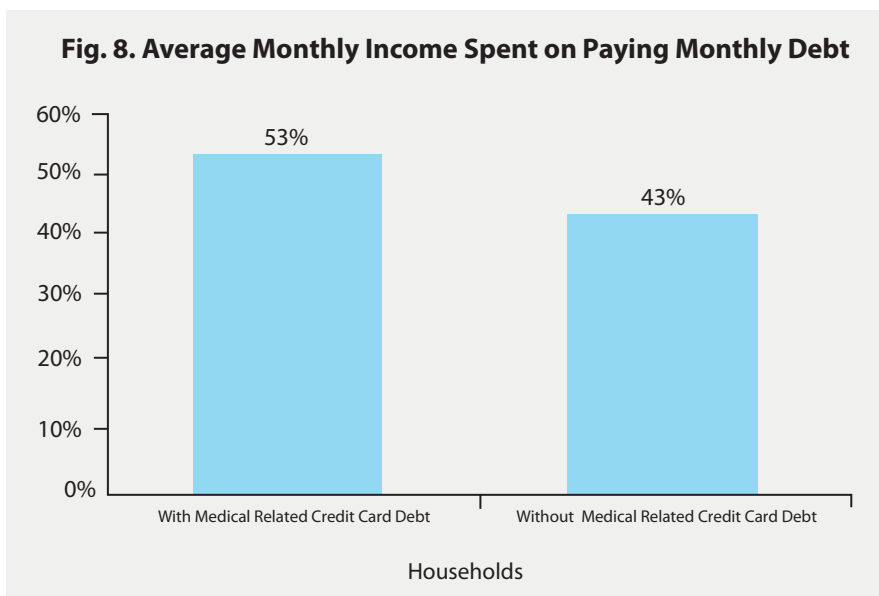
Previous reports from Dēmos document the growing gap between income and the financial resources of low- and middle- income families to meet basic living expenses. One result of this economic instability for families is that they are taking on rising levels of debt. Credit cards have become an economic safety valve for dealing with economic shortfalls.



Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

The problem of using credit cards to cover basic expenses is exacerbated for the medically indebted. Half of the medically indebted households reported using credit cards to pay for basic living expenses.

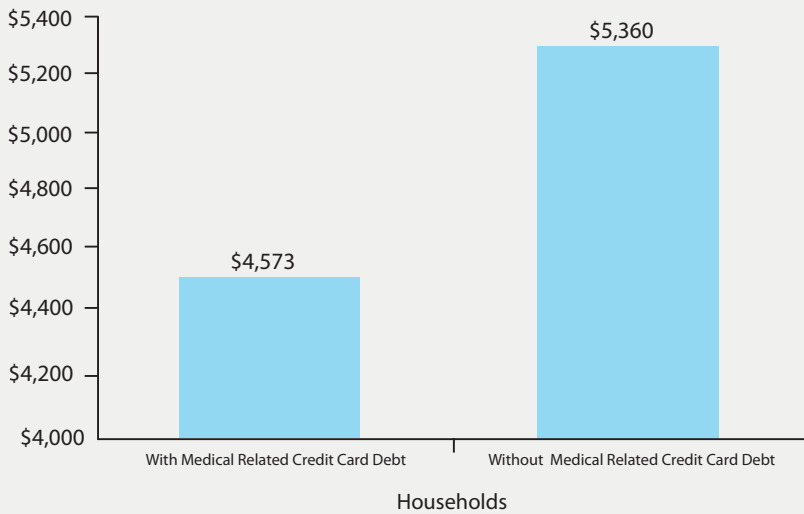
Monthly Costs: As debt obligations consume a greater portion of family budgets, families have less flexibility regarding how they spend their money. Medically indebted respondents paid 25 percent more in total monthly debt payments (i.e. housing, student loans, car payments, and other loans) than those without medical debt (see Fig. 7).



Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

Respondents with medical debt also dedicated a higher percentage of their monthly income to servicing their debt. This indicates that the medically indebted are economically more fragile than other respondents (see Fig. 8).

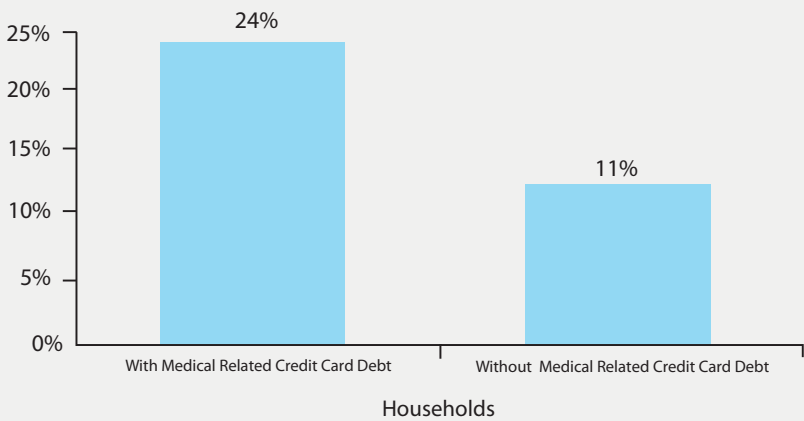
Fig. 9. Average Liquid Assets



Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

accounts than those without medical debt. On average, medically indebted households had \$4,573 in their accounts compared to an average balance of \$5,360 for respondents without medical expenses on credit cards (see Fig. 9). With fewer liquid (such as available funds in checking and/or savings accounts) assets to draw from, families are paying down credit card debt using tax refunds (65 percent) and working extra hours (52 percent).

Fig. 10. Percent That Withdrew Value From Their Home as a Means to Reduce Credit Card Debt



Source: Demos 2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households.

A striking difference is that medically indebted households were twice as likely to refinance, take out a second mortgage or use a home equity line of credit to pay off credit card debt than those without medical debt. Nearly one-quarter of the medically indebted withdrew equity from their homes in order to pay credit card debt (see Fig. 10). It is possible that such an approach did not fully address the problem of medical debt but rather delayed the pain of repayment to a future time period.

In addition, the long-term savings of the medically indebted were reduced as they tried to pay down their credit card balances. One-fifth of those with medical debt used retirement funds to pay off credit card balances, nearly twice as many as those without medical debt.

Available Cash: As monthly expenses outstrip income, many low- and middle-income families exhaust funds available in checking or emergency savings accounts. Such accounts are repeatedly tapped as a means to pay for basic living expenses or to reduce balances on credit cards. Forty-one percent of the respondents with medical debt used savings to reduce their credit card balance, compared with one-quarter (25%) of other respondents. As a result, medically indebted households had lower balances in their checking and savings

Long Term Assets: Financial assets are the key to long term economic stability. They allow families to invest in their future and enable people to live comfortably in retirement. As Americans' debt levels grow, families will have fewer assets to draw on in subsequent years. Our findings show that the medically indebted were as likely to have financial assets as other respondents.¹¹ For example, the groups had similar levels of homeownership (73% in both groups).

POLICY RECOMMENDATIONS

The findings from this survey illustrate the consequences of a broken health care system. The PPACA signed into law by President Obama includes many provisions that will address issues related to the affordability of health insurance and health care. Once the law is fully implemented, it is expected that the number of Americans struggling with medical debt will decline.

However, the law will not be fully implemented until 2014. Interim steps must be taken to address unaffordable health care costs and medical debt. This report's findings also show that insurance coverage alone does not eliminate medical debt. Once the law is fully implemented, it will be important to monitor the quality of insurance coverage to ensure that all Americans are protected from out-of-pocket expenses that may result in medical debt.

Even when the new law is in place, millions of Americans will remain uninsured. Some will be undocumented immigrants, excluded from the law, and others will include people who choose not to, or are unable to, purchase affordable insurance. Whether undocumented workers or those unable to purchase affordable coverage, employers should provide affordable and meaningful insurance coverage. Once achieved, families will be free from financial insecurity and the deleterious health outcomes that result from current policies.

HEALTHCARE REFORM

Universal Coverage

Health insurance coverage will be greatly expanded with implementation of the PPACA. As a result, tens of millions of uninsured Americans will be less likely to delay needed care or suffer financial ruin due to illness. As our nation strives to achieve universal coverage, we urge Congress and state policymakers to promptly implement the law to provide security for millions of American families. In addition, we also urge advocates to continue their work push for further reforms that extend health insurance to all of our nation's families, regardless of immigration status or income.

Affordability

The new law will bring affordable coverage to millions of Americans. Medicaid, a crucial program for low- and middle- income families, will be expanded to include millions of additional Americans. Private insurance will be subject to new rules. Families will be protected since the law calls for strengthening insurance regulations, eliminating pre-existing condition exclusions, banning annual and lifetime caps on the amount insurance companies will pay for care, and setting limits on out-of-pocket expenses. Groups concerned with the economic success of low- and middle- income families must participate in the design and implementation of PPACA. There must be ongoing monitoring of private insurance products to ensure high quality coverage while limiting cost sharing for patients.

Eligibility Screening& Consumer Protection

The phased-in implementation of health reform, combined with an array of new programs to be made available to uninsured and insured Americans, will require public education. Currently, many people eligible for public programs are not enrolled in them and healthcare providers' financial assistance policies are not widely publicized. Prior to 2014, providers should increase screening for public programs and publicize their financial assistance policies. Providers, and their collection agencies, should also refrain from reporting outstanding medical bills to credit bureaus. After full implementation, consumer assistance and protection programs must be operated at the state level to ensure that the uninsured receive the assistance needed to access quality coverage, that the quality of private coverage is monitored, and that billing practices are fair and reasonable.

Medical Bill Collection and Credit Reports

Providers, and their collection agencies, should refrain from reporting outstanding medical bills to credit bureaus. The law limits, but does not eliminate, out-of-pocket healthcare costs. It is likely that these costs will continue to be a problem for some American families. Therefore, as families continue to accumulate debt due to medical expenses, many families have their credit scores lowered because they had an unforeseen medical problem or didn't know about a medical debt. As a consequence, Americans find that medical debt burdens them with higher interest rates when they apply for a car or home loan, or even when applying for a job. Families need assurances that their future financial transactions won't be negatively affected by a lower credit score because of past medical debt. We urge passage of the Medical Debt Relief Act (HR3421/S3419). This legislation would specifically amend the Fair Credit Reporting Act to put an end to the practice of using paid off or settled medical debt accounts in calculating a consumer's credit score.

Limit Entry of Medical Providers into Financial Services

Many healthcare providers offer extended payment plans to their patients with outstanding medical bills. Others have established relationships with financial service providers and offer patients provider-sponsored credit cards or revolving credit lines as financial assistance. Such financial services alter the traditional patient/provider relationship and turn patients into debtors. Medical providers should be prohibited from entering into arrangements whereby they offer revolving lines of credit or other financial services, from which they might profit, to their patients.

FINANCIAL SERVICES REFORM

Far too many low-and middle- income families, without access to insurance coverage or safety net programs, have used credit card debt and other lending products to pay for necessary healthcare. Through accessing financial services, many of these families have been further disadvantaged given the inadequate regulation of this industry in the recent past. The recently enacted Credit Card Accountability, Responsibility, and Disclosure (CARD) Act was vital to addressing troublesome practices in the credit card industry

Regulation and Consumer Protection

In response to the ongoing economic crisis, President Obama recently signed into law comprehensive legislation to curb the risky trading and predatory lending that led to devastating rates of foreclosures, unemployment and bank failures. A cornerstone of the new law is the creation of the Consumer Financial Protection Bureau (CFPB), which will bring the consumer protection functions of seven federal agencies under one roof and for the first time place household economic security on par with bank safety and soundness.

As the new agency takes shape, regulators are tasked with writing new regulations governing the oversight of banks and non-bank financial institutions, identifying deceptive lending practices, and prescribing fair disclosures for financial products. It is critical that the CFPB implement clear rules that mitigate the effects of high interest rates and penalty fees that prevent low- and middle- income families from paying down outsized medical debts. To this end, the Bureau should be responsible for examining financial services utilized by health care facilities and providers in their quest to collect payments

The CFPB will also be charged with enforcing the CARD Act of 2009, which specifically bans a number of common abusive practices in credit card lending, such as the retroactive raising of interest rates and gaming payments to maximize penalties and finance charges. The CFPB must be vigilant as credit card issuers adopt new tactics to squeeze profits out of indebted consumers. Within CFPB, an office of Fair Lending and Equal Opportunity will be created to enforce the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act and to coordinate with other federal agencies and state regulators on laws ensuring fair, equitable, and non-discriminatory access to credit. The Bureau also aims to elevate in importance often-ignored civil rights laws and consolidate and streamline the enforcement of fair lending laws, thereby protecting consumers from discrimination in a consistent and efficient way.

CONCLUSION

The ability of low- and middle- income households to build savings and wealth is challenged by stagnant incomes and existing debt burdens. The ever-increasing expense of covering basic needs such as housing and healthcare adds additional financial stress for these families. Public policy has the potential to provide low- and middle- income households with the requisite support enabling them to move on a pathway towards a middle class life.

The current recession has taken a toll on family finances and has left millions of Americans with little or no financial cushion. For those who suffer the misfortune of illness or injury, the toll is even greater. This report documents that medically indebted households rely more heavily on credit cards to pay their financial obligations.

The medically indebted carry higher levels of outstanding credit card debt, have higher rates of interest on their credit cards, and work longer hours and at additional jobs in order to pay off debt. They exhaust savings and imperil their future by drawing against their homes and retirement accounts trying to pay their bills. In spite of their efforts, too many still come up short. While recently enacted legislation aimed at reforming health care and financial services will eventually ease their hardships, steps must be taken to ensure that the new laws are effectively implemented and monitored to protect American families.

END NOTES

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11. Total financial assets are composed of checking and savings accounts, stocks or mutual funds, certificates of deposits or savings bonds, IRAs and 401K accounts.

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