



FactSHEET

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Shortchanged by Medical Debt

In the face of rising health care costs, families across the country are paying higher and higher health insurance premiums and out-of-pocket medical costs, even as their coverage is being cut back. When they can't afford to pay their entire medical bills, they often sink into medical debt. Medical debt is a growing problem not only for the uninsured, but also for people who have insurance, including low-income consumers and the middle class. In 2007, more than two out of five working-age adults – 41 percent – had trouble paying their health care bills, or were already paying off medical debt.¹

The consequences of medical debt are serious. People who have medical debt worry about their health care bills and may therefore delay getting needed care – or go without it entirely. Medical debt also contributes to bankruptcy and housing insecurity, and it leaves consumers vulnerable to serious consequences when they are sued by health care providers or debt collectors – consequences such as wage garnishment, home foreclosure, and damaged credit.

How can consumers avoid accruing medical debt? Some health care providers may have charity care programs that offer reduced prices to lower-income patients. (See Families USA's [*Your Medical Bills: A Consumer's Guide to Coping with Medical Debt*](#), for other tips on how to deal with medical debt.) However, in most states, these programs are limited, and there is no established process that informs consumers about these programs or that helps them find and navigate the programs. At the same time, many hospitals and medical providers have turned to aggressive billing and collection practices. Some states have passed laws that protect people with medical debt from such practices, but these protections often don't address the underlying reasons that people end up with medical debt in the first place. While these protections can help consumers who already have medical debt, health reform will help prevent additional people from falling deeply into debt due to medical bills.

Why Is Medical Debt Different from Other Kinds of Debt?

Medical Debt Strikes without Warning When People Are Most Vulnerable

Unlike credit card debt or other kinds of debt, medical debt is usually beyond a person's control and impossible to plan for.

- Illness and injury happen suddenly and unexpectedly. People don't choose to get sick or to be injured, but when this happens, they find themselves with unplanned and involuntary health care expenses. These expenses can run into the thousands of dollars.
- Making monthly payments toward health care bills can be a strain under the best of circumstances, and a long-term illness can make a difficult situation even worse.
- If people with serious health problems have to miss work because of their health, they may earn less money and may have even greater difficulty paying off their bills.

Medical Debt Is a Problem for Almost Everyone

Medical Debt Is a Problem for the *Uninsured*

When people are uninsured, both their health and their finances can suffer. The uninsured often delay or do without necessary care because of cost.² When they do seek care, they are often charged more: Insurance companies negotiate discounted prices on medical services for the people they insure, but the uninsured are often charged full price for their medical services. In fact, uninsured patients can receive bills that are up to two-and-a-half times what private or public insurers pay.³ According to a 2007 survey, the uninsured face significant problems with obtaining health care and paying their medical bills:⁴

- The uninsured are more likely to skip treatment due to the cost. Nearly half (45 percent) of uninsured adults did not fill a prescription in the last year, and six in 10 (60 percent) had medical problems but did not see a doctor or visit a clinic in the last year.
- Altogether, nearly three-quarters (71 percent) of uninsured adults said they experienced a problem with access to medical care.
- One in five uninsured adults (20 percent) had \$8,000 or more in medical debt.

Medical Debt Is a Problem for Those Who Have Health Insurance but Are *Underinsured*

Having health insurance does not always protect people from medical debt. In fact, many Americans are underinsured, meaning that they have health insurance, but their coverage is inadequate and does not meet their health care needs. Researchers consider people to be underinsured if they spend 10 percent or more of their income on health care, excluding premiums. Lower-income people (those with incomes under 200 percent of the federal poverty

level, or \$21,660 for an individual in 2009) are considered to be underinsured if they spend more than 5 percent of their income on health care, or if their deductibles amount to 5 percent or more of their income.⁵

- One study found that 25.2 million adults under the age of 65 with continuous coverage for the entire year were actually underinsured.⁶
- Another study found that more than two in five adults (43 percent) who had insurance all year but who were underinsured reported not being able to pay their medical bills.⁷
- Like the uninsured, the underinsured are also more likely to skip treatment due to the cost. Nearly half of underinsured adults (46 percent) did not fill a prescription in the last year, and 42 percent had medical problems but did not see a doctor or visit a clinic in the past year. Altogether, six in 10 underinsured adults (60 percent) had experienced some problem with access to medical care.⁸

Medical Debt Is a Problem for Low-Income Families

Low-income families spend a high proportion of their household earnings on necessities such as housing, transportation, utilities, and food, leaving little money for health care costs. These families are more likely to lack health coverage and struggle to pay their medical bills.

- More than three out of five people (63 percent) in families that will spend more than 25 percent of their pre-tax income on health care in 2009 are from families that earn less than \$30,000 a year.⁹
- The percentage of working-age adults with incomes below \$20,000 with medical bill problems or accrued medical debt increased from 43 percent in 2005 to 53 percent in 2007.¹⁰

Medical Debt Is Also a Growing Problem for Middle-Class Families

Increasingly, middle-class families find themselves spending a greater proportion of their budgets on health care, putting them at greater risk for accruing medical debt.

- More than one-third of people (37 percent) in families that will spend more than 25 percent of their pre-tax income on health care in 2009 are from families that earn more than \$30,000 a year.¹¹
- The share of *moderate-income* (\$20,000-\$39,999), working-age adults with medical bill problems or accrued medical debt increased from 48 percent in 2005 to 56 percent in 2007.¹²
- The share of *middle-income* (\$40,000-\$59,999), working-age adults with medical bill problems or accrued medical debt increased from 32 percent in 2005 to 39 percent in 2007.¹³

The Consequences of Medical Debt

Medical Debt Can Lead Individuals to Postpone or Forgo Care

Mounting medical bills can threaten families' financial well-being and compromise their health. The high cost of care often leads people to delay or forgo necessary medical care.

- Nearly half (45 percent) of adults in 2007 reported having problems obtaining necessary medical care because of cost, an increase of 16 percentage points from 2001.¹⁴
- Medical debt poses barriers to access. Privately insured adults *with* medical debt are nearly five times as likely as privately insured adults *without* medical debt to postpone medical care due to cost (28 percent versus 6 percent).¹⁵
- Privately insured adults *with* medical debt are nearly three times as likely as those *without* medical debt to go without a needed prescription (24 percent versus 9 percent).¹⁶

Medical Debt Leaves Families Unable to Pay Their Other Expenses

Families with medical bills have trouble paying for other necessities and may have to deplete their savings just to keep their heads above water.¹⁷ One survey of American households found that, due to high medical bills:

- 13 percent had difficulty paying other bills,
- 13 percent had used up all or most of their savings trying to pay off medical bills, and
- 7 percent were unable to pay for basic necessities such as food, heat, or housing.¹⁸

Medical Debt Contributes to Credit Card Debt

Struggling families sometimes turn to credit cards to get by, using them to purchase basic necessities and to stay afloat between paychecks. For people who need health care but who don't have insurance—or who don't have adequate insurance—credit cards may seem like a lifeline. Unfortunately, interest rates and late payment fees for these cards can increase as medical bills pile up. A 2007 survey of low- and middle-income consumers with credit card debt found the following:¹⁹

- Nearly one-third (29 percent) reported that medical expenses contributed to their current level of credit card debt.
- Overall, 20 percent reported having major medical expenses in the past three years that contributed to their current level of debt. The study called these people “medically indebted.”
- Average credit card debt was 46 percent higher for medically indebted families than it was for non-medically indebted families (\$11,623 versus \$7,964). Average credit card debt was 32 percent higher for medically indebted uninsured households than it was for medically indebted households with insurance (\$14,512 versus \$10,973).

Medical Debt Causes Bankruptcy

Medical debt and bankruptcy are strongly linked. People with medical debt who file for bankruptcy tend to have middle-class incomes and backgrounds. While lower-income people often don't have assets to be seized, people with middle-class incomes often file for bankruptcy to protect the assets they need to live. Middle-class families, faced with few options, can accumulate medical debt due to lapses in health coverage, missing time from work because of injury or illness, or paying high out-of-pocket costs. According to a recent report that analyzed bankruptcy filings:²⁰

- The share of all bankruptcies that were related to medical problems increased by 50 percent between 2001 and 2007.
- Nearly two-thirds of bankruptcies (62 percent) filed are now linked to medical reasons.
- Patients whose illness contributed to bankruptcy faced high out-of-pocket expenses. Hospital bills were the largest expense for nearly half of patients (48 percent), while prescription drugs were the largest expense for nearly one in five (18.6 percent).

Medical Debt Undermines Housing Security

People with medical debt experience a range of housing problems, such as falling behind on rent, mortgage, or utility payments. Some even face foreclosure on their homes. These problems force people to make painful decisions about their housing and health care options. For families struggling to get by, medical debt can damage their credit and threaten their housing security.

- One study found that 5.7 percent of homeowners who were filing for bankruptcy had mortgaged their homes to pay medical bills.²¹
- A study of low-income tax filers in eight U.S. cities found that more than one-quarter of respondents (27 percent) experienced housing problems, which included being unable to qualify for a mortgage, being unable to pay their rent or mortgage, or being turned down from renting a home, that resulted from medical debt.²²
- In those cities, more than half of people (52 percent) with medical debt of at least \$5,000 reported having a housing problem. Even relatively small amounts of medical debt can lead to housing problems: A substantial share of people (12 percent) with debt of less than \$500 also reported having housing problems because of that debt.²³
- A different study found that nearly half of home foreclosures (49 percent) in four states were caused, at least in part, by financial issues stemming from a medical problem, such as illness or injury, medical bills that were beyond the person's ability to pay, or lost work because of their own medical problems or those of a family member.²⁴

Endnotes

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- ² Kaiser Commission on Medicaid and the Uninsured, *The Uninsured and the Difference Health Insurance Makes* (Washington: Kaiser Family Foundation, September 2008).
- ³ Gerard F. Anderson, "From 'Soak the Rich' to 'Soak the Poor': Recent Trends in Hospital Pricing," *Health Affairs* 25, no. 3 (May/June 2007): 780-789.
- ⁴ Sara R. Collins, Jennifer L. Kriss, Michelle M. Doty, and Sheila D. Rustgi, op. cit.
- ⁵ Ibid.
- ⁶ Cathy Schoen, Sara R. Collins, Jennifer L. Kriss, and Michelle M. Doty, "How Many Are Underinsured: Trends among U.S. Adults, 2003-2007," *Health Affairs* Web Exclusive, June 10, 2008.
- ⁷ Sara R. Collins, Jennifer L. Kriss, Michelle M. Doty, and Sheila D. Rustgi, op. cit.
- ⁸ Ibid.
- ⁹ Kim Bailey, *Too Great a Burden: Americans Face Rising Health Care Costs* (Washington: Families USA, 2009).
- ¹⁰ Sara R. Collins, Jennifer L. Kriss, Michelle M. Doty, and Sheila D. Rustgi, op. cit.
- ¹¹ Kim Bailey, op. cit.
- ¹² Sara R. Collins, Jennifer L. Kriss, Michelle M. Doty, and Sheila D. Rustgi, op. cit.
- ¹³ Ibid.
- ¹⁴ Ibid.
- ¹⁵ Catherine Hoffman, Diane Rowland, and Elizabeth Hamel, *Medical Debt and Access to Health Care* (Washington: Kaiser Commission on Medicaid and the Uninsured, September 2005).
- ¹⁶ Ibid.
- ¹⁷ Kaiser Family Foundation, *Kaiser Health Tracking Poll: Public Opinion on Health Care Issues, February 2009* (Washington: Kaiser Family Foundation, February 2009).
- ¹⁸ Ibid.
- ¹⁹ Cindy Zeldin and Mark Rukavina, *Borrowing to Stay Healthy: How Credit Card Debt Is Related to Medical Expenses* (New York: Demos and The Access Project, 2007).
- ²⁰ David U. Himmelstein, Deborah Thorne, Elizabeth Warren, and Steffie Woolhandler, "Medical Bankruptcy in the United States, 2007: Results of a National Study," *The American Journal of Medicine* 122, no. 8 (June 2009): 741-746.
- ²¹ Ibid.
- ²² Robert W. Seifert, *Home Sick: How Medical Debt Undermines Housing Security* (Boston: The Access Project, November 2005).
- ²³ Ibid.
- ²⁴ Christopher Tarver Robertson, Richard Egelhof, and Michael Hoke, "Get Sick, Get Out: The Medical Causes of Home Mortgage Foreclosures," *Health Matrix* 18 (2008): 65-105.

