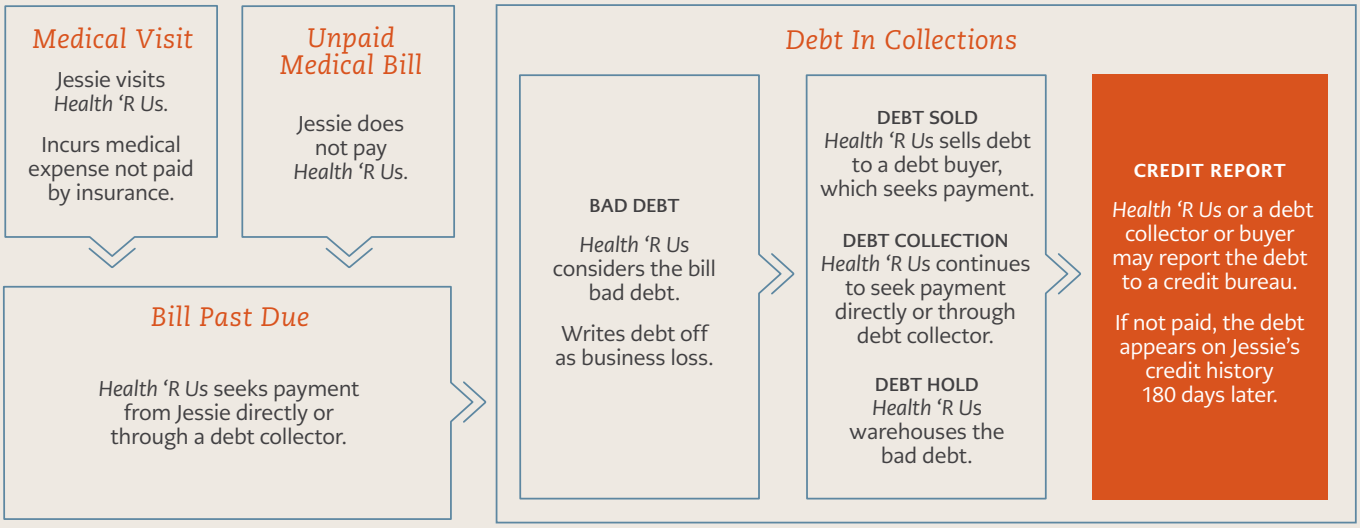
How a Medical Bill Becomes Debt



Adapted from Sycamore Institute Medical Debt in Tennessee: 12 Options for State Policy Makers 2019, https://www.sycamoreinstitutetn.org/medical-debt-policy-options/

Background

Health care is not an ordinary consumer good. People utilize our health care system when needed, with medical care often unpredictable in nature. They can't easily plan for the care or cost and often don't have a clear understanding of the expense they will incur when seeking care. Later, they might receive a medical bill or multiple bills from their insurance company, the doctor, or the health care facility, which can be both unclear and incorrect. With its multitudes of plans and various contracts between insurers and providers, our health care system is so complicated that over half of consumers are unable to navigate the system on their own.[8] Without clear pricing transparency, an understanding of bills and payment options, and access to counselors for support, the burden falls solely on patients. They have to navigate the complexities to determine the accuracy of their bill, dispute charges and negotiate with hospital systems to reduce bills, get into payment plans, and explore both the availability of and their eligibility for any financial assistance—all to keep their medical debt from going into collections. And with the power imbalance and lack of transparency, the reduction in bills is mainly at the discretion of the hospital or provider, leaving the patient with few protections and opportunities to advocate for themselves. And if an account does go unpaid and becomes overdue, it can impact a household's credit and result in a judgment against them, if not bankruptcy.

3 KEY FACTORS *Driving Medical Debt*

"I do get health insurance through my school, but I can't afford the co-pays to go to the doctor–so I just don't go." **GABRIELLE***

1 *Insufficient Insurance Coverage*

90% of adults with medical debt in collections have **health insurance** coverage, proving that access to health insurance alone, without ensuring that coverage is adequate and affordable, does not effectively protect households from medical debt. Over 33 million individuals lacked health insurance in 2019. While the **Affordable Care Act (ACA)**, the comprehensive health care reform law enacted in 2010, and the expansion of **Medicaid** under the ACA increased access to health insurance, the rising cost of health care resulted in more people inadequately protected by their coverage. From 2010 to 2018, the **uninsured** rates declined from 20% to 12%, but the **underinsured** rates increased from 16% to 23%.[10] Although more individuals had coverage, they were significantly cost-burdened by it, with out-of-pocket expenses exceeding 10% of their income (or 5% for those with incomes under 200% of the federal poverty level).[11] For the remaining uninsured, which includes low-income residents of states that did not expand Medicaid, low-wage workers, and undocumented individuals, coverage remains unavailable or unfordable.[12]

"My main debt is medical. A few years ago, I had to have brain surgery. I'm still paying off six figure bills, medical bills." **JANICE***

Find definitions for **bold terms** in the Glossary located in on pages 20-21.

*These insights were taken from a 2020 focus group convened by the Aspen Institute Financial Security Program Consumer Insights Collaborative.

2 *Unpredictability of Medical Emergencies*

Medical expenses are unplanned expenses for households. Even if people have planned medical care, the cost of that care is often unknown and unexpectedly large. Simultaneously, the unpredictable nature of medical care means people often incur an entirely unexpected bill, with more than one in five adults experiencing an unanticipated medical expense in a year.[13]

"I was diagnosed with breast cancer. We had good health insurance, but I was out of work for a whole year and my husband had to foot all of the bills and take care of the kids. This wiped out $50-$60k savings that we had been building for 20 years, since college. We're just average working people. It's hard to come back from that. We have never recovered from that." **AYLA***

3 *High Out-of-pocket Expenses*

Household spending on health care averages $3,000 per person per year, with over one-third of that expense attributable to out-of-pocket medical costs.[14] Individuals struggle to pay these bills; approximately 43 million Americans hold a total of $81 billion of unpaid medical debt.[15] The high cost of medical care not only creates a significant financial burden on households that seek care, but it also prevents households that need care from accessing it, with a quarter of adults forgoing necessary medical care because of its cost.[16]

Inequities in Medical Debt by Race and Geography

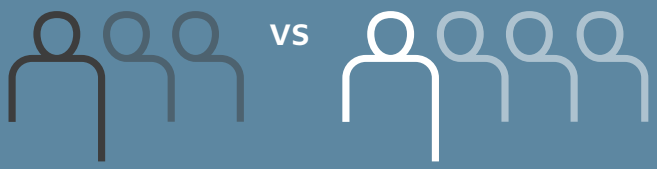
Medical debt disproportionately impacts communities of color, perpetuating and exacerbating the racial wealth gap by draining cash flow that other households without medical debt can save or invest. Racial inequities in income, wealth, and insurance coverage play a role in the prevalence and burden of medical debt. Black non-elderly adults are 1.5 times more likely, and Latinx and Native American non-elderly adults are 2.5 times more likely, to be uninsured than non-elderly White adults. With less access to insurance, people of color are more likely to face higher medical costs and challenges paying their medical bills.[17]

And while the amount of debt in collections is comparable (median of $727 in communities of color versus $668 in White communities), the burden of that debt is higher in communities of color given their lower income levels.[19]

Inequities in medical debt also exist by region. The prevalence of unpaid medical bills varies widely by state, but it affects the South disproportionately.[20] A recent Kaiser Family Foundation study found that states in the Midwest and Northeast regions have among the highest percentage of people in the nation benefiting from group health insurance coverage.[21] In many southern states, people of color disproportionately lack health insurance coverage in large part because their state did not implement Medicaid expansion. Individuals in the South are also more likely to work in agricultural jobs or other low-wage jobs that do not provide employer-sponsored health insurance.

Medicaid expansion has reduced medical debt, but not all states have expanded Medicaid. Non-elderly Black people are more likely than White people to fall in the coverage gap because they make up a more significant share of the population of states without Medicaid expansion. Of the 13 states where more than one in five adults has medical debt in collections, seven states have not implemented Medicaid expansion, and in 11 states, people of color represent more than a quarter of the population.[22,23]

Nearly



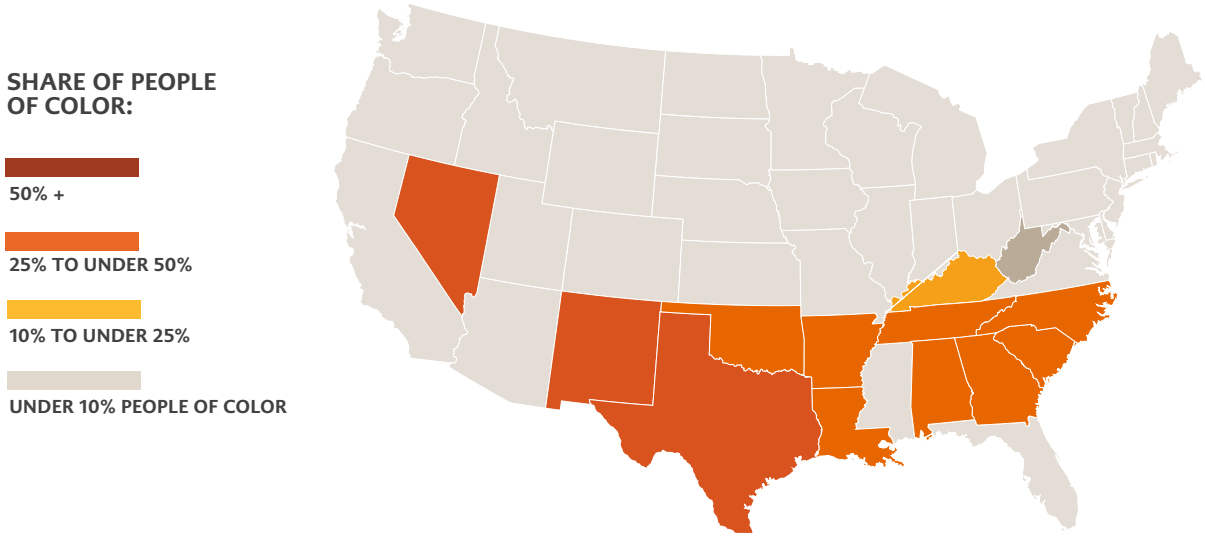
BLACK PEOPLE IN AMERICA **WHITE PEOPLE IN AMERICA**

have past-due Medical Debt[18]

Background

Inequities in Medical Debt by Race and Geography

These are the 14 states where more than one in five have medical debt in collections.



STATE	SHARE W/ MEDICAL DEBT IN COLLECTIONS	SHARE OF PEOPLE OF COLOR	MEDICAID EXPANSION
West Virginia	31%	8%	Implemented
Louisiana	27%	42%	Implemented
South Carolina	27%	36%	No
Oklahoma	26%	34%	Adopted, not implemented yet
Texas	25%	58%	No
North Carolina	24%	37%	No
New Mexico	23%	63%	Implemented
Tennessee	22%	26%	No
Kentucky	22%	15%	Implemented
Arkansas	22%	28%	Implemented
Nevada	21%	51%	Implemented
Alabama	21%	35%	No
Georgia	21%	47%	No

Tabulations of data from a major credit bureau (2018) and the American Community Survey (2017). For more information and definitions of the variables, see the technical appendix accompanying the dashboard.
The majority-white communities are based on credit records for people who live in zip codes where most residents are white (at least 60% of the population is white), and communities of color values are based on credit records for people who live in zip codes where most residents are people of color (at least 60% of the population is African American, Hispanic, Asian or Pacific Islander, American Indian or Alaska Native, another race other than white, or multiracial).
(Source: Braga, McKernan, and Quakenbush. 2019. "Debt in America: An Interactive Dashboard." Washington, DC: Urban Institute.)
Definitions: https://apps.urban.org/features/debt-interactive-map/downloadable-docs/Debt_in_America_Technical_Appendix.pdf
Medical debt info: https://apps.urban.org/features/debt-interactive-map/?type=medical&variable=perc_debt_med
Medicaid expansion info: https://www.kff.org/medicaid/issue-brief/status-of-state-medicaid-expansion-decisions-interactive-map/

Medical Debt's Impact on Health and Wealth

Debt, and the relationship an individual has with it, impacts both physical and mental health. Among individuals with consumer debt, those in financial distress or struggling to repay their debts are more likely to report lower life satisfaction and higher anxiety.[24] Like debt broadly, medical debt can negatively impact health, with one study finding that nearly one in five individuals with medical debt delayed seeking care when necessary.[25] The impact of medical debt on accessing health care and health outcomes suggests that medical debt—like income and wealth—is a social determinant of health.[27]

"The reality is that much of what makes us healthy and financially secure is rooted in our community conditions and not individual behaviors, and the conditions across communities are not equitable."[28]

Asset Funders Network. Wealth and Health Equity: Investing in Structural Change

Poor health results in less wealth in the future, with medical expenses significantly impacting the financial lives of many households. According to a Kaiser Family Foundation survey on those experiencing trouble paying medical bills, nearly 60% of individuals indicate they used up most or all of their savings to pay medical bills.[29] Over a quarter reported dipping into longer-term savings, such as retirement and college savings accounts.[30] Medical problems are a leading cause of U.S. bankruptcies, with 60% of personal bankruptcies medically related, due to income loss from illness and medical bills. Three-fourths of bankruptcy filers in 2007 had health insurance, and over 90% had medical debt over $5,000.[31]

To manage their medical debt, households often make decisions that place them in a more financially precarious position. In a survey of individuals with medical debt, 15% of survey respondents indicated that they took out another loan, and 13% borrowed from a payday lender to pay down their medical debt.[32] These decisions will dig them deeper into a cycle of financial insecurity and debt. The impact of medical debt on people's financial lives explains why health care is one of the top four personal financial concerns, behind mortgage or rent, student loans, and retirement. [33] Even small amounts of medical debt can hinder financial security by feeding debt cycles and reducing access to affordable credit and asset-building tools. This interconnectivity between health and wealth—and the impact of medical debts on both—makes it critical to view solutions in medical debt as solutions in asset-building.

3 CHALLENGES *in the Lifecycle of Medical Debt*

As a byproduct of the health care system we have chosen in America, the nature of medical debt makes it challenging to solve. Indeed, the natural and most obvious solution to avoid the accumulation of future medical debt is to consider different options in our health care delivery system's design. But we must simultaneously solve for the medical debt that has already accrued. To aid in analyzing potential solutions for medical debt past and future, it is helpful to understand the financial experience of the health care consumer in each of the three critical phases in the lifecycle of medical debt: incurring medical expenses, managing medical bills, and navigating overdue medical debt.

1 *Incurring Medical Expenses*

At the start of the medical debt life cycle, many people incur a bill due to failures in our health care system around coverage, discounted care, and the actual cost of care. Our health care system puts the onus on the individual to determine whether they are eligible for health insurance coverage under Medicaid, as well as a hospital's **charity care** program that can provide free or reduced care for those who can't afford it.

Besides eligibility for health insurance, individuals seeking care at a hospital might also be eligible for charity care but are not aware or are not provided with the information and application to apply for assistance. Under the Affordable Care Act, non-profit hospitals are required to provide charity care. Still, nearly half of non-profit hospital organizations send medical bills to patients who would qualify for financial assistance.[34] One estimate shows that non-profit hospitals charged $2.7 billion to individuals who likely would have qualified for financial assistance. This amount doesn't include the bills that some patients ended up paying, even though they were eligible for assistance.

"From the x-rays, the labs, the equipment for anesthesia… They [hospitals] were trying to charge me for everything. They were sending all these unreal bills. Everybody gets sick." **JORGE***

*These insights were taken from a 2020 focus group convened by the Aspen Institute Financial Security Program Consumer Insights Collaborative.

Outside of eligibility for insurance or discounted care, the lack of transparency and often misinformation on the price and cost of health care also impacts the decisions people make. This misinformation includes what their insurance covers and whether doctors they visit are "**in-network**," which is critical to making informed financial decisions. Too often, the burden is placed on the individual to understand their eligibilities and cost of care.

Find definitions for **bold terms** in the Glossary located in on pages 20-21.

2 *Managing Medical Bills*

"My hospital bills are through the roof, my credit score has dropped dramatically, I have $35,000 in student loan debt, I have to live with my parents. Paying bills and seeing my mom struggling–it's not a good feeling at all. It causes me stress and depression." **KÉSHA***

After seeking medical care, patients receive a bill and are faced with the complexity of navigating and managing the billing and payment process. The lack of pricing transparency and difficulty understanding one's insurance coverage—along with our three-party system of the medical provider, the insurance company, and the patient—means a bill that is unclear or incorrect is now the patient's to resolve. Two-thirds of **insured** adults with a significant medical bill in the past two years said they had at least one issue with the bill, which included a higher charge than expected, unclear statements, and late bills.[35]

A high percentage of medical bills contain errors or overcharges, with 30% to 80% of medical bills containing an error.[36] Surprise **out-of-network** billing is common and occurs when individuals are at an in-network facility where they believe they are covered but end up seeing an out-of-network doctor. **Surprise billing** results in higher costs, with providers billing patients directly and typically at a higher rate. In a two-year period, one in five insured adults experienced an unexpected bill from an out-of-network provider, with 18% of emergency visits resulting in at least one surprise bill.[37] Complexities around the bill and the concerns over the impact of medical debt on credit scores can result in people paying bills they might not even owe. In a Consumer Reports survey, over one-third of respondents indicated they paid a bill they weren't sure they owed, with one-fifth of that group saying the bill was over $1,000.[38]

The lack of pricing transparency and the high prevalence of billing issues is an important consumer protection issue. Of consumers who have complained to the Consumer Financial Protection Bureau about debt collection, complaints on medical collections are more likely to be about the debt, its existence, and its amount than non-medical complaints. This highlights the challenging and complex nature of our health care system that makes it difficult for consumers to understand their cost of care.

Recent congressional legislation, the No Surprises Act, increases consumer protections for those receiving medical care from an out-of-network provider. Once implemented in 2022, patients will only be required to pay the in-network cost-sharing amounts for emergency care or when they unknowingly receive non-emergency care from an out-of-network provider at an in-network facility. Medical providers will no longer be allowed to bill patients directly and will instead negotiate with insurers to come to an acceptable payment amount. This new policy change will protect millions of consumers from unexpected medical bills that incur through no fault of the consumer. While this law will provide historic protections to consumers, it does not address the current mountain of medical debt from surprise billing. For those who have already acquired debt from surprise billing, their liability remains.

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Find definitions for **bold terms** in the Glossary located in on pages 20-21.

3 *Dealing with Overdue Medical Debt*

Problems paying medical bills lead many to debt in collections, with one-fifth of all consumers' credit affected by medical debt.[39] Medical debts are non-loan debts or liabilities incurred without the consumer making an affirmative decision to borrow money. The amount of debt is not determined through underwriting, which results in people being left with unaffordable bills. Hospitals or the debt collectors they hire are reported to start with a soft collection approach but get more aggressive over time as bills are not paid.[40] And despite protections in place to help patients who qualify for financial assistance, fewer than half of hospitals comply with the Patient Protection and Affordable Care Act requirement to notify patients about potential eligibility for charity care before resorting to collections.[41]

When a bill is not paid, hospitals and medical providers may attempt to collect on the bill themselves or sell their debt to a third-party debt collector. Debt sold to debt buyers can make it harder for patients to negotiate a deal with the medical provider or clear their record of an error. Collectors—whether the medical services providers themselves or collection agencies—report the debt to credit bureaus, negatively impacting someone's creditworthiness. They can also initiate **litigation**, the process of resolving disputes through the public court system. Debt collections litigation often results in additional court fees, bank levies, wage garnishment, or a lien on property after judgment.

National data on debt collections litigation generally—and medical debt collections litigation specifically—have been difficult to compile and analyze, as the data on the prevalence, amount, and result of these cases are held by thousands of individual district courts in state court systems across the United States. But a few key statistics reveal that in recent decades, debt collections litigation of all kinds, including medical debt, has become a skewed process that greatly advantages plaintiffs over defendants. A comparison of seven studies between 1967 and 2010 found that 70% to 94% of consumers did not respond to collection lawsuits.[42] Unsurprisingly, the low appearance rate corresponds to a high default judgment rate against consumers. Multiple studies have shown that more than 70% of debt collection lawsuits end in **default judgments**, which are judgments against an individual who has failed to defend a claim brought to the civil court.[43] Once the default judgment is entered, there is limited opportunity to challenge inaccuracies, negotiate a discount, or establish a payment plan. Given that 91% of people sued by debt buyers and 95% of people with default judgments entered against them live in low- or moderate-income communities,[44] it is unlikely that most defendants have the lump sum required to provide leverage in a post-judgment negotiation for better terms.

There are multiple reasons why a defendant might not respond to a debt collections lawsuit, though according to a National Center for State Courts study, there are estimates that more than half of defendants in debt collections claims have a good faith defense.[45] Due to outdated and poorly enforced rules around service of process, defendants may not know that they have been sued.[46] Additionally, even when defendants have been appropriately notified, they may find court processes intimidating and confusing—and are likely unable to afford legal representation. From 2010 to 2019, fewer than 10% of defendants in medical debt collections cases had legal counsel.[47] Finally, defendants are often challenged by the logistics of engaging with the lawsuit, encountering difficulties in taking time off of work or navigating transportation challenges.

> *"I have medical debt from a hospital, and they put it with a collection agency. I'll never forget it. They were very aggressive in contacting me and pursuing that debt. It seemed like it was a corporation that I was dealing with because there was no compassion there, there was no interest in negotiating at all."* **HUÁNG**

Find definitions for **bold terms** in the Glossary located in on pages 20-21.

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Impact of Covid-19 on Medical Debt

While we don't yet know the full impact of the pandemic on households' financial security, nor the increased burden of medical debt placed on them, we can start to see its potential negative impact by looking at each stage of the medical debt lifecycle:

PREVENT During the pandemic, access to health care is critical to ensure people seek the care they need and aren't burdened with the cost of testing and treatment for COVID-19. A high percentage of the population relies on their jobs for health insurance, with approximately 49% of the population receiving coverage through employer-sponsored plans.[49] But as millions lost their jobs during the pandemic, by July 2020, at least 5.4 million also lost their health insurance coverage as a result.[50] And while some states opened up special enrollment periods under the Affordable Care Act for those uninsured, the federal government refused to open up special enrollment on the federal exchange, on which the majority of states rely. This decision left millions of uninsured who are not Medicaid eligible without an option to buy needed coverage.[51] Lack of insurance and high levels of underinsurance can result in huge costs to households during the pandemic, with inequitable outcomes given that communities of color have disproportionately experienced higher levels of job loss and higher rates of incidence and mortality from COVID-19.[52]

MANAGE The high cost of care has always been a deterrent for people to seek needed medical care. In April 2020, one in seven adults surveyed in a West Health and Gallup poll said they would avoid seeking care for COVID-19 if they had any key symptoms due to the fear of the cost. Early in the pandemic, Congress passed laws to ensure testing was free and to cover the treatment for those who are uninsured. But households with coverage and those without are still receiving surprise bills for testing and treatment associated with COVID-19. Across the nation, people have been hit with unexpected fees and denied claims related to testing, with around 2.4% of tests billed to insurers leaving the patient responsible for some of the cost, ranging from a few dollars to thousands.[53] Outside of testing, uninsured households that were supposed to be protected under the federal relief package are still receiving unexpected bills, and some are realizing that gaps in the relief act place the cost burden on them if COVID-19 is not their primary diagnosis.[54] While the prevalence and amount of billing for testing and treatment vary, the pandemic is increasing the amount of medical costs households are responsible for, with many battling surprise bills and gaps in protection that they didn't realize existed until the bills arrived.[55]

MITIGATE While we don't know how much of the medical bills from COVID-19 will end up in collections, we can expect that the rise and persistence of income loss, the increase in the number of uninsured, and the high cost of medical care for COVID-19 will result in households struggling to pay off their debts. And with health care providers and hospitals also facing unprecedented challenges due to the pandemic, without any policy interventions, we can anticipate that the aggressive collection practices that were still taking place after the pandemic hit will continue long after it ends.[56]