

## Medical Debt

### A Curable Affliction Health Reform Won't Fix

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Medical illness and medical bills will continue to be leading causes of personal bankruptcy in the United States, even after health-care reform.



Millions of Americans are deep in medical debt. Unfortunately, the Affordable Care Act (ACA) will throw a lifeline to very few. According to the Congressional Budget Office, even after health reform is fully implemented in 2014, 30 million to 36 million people will remain uninsured. And tens of millions who do have insurance will have coverage that is too limited to ensure financial protection against an expensive illness. Many families will remain just one serious illness away from bankruptcy.

#### Medical Bankruptcies

In 2001, we began studying medical bankruptcy along with our colleagues Elizabeth Warren and Deborah Thorne. We directly sur-

veyed debtors soon after they'd filed for personal bankruptcy. Back then, illness and medical bills contributed to about 50 percent of all personal bankruptcies and involved about 2.2 million debtors and their dependents.<sup>1</sup>

By 2007, when we repeated our study nationwide, medical bankruptcies had risen to 62 percent.<sup>2</sup> Significantly, most medical debtors were middle class. They had owned homes, had attended college, and had held responsible jobs. Seventy-eight percent even had health insurance, mostly private coverage—at least when they first got sick.

Why are so many middle-class, privately insured Americans swamped by medical costs? The reason is that private coverage has holes—unaffordable deductibles and copayments, as well as brief or nonexistent coverage of medical services like physical therapy. Moreover, since illness often reduces work-related income, families may experience a double whammy, as medical bills arrive just when the paychecks stop.

Medical bankruptcy is actually the tip of a much larger iceberg of medical indebtedness. For years, surveys have found that tens of millions of Americans struggle with medical debts and avoid needed care for fear of the cost. Recent surveys by *Consumer Reports*, for instance, have found that difficulty paying for medical care (including prescription drugs) is the top financial problem for American households.<sup>3</sup>

The number of Americans who struggle to pay for care has trended upward over time as health-care costs have soared and many health insurance companies have reduced the comprehensiveness of coverage. According to surveys by the Commonwealth Fund, the number of working-age adults (those 19 years old to 64 years old) reporting “problems paying” or “unable to pay medical bills within the past year” rose from 39 million to 53 million between 2005 and 2010.<sup>4</sup> In 2010, 30 million Americans were contacted by a collection agency about a medical bill, and 44 million were paying off medical debts over time.

A survey by the Center for Studying Health System Change estimated that 20.9 percent of all Americans lived in families that experienced a medical bill problem in 2010.<sup>5</sup> As in our bankruptcy surveys, insurance failed to offer enough protection. As many as 20.2 percent of nonelderly *insured* people lived in a family with medical bill problems.



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Even relatively young Americans, few of whom suffer serious illnesses, are at high risk of medical debt. In a 2011 survey of young adults 19 years old to 29 years old, 51 percent of those without insurance reported medical bill or medical debt problems, as did 29 percent of those who were insured all year.<sup>6</sup> Sixteen percent of all young adults reported being contacted by a collection agency about a medical bill within the past year.

Medical bills often compromise more than just financial health. Considerable research, including our own, has found that families that experience medical bill problems are far more likely to delay

needed medical care, skip filling a prescription, and report problems paying for other necessities. That is true whether or not the family has health insurance.

The high frequency of medical bankruptcy was often cited by advocates of health reform during the debate over the ACA. Yet the debate largely ignored the fact that most medical debtors actually have coverage. In order to protect Americans from bankruptcy, coverage must be truly comprehensive, that is, it must cover virtually 100 percent of all needed medical care. Unfortunately, the insurance policies mandated under ACA are required to cover only 60 percent of expected health-care costs.

### Learning from Massachusetts

Our findings from surveys of debtors in Massachusetts before and after the implementation of that state’s health reform (the prototype of the national reform) make it clear that such limited coverage will do little to prevent medical bankruptcy.

Among Massachusetts bankruptcy filers in 2009, 53 percent cited illness or medical bills as a cause of their bankruptcy, a percentage that was statistically indistinguishable from the 59 percent figure we found before reform. Indeed, because the total number of bankruptcies had risen, the actual number of medical bankruptcies in the state increased from 7,504 in 2007 to 10,093 in 2009.<sup>7</sup> Surveys by others indicate that the reform had little impact on access to care.

Why are so many Massachusetts residents still suffering medical bankruptcies despite health reform? Although health-care reform cut the number of uninsured in the state by more than half (to about 219,000), much of the new coverage is so limited that serious illness still leaves families with medical bills they cannot pay.

Consider that the cheapest coverage available through the state’s health insurance exchange to a single 56-year-old Bostonian who is not eligible for subsidies (in other words, one who has an income above 300 percent of poverty) costs \$4,744 and comes with numerous restrictions on which doctors’ and hospitals’ bills it will pay. If the policyholder is sick, the policy doesn’t start paying bills until after the policyholder has taken care of the \$2,000 deductible. The patient also is responsible for about 20 percent of the next \$15,000 in medical expenses.

Nationally, the Kaiser Foundation estimates that in high-cost regions like New England, the unsubsidized premium in 2014 under the ACA will run \$10,585 with additional out-of-pocket costs adding up to \$6,250.<sup>8</sup> Such costs will predictably leave tens of millions with large medical debts and drive more than a million into medical bankruptcy every year.

It doesn’t have to be that way. One Canadian study suggested that between 7.1 percent and 14.3 percent of Canadian bank-

ruptcies are attributable to health problems or other misfortunes (such as floods).<sup>9</sup> And when journalist T.R. Reid questioned political leaders and health policy experts in several nations (all of which have some form of national health insurance) about the frequency of medical bankruptcy, he was told that they had none.<sup>10</sup> Other nations have virtually eliminated medical bankruptcy by making coverage both universal (covering everyone) and comprehensive (covering virtually all medical costs).

## Among Massachusetts bankruptcy filers in 2009, 53 percent cited illness or medical bills as a cause of their bankruptcy.

Given our research, we suggest that single-payer national health insurance should be the ultimate goal. A single tax-funded insurance plan in each region would pay for all needed care, without co-payments or deductibles. Tens of billions in savings annually would accrue from reduced insurance overhead as private insurers (whose overhead averages 14 percent) make way for a Medicare-like program. Fee-for-service Medicare's overhead is 2 percent, and overhead in the single-payer programs in Canadian provinces averages about 1 percent. Health-care providers could redirect the money now spent on billing-related paperwork to expanding and improving care.<sup>11</sup>

A single-payer reform is staunchly opposed by the health insurance industry and by drug companies. Nonetheless, in a recent survey carried out by the Massachusetts Medical Society, the single-payer approach was the most popular option among Massachusetts physicians.<sup>12</sup> And in 2006, the last time a major poll asked what patients would prefer, 56 percent of the public favored a universal, tax-financed, Medicare-like program.<sup>13</sup>

Alternative health policies could virtually eliminate medical debt and free Americans from the shadow of combined financial ruin and illness—what Edward Kennedy termed the “double disaster.”<sup>14</sup>

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### Endnotes

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