Fact Sheet: MEDICAL DEBT

Dēmos & The Access Project

How Debt from Out-of-Pocket Medical Expenses Impacts Low- and Middle-Income Families

These findings are based on the "2008 National Household Survey of Credit Card Debt Among Low- and Middle-Income Households." Medical indebted families are households who indicated that out-of-pocket medical expenses contributed to their credit card debt while non-medical indebted families are households for whom out-of-pocket medical expenses did not contribute to credit card debt. Out-of-pocket medical expenses are all expenses related to medical care for the survey participant or any member of their household, excluding health insurance premiums, over the counter drugs or costs for which they were reimbursed.

Increasing numbers of low- and middle-income families use credit cards for basic living expenses. As health care costs have increased and health insurance coverage has become inadequate, medical expenses have become another basic cost that families increasingly cover through credit cards.

This trend has several negative and destabilizing consequences for household finances.

Perhaps most alarmingly, families with medical-related credit card debt have significantly higher balances than families who have not used their credit cards to pay medical expenses, and they also pay higher interest rates.

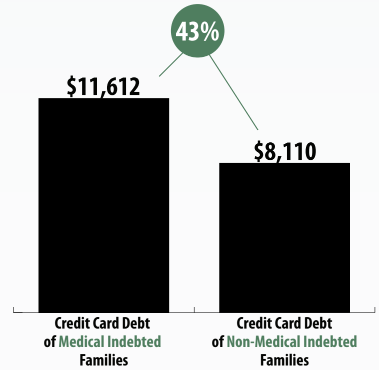
» In 2008, more than 1 out of 2 (52 percent) low- and middle-income families with credit card debt used their credit cards to pay out-of-pocket medical expenses.

» In 2008, medical indebted families had 43 percent more credit card debt than families without medical debt—$11,612 versus $8,110, respectively. **(Graphic A)**

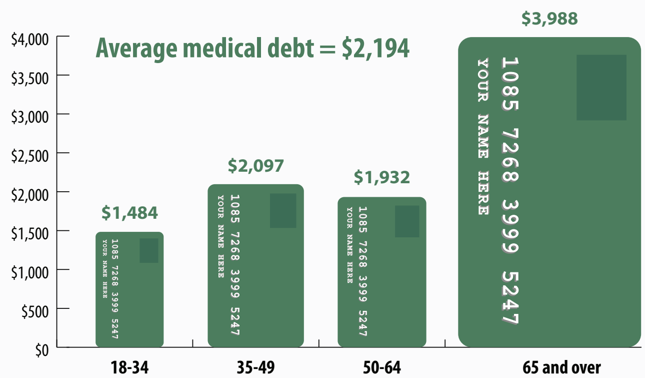
» Medical indebted families had an average of $2,194 of credit debt related to medical expenses. **(Graphic B)**

» Credit card indebted households burdened with out-of-pocket medical expenses had an average APR of 16 percent while those without out-of-pocket medical expenses had an average of 14 percent.

***Graphic A:* Credit Card Debt of Medical Indebted Families vs. Those Without**



***Graphic B:* Average Amount of Credit Card Debt Due to Medical Expenses by Age**



The economic circumstances driving American families into medical-related credit card debt impact long-term stability, forcing recession-battered households to make difficult choices.

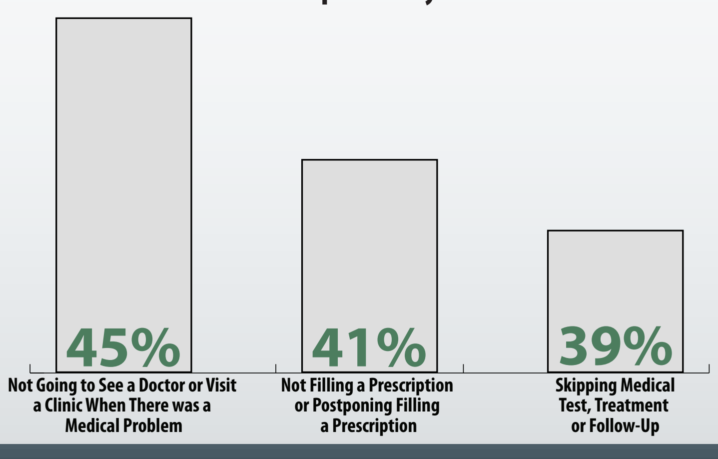
» Half of medical indebted families used credit cards to pay for basic living expenses in the past year because they did not have enough money in their savings. One in 5 of those that did not have medical debt found themselves in the same circumstances.

» The most common out-of-pocket medical expenses, such as prescription drug costs and increasing deductibles and copayments, are the ones that are pushing low and middle-income families into medical debt. **(Graphic D)**

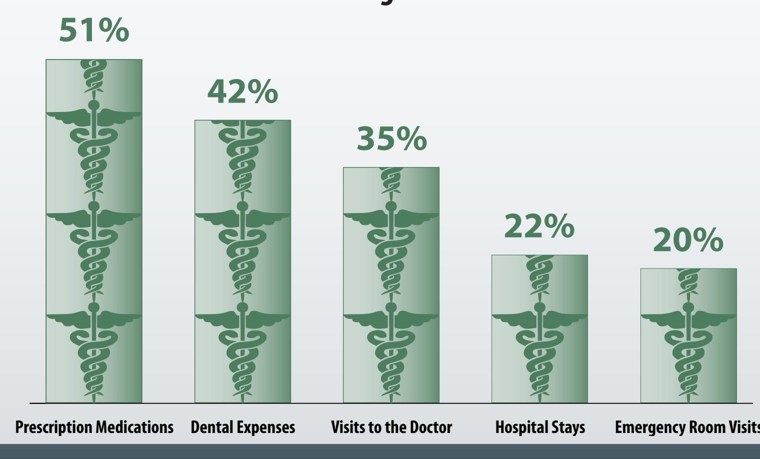
» Medical indebted households are making hard and unfortunate medical choices that affect their health and economic well-being. **(Graphic C)**

» Medical indebted households have other economic shocks that put them in an increasingly insecure economic position. **(Graphic E)**

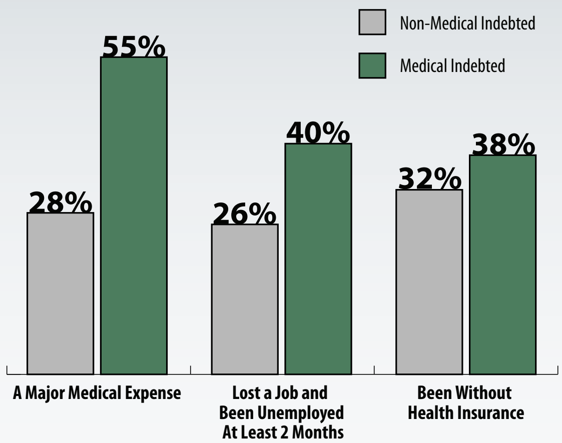
***Graphic C:* In the Past Year, Medical Indebted Households Tried to Reduce Medical Expenses by:**



***Graphic D:* Out-of-Pocket Medical Expenses that Contributed to Current Credit Card Debt Among Medical Indebted Households**



Graphic E: **Comparison between Medical Indebted and Non-Indebted Households in Regard to Job Loss, Major Medical Expenses and Health Insurance**



Hidden Medical Debt

One of the major challenges to fully understanding and then reforming the practices that lead to high medical-related debt is that these charges are comingled with all other consumer debt, and as such are subject to a wide array of interest rates and penalty fees. And the problem doesn't stop with healthcare-related credit-card debt: Alarmingly, 30 percent of surveyed households reported carrying an average of $3,174 dollars in additional medical debt not reflected on their credit cards. This obfuscates a potentially much larger problem that requires urgent attention from policymakers and regulators.

A Reform Agenda

Against a backdrop of financial instability, rising health care costs, changes in health insurance benefit design, and an ever-increasing reliance on credit cards, America's families face an uncertain economic future. As we continue our national conversation on health care, Congress needs to address individual health and well-being, as well as the economic consequences of current healthcare and financial service industry policies that increasingly burden financially-strapped families.

Based on our survey findings, medical debt now plagues more than half of credit card indebted low-and-middle-income Americans, regardless of whether they have health insurance or not. As Congress considers healthcare reform proposals, they must ensure that insurance coverage is comprehensive and affordable. Rising health insurance premiums and out-of-pocket costs must be regulated at realistic and affordable levels for families with limited disposable income.

Until meaningful healthcare reform is a reality, however, American families will be burdened by these increasing costs, and many will turn to credit cards as a short term solution that only creates debilitating long-term financial problems: Those with medical debt tend to have, overall, higher credit card debt and interest rates; they experience more economic shocks, leaving them financially vulnerable and carrying high revolving balances; and they lack the ability to weather future economic surprises.

To protect America's families, Dēmos and The Access Project believe the proposed Consumer Financial Protection Agency in collaboration with Congress and the Federal Reserve needs to be vigilant of the new tactics that credit card companies are using and developing to circumscribe consumer protections. Persons with medical debt would benefit from a strong CFPA that 1) does not preempt more protective state laws and 2) has jurisdiction over all financial products and financial intermediaries, including debt collectors. Such monitoring will be critical to protect those that have already fallen prey to medical debt.

Additional findings and recommendations will be explored in the full upcoming Dēmos/The Access Project report on medical debt; that report will go into greater detail on the findings outlined in this fact sheet. It will also explore practices now being deployed by healthcare providers to encourage payment at or near the time of service—those that make it increasingly likely that more and more patients will turn to credit cards to pay medical bills that they cannot afford.

For more information, see:

Dēmos **demos.org**

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