

The Hidden Link: Health Costs and Family Economic Insecurity

There's no denying it: America is facing an economic crisis. From the stock market to the supermarket, financial troubles abound. In the midst of this turmoil, some policy makers have concluded that all other issues, including health care reform, must be put on hold until the economy recovers. However, for many Americans, health costs and economic issues are one and the same. Faced with eroding insurance coverage and higher out-of-pocket costs, many consumers are forced to make tough financial choices to get and pay for the care that they need. They stretch their incomes to the limit, and sometimes, despite their best efforts to stay afloat, they lose their economic security. The economic downturn has also left many Americans worried that they'll lose their jobs, which aren't just their source of income, but also their source of health insurance. As American consumers already know firsthand, without health care reform that achieves quality, affordable coverage for all, it will be impossible to restore family economic security.

The Crisis in Family Health Care Costs

■ Unaffordable Medical Bills Are Jeopardizing Family Finances

- In 2007, 41 percent of working-age Americans had a problem paying medical bills or had racked up medical debt. Of that 41 percent, 39 percent had used all of their savings to pay their medical bills.¹
- Americans with medical debt have problems paying for basic necessities. For example, one study found that nearly two-thirds of the millions of Americans in families with medical bill problems had trouble paying for food, clothing, or their rent or mortgage.²
- Although the share of Americans with problems paying medical bills is larger among low-income families, the proportion of Americans with medical bill problems has increased across *all* income levels.³
- Some with medical debt face legal consequences, including being sued for the debt or having their wages garnished.⁴ In extreme cases, people have been sent to jail for failing to comply with court orders regarding their medical debt.⁵

■ Medical Bills Damage Credit

- According to lenders who serve low-income communities, medical debt generally isn't a good indicator of a person's credit worthiness or how likely he or she is to pay back loans.⁶ In spite of this, most people who report having medical debt on their credit reports say that their credit is damaged because of it.⁷

- Even small amounts of medical debt can damage credit. Larger debts are more likely to appear on credit reports, but in one study, more than one-third of people who reported that medical debt had harmed their credit had debt of under \$1,000, and about one-sixth had debt of under \$500.⁸
- Damaged credit can make it difficult or impossible to secure and maintain housing, to get a job, to buy a car, and to obtain utilities, among other needs.⁹
- **Medical Debt Causes Bankruptcy**
 - About half of families who file for bankruptcy do so, at least in part, because of medical reasons.¹⁰ This means that from the beginning of 2000 through June 2007, approximately 5 million families filed for bankruptcy due to medical reasons.¹¹
 - In 2007, one out of five people who reported having medical bill problems considered filing for bankruptcy because of their bills.¹²
 - Bankruptcy rates likely underestimate the number of people who have serious economic problems due to medical debt. This is because filing for bankruptcy isn't an option for everyone who could benefit from it. It requires hiring and paying for a lawyer—a process that is beyond the means of many Americans who are sick and in debt.¹³ Those who can't file for bankruptcy continue to struggle against mounting debt and relentless collectors.
- **Medical Debt Leads to Housing Insecurity**
 - Nearly half (49 percent) of home foreclosures in 2006 were caused, at least in part, by financial issues stemming from a medical problem.¹⁴
 - One study found that more than one-quarter (27 percent) of people with medical debt experienced housing insecurity. Of these:¹⁵
 - 11 percent were unable to qualify for a mortgage, and 7 percent were turned down from renting a home or apartment;
 - 10 percent were unable to make rent or mortgage payments;
 - 5 percent were forced to move to less expensive housing;
 - 2 percent were evicted; and
 - 2 percent were homeless because of medical debt.
 - More than half (52 percent) of people with medical debt of at least \$5,000 reported having a housing problem. Surprisingly, a substantial share of people (12 percent) with debt of less than \$500 also reported having housing problems resulting from medical debt.¹⁶
 - The longer a debt goes unpaid, the more likely a person is to experience housing insecurity.¹⁷

How Did We Get Here?

■ Cost-Sharing Is Increasing, Benefits Are Thinning

- In recent years, families' share of health care costs has increased due to larger deductibles and copayments, and through out-of-pocket payments for services that are either restricted or that are not covered by their insurance plans at all.¹⁸
- High deductibles are a burden for American families. Half of the adults enrolled in plans that have a yearly deductible of \$500 or more struggle to pay medical costs.¹⁹
- The number of working-age Americans with deductibles equal to 5 percent or more of their incomes increased from 3.7 million to 6.2 million between 2003 and 2007.²⁰
- Many insurance plans exclude certain benefits from coverage, which requires families to pay for services that they need out of pocket. The absence of important benefits can lead to medical debt. In fact, people with medical debt are less likely to have prescription drug, vision, or mental health coverage than are other privately insured individuals.²¹ In addition, nearly half (48 percent) of non-elderly insured adults without drug coverage reported having problems with medical bills or medical debt.²²
- The problems that American families face due to thinning coverage are likely to grow. Among employers that offer health insurance, during the next year, 45 percent report that they are “very likely” or “somewhat likely” to increase employees' cost-sharing for doctor visits, 41 percent report that they are “very likely” or “somewhat likely” to increase employees' deductibles, and 41 percent report that they are “very likely” or “somewhat likely” to increase the amount that employees pay for prescription drugs.²³

■ Underinsurance Is on the Rise

- People at every income level are forced to spend unreasonable shares of their incomes on health costs (a phenomenon known as “underinsurance”). In fact, the fastest growth in underinsurance in recent years was among people with incomes of more than 200 percent of the federal poverty level (\$34,340 for a family of three in 2007, the year of the study data).²⁴
- In 2008, an estimated 50.7 million non-elderly Americans with health insurance were in families that spent more than 10 percent of their pre-tax income on health care costs.²⁵
- The number of insured people in families that spent more than 10 percent of their pre-tax income on health costs has grown substantially in recent years. Between 2000 and 2008, the number of people in families that spent this share of their income on health costs is estimated to have grown by nearly 17.6 million.²⁶
- Underinsurance leaves Americans vulnerable to medical debt: More than three out of five adults who report having problems paying their medical bills had insurance at the time that they incurred their debt.²⁷

- Insurance is not doing its job of protecting families from financial catastrophe when they need health care services. As studies have noted, “simply having insurance does not guarantee protection from medical bills and long-term medical debt”²⁸ or from “the resulting credit and housing problems.”²⁹

The Task for Policy Makers

- As shown above, rising health care costs place a huge and increasing burden on families, contributing to and often directly causing economic insecurity.
- If policy makers delay health care reform “until the economic crisis is resolved,” the problems that American families have with medical bills will only get worse. The number of foreclosures, bankruptcies, and other financial problems that are caused by medical reasons makes it clear that it’s impossible to fix the economy without simultaneously, or even first, addressing the problems of the health care system.
- The American public agrees that health care reform must be a top priority during our nation’s economic downturn. In 2008, nearly twice as many voters (62 percent versus 34 percent) said that, “it is more important than ever to take on health care reform” than said that “the country cannot tackle this issue given the current situation.”³⁰
- The medical cost problems that both uninsured and insured Americans increasingly face demonstrate the urgency of health reform that achieves quality, affordable coverage for all. Without reform that achieves this goal, economic policies that aim to boost family budgets and restore economic security are doomed from the start.

Endnotes

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¹⁹ Michelle Doty, Jennifer Edwards, and Alyssa Holmgren, *Seeing Red: Americans Driven into Debt by Medical Bills* (New York: The Commonwealth Fund, August 2005).

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