INSTITUTE ON ASSETS AND SOCIAL POLICY

Monthly Perspective

Medical Debt and Household Asset Stability

Jeffery Prottas - February 2006

While much of the current discussion of debt focuses on problems of consumerism and predatory lending, involuntary medical debt is undermining the asset well-being of our nation. Medical debt is affecting the overall financial security of millions of families, both those with and without health insurance. Insurance, in many cases, is not fulfilling its basic purpose of protecting the insured from financial catastrophe and the social safety net is not protecting the uninsured from debt that erodes future opportunities.

The Boston-based Access Project and Brandeis University recently completed research that demonstrates that medical debt is a threat to homeownership and housing stability for many working families. A survey of 1,700 low and moderate-income taxpayers at tax preparation centers in seven cities found that 46% of respondents had medical debt, and more than half had medical insurance when they incurred the debt. Respondents in all racial and ethnic categories, as well as all income categories covered in the survey, were equally affected.

Among these taxpayers, the survey found a quarter related their housing and mortgage problems to medical debt. The impacts of that debt included the inability to qualify for a mortgage, the inability to pay rent or monthly mortgage bills, being turned down from renting a home, losing a home to foreclosure or eviction, and being forced to move into less expensive housing. Some families even became homeless due to medical debt.

Widespread medical debt - largely beyond the control of working families - severely damages credit records, and can easily cascade to difficulties accessing other economic opportunities such as securing a mortgage, getting a car loan, or even getting a job. The effects of damaged credit endure since delinquent accounts remain on a credit report up to seven years from the last payment. The Access Project report characterizes this as “accidental debt”, for even if the debt is relatively small, even if many payments were made but just not fully, medical debt “acts as a ‘sickness tax’-on top of bills.”

The study cites other corroborating effects of medical debt including limited access to health care, inability to accumulate savings and purchase basic necessities, collection actions such as wage garnishment and home liens, personal bankruptcy, and even incarceration following judgments in small claims courts for non-payment.

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Changes in health insurance products compound the problem of medical debt as families with health insurance are faced with higher deductibles and co-payments. The study suggests that many families find themselves with medical debts they cannot pay and this and other studies show that this debt deters people from seeking needed health care, which can in turn result in a need for more expensive treatment later on. There are a number of responses that advocates and policymakers can pursue to reduce the "sickness tax" that medical debt imposes and to circumvent the crippling effects of medical debt on individual and household assets.

First, medical providers need to change administrative and collection practices through collection agents, lenders, and credit bureaus that lead to un-payable debt. Second, insurers should develop standards for adequate coverage so that obligations are proportionate to family income and ensure that insurance fulfills its primary purpose of protecting the insured from financial catastrophe. State insurance agencies can play a role in ensuring that all health insurance instruments actually provide reasonable coverage of total medical costs. Third, lenders and affiliated organizations should find ways to prevent medical debt from affecting a credit record, including rules to prohibit medical providers and their agents from reporting medical debt to credit agencies. Medical bills differ from most consumer bills in that they are essentially involuntary and random. No one chooses to be in an accident or to become ill. Finally, non-adversarial systems need to be established to permit honest, working households to structure the medical debt so that it does not become an insurmountable barrier to asset accumulation by finding agreements matching debt with ability to pay and allowing payment over time at practical levels and without interest. Non-profit consumer counseling agencies may be able to play a role here.

Individuals and families need asset protection during vulnerable times when they face illness and in the aftermath of those times when they may likely have also face a loss of job or reduction of wages. Public and private solutions to the problem need to be developed to stabilize and protect assets in these times of personal economic crisis and ensure opportunities for future well-being.

The full report: *HOME SICK: How Medical Debt Undermines Housing Security* By Robert Seifert, November 2005 can be found at www.accessproject.org

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