

HOME SICK

HOW MEDICAL DEBT UNDERMINES HOUSING SECURITY

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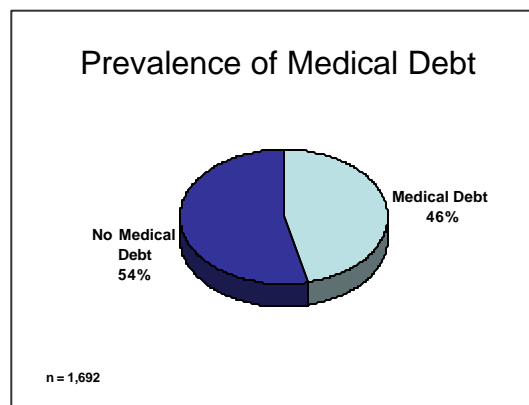
The Access Project (TAP) has served as a resource center for local communities working to improve health and healthcare access since 1998. The mission of The Access Project is to strengthen community action, promote social change, and improve health, especially for those who are most vulnerable. TAP conducts community action research in conjunction with local leaders to improve the quality of relevant information needed to change the health system. The Access Project's fiscal sponsor is Third Sector New England, a non-profit with more than 40 years of experience in public and community health projects. TAP is affiliated with the Heller School for Social Policy and Management at Brandeis University.

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EXECUTIVE SUMMARY

Access to health care depends to a great degree on the ability to pay for it, either with insurance or out of one's own pocket. Even when uninsured people or those with inadequate insurance are able to get care, they usually receive a bill for it, which can subsequently wreak havoc in the form of excessive debt, damaged credit and other financial misfortune. This report is about how medical debt affects one important aspect of people's lives—their housing situation.

We surveyed nearly 1,700 low and moderate income people in seven locations¹ who were filing income tax returns in Volunteer Income Tax Assistance (VITA) sites. Many were eligible to claim the federal Earned Income Tax Credit. Nearly half of these respondents reported having medical debt.



KEY FINDINGS

The survey shows important connections between medical debt and significant financial hardships.

Housing problems were common

More than one-quarter of respondents with debt said housing problems resulted from the debt. Problems included:

- The inability to qualify for a mortgage
- The inability to make rent or mortgage payments
- Being turned down from renting a home
- Being forced to move to less expensive housing

In addition, some people said they have been evicted or were now homeless because of medical debt.

These findings establish medical debt as a barrier to important elements of economic advancement, namely asset development and housing security. Respondents in all racial and ethnic categories, as well as all income categories captured in the survey, were substantially affected.

Bad credit was a frequent result of medical debt

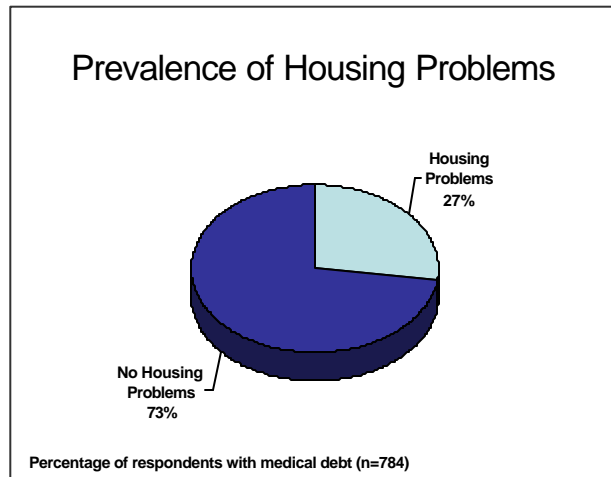
Our survey found that most people did not know whether their medical debt was on their credit reports, but of those who did know, three in five said it had damaged their

¹ Bridgeport, Connecticut; Des Moines, Iowa; Phoenix, Arizona; Providence, Rhode Island; St. Louis, Missouri; Tulsa, Oklahoma; and West Palm Beach, Florida.

credit. Damaged credit affects people's ability to secure a mortgage or to rent an apartment. It may also be a barrier to employment and auto or home insurance, and has other repercussions as well. The effects of damaged credit linger: a delinquent account can remain on a credit report for seven years. Respondents whose medical debts appeared on their credit reports were twice as likely to experience housing problems as those whose credit reports did not include medical debt. Respondents with medical debt who are not yet aware of their credit status are likely to find their credit hurt—an unwelcome surprise when trying to buy a home or access other credit.

One out of six respondents with medical debts less than \$500 said that the debt had harmed their credit

Unlike many other types of debt, medical debt usually can only harm a credit rating, not help it. When medical providers and their collection agents report debt to credit bureaus, they typically only do so when payments have *not* been made. This negative-only treatment of medical debt is all the more inequitable because it is one of the few types of debt that are involuntarily acquired. Thus this "accidental debt," even if relatively small, essentially acts as a sickness tax—on top of the bills themselves and possible lost employment income—by damaging credit.



Relatively small debts had far-reaching effects

One out of six respondents with medical debts less than \$500 said that the debt had harmed their credit. Twelve percent of respondents with this level of debt reported having housing problems. The financial pressure that these housing and economic disadvantages create seems out of proportion to the modest level of debt that brings them on. Adding to this pressure is the additional finding that housing problems become more likely as medical debt lingers.

Health insurance did not provide thorough protection

The respondents with medical debt in our survey more often than not had health insurance at the time the debt was incurred. One out of five respondents who had health insurance said their medical debt had led to housing problems. Though the lack of health insurance put people at great risk for medical debt and its consequences,

those with insurance were by no means immune. People with insurance, particularly those who can be considered “underinsured,” are responsible for increasing shares of the health care costs, through deductibles and copayments, or through outright payment for uncovered services. That health insurance seems not to have served its fundamental purpose for many survey respondents warrants further attention in the public policy arena.

PAST RESEARCH

This large scale survey of low and moderate income, working age adults verifies a central finding of a number of recent studies by the Commonwealth Fund, the Kaiser Family Foundation, The Access Project and others: medical debt is a common phenomenon. A variety of national surveys found significant levels of medical debt, especially among low income people, those under 65 years old, and those without

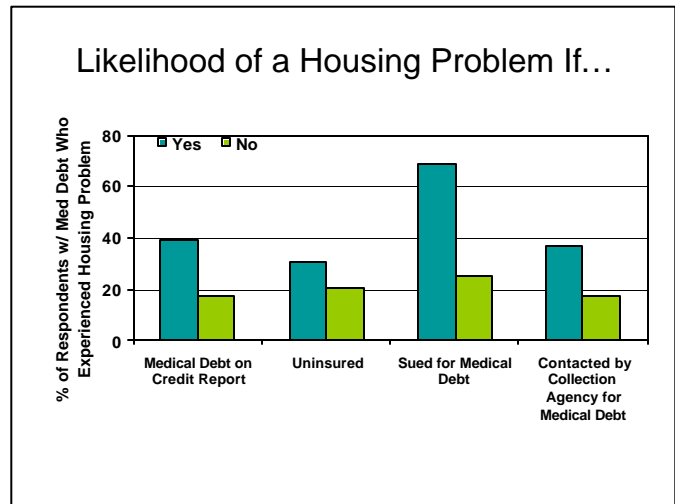
health insurance (though a majority of adults with medical debt problems *were* insured at the time the debt was incurred). Effects of the debts included limited access to health care, inability to accumulate savings and purchase basic necessities, collection actions such as wage garnishment and home liens, personal bankruptcy and, in the extreme, incarceration.

Community-based research that The Access Project and others have done had comparable findings. In exploring the extent and consequences of medical debt, The Access Project and its local partners heard recurring anecdotes about medical debt acting as a barrier to home ownership. The desire to investigate this question more thoroughly gave rise to this study.

AREAS FOR POLICY RECOMMENDATIONS

Medical Providers

Medical providers can contribute to solving the problem by reducing the amount of medical debt they create, and changing practices the effects of which cascade into additional financial difficulties. Actions might include instituting reasonable billing and collection practices and adequately screening patients for eligibility in public insurance programs. In addition, other types of providers (such as doctors’ offices, medical labs, ambulance services) have not been held to account on this issue to the same extent as hospitals. Further scrutiny and standards regarding providers’ relationships with collection agents, lenders and credit bureaus would bring focus to additional policy solutions.



Insurers

That people with health insurance are affected by medical debt and its consequences almost to the same degree as those without calls into question the adequacy of some insurance in fulfilling its primary purpose: protecting the insured from financial catastrophe. Standards for adequate coverage, including cost sharing obligations that are proportionate to family incomes, might be explored, as well as programs to provide benefits to the communities in which insurers operate. Further research is also needed to understand the relative influences of various shortcomings in health insurance—excessively high deductibles, breaks in coverage, uncovered services—on medical debt and resulting problems. Knowledge of this sort will help policy makers determine how standards for adequate coverage could be set, so that the purpose of health insurance as financial protection might be restored and maintained.

Lenders and Affiliated Organizations

Lenders might reasonably be asked to develop explicit policies for segregating medical debts in considering an applicant's eligibility for credit, but this presumes that medical debt is readily identifiable as such on a credit report. Given the atypical nature of medical debt and the commonly expressed policy to treat it differently, one might question the need for health care providers to report these debts to credit bureaus at all. Lenders, creditors, credit bureaus and regulators should consider ways to prevent medical debt from ever tarnishing a credit record, including rules to prohibit medical providers and their agents from reporting medical debt to credit agencies.

CONCLUSION

If there is a more vulnerable circumstance for a person to be in than being ill, it is probably to be ill and in debt. This report has shown that such vulnerability is not rare among our survey respondents. To compound this, medical debt often results in housing and credit problems, which in turn may bring about further crippling financial difficulties.

Repairing the health care system—controlling costs, improving quality, ensuring access and eliminating disparities—is a challenge of national scope that has, to date, been maddeningly elusive. Smaller victories are achievable, however. One place to look is eliminating the financial penalty imposed on people for getting sick. Remedies—on the part of policy makers, medical providers, insurers and lenders—are at hand. All that is needed is action.