

The Lure, and Risk, of Medical Credit Cards

by [Christopher Maag](#) on 11/22/2010

For Alan Tebby, a chiropractor in Charlotte, N.C., signing his patients up for medical credit cards just makes sense.

“It’s a win-win for everybody,” Tebby says. “The patients get the services they need, and I get to focus on giving medical care instead of being a collections agency.”

But for an elderly woman in Minnesota, using a medical credit card meant paying \$1,200 in interest on a single hearing aid, according to a [report](#) the Minnesota Attorney General’s office. And a man in Williamsville, New York paid cash for dental work, but was signed up anyway for a CareCredit card and was charged \$9,000, with interest, according to a [press release](#) from the New York Attorney General’s office. State regulators in Minnesota and New York have launched investigations into doctors allegedly signing patients up for medical credit cards without the patients’ knowledge, saddling people with high interest rates on payments they didn’t know about.



Image: [Adrian Clark](#), via Flickr.com

Medical credit cards have been around for years. Like most credit cards, they allow people to make purchases up-front and pay for them over time. Unlike regular cards, however, medical credit cards can only be used to pay medical providers including surgeons and chiropractors (and, in some cases, veterinarians).

Medical debt on the rise

As the cost of health care grows, and average American incomes stagnate, the use of medical credit cards is on the rise. Consumers charged about \$45 billion worth of medical costs with credit cards in 2008, and that could more than triple to \$150 billion by 2015, according to a report by McKinsey & Co., a consulting firm.

For people who can afford to pay off their bills every month, that may be a good thing. But for others who are accustomed to not paying their credit card balances in full every month, medical credit cards could spell disaster. That’s because one missed payment or underpayment on a medical credit card causes the interest rate to skyrocket to almost 30%, much higher than most credit cards, and potentially locking low- and moderate-income people into a never-ending cycle of debt.

“Health care debt is the number one cause of individual bankruptcy, and this scheme is contributing to the economic burden being felt by consumers,” Andrew Cuomo, then the attorney general of New York and soon to be the state’s governor, [said](#) in August.

More than 50 million Americans have no health insurance, according to a [study](#) by the U.S. Centers for Disease Control. People who do have insurance are often paying higher deductibles and co-pays to get

the treatment they need. The average family with medical debts owes \$11,612, compared to \$8,110 in debt for families with no medical bills to pay off, according to a [study](#) by The Access Project, a nonprofit group that investigates medical debt.

As a result, medical debt is on the rise. At least 62% of bankruptcies in the U.S. in 2007 were caused by medical debt, according to a [study](#) published last year in the American Journal of Medicine. Of those, 92% of the bankruptcy filers owed medical debts above \$5,000. “Most medical debtors were well educated, owned homes, and had middle-class occupations,” the study found. “Three quarters had health insurance.”

“Moving in quickly...”

The companies that promote medical credit cards say they help make medical debt more manageable. By giving consumers with no income grace periods to pay off debts with no interest, and extending the repayment period to make monthly payments low, representatives of card companies say they help people get the medical help they need.

“Benefits to consumers include the ability to plan, budget and pay for certain elective healthcare procedures over time,” said Stephen White, a spokesman for CareCredit, the largest medical credit card company in the U.S.

Meanwhile, state prosecutors and consumer advocates suspect that medical credit cards may simply make it more difficult to escape the trap of medical debt. Even though most medical credit cards offer introductory plans with zero interest upfront, “usually they will increase to a similar interest rate percentage as a regular credit card, sometimes even higher,” says José Garcia, associate director for research at Demos, a research and advocacy company.

Many popular medical credit cards are backed by some of the nation’s largest corporations and banks. CareCredit is owned by GE Capital. It has 7 million cardholders and a network of 130,000 medical providers, according to White. Other major cards include Citigroup’s Citi Health Card and the ChaseHealthAdvance Card by JPMorgan Chase.

They are getting involved because of the huge amount of debt that Americans are wracking up on medical expenses.

“There are hundreds of billions of dollars that patients are responsible for paying in medical costs every year, and each year health-care costs are escalating,” says Mark Rukavina, the director of the Access Project. “The credit card companies are moving in, and they are moving in quickly.”

How it works

With CareCredit, the largest medical card provider, consumers can choose between two different payment plans. Extended plans give them up to five years to repay. Or they can choose a deferred interest plan, giving them a grace period for up to 24 months during which time they pay no interest.

“If you pay it off within that time it’s no interest, so that interest comes out of the doctor’s pocket,” Tebbly says. “So that’s good for patients. And that way the doctor can focus on what he does and not become a collection agency.”

If consumers miss a payment or cannot make a full payment anytime while the debt is owed, however, the interest rate is applied retroactively to the grace period, too, according to CareCard's cardholder's [agreement](#). With some cards, the interest rate that applies in such situations is higher than what would be owed otherwise, as a form of penalty.

Advocates believe these charges amount to hidden traps for low- and moderate-income consumers. "People are being tricked by misleading offers that have them paying for services they never received as well as interest charges they never knew about," Cuomo said.

But for most consumers who make the monthly payments, such problems never arise, according to the companies.

"The vast majority of cardholders who select to a Deferred Interest Plan payoff the balance within the term they select and don't pay any interest," White says.

Kickbacks?

Others question the process by which medical card companies sign up providers and patients. Usually, physicians must pay to enroll with a credit card company, just as retailers do. But in some cases, the companies reduce the fees they charge physicians when doctors successfully sign up new patients for cards.

"This kickback arrangement, plus CareCredit's payment in full to providers within two days of the charge, creates an incentive for providers to push consumers to use CareCredit rather than other methods of payment," according to the New York attorney general's office. "In fact, providers pushed CareCredit over cash."

CareCredit disputes this, saying there is no kickback to physicians in return for signing up new customers. The service creates efficiencies for doctors, CareCredit argues, but at a cost.

"(A) providers pay CareCredit a transaction fee to offer our services, as they do with any credit card," White says. "It costs the provider more when the consumer chooses CareCredit among the several payment options they have, including cash, check or another credit card."

Disclosures and protections

A number of people have complained that they were signed up for medical credit cards without their knowledge. A man in Monroe County, New York, was told he needed \$5,600 worth of medical services. He went to a different physician without knowing the first doctor had signed him up for a CareCredit card and charged the full amount to his account. He didn't pay, which made him delinquent and hurt his credit score, according to the attorney general's office.

Two consumers in Minnesota accused medical card companies of signing them up without their knowledge, which led to a [report](#) by the state attorney general.

Finally there are concerns about how medical credit card companies handle cases in which the diagnosis or treatment changes along the way. Most charges on medical credit cards are made upfront, and are completed within a few business days, like most credit card transactions.

Sometimes the prognosis changes, and less work needs to be done. But patients who pay with credit cards already have had the transaction go through, leaving them little recourse to reduce the bill down to the amount they actually owe.

“We are concerned that some health care providers are aggressively marketing these high-interest credit cards to patients, without providing appropriate disclosures, protections, or refunds,” says Chuck Bell, programs director for Consumers Union.

And even when things work out as planned, consumer advocates wonder whether the very idea of charging medical expenses to a credit card makes sense. If bills are large enough, consumers will need to continue paying well after the zero-interest grace period ends. In the case of CareCredit, that means patients will be paying 27%, according to the [card agreement](#).

“They’re not a great idea,” says Gerri Detweiler, a credit expert with Credit.com. “If you can’t afford the medical care now, paying 26% or more for it is not really a solution.”

What else can you do?

Consider Your Options

Here are some things to consider if your health care provider offers you a medical credit card.

- **A medical credit card might make sense.** But it’s very important to pay attention to the details, especially the length of the grace period. If you know that you will be able to pay off the full amount before the grace period ends, using a credit card could be a good way for you to reduce the up-front hit to your checking account or savings.

- **Look for other payment plans.** Ask your medical provider if she has programs for people to pay over time. If she does, the risks of falling behind may be lower, since it’s likely that they don’t charge interest rates as high as those charged by credit cards.

- **Shop around for a different doctor.** Some doctors are more willing to negotiate on repayment options than others. If you see a doctor who’s part of a hospital system, that system may offer the best prices, especially if you can prove financial need.

- **Nonprofit cards.** There aren’t many, and thus far their reach is small. But a number of medical nonprofits offer credit cards for medical expenses that are significantly cheaper than major, for-profit cards. One is the [Health Share Card](#), operated by The Access Project, which offers savings for diabetes patients in Iowa. The Access Project also runs a [program](#) in Massachusetts that helps people reduce existing medical debt.



[Christopher Maag](#) is a freelance journalist for publications including The New York Times, TIME magazine and Popular Mechanics. He graduated with honors from the Columbia University Graduate School of Journalism, and has worked as a staff writer for daily newspapers, monthly magazines, alt weeklies and websites. Maag writes about people with big dreams set on little stages, including a teenage girl who races jet-powered tractors, and people who make millions of dollars impersonating Barack Obama.