

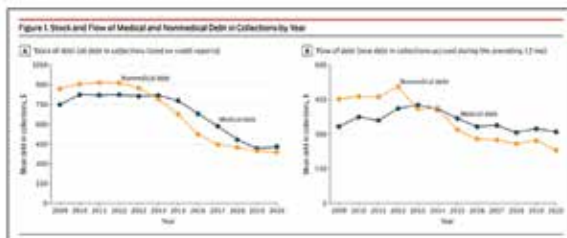
TRENDSPOTTING: AMERICANS OWE BILLIONS IN MEDICAL DEBT



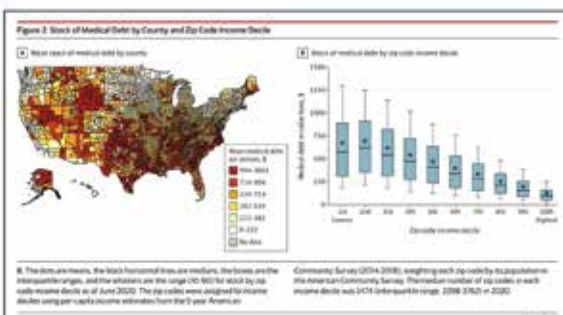
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NEWSWIRE: 8/5/21

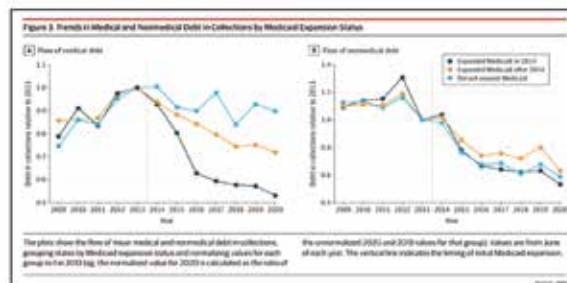
- Americans are saddled with at least \$140 billion in medical debt, according to a new study. Medical debt is now the biggest source of debt collections, exceeding debt from credit cards, utilities, and auto loans combined. (The New York Times)**
- NH:** This is a big study, both in n-size and findings. It's the first comprehensive portrait of the scale and prevalence of U.S. medical debt.
- Researchers examined a 10% sample of all TransUnion credit reports from 2009 to 2020, which included nearly 40 million people. Medical debt is reported to TransUnion by third-party collection agencies once a bill has gone unpaid for at least 180 days after its due date. Overall, collection agencies held \$140 billion in delinquent medical bills in 2020. In 2016, this amount was estimated to be much less (\$81 billion)—though it was still big enough to be **frequently trotted out** during the last presidential campaign cycle.
- In all, an estimated 18% of Americans have medical debt. That's about 58 million people, each with a mean debt of \$2,400. For all Americans, it's a mean debt of \$450.
- Medical debt is now the majority source of debt in collections, exceeding all other sources of debt combined. See Figure 1 below: Post-GFC, total medical debt grew to exceed nonmedical debt, which has steadily declined over time while both the amount and flow of medical debt have not to the same degree.



- Medical debt (in dollars) is disproportionately concentrated among lower-income Americans (Figure 2B). The hardest-hit are not the very poorest, but those in income quintiles 2–4—in other words, those who aren't covered by safety nets like Medicaid. Since the bottom deciles have the least income, debt as a share of income is much higher in these deciles.

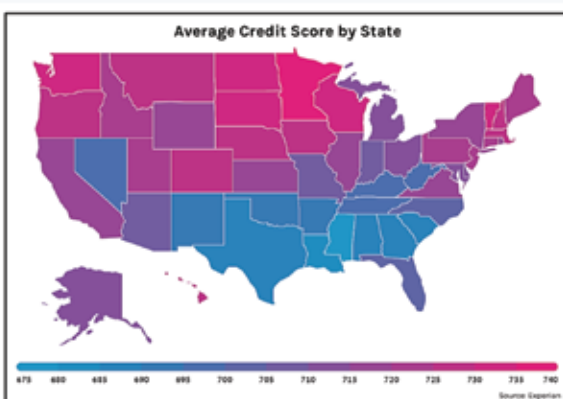


- By geography, medical debt is highest in the South and some Midwestern states (Figure 2A).
- Why? One obvious reason is that these states tend to have the lowest household median incomes. Another is that these states regulate consumer debt and collections less stringently, making it easier for residents to incur medical debt. Yet another is that these states offer less generous public health benefits to low-income households. These reasons help explain all the "white" counties in much of the Northeast and in Minnesota, Iowa, and Hawaii.
- What's more, the decision by many redzone states (mostly in the South and Midwest) to reject the ACA's expansion of Medicaid clearly widened the geographic divide. If you group the states that did and did not expand Medicaid and compare them over time, you can easily see the two groups parted ways after 2013.



(VIEW LARGER IMAGE)

- Medical debt is a significant burden for many American households. It hurts their credit scores and, in extreme cases, it can lead to wage garnishment or lawsuits. It is **the most common reason Americans declare bankruptcy**. By county, high medical debt coincides fairly closely to low credit scores. (See chart below.) By state, high medical debt coincides fairly close to a high rate of Chapter 13 bankruptcy filings.



- One further note on the data: The magnitude of the medical debt burden may actually be worse than what the study reveals. The \$140 billion figure does not cover all medical bills owed, only those that have gone into collections. Nor does it cover medical bills paid with credit cards. In a **recent Experian survey**, 54% of consumers said they prefer to pay for medical services by card. This suggests that much medical debt is in fact not being collected as "medical debt," but rather as credit-card debt.
- So how is all this likely play out? Assuming no large federal healthcare reform (hardly a near-term prospect), I think the likely path forward is adjustment by all parties.
- A growing share of households will simply choose never to pay off their medical debt. They may be OK with living without a new credit card or mortgage for seven years (at which time, medical debt is dropped from credit reports). Reporting agencies may adjust by speeding up the downgrading of medical debt. Providers will face dropping income from collection agencies, forcing providers in turn either to refuse treatment without upfront payment or to appeal to state and federal agencies for "uncollectable" adjustment (which constitutes a sort of backdoor safety net). The **direct payment or cash-and-carry model** will continue to proliferate.
- In many ways, medical debt has come to resemble student debt. Student debtors are heavily weighted to the bluezone, medical debtors more to the redzone. And a growing share of both are reconciling themselves to never paying it back. (See **"Student Loans Are Already a Big Loss for Taxpayers."**)