

## TOUGH TRADE-OFFS: MEDICAL BILLS, FAMILY FINANCES AND ACCESS TO CARE

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*About 20 million American families—representing 43 million people—reported problems paying medical bills in 2003, according to a new study by the Center for Studying Health System Change (HSC). While uninsured families are more likely to have medical bill problems, two-thirds of families with problems paying medical bills have health insurance coverage. Of all families with medical bill problems, almost two-thirds reported difficulty paying for other basic necessities—rent, mortgage payments, transportation or food—as a result of medical debt. People in families with medical bill problems also reported much greater trouble getting care because of cost concerns—one in three did not get a prescription drug, one in four delayed care and one in eight went without needed care.*

### Families with Medical Bill Problems

Many Americans are unable to pay for medical care, a problem that may be worsening because of rapidly rising costs, greater numbers of uninsured Americans, more patient cost sharing for insured people and higher levels of existing consumer debt. Nearly half of all personal bankruptcies are due in part to medical expenses.<sup>1</sup>

New findings from HSC's nationally representative 2003 Community Tracking Study (CTS) Household Survey indicate that many more Americans face the less drastic but still serious consequences of medical debt (see Data Source). When asked "During the past 12 months have you or your family had any problems paying medical bills?" about 20 million families, or one in seven American families, reported problems paying medical bills (see Table 1).<sup>2</sup>

High out-of-pocket medical costs, low incomes, lack of health insurance coverage and inadequate coverage all can contribute to problems paying medical bills. About 35 percent of families with high out-of-pocket costs—defined as \$2,000 or more in the past year—reported problems paying medi-

cal bills, compared with 6.6 percent of families with out-of-pocket medical expenses of \$250 or less.<sup>3</sup>

However, even modest out-of-pocket medical expenses can cause difficulties for low-income families, who also are more likely to be uninsured. About one-fifth of low-income families—those with family incomes less than 200 percent of the federal poverty level, or \$36,800 for a family of four in 2003—had problems paying medical bills, compared with 7.4 percent of families with incomes 400 percent of poverty or higher. And while about one-third of families overall have incomes below 200 percent of poverty, about half of all families with medical bill problems are low income (findings not shown).

### Insurance Coverage

As other studies have noted, health insurance does not always protect a family from medical bill problems.<sup>4</sup> Uninsured families—all family members are uninsured—are about twice as likely to report medical

bill problems as insured families (23.7% for uninsured families compared with 11.4% for insured families). But insured families—all members have coverage—comprise the majority (68%) of families with medical bill problems. Even with insurance coverage, many families face higher out-of-pocket medical expenses because of rising deductibles, copayments and coinsurance, where patients pay a percentage of the total bill.

Among insured families, the prevalence of medical bill problems varies by type of insurance coverage. Elderly families covered by Medicare were less likely to report medical bill problems compared with non-elderly insured families—the family respondent was less than age 65. Elderly people may place a higher priority on medical care and may face fewer trade-offs with other expenses compared with families with young children.

Among nonelderly families, privately insured families were less likely than publicly insured families to report problems paying medical bills, primarily because

the privately insured tend to have higher incomes and fewer health problems.<sup>5</sup> Still, 17.2 percent of publicly insured nonelderly families reported problems paying medical bills, a surprisingly high number since most are covered under Medicaid or other state programs that typically have little or no patient cost sharing. However, many families with public coverage have high medical needs and few resources, and, therefore, even modest out-of-pocket costs can easily strain available resources. In addition, Medicaid and other public program beneficiaries are increasingly facing copayments for care and restrictions on services such as prescription drugs.

### High Medical Needs

Finally, families with members who require more care and use hospital services more frequently are more likely to report medical bill problems (See Table 2). Families with a person in fair or poor health or a member with at least one chronic condition had greater problems paying their medical bills, likely a result of the frequent utilization and high medical costs associated with taking care of a sick individual.

Indeed, about a quarter of families who had a member with a hospital stay in the previous year reported problems paying medical bills, as well as about one-fourth of families with a visit to a hospital emergency department.

### Impact on Family Finances

Families with medical bill problems are extremely likely to experience some negative impact on their finances. Of all families with medical bill problems, 63.1 percent reported difficulty paying for other basic necessities—such as rent, mortgage payments, transportation or food—as a result of their medical bills.

More than 60 percent of families with medical bill problems also reported being contacted by a collection agency, and about half reported putting off a major

**TABLE 1**  
**U.S. Families with Problems Paying Medical Bills**

	FAMILIES WITH MEDICAL BILL PROBLEMS	NO. OF FAMILIES WITH MEDICAL BILL PROBLEMS (THOUSANDS)
ALL U.S. FAMILIES	13.9%	19,849
FAMILY INCOME		
BELOW 100% POVERTY LEVEL	19.9*	3,928
100-200%	21.8*	5,775
200-300%	15.9	3,878
300-400%	12.4	2,318
400% AND HIGHER	7.4*	3,950
ANNUAL OUT-OF-POCKET COSTS		
\$0 TO \$250	6.6*	4,671
\$251 TO \$800	16.8*	5,671
\$801 TO \$2,000	23.1*	4,700
MORE THAN \$2,000	34.9*	3,679
INSURANCE COVERAGE <sup>1</sup>		
ALL FAMILY MEMBERS UNINSURED	23.7*	4,033
ALL FAMILY MEMBERS INSURED	11.4*	13,480
TYPE OF INSURANCE COVERAGE		
FAMILY HEAD OVER AGE 65		
MEDICARE	7.1*	1,773
FAMILY HEAD LESS THAN AGE 65		
PRIVATE ONLY	11.1*	7,565
PUBLIC ONLY <sup>2</sup>	17.2*	2,389
MIX OF PUBLIC AND PRIVATE	17.0	1,657

\*Difference with U.S. average is statistically significant at .05 level.

<sup>1</sup> Insurance coverage is determined based on the day of the interview. Excludes families which have a mix of insured and uninsured members (11.8% of all families).

<sup>2</sup> Public coverage includes Medicaid, Medicare (if family head is under age 65), State Children's Health Insurance Program, military coverage, Indian Health Service, and any other unspecified coverage.

Source: Community Tracking Study Household Survey, 2003

purchase or borrowing money. Almost all families with medical bill problems (94%) reported at least one of these adverse financial effects and nearly a quarter experienced all four negative consequences. Insured and uninsured families reported similar effects of medical bill problems on their family finances, though insured families were substantially more likely to report being contacted by a collection agency.

### Bill Problems Hinder Access

People in families with medical bill problems also have a much harder time getting medical care (See Table 3). They were four times more likely to report delaying care in the past year because of cost concerns and five times more likely to report an unmet medical need in the past year because of cost, compared with people in families without bill problems.

In addition, more than 30 percent of those in families with bill problems report-

ed they did not get prescription drugs because of cost, compared with 7 percent of individuals in families without bill problems. For families with existing medical bills, limited resources, the fear of generating additional medical bills, and some providers' unwillingness to treat patients with outstanding debts may force many to postpone or forgo needed medical care because of out-of-pocket costs.

Discrepancies in access to medical care are not just the result of lower rates of health insurance coverage among persons in families with medical bill problems. Although uninsured people overall are more likely to have difficulty getting medical care, insured people in families with bill problems are much more likely to experience difficulty getting care compared with insured persons in families without medical bill problems. For example, more than one-fourth of insured people (27.1%) in families with medical bill problems reported not getting needed prescription drugs, compared with 5.4 percent in families without medical bill problems.

Nevertheless, medical bill problems affect uninsured people the most, with almost half of uninsured people in families with bill problems reporting that they didn't get needed prescription drugs.

## Implications

While it is generally known that high medical costs can have serious financial consequences for uninsured people, there has been less awareness that high out-of-pocket medical costs can have serious financial consequences for insured families as well.

Policy makers have been most concerned about the effect of increasingly high health insurance premiums on insured people's continued enrollment in coverage. But the results of this study show that high out-of-pocket expenses also result in a substantial financial burden for many insured people and families. Moreover, these expenses often reach a serious enough level that they negatively affect family finances

**TABLE 2**  
**Families with Medical Bill Problems, Health Status and Hospital Use**

	FAMILIES WITH MEDICAL BILL PROBLEMS	NO. OF FAMILIES WITH MEDICAL BILL PROBLEMS (THOUSANDS)
ALL U.S. FAMILIES	13.9%	19,849
<b>HEALTH STATUS</b>		
FAMILIES WITH MEMBER IN FAIR OR POOR HEALTH	25.2*	8,388
FAMILIES WITH MEMBER WITH ONE OR MORE CHRONIC CONDITIONS	17.5*	14,664
<b>HOSPITAL USE IN PAST YEAR</b>		
FAMILIES WITH MEMBER WITH A HOSPITAL STAY (EXCLUDING DELIVERY OF A CHILD)	23.4*	6,141
FAMILIES WITH MEMBERS WITH EMERGENCY DEPARTMENT VISIT	24.3*	9,802

\*Difference with U.S. average is statistically significant at .05 level.

Source: Community Tracking Study Household Survey, 2003

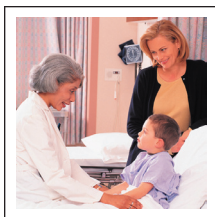
and access to care.

The number of American families with problems paying medical bills is likely to increase. In addition to the long-term increase in the number of uninsured Americans, many employers are shifting more health costs to employees. Also, while Medicaid has traditionally covered a wide range of services with little or no patient cost sharing, many states are reducing benefits, imposing limits on use, such as number of prescriptions allowed per month, and introducing copayments on some services to contain escalating costs.

Along with the emergence of consumer-driven health plans, as well as attempts by some states to loosen regulations regarding mandated benefits, both privately and publicly insured people will likely face growing out-of-pocket medical costs. That medical bill problems for insured persons are serious enough to affect family finances and impede medical care use may limit the appeal of certain types of consumer-driven health plans, including the new health savings accounts (HSAs) passed as part of the 2003 Medicare reform legislation. By providing a tax-free way to save and with-

draw funds for medical expenses, HSAs are intended to encourage enrollment in high-deductible health plans—at least \$1,000 for individuals and \$2,000 for families. However, since so many insured families already have problems paying out-of-pocket costs, the appeal of HSAs may be limited to higher-income families who have both greater resources and a greater tax incentive to contribute to the accounts. HSAs may not be much help to more modest income families with medical debt, unless their employers fund the accounts generously.

Another goal of consumer-driven initiatives is to reduce unnecessary use of services by making consumers more cost-conscious users of medical care. However, for people with low or modest incomes, or with high medical needs, even cost-conscious choices in medical care could leave many families with large unpaid medical bills, leading to both financial difficulties and unmet medical needs. Consumer-driven health plans—such as HSAs—may need to be modified to strike a more appropriate balance between incentives for efficient use of medical care and financial protection for low-income families.



## Data Source

This Issue Brief presents findings from the 2003 HSC Community Tracking Study Household Survey, a nationally representative telephone survey of the civilian, noninstitutionalized population. Data were supplemented by in-person interviews of households without telephones to ensure proper representation. The survey contains information on about 25,400 families and 46,600 persons, and the response rate was 57 percent.

All estimates are at the family level, except for Table 3, in which estimates are for persons. Families in the study are defined as family insurance units (FIUs). An FIU includes an adult, his or her spouse, all children under age 18 and dependent students up to age 22. Extended family members residing in the same household are considered separate FIUs. Insurance coverage is defined based on the day of the interview.

**ISSUE BRIEFS** are published by the Center for Studying Health System Change.

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**TABLE 3**  
**Medical Bill Problems and Access to Care**

	UNMET MEDICAL NEED IN PAST YEAR DUE TO COST	DELAYED CARE IN PAST YEAR DUE TO COST	DIDN'T GET RX DRUGS DUE TO COST
ALL PERSONS	3.8%	9.4%	10.2%
PERSONS IN FAMILIES WITH MEDICAL BILL PROBLEMS	12.4*	25.2*	30.6*
PERSONS IN FAMILIES WITH NO MEDICAL BILL PROBLEMS	2.3	6.6	6.5
INSURED PERSONS	2.5	6.8	8.1
INSURED PERSONS IN FAMILIES WITH MEDICAL BILL PROBLEMS	7.8*	19.3*	27.1*
INSURED PERSONS IN FAMILIES WITH NO MEDICAL BILL PROBLEMS	1.7	5.0	5.4
UNINSURED PERSONS	12.5	25.8	22.9
UNINSURED PERSONS IN FAMILIES WITH MEDICAL BILL PROBLEMS	29.1*	49.1*	47.5*
UNINSURED PERSONS IN FAMILIES WITH NO MEDICAL BILL PROBLEMS	6.6	17.5	14.2

\*Difference with persons in families with no medical bill problems is statistically significant at .05 level.

Source: Community Tracking Study Household Survey, 2003

## Notes

- Jacoby, Melissa B., "Medical Bankruptcy Incidence and its Legal and Practical Limits," presented at the AcademyHealth Annual Research Meeting, June 7, 2004, San Diego, Calif.; Jacoby, Melissa B., Sullivan, Teresa A., and Elizabeth Warren, "Rethinking the Debates Over Health Care Financing: Evidence from the Bankruptcy Courts," *New York University Law Review*, Vol. 76, No. 2 (2001).
- The CTS estimate of 14 percent of families reporting difficulty paying medical bills is lower than that reported in a survey sponsored by the Commonwealth Fund in 2003, in which 41 percent of adults were estimated to have problems with medical debt. The CTS estimate is based exclusively on families' perceptions of problems paying medical bills, whereas the Commonwealth Fund study includes a more expansive definition of individuals with medical debt, regardless of whether they perceive it as a problem. For more information on the estimates from the Commonwealth Fund study, see Collins, Sara R., et al, *The Affordability*
- Crisis in U.S. Health Care: Findings from the Commonwealth Fund Biennial Health Insurance Survey. Commonwealth Fund, New York (March 2004).
- Families may have accumulated medical debt from more than one year before the survey interview, so the amount of out-of-pocket expenses incurred in the previous year does not necessarily reflect total medical debt.
- Short, Pamela F. and Jessica S. Banthin, "New Estimates of the Underinsured Younger Than 65 Years," *Journal of the American Medical Association*, Vol. 274, No. 16: (1995); *The Consequences of Medical Debt: Evidence from Three Communities*, The Access Project (February 2003).
- Multiple regression analysis shows that when family income, family type and health status of family members are accounted for, problems paying medical bills were slightly lower for publicly insured families than for privately insured families.