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Protecting Consumers from Medical Debt

The Impact of Medical Debt

Medical debt is the one of the leading causes of bankruptcy in the United States.[1] In fact, it is estimated that half of all mortgage foreclosures in 2008 were caused by medical debt or illness.[2] Small business owners and the self-employed are particularly vulnerable to medical debt: for example, one-third of California farmers and ranchers report paying more than 10 percent of their income on health costs, and one in five have financial problems as a result.[3] As the economic recession deepens, hundreds of thousands of Californians will lose their insurance coverage,[4] and potentially face the tough choice between going into debt for medical care or dealing with the health consequences of not getting needed care.

The Causes of Medical Debt

The uninsured are not the only ones at risk of medical debt: three out of four families with medical debt had insurance at the time they got sick.[5] An estimated 25 million Americans are "underinsured," a 60 percent increase since 2003.[6] Middle-income families experienced the largest growth in underinsurance, with the number of underinsured nearly tripling from 2003 to 2007. In addition to the lack of insurance, other causes of medical debt include:

- **"Junk" insurance**. Some insurance plans are marketed as offering financial protection in case of "catastrophic" illness, but have large gaps in coverage that leave consumers paying, in effect, to be uninsured. For example, many so-called "catastrophic" plans offer "hospital-only" coverage, even though the majority of surgeries and chemotherapy treatments are now done in outpatient settings.[7] A consumer with such a plan who gets diagnosed with cancer or another serious illness could find herself needing tens of thousands of dollars worth of care, for which she will be completely uninsured. Other forms of junk insurance include plans that do not cover any hospital care, or that cover only a tiny fraction of the cost of hospital care, which can easily run over $1,000 per day.

- **Insurance plans with no out-of-pocket maximum.** Some plans marketed as "catastrophic" set no maximum limit on how much money a consumer may be liable for. People with such plans who experience a major illness, injury, or chronic condition can reach their coverage limit quickly and then be liable for hundreds of thousands of dollars in additional costs, which can eventually lead to bankruptcy.

- **Confusion about the different plans in the individual insurance market**. Trying to buy insurance on your own is a difficult task. Because different plans have different deductibles, copayments, covered benefits, and annual or lifetime maximums, it is nearly impossible for a consumer to compare "apples to apples" in order to identify the best plan for them. As a result, too many consumers pay for plans that do not offer the coverage they need. With the ongoing economic downturn and the erosion of employer-sponsored coverage in California,[8] more families are turning to the individual market for coverage. For small business owners and the self-employed, the individual market is often the only option available, yet it can leave people unwittingly underinsured.

- **Misleading sales practices**. To help understand their insurance choices, some consumers and many smaller businesses consult with an insurance agent or broker. Agents are paid by insurance companies on a commission basis but have no obligation to disclose their commission amounts to their customers. Insurance agents thus have a financial incentive to sell coverage, even if that coverage may not be the best financial product for the consumer.

- **Overcharging for emergency room visits.** Uninsured and underinsured patients who go to an emergency room are often charged many times what an insurer or government program actually pays. Without bargaining power, these "self-pay" patients receive inflated bills from the hospital and from attending physicians. In 2006, California passed a law to prevent hospitals from collecting more

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from uninsured and underinsured patients than what Medicare or other public programs would pay for the same service. Hospitals are just starting to implement the law, and it is still common for emergency room doctors to charge uninsured patients three to ten times what Medicare and other insurers will pay for exactly the same service.

Protecting Consumers From Medical Debt

One important role of government is to make rules to protect consumers from unfair or deceptive business practices. In other words, the state has the responsibility to ensure that Californians who purchase coverage will have coverage they can count on when they need it. California should also protect and prevent consumers from being overcharged by health care providers. As such, Health Access recommends the following policy changes to reform some of the underlying causes of medical debt for Californians.

- **SET STANDARDS FOR INSURANCE COVERAGE**. AB 786 by Assemblymember Jones (D-Sacramento) would minimize "junk" insurance by requiring all health insurers to report plan benefits and information in standard language, and by requiring regulators to establish out-of-pocket maximums for all policies sold in the individual insurance market. AB 786 would also help consumers better compare plans by categorizing them based on the comprehensiveness of the coverage in terms of benefits, premiums, and cost-sharing. Insurers could continue to offer customers a range of choices, including plans with high deductibles, but at least consumers would have some protections and be able to clearly understand the coverage they are purchasing.

- **LIMIT PAYMENT TO INSURANCE BROKERS SO THAT THE CUSTOMER COMES FIRST**. AB 1521, also by Assemblymember Jones (D-Sacramento), would place limits on how health insurers compensate brokers. The limits in AB 1521 would change the broker compensation so that brokers would not have an incentive to encourage their clients to switch plans frequently, a process known as "churning." This bill will discourage agents from steering customers towards the most profitable plan for the agent rather than the plan that best fits the customer.

- **ENSURE FAIR PRICING FOR EMERGENCY ROOM CARE**. AB 1503 by Assemblymember Lieu (D-Torrance) would prohibit emergency room doctors from charging uninsured and underinsured patients more for services than they would charge an insured patient. Right now, the medical bills for self-pay patients are often multiple times what an insurer or government program would pay for the same service. An emergency medical situation should not be an opportunity to exploit someone's misfortune.

If you are struggling with medical debt or underinsurance and would like information about consumer protection rules and resources, or to share your story to raise awareness on the issue, please contact Jessica Rothhaar at jessicar@health-access.org or 510-873-8787 ext. 107

[1] D Himmelstein, *et al.*, "MarketWatch: Illness and Injury as Contributors to Bankruptcy," *Health Affairs*, (February 2005).
[2] C. Robertson, *et al.*, "Get Sick, Get Out: The Medical Causes of Home Mortgage Foreclosures," *Health Matrix*, 18: 65-105 (2008).
[3] "2008 Health Insurance Survey of California Farm and Ranch Operators," The Access Project (November 2008).
[4] J. Holahan, *et al.*, "Rising Unemployment, Medicaid and the Uninsured," Kaiser Commission on Medicaid and the Uninsured, (January 2009).
[5] D Himmelstein, *et al.*, "MarketWatch: Illness and Injury as Contributors to Bankruptcy," *Health Affairs*, (February 2005).
[6] C. Schoen, *et al.*, "How Many are Underinsured? Trends Among US Adults, 2003 and 2007," *Health Affairs*, (June 2008).
[7] K. Cullen, *et al.*, "Ambulatory Surgery in the United States, 2006," *National Health Statistics Reports*, 11 (January 2009).
[8] E. Gould, "The Erosion of Employer-Sponsored Health Insurance," Economic Policy Institute (October 2008).