RIP MEDICAL DEBT

NEIGHBORHOOD TRUST FINANCIAL PARTNERS

The Negative Impact of Medical Debt on Overall Health

THE PROBLEM

Research has shown that medical debt is deeply intertwined with financial, mental and physical health, and that it negatively impacts many facets of individuals' lives.

- About one third of U.S. adults have difficulty covering unexpected expenses including out-of-pocket spending for health care.
- Medical debt is the leading cause of bankruptcy in the U.S.
- KFF found that, due to generations of discrimination and racism across the healthcare, labor and financial markets, 60% of Black adults and 65% of Hispanic adults reported difficulty affording health care costs, relative to only 39% of white adults.
- Health System Tracker found that half of all adults worry about their ability to pay medical bills if they get sick or have an accident. And this stress is shown to damage physical health, exacerbating the cycle of medical debt and its cascading effects on overall health.

Our previous reports for employers and hospitals shared our research results demonstrating that insurance alone is not enough to avoid medical debt. In this brief, we share our findings that medical debt has negative and compounding impacts on the financial, mental and physical health of low- to moderate- income workers. 82% of respondents reported being employed in some capacity; therefore, while we did not segment our findings by employment status, our results primarily reflect the experiences of employed respondents.

OUR FINDINGS

Medical debt negatively impacted respondents' financial health.
Among the 70% of respondents with current medical debt:

- **57%** reported cutting back spending on food, clothing, or basic household items as a result of their medical debt.
- **56%** reported that their medical debt negatively affected their plans for the future
- **39%** reported borrowing money from friends or family as a result of their medical debt
- **27%** reported an impact on their access to housing (rental or ownership)

> *My experience in paying for healthcare is that I have to choose whether to pay my rent, buy food that I need, or just worry that if I pay for insurance, will I have money for any other emergency that comes up.*
>
> — TANYA

The more medical debt respondents had, the more likely that they had experienced a negative impact on their financial health as a result. *See Chart 1.* These results substantiate research from Financial Health Network, which found that experiencing a major medical expense is associated with a 39% increase in the odds of becoming Financially Unhealthy.

When income is siphoned off by medical bill payments, our results show that individuals are forced to either cut back on basic needs, turn to debt, or drain their savings—further exacerbating their financial precarity.

Additionally, credit scores and access to credit are critical for refinancing existing debt or avoiding predatory future debt. As medical debt grows, these lifelines become less accessible and financial security becomes even further out of reach. *See Chart 2.*

CHART 1 **In the past two years, have you done any of the following as a result of your medical debt?**

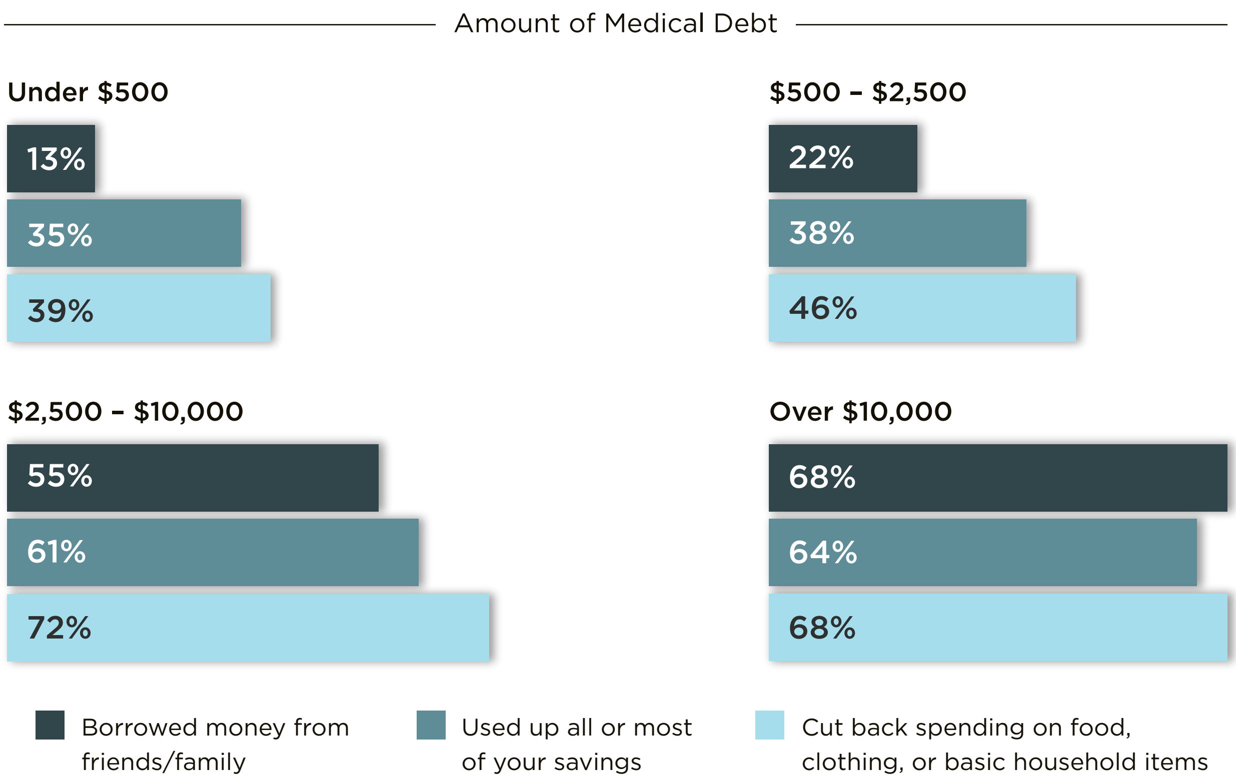
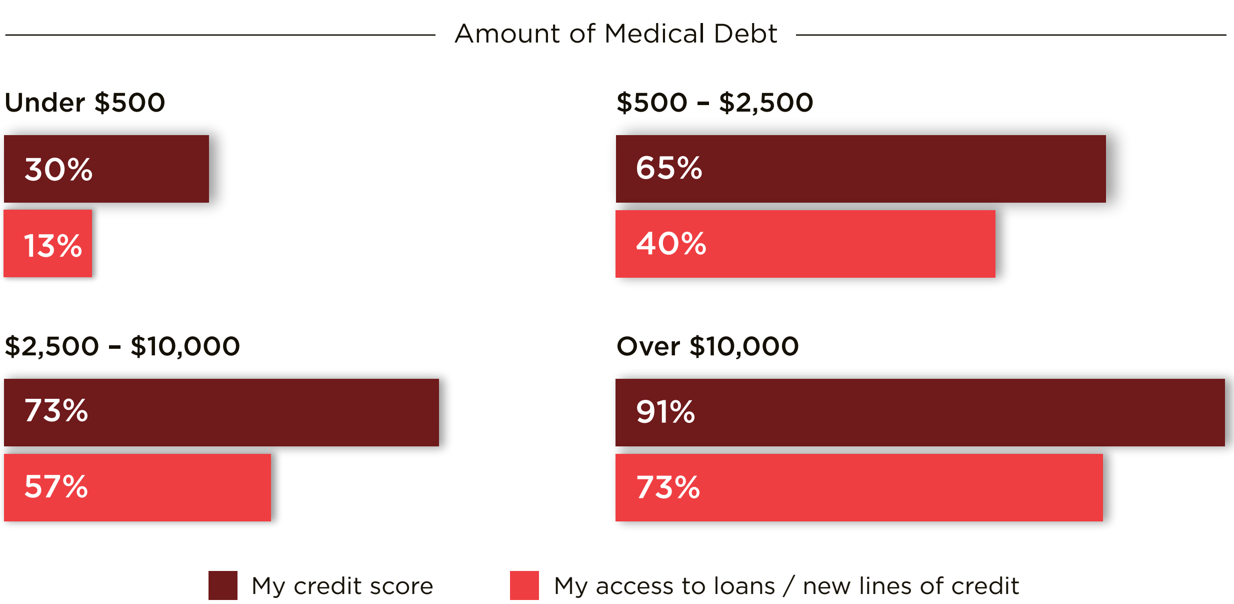


CHART 2 **Which of the following has your medical debt negatively affected?**



Medical debt negatively impacted respondents' mental health.

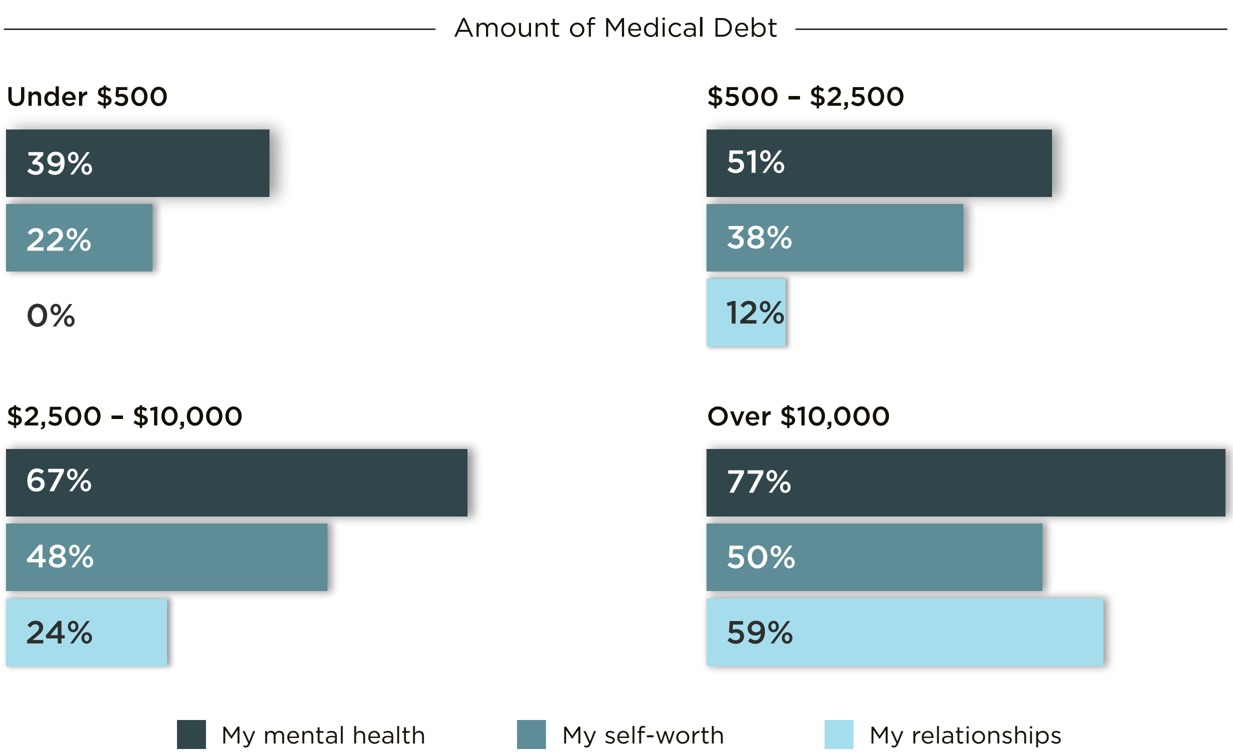
Among those with current medical debt:

- **60%** reported that their medical debt negatively affected their mental health
- **42%** reported that it negatively affected their self-worth
- **21%** reported that it negatively affected their relationships

Similar to the impact of more medical debt on financial health outcomes, our survey revealed that increasing medical debt amounts also correlated with increasing rates of reported negative impacts on respondents' mental health, self-worth, and relationships. *See Chart 3*.

> *Having medical debt comes with a lot of mental stress for me. Even with health insurance, I don't understand the high amount I have to pay out of pocket. It's very frustrating and stressful to focus on my health.*
>
> — MICHELLE

CHART 3 **Which of the following has your medical debt negatively affected?**



> *If I try to put [my experiences paying for healthcare] into words, those words would just be a long string of vulgarities. So I won't try.*
>
> — ALEX

Medical debt negatively impacted respondents' physical health and ability to take care of their health.

As cited in our first brief, among respondents with current medical debt:

- **50%** reported skipping seeing a doctor when I needed to
- **45%** reported skipping routine care such as check-ups, screenings and vaccines
- **39%** reported that their medical debt has negatively affected their ability to fight their illness
- **25%** reported skipping doses or taking less medication than prescribed

These avoidance behaviors (aka "deferred care") not only increase the risk of devastating health outcomes due to delayed diagnoses or condition progression, but are also likely to increase the cost of care. One study found that on average, a six day delay between diagnosis and treatment nearly doubles the cost of treatment in a hospital setting.

Also noteworthy is that being relatively healthy is insufficient to avoid accruing medical debt and increasing the risk of future health challenges. 70% of our survey respondents who self-reported that their health was "good" still reported carrying current medical debt.

> *The overall cost of treatment is overwhelming. I avoid the doctor because I cannot afford the cost but at times it's detrimental. Then I end up in the hospital, sometimes for days at a time. I just can't afford the cost of healthcare.*
>
> — ABBY

WHY THIS MATTERS FOR EMPLOYERS

Medical debt and its ripple effects on financial, mental and physical health are not only detrimental to workers' well-being but are also shown to reduce workplace productivity. Meanwhile, "employees who feel cared for by their employer are more likely to feel positively about their job, feel engaged at work, be more loyal, and be more productive." And "workers who feel financially healthy are 87% more likely to feel cared for most of the time they are working."

The interrelated nature of medical debt with financial security means that employers have an opportunity to have an outsized impact on their employees' well-being by investing further in their healthcare and complementary benefits. In response to PayPal's recent benefits overhaul, one employee shared:

> *The pay is good, but I could probably earn more at other companies. But the cost of the medical benefits and other benefits really offsets the extra income that I could earn another company. And I really think that the fact that I work for a company that's supportive of its employees is one of the largest reasons why I enjoy working here.*

So far in 2023, employees' satisfaction with their benefits has dropped to 61% from 64% last year, while 83% of employers estimate that their employees are satisfied. If employers can close the perceived vs. real satisfaction gap by offering more robust benefits that are relevant to their employees' needs, they will not only better support employees' overall health but also reduce stress and increase feelings of being cared for. **These improvements will in turn generate a win-win for both employees and employers' bottom line.**

WHAT CAN I DO?

Providing healthcare and other related benefits that prevent the accumulation of medical debt is likely to maximize positive outcomes since medical debt is so intertwined with aspects of overall health and wellness. For employers starting to reevaluate their benefits offerings, **we recommend starting with surveying your own employees or conducting focus groups to understand to what degree they're struggling with medical debt and/or their financial, mental or physical health, and ask them what would be most helpful to them.** This exercise will not only display care for your employees, which alone is shown to increase loyalty, productivity, and engagement, but also surface opportunities to improve benefits. For example, PayPal found that by increasing employer-subsidy towards healthcare premiums, many employees were able to enroll in plans that better met their needs. For one employee, a lower premium freed up $74 each month to help cover copays, groceries, transportation, etc.—expenses she previously would've needed to cover with high-interest credit.

In addition to increasing premium subsidies, there are a wide range of options for improving employee financial health and mitigating the negative impacts of medical debt—some of which may even be of no cost to employers. Recommendations to emerge from prior research include:

- Don't limit HSA contributions to a match structure. Contribute to HSA or FSA accounts, regardless of whether employees are able to contribute themselves, and ensure employees are informed about how to use these accounts to their full potential.
- Ensure your healthcare benefits cover mental health care such as therapy, and incorporate dedicated mental health days into your personnel PTO policies. Alternatively, offer an EAP that provides affordable access to mental health care.
- For those that employ workers who live in healthcare deserts, ensure your healthcare benefits include telehealth to enable access to affordable preventative care and reduce dependence on costly emergency rooms as the only means of accessing treatment.
- Permit employees (particularly hourly workers) to attend doctor's appointments during the workday, as doctor's offices are often only open during typical business hours. Do not penalize employees for seeking care, either allow them to attend appointments during paid time or enable them to make up the hours.

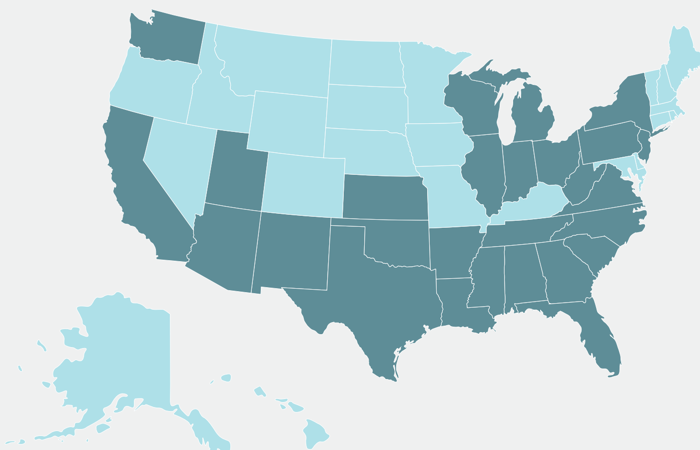
And if you want to help your workers mitigate the damage of their existing debt, alongside our above recommendations for preventing medical debt, consider providing information about free medical debt-specific resources such as Dollar For, which helps individuals understand and negotiate their medical bills.

Email us at workerinsights@neighborhoodtrust.org if you want to be notified when we publish our next report on what role employers can play in solving the medical debt crisis for their employees.

Project Background

Neighborhood Trust and RIP Medical Debt are partnering to generate awareness, understanding and solutions that enable employers and hospitals to do their part to reduce medical debt burdens, specifically among lower-wage workers. This work will bring the perspectives of low-income workers and those below the poverty line to the forefront of discussions about medical debt and health benefit designs. For Phase 1* of this project, we surveyed** 230 low-income individuals, including Neighborhood Trust's financial coaching clients and those who have benefited from RIPMD's medical debt relief work. The survey included questions about respondents' medical debt burdens, the impacts of their debt, and how they accrued it.

Survey Respondent Demographics



Participants represented 27 states, with the most respondents in TX, MI, SC and FL.

- **76%** of respondents reported **household income** of $60,000 or below.
- **80%** identified as **female**.
- **32%** identified as Black or African American, **36%** as Caucasian or White, and **17%** Hispanic or Latino.
- Average **health rating** on scale of 1 – 5 was a **2.83**, with 1 being poor and 5 being excellent.
- **68%** reported currently having **medical debt**.
- **75%** estimated having between **$500 and $10,000** in medical debt.

Footnotes

*Phase 1 ("Awareness) of this project intends to increase awareness of the prevalence and negative impacts of medical debt, and why it should matter to employers and hospitals to intervene. Phase 2 ("Understanding") will aim to surface nuanced underlying drivers of medical debt that may be overlooked or misunderstood, and that present innovative leverage points to reduce medical debt, via individual qualitative interviews. And Phase 3 ("Solutions") will offer recommended solutions for employers and hospitals to take up, incorporating new leverage points revealed in Phase 2 and accounting for implementation barriers.

**We designed our survey in QuestionPro, with support from the Social Policy Institute at WashU. Several of the questions we included were previously validated by the Kaiser Family Foundation's research. We emailed the survey to 3,220 Neighborhood Trust clients and 897 RIP Medical Debt beneficiaries, and pledged $5 gift cards for their time. We received 230 complete responses after 3 rounds of outreach. We then conducted X/Y comparison analysis in Excel.