MEDICAL BILLS AND CREDIT CARDS

What You Should Know

Healthcare Costs and Medical Debt

Caring for your health and your finances

Talking about your healthcare is taboo, and most people in the U.S. prefer to keep their medical issues to themselves. But that attitude has bled over into the topic of healthcare costs, making those suffering from exorbitant bills feel alone and helpless.

Fortunately, you are far from alone. If you have high medical bills or medical debt in collections, there are plenty of options for you to pay off what you owe and relieve the burden. This booklet reviews important facts about medical costs, how to pay a high medical bill, what to do if your bill is sent to collections, and more.

The facts about medical costs

The Peter G. Peterson Foundation predicts healthcare spending will soon outpace the rest of the economy. It’s already difficult for the average family to keep up with medical bills, and it’s only going to get harder.

A study from the Journal of the American Medical Association (JAMA) shows there are several factors contributing to the rise in healthcare costs, including increasing incidences of disease, an aging population, and general population growth. The rising cost of medications, however, is responsible for 50 percent of the increase.

A 2020 CNBC report revealed that 32 percent of Americans have medical debt. Of those, half have defaulted on the debt. Twenty-eight percent owe more than $10,000. This is more than the average emergency savings fund, and far more than many families anticipate spending on healthcare.

Much of this debt may be due to emergencies. A 2016 Kaiser Family Foundation/New York Times Survey showed that 66 percent of those in medical debt were struggling because of a short-term or one-time medical event.

Unfortunately, higher prices have caused some Americans to avoid getting the healthcare they need. According to a 2020 Bankrate survey, 32 percent of U.S. families avoided medical treatment because of cost in the past 12 months.

But what about insurance? It turns out that rising deductibles are taking their toll. The average annual out-of-pocket healthcare spend is now $5,000.

Where insurance fits in

You could have employer-sponsored health insurance or pay for it on your own. What you pay depends on your coverage and your deductible. If you have a high deductible, you will pay full price for medical treatments until you reach that amount. After you meet the deductible, insurance covers everything. Many plans cover preventative care before you meet your deductible, though, so you will only have to pay a nominal copay for things like checkups and wellness visits.

Choosing your plan's deductible is extremely important for the future of your healthcare costs. According to the Kaiser Family Foundation/New York Times Medical Billing Survey, 15 percent of those with medical bill problems had a low-deductible plan while 26 percent had a high-deductible plan.

Insurance companies often have advocates who can both explain the items on your bills and talk to medical providers about charges. Talk to your employer or call your insurance provider directly to connect with one of these advocates.

Ask about coding

Procedures are “coded” in various ways by medical providers to let insurance companies know which treatments were received. Incorrect coding could result in you being charged a much higher price that should have been low-cost or free. Before you go to the doctor, call your insurance company and ask how your visit should be coded by the office to get the lowest price. Then, tell your provider how the appointment should be coded to make sure it’s correct.

Get an itemized bill

This is the first thing you should ask for whenever you receive treatment. An itemized bill shows you what you were charged for and exactly how much it cost. Double-check the list to make sure you actually received everything on it. If there’s something you don’t understand, you aren’t alone. A 2016 survey from Copatient revealed that 72 percent of Americans are confused by the medical bills they receive. Ask the office or contact your insurance company to get an explanation.

If you don’t have insurance, you still have options.

Tell your provider if you don’t have insurance and ask about a “self-pay” price. Some healthcare offices offer discounts for people paying out-of-pocket. They would rather you pay something than ignore the bill because you can’t afford it.

For prescriptions, you can try sites like GoodRx.com or AmericasPharmacy.com to locate pharmacies with lower-cost prescriptions and get free coupons. You can also ask your doctor about the generic version of a medication or see if they have prescription samples.

Medicaid and Medicare

If you qualify for Medicare or Medicaid, these programs can help reduce your healthcare costs like insurance. Still, not everything will be covered. You can use the prescription programs mentioned above for medications and try to negotiate with your providers.

Note: Plan for emergencies

One way to reduce medical costs is to research what hospitals and emergency care centers are covered by your plan before you have a health emergency. Research your insurance plan and find out which facilities will be covered. If you don't have insurance, research local facilities with the best out-of-pocket prices.

When medical bills become medical debt

If you consistently ignore a medical bill or cannot pay, the bill gets sent collections. This means that an in-house or third-party agency will take over the debt and contact you about payment.

After this happens, the collector will treat the debt like any other collections account. The only difference is how it affects your credit.

In 2015, credit bureaus changed their policies on medical debt. TransUnion, Experian, and Equifax enacted the National Consumer Assistance Plan, which includes rules guarding against abusive medical debt collection practices. The main tenets are:

- There is a 180-day grace period for medical debt collections, meaning a collector has to wait 180 days before reporting the account to any credit bureaus.
- If an insurance company pays a collections account, it must be removed from the credit report immediately.

These new rules help your case and give you time to deal with medical debt, but your credit may still stuffer.

How medical debt affects your credit

Some credit scoring models treat medical debt collections accounts differently. For example, the newer VantageScore 4.0 will only use medical debt in their calculations if it's older than six months. On the other hand, FICO 8, which is currently the most common score among lenders, treats it like any other collections account.

Your medical expense options

When you get your bill – or a call from a collector – there are several things you can do to find relief.

Ask for a lower rate

If you don't have insurance, you may be able to lower your bill simply by telling the medical office you're paying out of your own pocket. The office or hospital may have a "self-pay" rate for uninsured patients.

Negotiate

No matter where your bill is – either with the medical office or with a debt collector – you have the opportunity to negotiate. Be honest about what you can afford and offer to pay less than what you owe in a lump sum. When you agree on an amount, make sure to get the agreement in writing before you pay.

Payment plans

Whether you're talking to your medical office or a debt collector, you may be able to set up a payment plan. This allows you to pay your bill in installments over time rather than paying a lump sum upfront.

Be wary, though. There may be interest involved, or a medical office could neglect to make a real contract and change the plan's conditions without warning. Ask for a no-interest payment plan and get the details in writing before you commit.

Medical credit cards

Some healthcare providers offer their own credit cards. Like balance transfer cards, they usually have a low or zero-percent interest rate for a short period (usually around one year). These cards and other credit cards can be helpful for paying medical bills. However, they can be disastrous if you don't pay off the bill quickly. Be cautious when using a credit card or signing up for a new one to pay for healthcare expenses. You could end up with more debt than you bargained for.

Credit Counseling/Debt Management Program (DMP)

A DMP can be a great option for those struggling with credit card debt and medical collections. The program minimizes interest, stops future penalties, and enables you to make one monthly payment instead of individual payments to each creditor. It is primarily meant for credit card debt, but you may also be able to include medical collections as well.

If you’re facing challenges with both types of debt, then you should first contact a nonprofit credit counseling agency for a free debt and budget evaluation. A certified credit counselor will look at your debts, credit, and budget to help you identify the best relief option based on your situation. If a debt management program is the best fit, then they can help you enroll.

Consolidation loans

A debt consolidation loan is a personal loan used to pay off existing debts. If you have a good credit score and can get a reasonable interest rate, you could take out a personal loan to pay off your medical expenses. You’ll end up paying more than the original bill, but there is no chance of that medical bill getting sent to collections and hurting your credit.

On the other hand, if you fail to make payments on the personal loan, you can get into more debt and hurt your credit even more. Use a consolidation loan with caution. It might feel good to pay off a bill or debt in collections right away, but you must be sure you can make payments on the loan later.

Settlement

This could be an option if you have medical debt in collections. When you settle a debt, you and the creditor or collector agree on an amount less than what you owe. It will hurt your credit score, but it’s a faster way to get out of debt than a consolidation loan or a payment plan.

There are two ways to settle medical debt. First, you can negotiate a settlement on your own directly with the collection agency. You basically offer to pay a lower amount than what you owe and go back and forth until both parties agree on a new amount.

Second, you could go through a debt settlement agency and they can do the negotiating for you. This can be easier but may come with fees.

Bankruptcy

If you feel like you'll never be able to pay off your medical bill or debt, consider bankruptcy – especially if there are other debts you're struggling with.

Chapter 7 bankruptcy

Also known as "liquidation bankruptcy" because it may involve selling some of your assets to repay your creditors, Chapter 7 is a common form of personal bankruptcy – and the fastest. It's definitely a fresh start, but like all forms of bankruptcy, it will typically cause significant damage to your credit.

Chapter 13 bankruptcy

Chapter 13 is also called "wage earner's bankruptcy." You create a repayment plan through the court that enables you to pay back some of what you owe. If you can handle the monthly payments for this plan, it could work.

More resources

Your options are not limited to the negotiation and debt relief methods described here. Everyone's situation is different. Here are some other sites where you can seek advice:

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HealthCare.gov

https://www.healthcare.gov/

Not only is HealthCare.gov an insurance marketplace, but it's also an informative site about all things healthcare.

MedlinePlus.gov

https://medlineplus.gov/

This is another government healthcare information site. It's run by the U.S. National Library of Medicine.

FairHealthConsumer.org

https://www.fairhealthconsumer.org/

This site helps consumers learn more about insurance and research medical and dental costs.