Trends in Out-of-Pocket Spending and Medical Debt

EBRI Webinar

November 16, 2022

Speakers

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Moderator: **Tami Simon, Senior Vice President, Global Corporate Consulting Business Leader, Segal**

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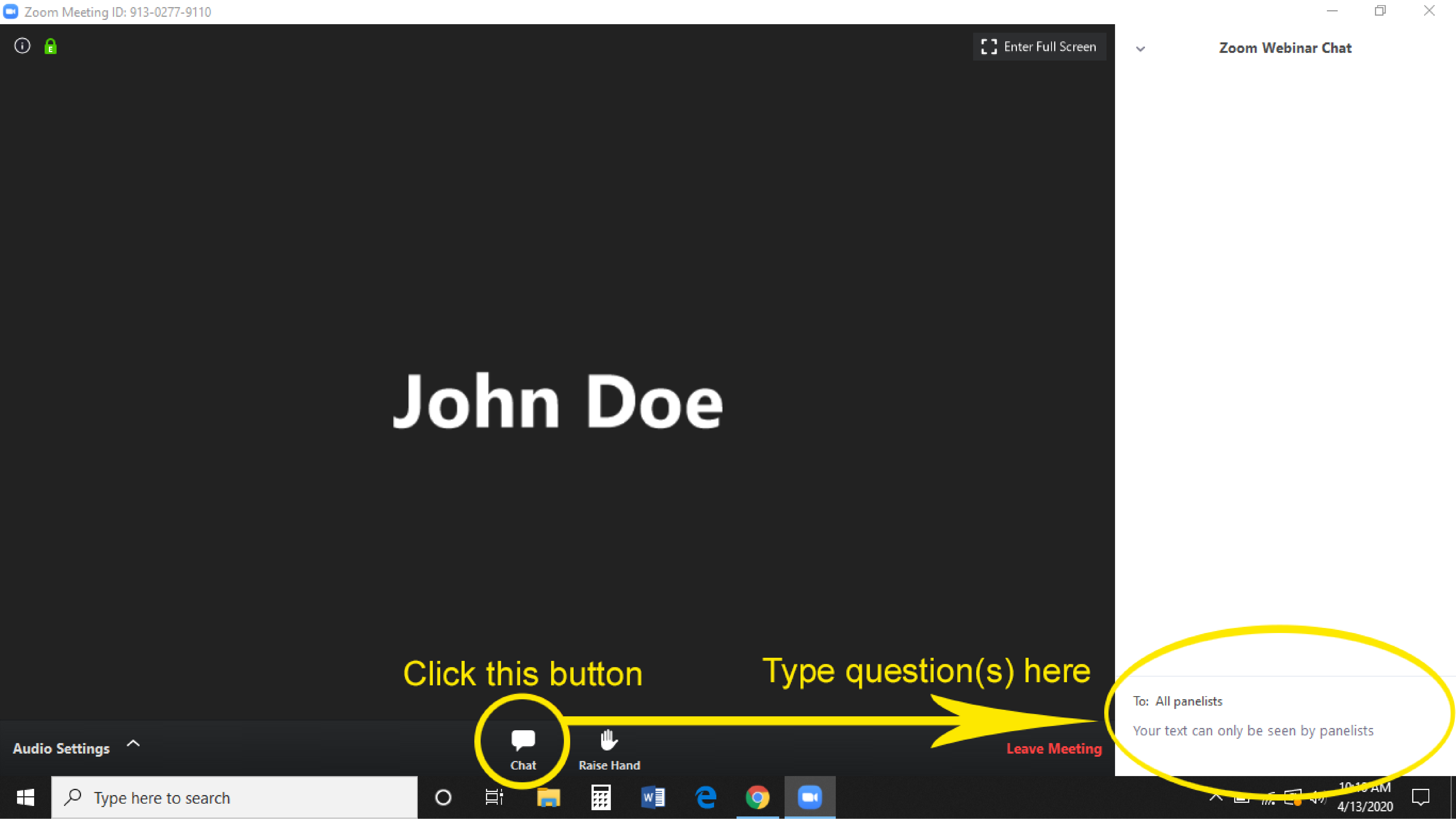
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Trends in Out-of-Pocket Spending

Jake Spiegel

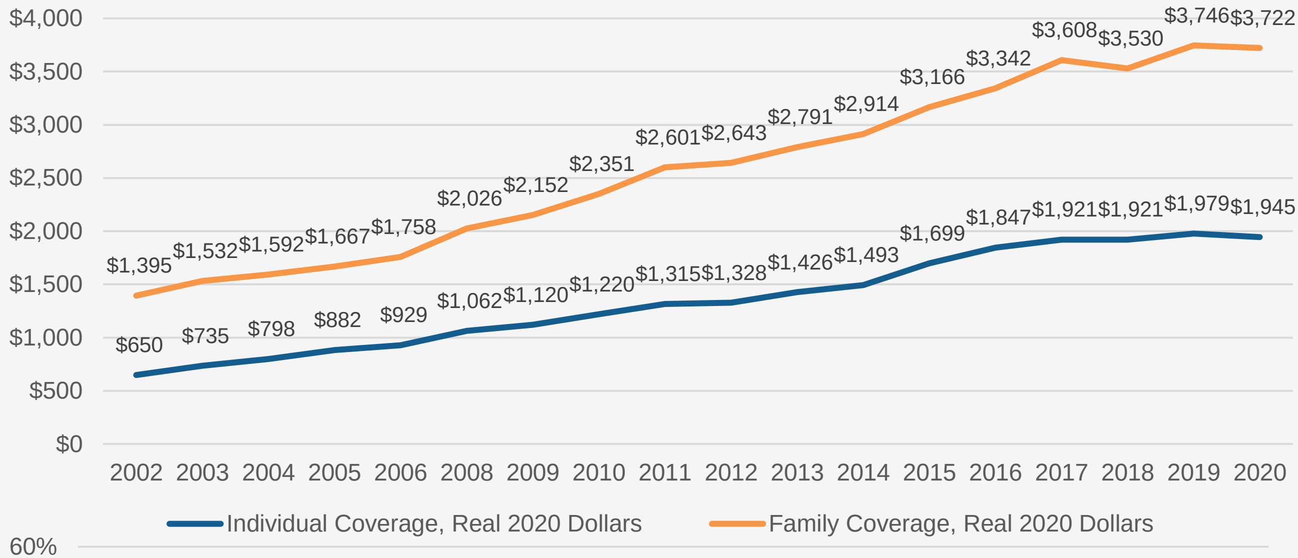
Employee Benefit Research Institute

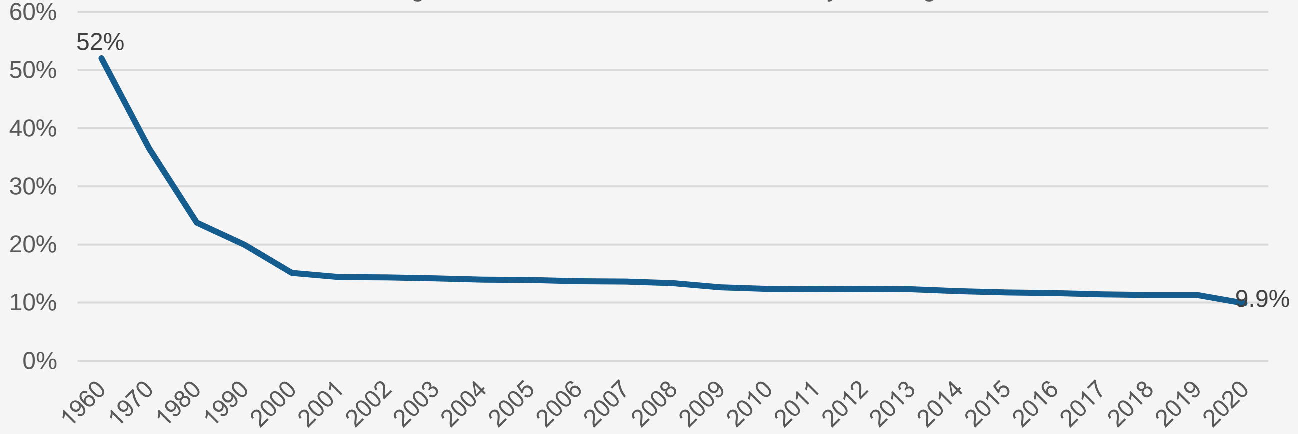
Setting the Stage

- Premiums for employer-sponsored health insurance have significantly outpaced inflation for two decades

- Meanwhile, data collected by the Center for Medicare and Medicaid Studies found that out-of-pocket spending is at its lowest point ever recorded

- What gives?





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Are Out-of-Pocket Costs Increasing?

- EBRI used MarketScan data to evaluate the extent to which out-of-pocket costs are increasing for people covered by employer-sponsored insurance (ESI)
- We examined claims data ranging from 2013 to 2020, accounting for over 45 million patients and nearly $1 trillion in spending
- We examined trends in spending on inpatient services, outpatient services, and prescription drug claims

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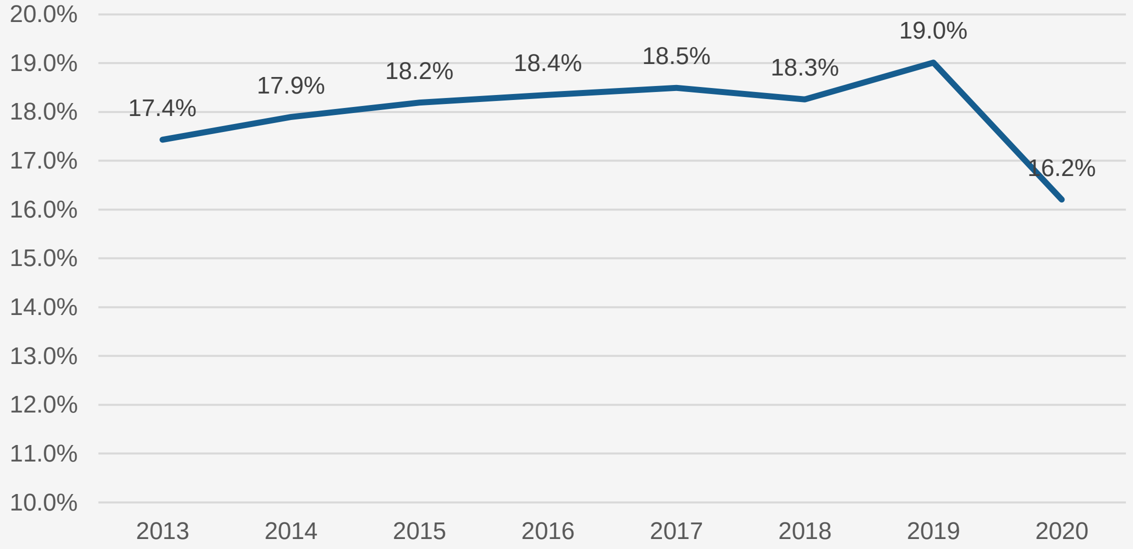
Are Out-of-Pocket Costs Increasing?

- In the aggregate, we find that patients paid a higher share of their medical expenditures out of pocket in 2019 compared to 2013

- A quick aside: the pandemic significantly impacted the use of health care services



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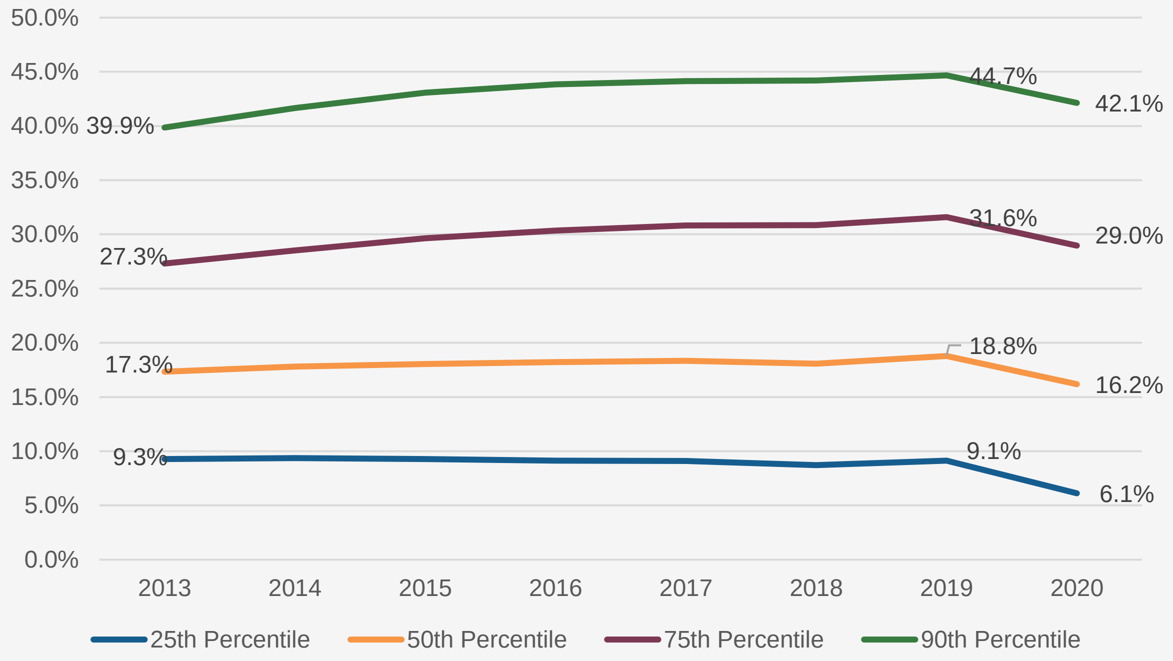
Are Out-of-Pocket Costs Increasing?

- When we break down out-of-pocket spending trends by quartile, we find that particularly high spenders saw their share of out-of-pocket spending rise faster than those in lower spending quartiles



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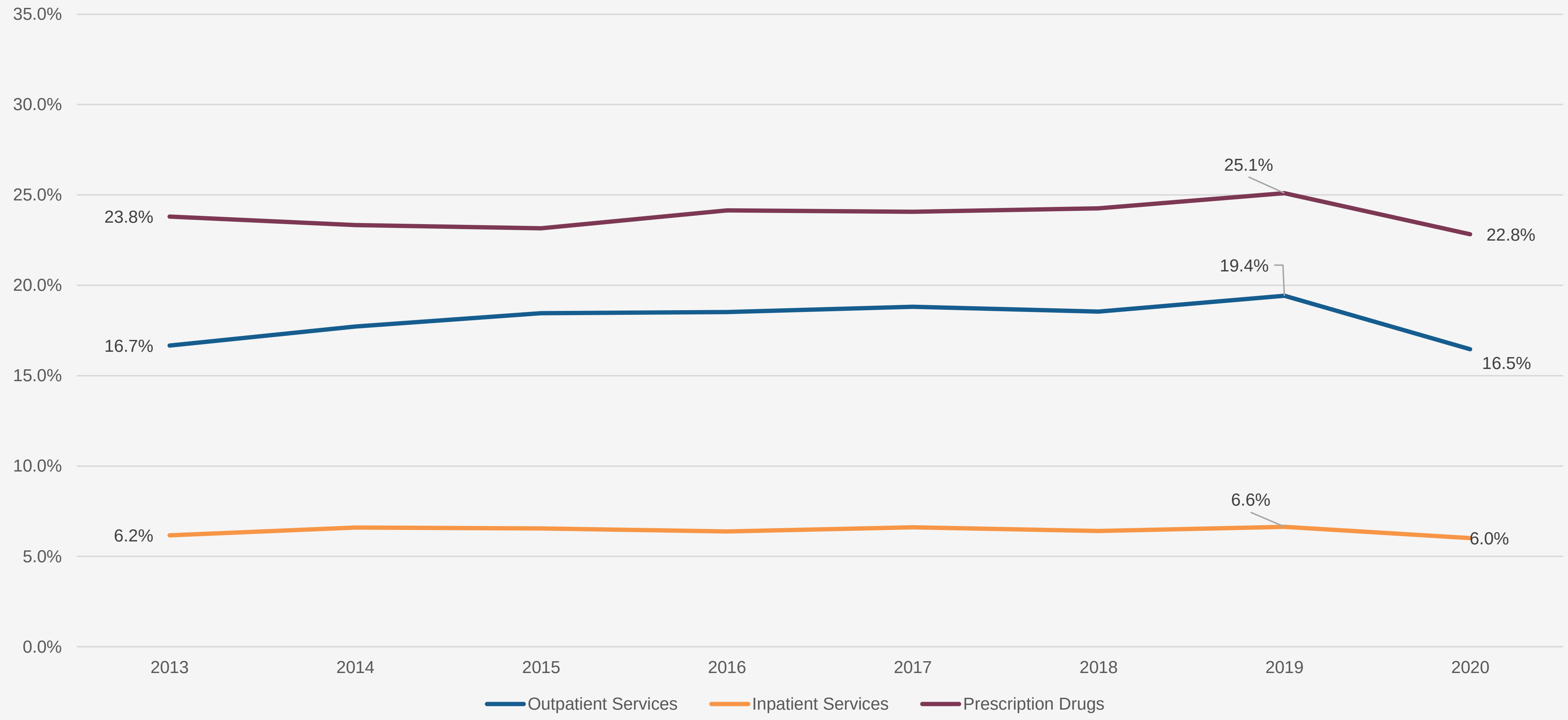
Are Out-of-Pocket Costs Increasing?



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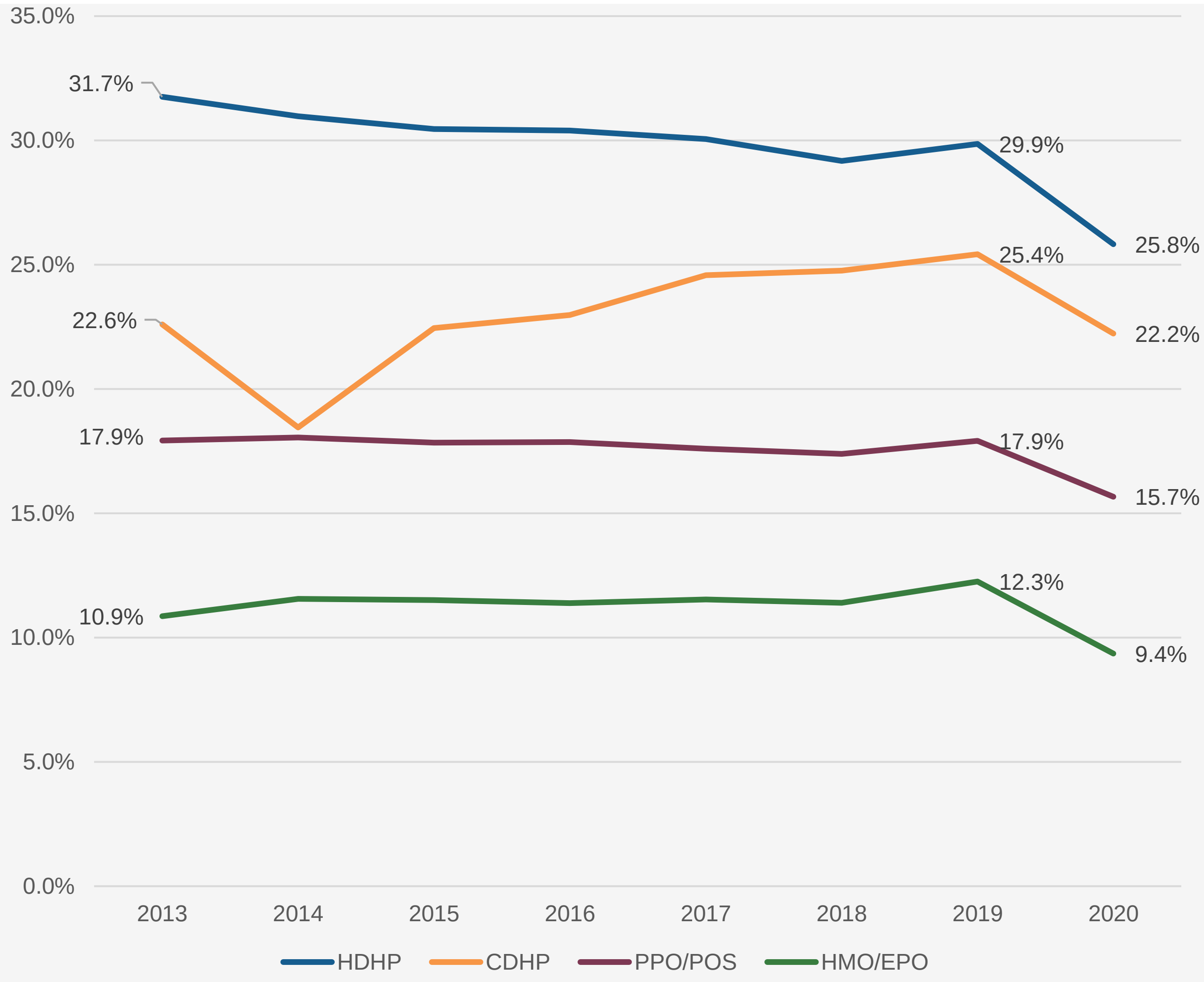
Are Out-of-Pocket Costs Increasing?

- When we break down out-of-pocket costs by plan type, however, a different story emerges
- The average share of medical expenditures paid out of pocket by people covered by HDHPs and CDHPs *decreased* between 2013 and 2019
- For people covered by PPO/POS plans, the share remained stable
- Finally, people covered by HMO/EPO plans paid a slightly higher share out-of-pocket in 2019 compared to 2013



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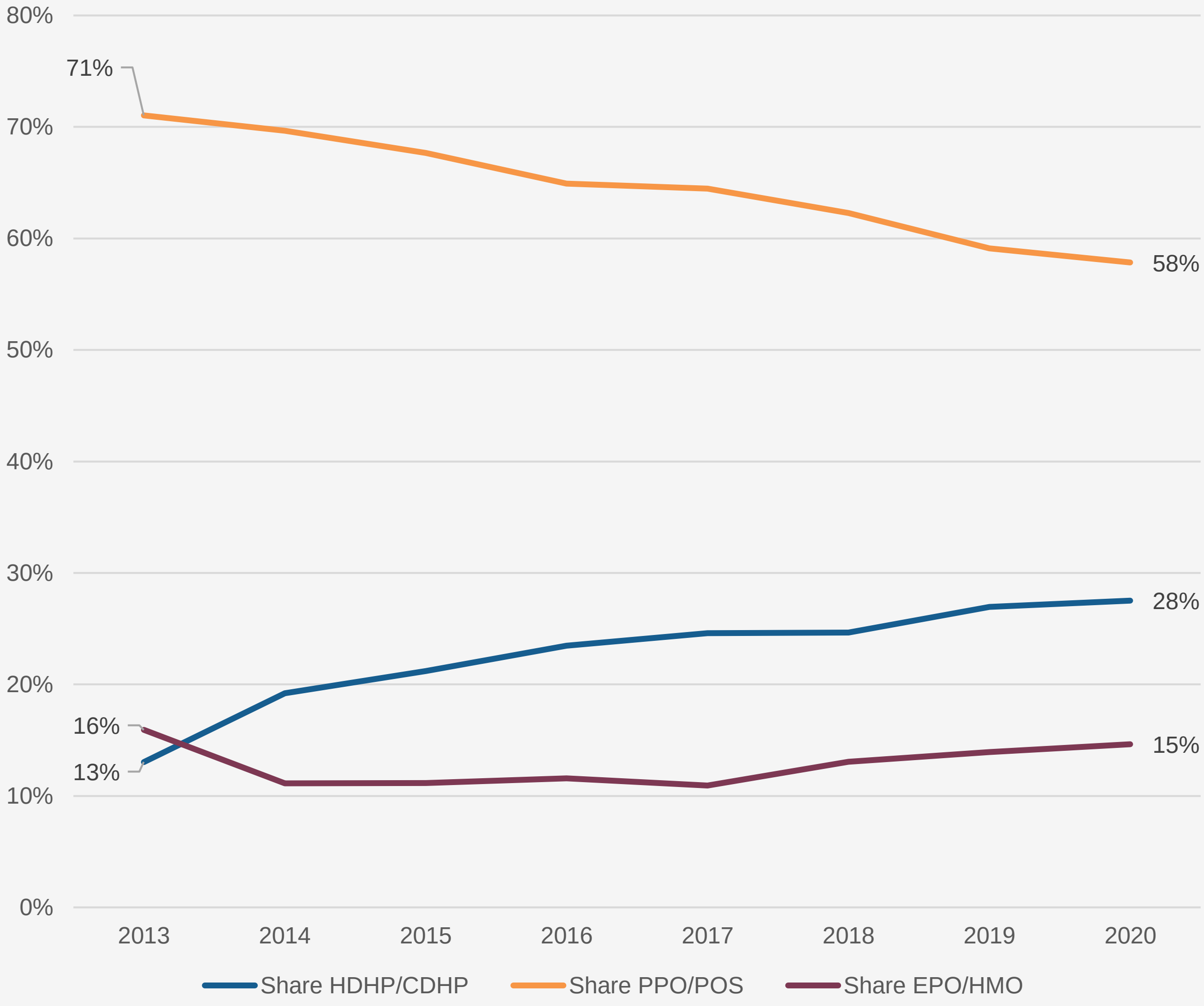
How Could *That* Be?

- For most plan types, the share of expenditures paid out of pocket remained stable or decreased between 2013 and 2019, and yet in aggregate, out-of-pocket expenditures are *increasing*
- There has been a shift in health plan enrollment trends
  - HDHPs and CDHPs are becoming increasingly popular
  - These plans often necessitate patients paying a greater share of their medical expenditures out of pocket



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To Recap

- Spending increased faster for particularly high spenders
- Spending increased faster for outpatient services relative to inpatient services and prescription drugs
- The share of health care spending paid by patients increased between 2013 and 2019
  - But *it's complicated*
- The aggregate trend we observe appears attributable to a shift in health plan enrollment trends

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A Demographic Analysis of Unpaid Medical Bills

Paul Fronstin, Ph.D.

Employee Benefit Research Institute

Medical Debt vs. Other Debt

- Medical debt is different from other forms of debt.
- Some forms of debt, such as a mortgage, automobile loan, or student loan, are taken on voluntarily.
- Consumers can shop for the best interest rate and have time to consider the cost of the home, automobile, or tuition.
- When it comes to medical debt, consumers of health care usually do not plan to take it on, as it is often the result of a one-time or short-term medical expense arising from an acute medical need.
- Because of the way health care expenses are often incurred, most people are not in a position to shop for health care services like they can for a home, automobile, or education.

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Impact of Medical Debt

- Medical debt levels are often low, especially relative to other forms of debt, but there is still the potential for adverse effects.
- Medical debt on credit reports can affect one's ability to obtain a mortgage, get a lease for an apartment, get insurance, get a job, and obtain other forms of credit.
- Medical debt may affect credit worthiness, which affects the interest rate that a consumer can get on a loan.
- Medical debt may lead to delay or avoidance of health care, which can result in not just higher health care costs in the long term, but also worse health outcomes.

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Changes to Reporting of Medical Debt on Credit Reports

The three major credit bureaus are overhauling how medical debt is reflected on credit reports:

- Beginning in July 2022, Equifax, TransUnion, and Experian stopped including medical debts that were previously in collections.
- Medical debts will not be reflected on credit reports until they have been past due for one year.
- In 2023, medical debts below $500 will no longer be reported on credit reports.

A contributing factor to this change was research that found past-due medical bills to be an unreliable indicator of a person's ability to pay other debts.

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National Financial Capability Study (NFCS)

The National Financial Capability Study (NFCS) has been conducted every three years since 2009 by the FINRA Investor Education Foundation to benchmark key indicators of financial capability and to evaluate how these indicators vary with demographic, behavioral, attitudinal, and financial literacy characteristics.

- More than 27,100 U.S. adults ages 18 and older were surveyed for the 2021 study.
- The data are weighted to be representative of the national population in terms of age, gender, ethnicity, education, and census division.
- State-level estimates can also be derived using weights that accompany the NFCS data, and when weighted, state figures are representative of each state in terms of age, gender, ethnicity and education.
- Fielding was conducted from June to October 2021.
- Most of the analyses focused on people ages 18-64.

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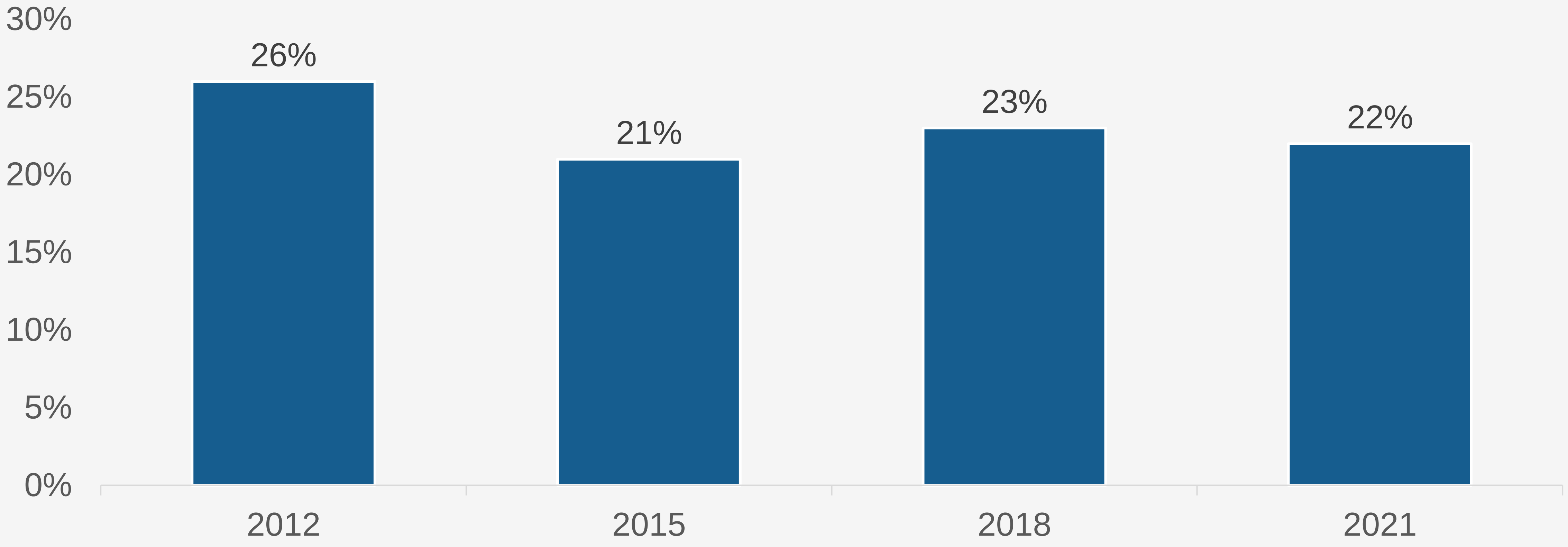
Past-Due Medical Bills, Individuals Ages 18 and Older, 2012-2021



Source: Employee Benefit Research Institute (EBRI) estimates from the 2012-2021 National Financial Capability Survey (NFCS).

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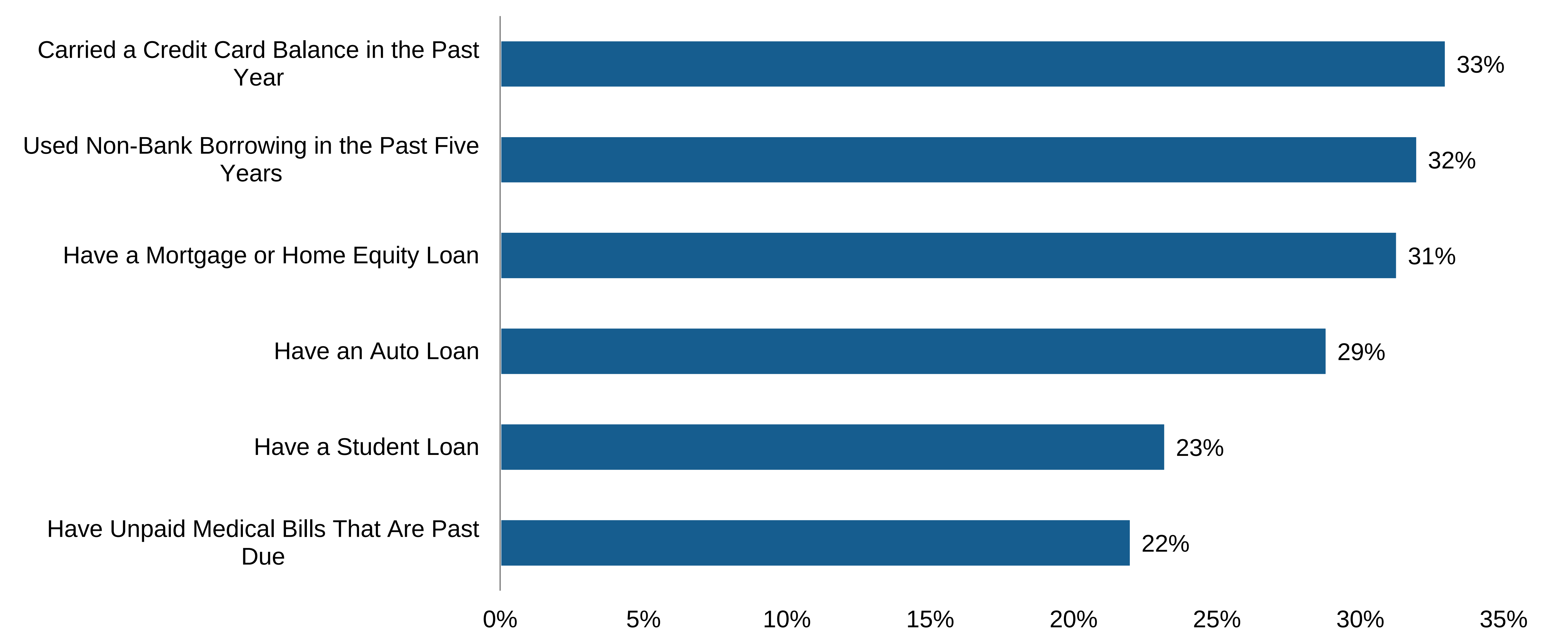
Prevalence of Various Types of Debt for American Adults, 2021



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Source: Employee Benefit Research Institute (EBRI) estimates from the 2021 National Financial Capability Survey (NFCS).

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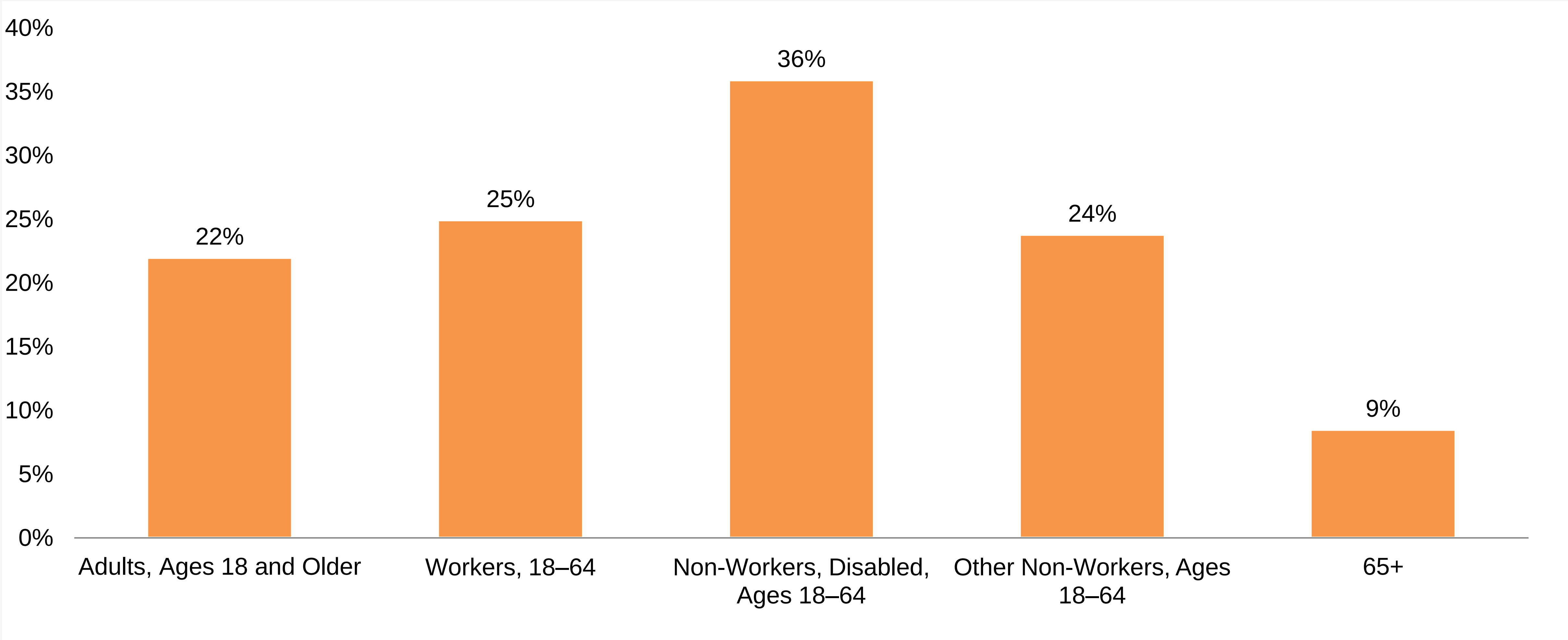
Americans Ages 18 and Older, by Past-Due Medical Bills, 2021



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Source: Employee Benefit Research Institute (EBRI) estimates from the 2021 National Financial Capability Survey (NFCS).

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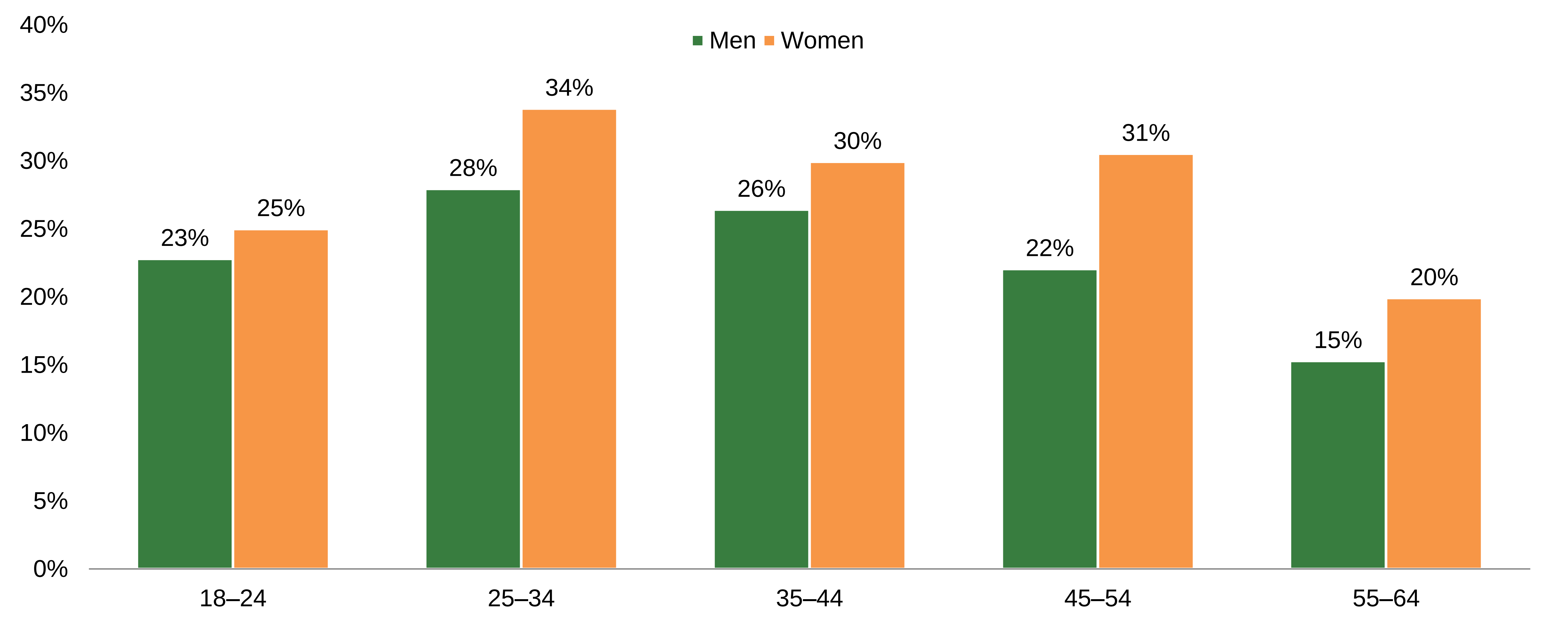
Past-Due Medical Bills, Individuals Ages 18–64, by Gender and Age, 2021



Source: Employee Benefit Research Institute (EBRI) estimates from the 2021 National Financial Capability Survey (NFCS).

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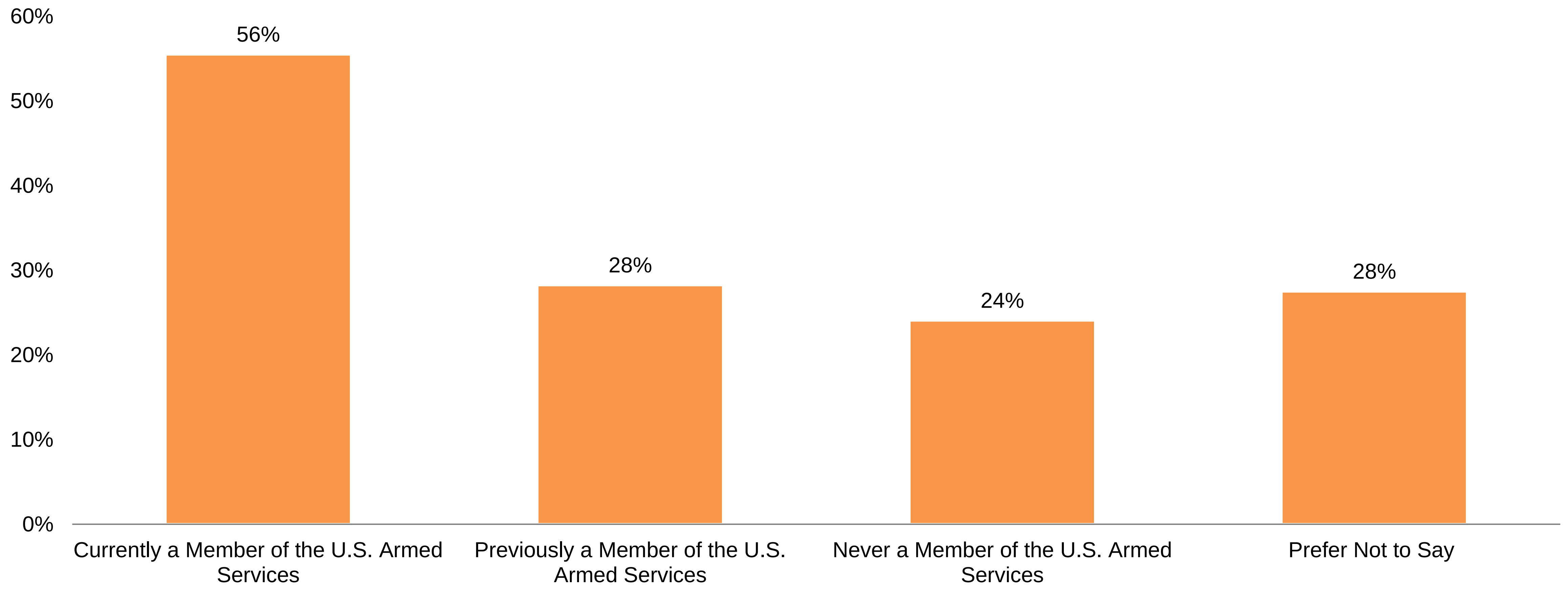
Past-Due Medical Bills, Individuals Ages 18–64, by U.S. Armed Services Status, 2021



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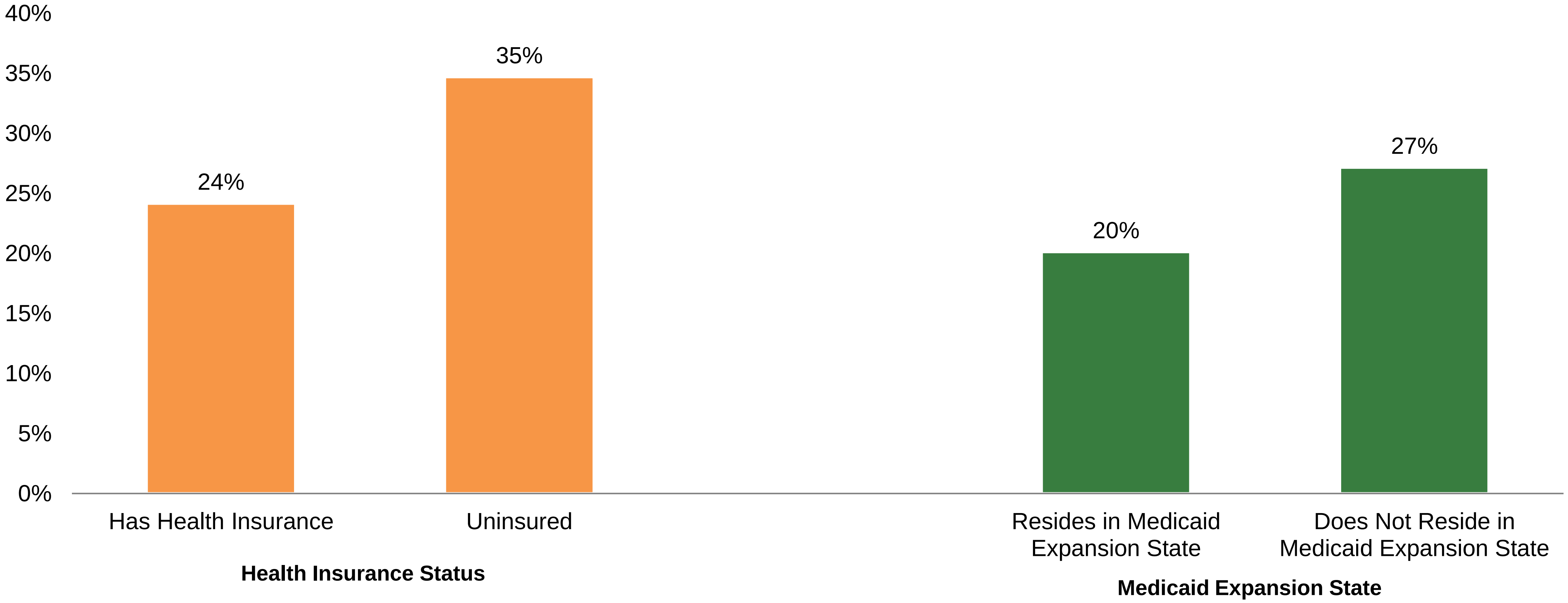
Past-Due Medical Bills, Individuals Ages 18–64, by Health Insurance Status, 2021



Source: Employee Benefit Research Institute (EBRI) estimates from the 2021 National Financial Capability Survey (NFCS).

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Other Findings

- Less educated and lower income more likely to have past-due medical bills.
- Past-due medical bills has expected impact on use of health care services (skipped office visits and did not fill a prescription).
- Credit record more likely to be very bad or bad when there are past-due medical bills.
- Those with past-due medical bills are less likely to have an emergency fund and less likely to be able to come up with $2,000.

Source: Employee Benefit Research Institute (EBRI) estimates from the 2021 National Financial Capability Survey (NFCS).

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Medical expenses and financial outcomes

November 2022

Consumer Financial Protection Bureau

What I'll talk about

1. Disclaimer
2. CFPB and Office of Research Background
3. Medical bills/expenses/income loss
4. Financial assistance
5. Medical collections
6. Limitations
7. Implications

Disclaimer

This presentation is being made by a Consumer Financial Protection Bureau representative on behalf of the Bureau. It does not constitute legal interpretation, guidance, or advice of the Consumer Financial Protection Bureau. Any opinions or views stated by the presenter are the presenter's own and may not represent the Bureau's views.

CFPB's mission

The Consumer Financial Protection Bureau (CFPB) is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives.

The Office of Research

The Director shall establish a unit whose functions shall include researching, analyzing, and reporting on—

(A) developments in markets for consumer financial products or services, including market areas of alternative consumer financial products or services with high growth rates and areas of risk to consumers;

(B) access to fair and affordable credit for traditionally underserved communities

(C) consumer awareness, understanding, and use of disclosures and communications

(D) consumer awareness and understanding of costs, risks, and benefits of consumer financial products or services;

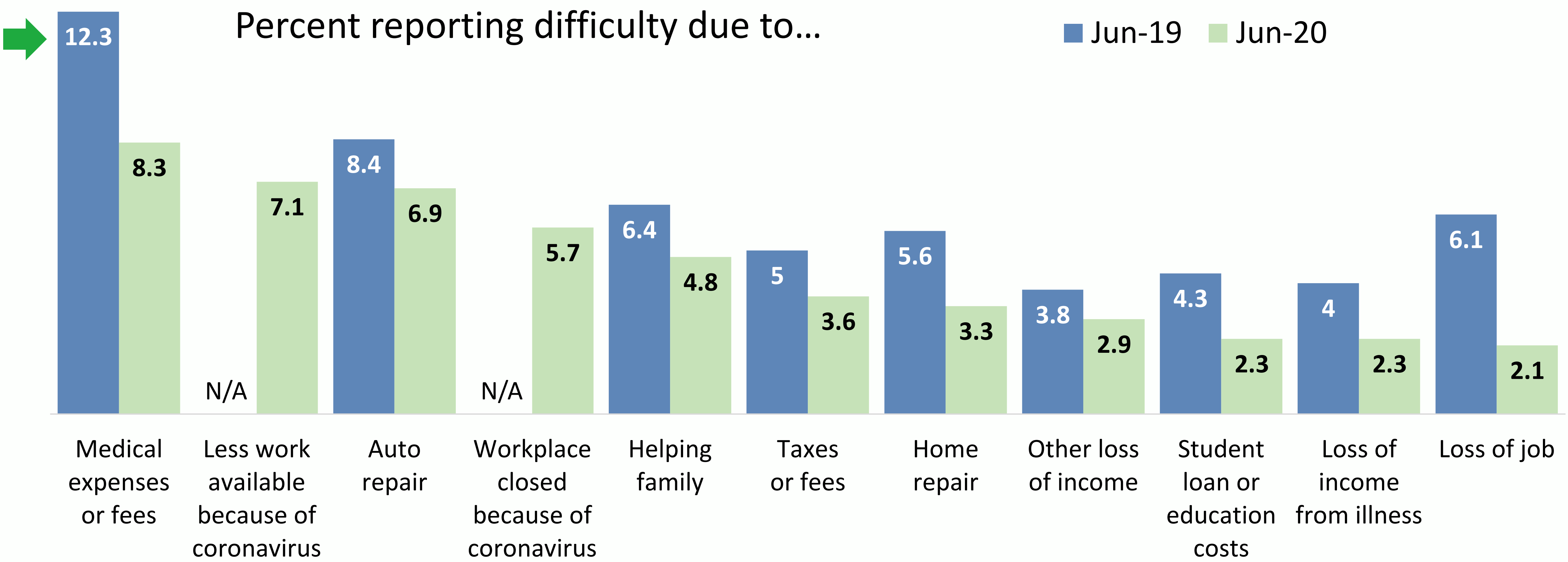
(E) consumer behavior with respect to consumer financial products or services, including performance on mortgage loans; and

(F) experiences of traditionally underserved consumers, including un-banked and under-banked consumers.

Data

- The Consumer Credit Panel (CCP)
  - More than five million de-identified credit records from one of the three nationwide consumer reporting agencies.
  - Updated monthly to observe how an individual's credit use changes over time
- The Making Ends Meet Survey
  - Recently launched series of surveys to consumers based on the CCP
  - Covers general financial topics
  - Upcoming survey module on medical debt

Medical expenses: The most common cause of financial difficulty



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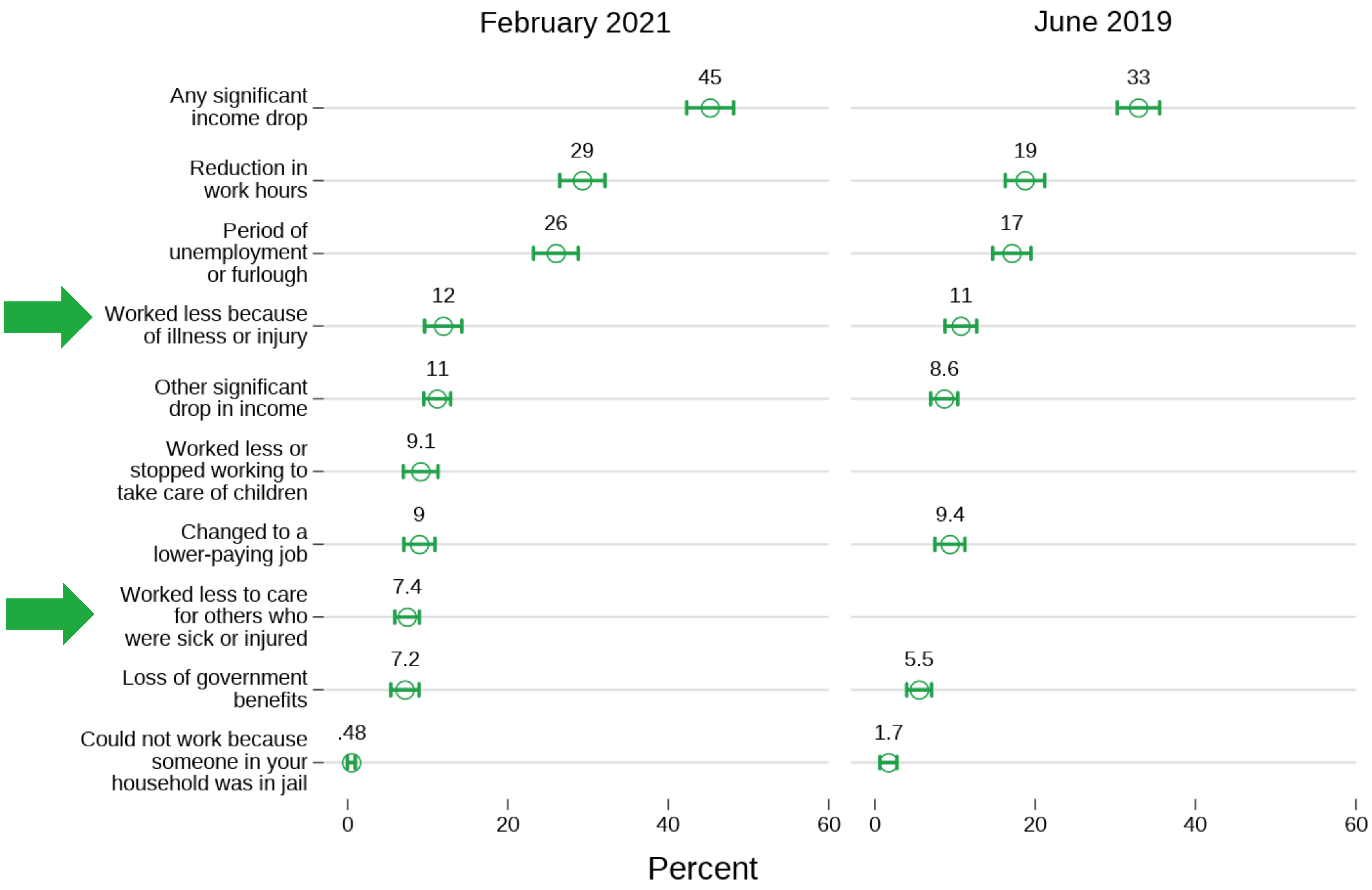
Illness and injury among the main reasons for income loss

Percent who experienced a significant income drop in the past year from…



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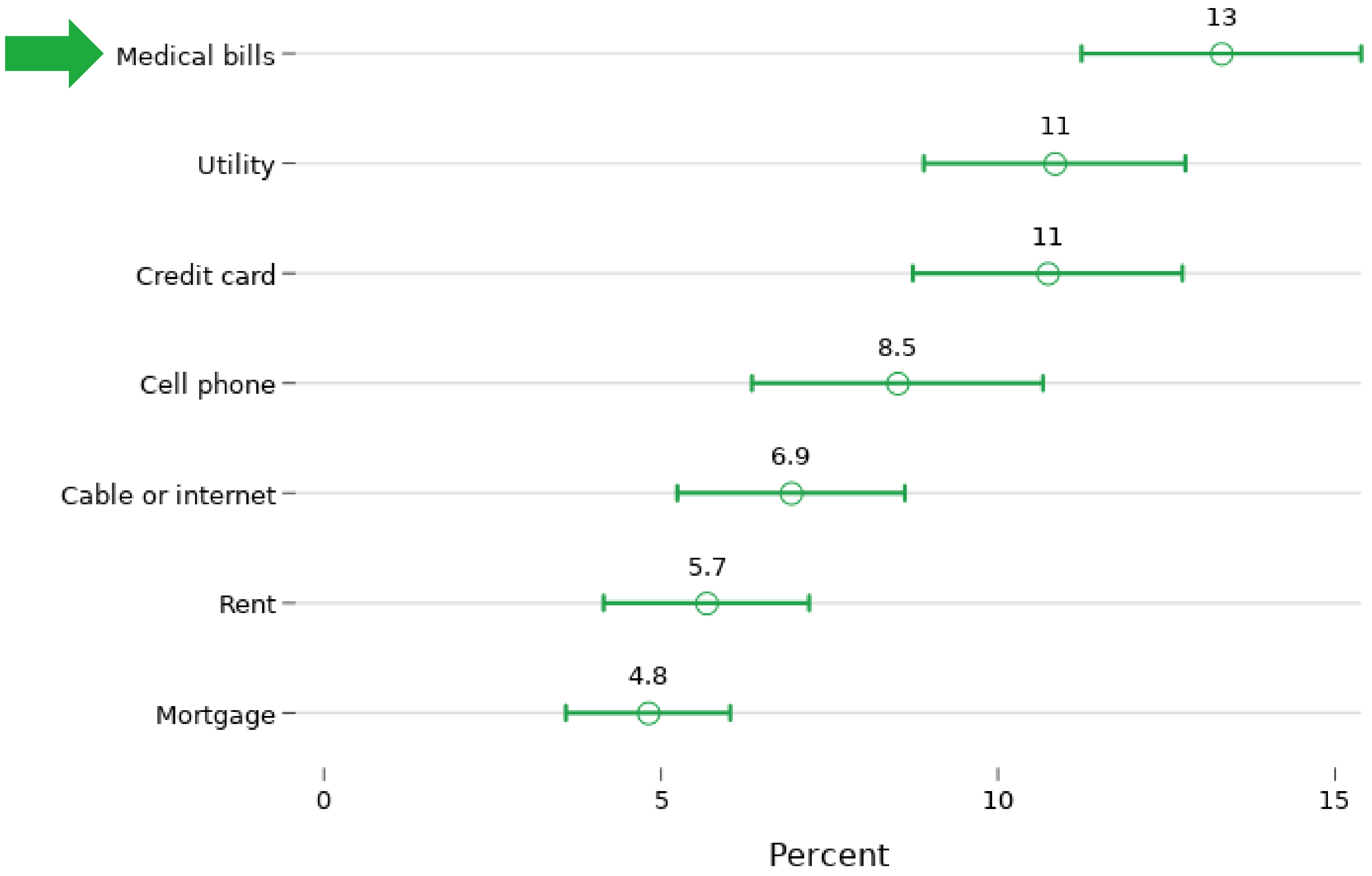
Medical bills most frequently deferred/delayed/skipped

Percent who delayed, deferred, or skipped each type of bill between March 2020 and February 2021



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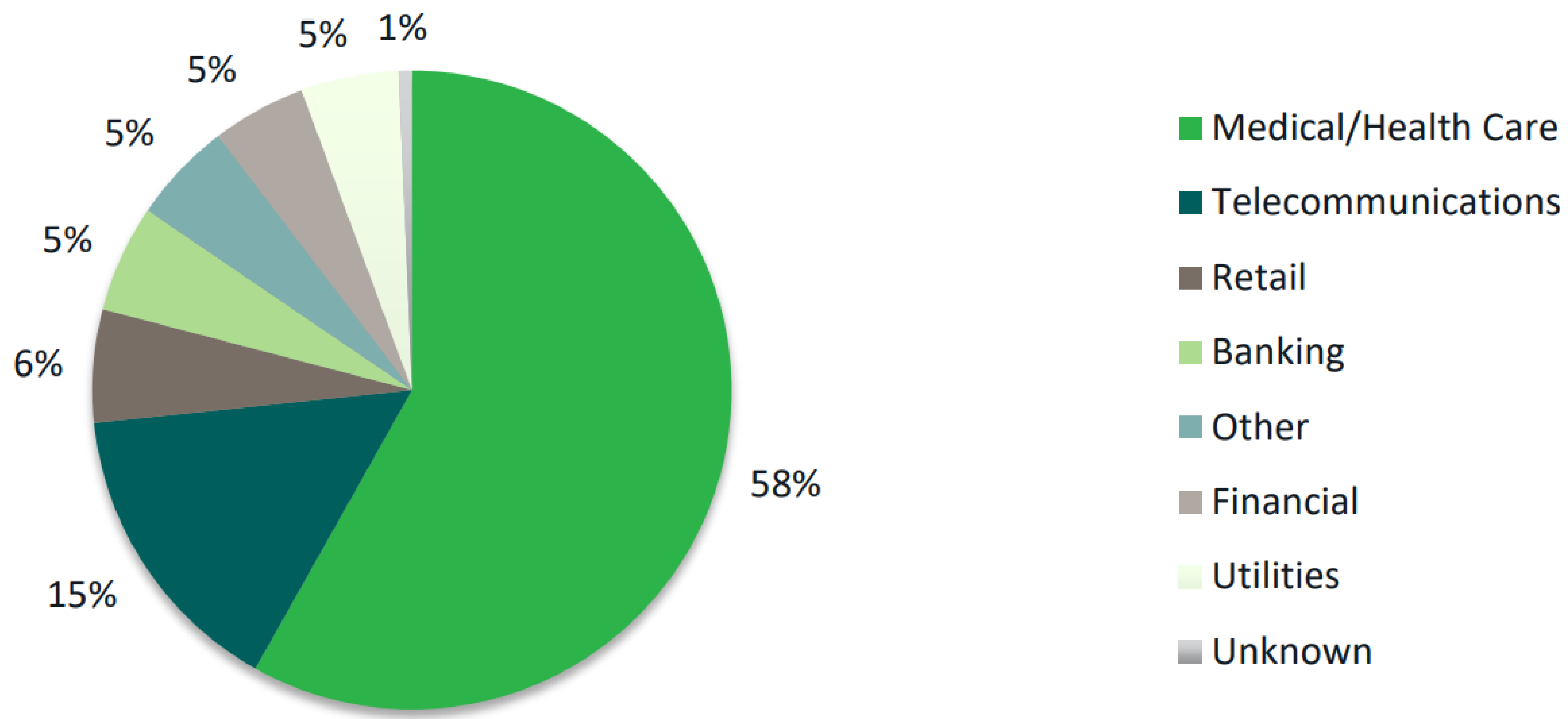
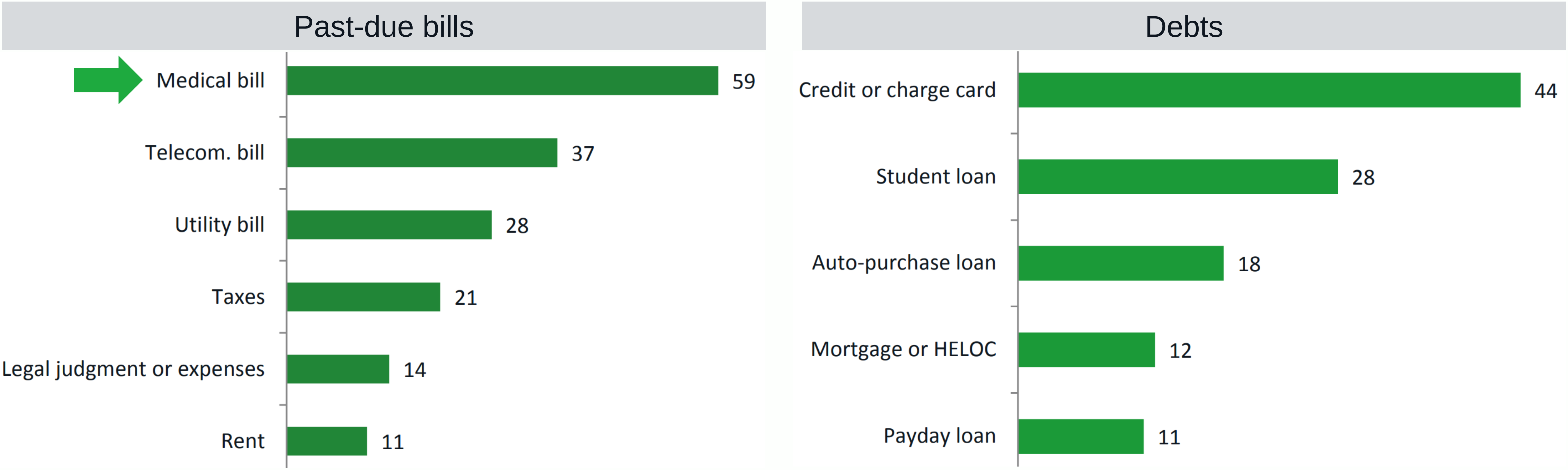
Medical collections most common type of collections tradeline

Distribution of collections tradelines by type as of Q2 2018



Collectors most frequently contact consumers about medical debt

Percentage of people contacted by a collector for each type of debt/past-due bill



Limitations

- Survey sample sizes can be small
- Self-reported information can be inaccurate
- Survey samples from CCP, so misses people without a credit record
- CCP only shows us credit information that is furnished

Hazards to consumers (non-exhaustive)

- “Financial”
  - Simultaneous income/expense shocks
  - Spillover effects
  - Reduced credit access
- “Non-financial”
  - First-order health impacts
  - Stress
  - Reluctance to seek medical treatment

Zooming out

- Medicaid expansion and medical collections
- Hospitals' financial assistance programs
- Changes to consumer reporting policies from Experian, Equifax, and Transunion
  - Extend the waiting period before furnishing medical debt from 180 days to one year (effective July 2022).
  - Remove medical debts paid by consumers (effective July 2022).
  - Stop reporting medical debts under $500 (effective 2023)

Questions?

Supplemental data

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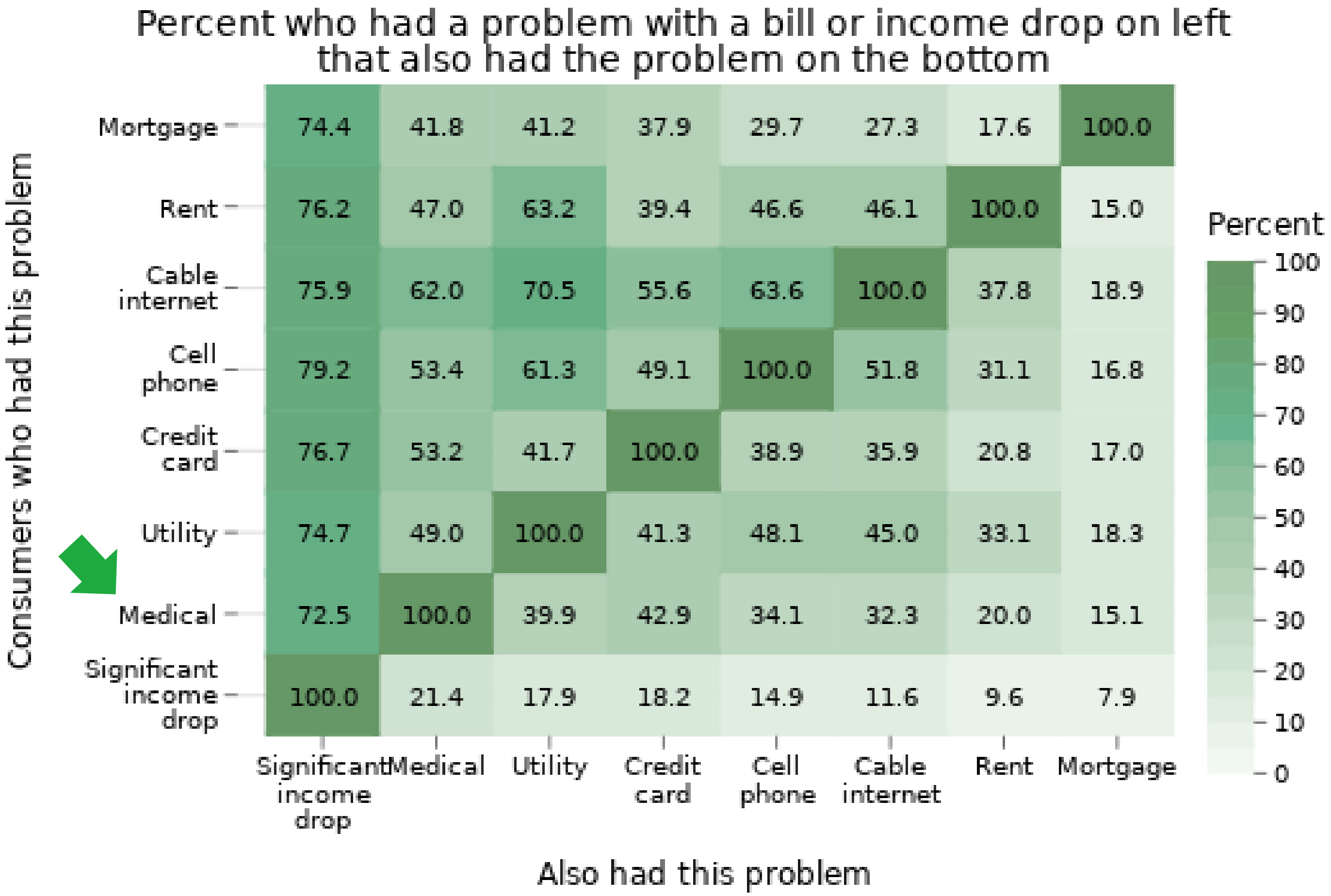
Skipping medical bills coincides with other financial difficulty



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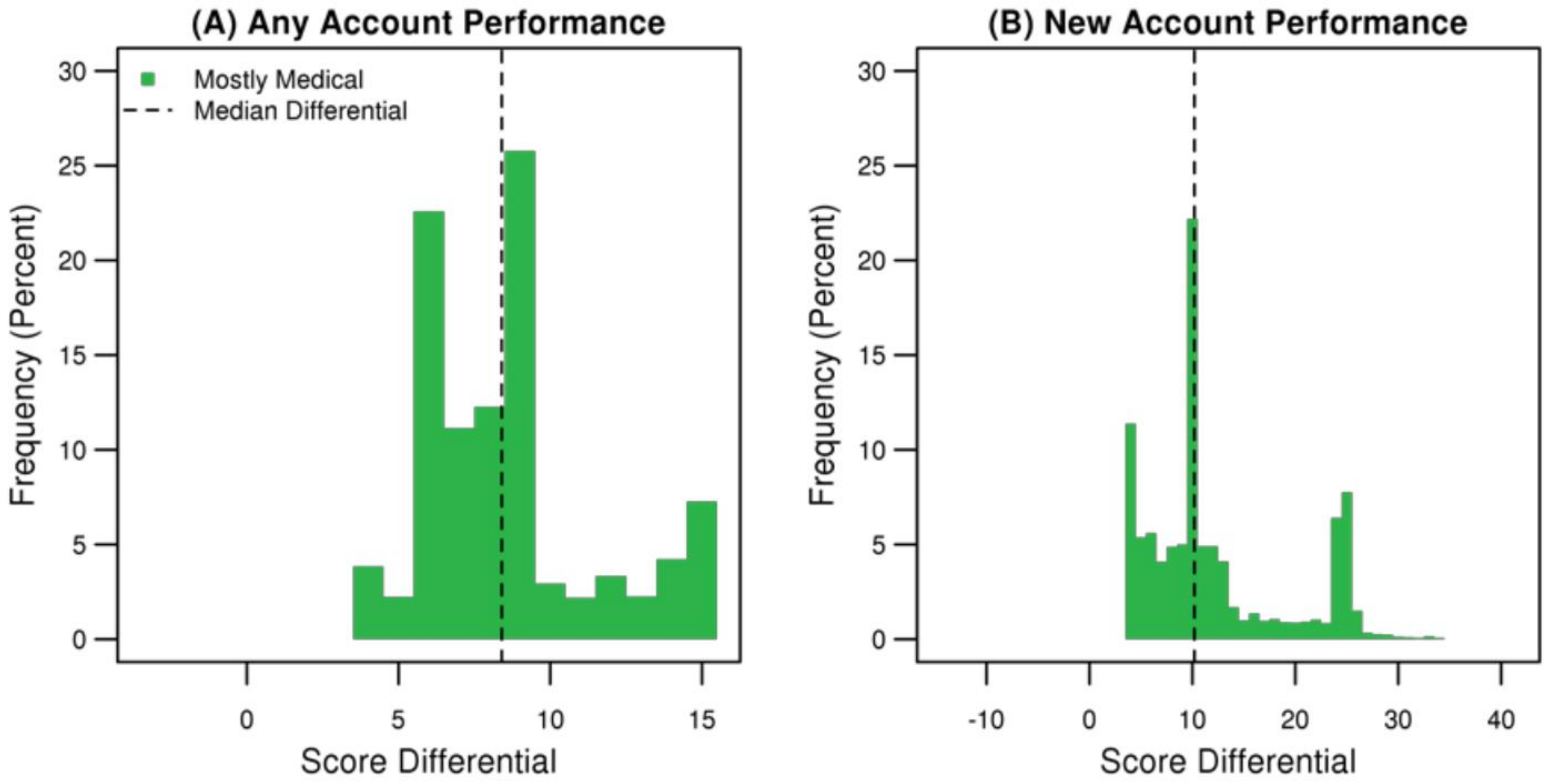
Over-penalization of medical collections in older scoring models



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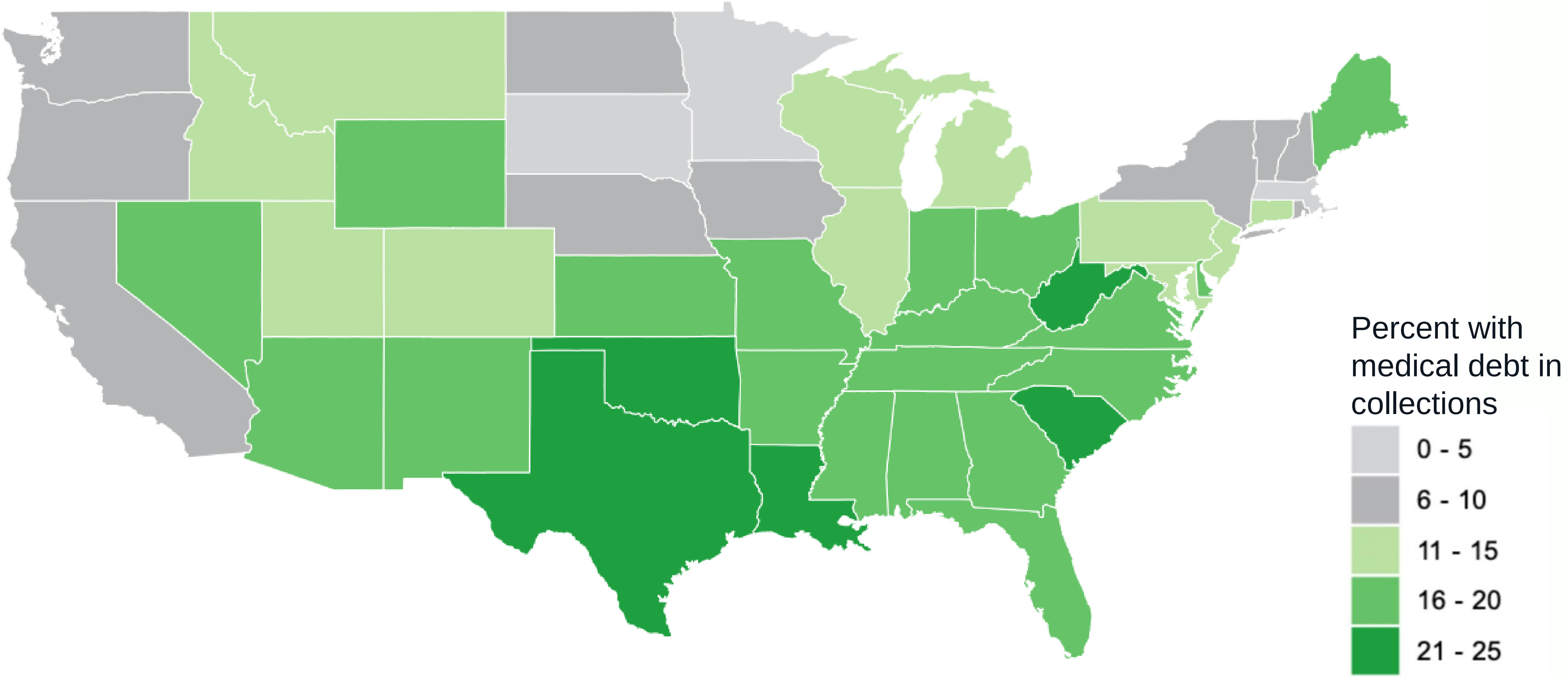
State-level distribution of medical collections, December 2020



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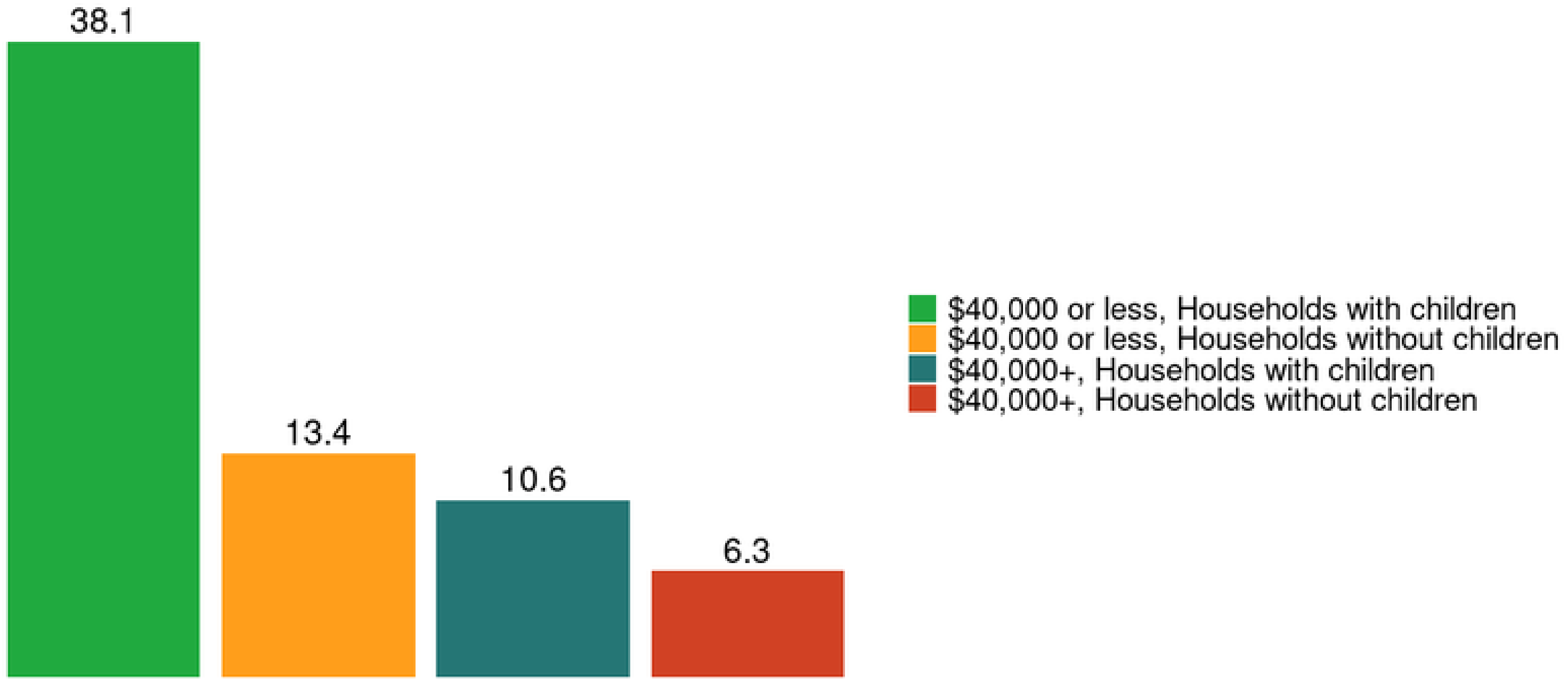
Medical collections by income and household composition



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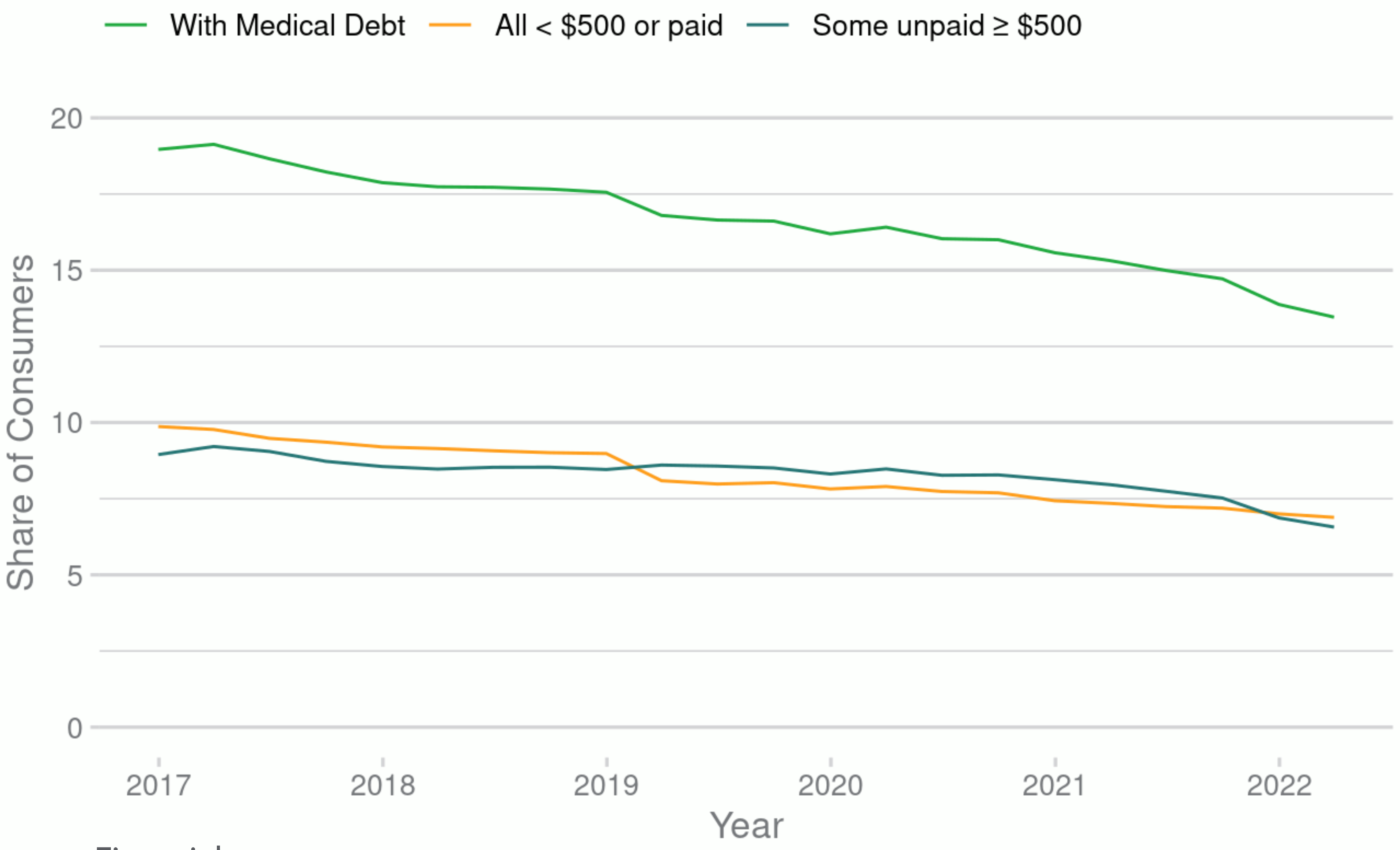
Share of consumers with collections likely to be removed



Source: CCP.

Q&A

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Upcoming Events

November 22 — 2022 Spending in Retirement Survey: Understanding the Pandemic's Impact webinar

November 30 — EBRI Board of Trustees Meeting

November 30 — EBRI Research Committee Meeting

December 1 — EBRI Retirement Summit

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