

**How Medical Debt Affects Champaign County Consumers:  
*A Community Report on Medical Debt-Related  
Bankruptcies and Small Claims Lawsuits***

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*By the Champaign County Health Care Consumers  
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# A Community Report on Medical Debt-Related Bankruptcies and Small Claims Lawsuits

## Introduction

In this preliminary report, Champaign County Health Care Consumers investigates medical debt-related bankruptcies and small claims lawsuits, and their impact on Champaign County consumers.

Medical expenses are often unexpected and unplanned. **Anyone can incur medical debt.** Even people with significant savings can have their security wiped out by a single serious and expensive medical condition. In addition, medical debt affects the insured, the under-insured, and the un-insured. However, uninsured consumers, who tend to have lower incomes than insured consumers, and are least able to pay, are also charged the highest amount for their health care, and are therefore often plunged into the deepest debt. Health care providers, such as hospitals and clinics, typically charge their highest prices to uninsured consumers because there is no third party payor negotiating a discounted price on behalf of these consumers. For example, HMOs, Medicaid, and Medicare all negotiate discounted prices on health care for their members. Uninsured consumers pay the highest, or non-discounted prices, for the same health care services.

As a result, the life-sustaining service of medical care can be transformed into a painful burden, driving people into debt and sometimes even bankruptcy. This preliminary study of bankruptcy filings and debt collections lawsuits demonstrates that medical debt has had a significant impact on the lives of people in Central Illinois.

## Medical Debt-Related Bankruptcies

### What is bankruptcy?

Bankruptcies are legal proceedings in federal court in which those who cannot afford to pay their debts are relieved of further liability for those debts.

### National perspective.

According to a national study (Melissa B. Jacoby, Teresa A. Sullivan, and Elizabeth Warren, "Medical Problems and Bankruptcy Filings," *Nortons Bankruptcy Adviser*, May 2000) at least **40% of bankruptcies in 1999 were due at least in part to medical debt.** Additionally, among debtors 65 and older, 47.6% of personal bankruptcies were due primarily to medical debt.

The study also found that seniors and women, as well as families headed by single women, were the groups in bankruptcy that were hardest hit by medical expenses ("Medical Bills Play Bankruptcy Role," *The New York Times*, 4/26/2000).

According to a recent study entitled "The Fragile Middle Class" (Yale University Press, 2000), "behind most bankruptcy filings lies misfortune, not profligate spending" ("Bankruptcy Borne of Misfortune, Not Excess," *New York Times*, 9/3/2000). "Bankruptcy is a solution invoked one at a time by families who have fallen through the social safety net."

"Economists have predicted for some time that bankruptcies would reach new highs in 2001 as the recession took a toll on the finances of consumers and corporations alike. Some experts expect the surge to continue this year" ("2001 Bankruptcy Filings Set Record," *New York Times*, 2/20/2002).

## Local bankruptcy data.

**Data source and analysis.** Local bankruptcy data presented in this report reflect bankruptcies filed in the United States Bankruptcy Court for the Central District of Illinois during December 2001. Statistical research was conducted by the Land of Lincoln Legal Assistance Foundation.

**Total bankruptcy filings.** There were **279** bankruptcy cases during the month of December 2001, and approximately **3,200** for the entire year.

**Percentage of filings that involve medical debt.** Approximately **58% of the studied bankruptcy filings involved medical debt.** This number does not include medical debt that was paid for with credit cards or by borrowing from a loan company. A greater portion of bankruptcy filings in December 2001 in Central Illinois (58%) involved medical debt than the national average (40%) from 1999. Among consumers who had any medical debt when filing for bankruptcy, medical debt accounted for **10 to 25%** of the total debt owed.

**Distribution of medical debt in bankruptcy filings.** Approximately **20%** of bankruptcy filings involved a medical debt of less than \$1,000. Almost **40%** of bankruptcy filings involved a medical debt of less than \$5,000. These figures indicate that even small medical debts can have a huge impact on people's lives and contribute to bankruptcy. At least **11%** of bankruptcy filings involved a medical debt of over \$10,000. This is not surprising, as just one serious medical incident, such as an accident or a bout with cancer, can easily cost over \$10,000 – plunging ordinary people suddenly into deep debt. And some bankruptcy filings involved medical debt exceeding \$50,000 or even \$100,000.

## Small Claims Cases

### What is a small claims case?

When patients cannot afford to pay their bills, or cannot pay at the rate demanded by the provider, many medical providers will send them to a collections agency. The last stage of the collections process involves a lawsuit on the outstanding debt. In small claims court, where lawsuits for debts of less than \$5,000 are tried, medical providers make up a large proportion of the docket.

### National perspective.

"The American Collectors Association says that far more health care providers are turning over their accounts to agencies 30 to 60 days after a missed payment, instead of the customary 150 to 210 days... Doctors, hospitals, laboratories and other providers are taking tougher approaches to seeing that bills are paid" ("Money and Medicine: Will Doctors Make Your Credit Sick?," *New York Times*, 2/4/2002).

### Local data.

**Data source.** Data on local small claims cases come from small claims court cases tried in the Champaign County Small Claims Court between May and December 2001. Statistical research was done by the Land of Lincoln Legal Assistance Foundation.

**Total cases.** The total number of small claims court cases brought directly by health care providers before the small claims court during this six-month period was **229**. In other words, between May and December, 2001, an average of about **7** people per week were directly sued by medical providers in Champaign County small-claims court.

**Total debt.** These cases represented a total debt of **\$185,511.79**. Medical providers are sometimes going to court to collect very small amounts of money –collecting as little as \$100 in some cases. The average amount of debt for which the consumer was being sued was **\$997.38**. These numbers do not include many cases of medical debt where the suit is conducted by a collections agency or a loan company. Additionally, lawsuits for amounts over \$5,000 do not appear in small claims court.

**Which providers are suing consumers over medical debt?** Nearly every type of health care and medical provider in the county has sued for unpaid medical debts. The following is a breakdown by type of health care provider and the proportion of small claims cases their lawsuits represent:

- Clinics (**27%**)
- Behavioral and mental health (residential treatment) providers (**21%**)
- Medical supply companies (**17%**)
- Hospitals (**16%**)
- Health Maintenance Organizations (**7%**)
- Home health providers (**2%**)
- Miscellaneous providers (i.e. optical, chiropractic, etc.) (**10%**)

Even not-for-profit health providers are suing for collection of medical debt. **About 20% of the studied lawsuits were by not-for-profit providers.**

## Debt NOT Reflected in the Data

As shocking as these figures are, **these data represent an underreporting of medical debt, bankruptcy, and small claims cases.** Many people being sued and filing for bankruptcy, have already paid off a portion of their medical debt using savings, borrowed money, a credit card or a loan, and are being sued or are filing bankruptcy for the remaining amount owed.

The bankruptcy and small claims cases data also do not reveal consumer debt to credit card companies, loan companies and banks from whom consumers borrow money to help pay for their medical bills. Nor do the data indicate the debt that consumers may owe to landlord, employers, friends, and family from whom they have borrowed to help pay their medical bills.

These data also do not reflect debt incurred from the purchase of prescription drugs, which are frequently purchased using credit cards on an ongoing basis.

Likewise, these data on medical debt do not reflect the total costs incurred for health care by consumers. Very often, insurance companies have already paid a portion of the cost of health care, and consumers have also paid some proportion of the total cost incurred. The amounts of the debts owed and reflected in small claims lawsuits and bankruptcy filings reflect only the *unpaid* portions of the original cost or debt.

## Consumer Perspectives

**Medical debt impacts people's lives in many ways. The following comments come from interviews with consumers who participated in the Champaign County Health Care Consumers survey on medical debt. This survey of consumers is part of a collaborative national study with The Access Project and Brandeis University to investigate the financial impact of medical debt on consumers lives (a comprehensive report from that study will be forthcoming). Consumers from east Central Illinois and Champaign County reported the following:**

"They made me feel like I wasn't trying to pay my bills, but I was. It's just that I can't pay \$500/month making \$6.50/hour."

\* \* \*

"I even offered to do volunteer work [at the hospital] to help pay off the bill. I'm desperate and will do anything to pay off my bills. I even offered to sweep and mop."

\* \* \*

"I tried to buy a house, but I couldn't because my medical bills were on my credit report. I was even turned down from public housing. "

\* \* \*

"I was denied from all [loans]. They told me it was because of my medical bills that they didn't think that I would pay back the loan. I need a loan to pay for medical bills, but they deny me a loan because I have medical bills. What am I supposed to do?"

\* \* \*

"[Medical bills] hamper the essence of life. Every dime you make has to go to these people [the collectors]. They never let you forget that you owe them money even if the service isn't up to par. These people don't care that they're ruining your life."

\* \* \*

"I think it's really sad that the hospitals - and I'm not saying all of them - but that they're out for money and not for the welfare of the person."

\* \* \*

"[My clinic's] collection agency wrote my landlord asking how much rent I was paying and where the money was coming from... I had to move because I didn't want to be served a subpoena because they'll take me to jail. "

\* \* \*

"I've been garnished. They took 1/3 of my wages for 1 year. This made me embarrassed and violated my privacy because the collections agency came to my work and talk about this to my supervisor in front of my co-workers."

\* \* \*

"They treat you as though you are not a good part of society. You are a 3rd or 4th class citizen. They [the hospital] make me feel like a criminal. It has caused a lot of stress. I go without food."

\* \* \*

"I'm supposed to pay \$45 per month, but because I got behind, they're saying they want the full amount. I don't have that kind of money. Now that it has affected my credit, what's the point of trying to pay in one lump sum? I think there should be some consideration of people who try to pay it off. I've got three kids and they're not cheap to raise. You're damned if you do, and damned if you don't."

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"I have to move a lot because with so many medical bills, I have to keep moving into cheaper and cheaper places to be able to pay the bills."

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## Conclusion

As the costs of health care and health coverage increase, individuals and families are more likely to carry medical debt. But because providers are increasingly more aggressive in collecting that debt, consumers who cannot pay their debt (or cannot pay it off quickly enough to satisfy providers), are more likely to suffer long-term financial and legal consequences as a result of that debt.

The American Collectors Association confirms what consumers have been experiencing locally in Central Illinois: health care providers are increasingly more likely to turn over their accounts to collection agencies and to do so more rapidly than before – 30 to 60 days after a missed payment, instead of the formerly customary 150 to 210 days.

Unreasonable payment demands on consumers and families with limited incomes can drive them into unmanageable debt, resulting in ruined credit, lawsuits, and personal bankruptcy, with far-reaching financial and legal consequences.

Health care providers' policies regarding medical debt must be examined. Policies that include denial of treatment for consumers with outstanding medical debt, unreasonable demands for payment, and aggressive and coercive collections practices are harmful to consumers and families, and must be challenged. These practices are often in direct contradiction to the stated mission and purpose of health care provider institutions – especially those that are non-profit and deriving the benefits of local property tax exemptions.

