NerdWallet Health study: Medical debt crisis worsening despite health care policy advances
By Christina LaMontagne

Summary

Despite recent advances in health care policy, American households continue to struggle with medical debt, and it's only getting worse. Americans are putting more of their take home pay to medical costs than ever before.

- NerdWallet Health has found that Americans pay three times more in third-party collections for medical debt each year than they pay for bank and credit card debt combined. In 2014, roughly 1 in 5 American adults will be contacted by a debt collection agency about medical bills, but they may be overpaying – NerdWallet found rampant hospital billing errors result in overcharges of up to 26%.

- NerdWallet found 63% of American adults indicate they have received medical bills that cost more than they expected. At the same time, 73% of consumers agree they could make better health decisions if they knew the cost of medical care before receiving it.

- Between 2010 and 2013, American households lost $2300 in median income, but their healthcare expenses increased by $1,814.\(^1\) Out-of-pocket spending is expected to accelerate to a 5.5% annual growth rate by 2023 – double the growth of real GDP.

In a follow-up to last year’s study that found medical debt is the largest cause of personal bankruptcy, NerdWallet Health investigated the mounting financial obstacles facing the American patient.

Key Findings

American consumers can't afford their medical care.

- **Medical debt is the largest category of consumer debt in collections.**
  - NerdWallet Health estimates almost 1 in 5 – or roughly 51 million – American adults may be contacted by a debt collection agency about medical debt in 2014.\(^2\)
  - $21 billion in medical debt was collected from American consumers in 2012. More than $1 in every $3 dollars paid to third-party collectors is for medical debt. Medical debt collected by third-party collections

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\(^1\) Sum of increases in employee share of healthcare cost according to Milliman Medical Index (MMI) reports from 2011 to 2013. MMI is based on a family of four with employer-sponsored PPO insurance.

\(^2\) According to the US Census, there are 245 million American adults 18 or over. According to the Urban Institute, more than one third of adults have debt in collections. According to the ACA’s Top Market Collections, the majority of new business in the third-party collections market is for health.
agencies is roughly three times as large as financial and credit card debt combined. ³

Debt collected from consumers, 2013

![Pie chart showing debt distribution]

Source: NerdWallet Health Analysis of EY’s 2014 report on third-party debt collection.

- NerdWallet estimates that in 2014, American hospitals will provide over $50 billion worth of “uncompensated care,” or hospital care for which no payment is received from the insurer or patient.
- 63% of American adults indicate they have received medical bills that cost more than they expected, according to a August 2014 NerdWallet Health nationwide survey conducted by Harris Poll.

Americans are being consistently overcharged due to preventable errors.
- Medical billing is broken, and rampant billing errors may pass along unnecessary cost.
  - NerdWallet Health compiled data from across all Medicare Compliance Reviews of US hospitals conducted by the Office of the Inspector General in 2013 ⁴ and found that none of the audited hospitals were fully compliant with Medicare medical billing requirements. All of the audited hospitals demonstrated billing errors.
  - In each case, erroneous billing practices led to overpayments by Medicare. All of the audited hospitals overcharged Medicare and were ordered to repay the government, raising important questions about the magnitude of errors and overcharges imposed on consumers.

³ According to Ernst & Young’s analysis of third-party debt collection in 2013, $55 billion in debt was collected from American adults and 37.9% of this debt was related to healthcare, compared with 10.1% related to credit cards and 2.8% for other financial services.

⁴ The Office of Inspector General’s (OIG) Office of Audit Services audited selected high-risk claims across 34 hospitals in 2013. While some hospitals demonstrated only a few errors, 100% of one hospital’s audited claims were found to be non-compliant with Medicare requirements.
Of the claims the government investigated, NerdWallet found that 49% of the Medicare medical claims contain medical billing errors. These claims result in 26.4% overpayment for the care provided. The majority of consumers – 57% – say they have received medical bills that confuse them, according to the August NerdWallet survey of American adults conducted by Harris Poll.

Range of hospital billing error rates of claims audited by Medicare, 2013

Error rates in hospital billing across hospitals located in major US cities, 2013

5 The OIG identifies and audits hospital claims at risk of noncompliance with Medicare billing requirements. As such, the audit results may not be representative of noncompliance rates across all hospital claims.
American consumers face opaque pricing that varies wildly.

- Wide variations in hospital charges demonstrate a lack of standards to protect American consumers.
  - According to the survey conducted on behalf of NerdWallet Health by Harris Poll, 73% of adults say if they knew the cost of medical care before receiving a treatment, they could make better health decisions.

*Consumer response to the statement: “If I knew the cost of medical care before receiving treatment, I could make better health decisions”*

![Bar chart showing responses to the statement](chart.png)

Source: 2014 Harris Poll survey of 2,016 American adults, conducted on behalf of NerdWallet Health.
NerdWallet Health found hospitals charge a difference of over 50 times for the same inpatient treatment, with an average of 25 times difference in lowest and highest charges among the 100 most frequent inpatient procedures covered by Medicare.  

Significant regional differences exist in hospital inpatient care charges. The most expensive prices are found in California and New Jersey, while the most affordable prices are found in the midwestern and southern states.

**Hospital charges can be 50 times more expensive from one hospital to another**

<table>
<thead>
<tr>
<th>Hospital inpatient treatments</th>
<th>Difference between highest charge and lowest charge</th>
<th>Lowest Charge</th>
<th>Highest Charge</th>
<th>State with Lowest Charge</th>
<th>State with Highest Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severe intestinal bleeding, perforation, obstruction, infection (DRG 871)</td>
<td>54x</td>
<td>$5,379</td>
<td>$291,965</td>
<td>AR</td>
<td>CA</td>
</tr>
<tr>
<td>Infection and/or inflammation of heart muscle (DRG 314)</td>
<td>52x</td>
<td>$4,458</td>
<td>$231,884</td>
<td>TX</td>
<td>CA</td>
</tr>
<tr>
<td>Severe inflammation or ulcer of stomach or gut (DRG 392)</td>
<td>49x</td>
<td>$2,170</td>
<td>$106,902</td>
<td>MS</td>
<td>NJ</td>
</tr>
<tr>
<td>Pneumonia or Bronchopneumonia (DRG 177)</td>
<td>49x</td>
<td>$6,631</td>
<td>$322,479</td>
<td>TX</td>
<td>CA</td>
</tr>
<tr>
<td>Life-threatening accumulation of fluid in lungs (Pulmonary Edema) (DRG 189)</td>
<td>48x</td>
<td>$4,805</td>
<td>$228,460</td>
<td>AL</td>
<td>NJ</td>
</tr>
<tr>
<td>Bronchitis, Asthma with inflammation of airways (DRG 202)</td>
<td>41x</td>
<td>$3,696</td>
<td>$152,913</td>
<td>MS</td>
<td>CA</td>
</tr>
<tr>
<td>Heart failure with life-threatening low blood pressure (DRG 293)</td>
<td>41x</td>
<td>$2,609</td>
<td>$106,208</td>
<td>MS</td>
<td>NJ</td>
</tr>
<tr>
<td>Schizophrenia, manic episodes, bipolar disorder, and other mental health disorders (DRG 885)</td>
<td>41x</td>
<td>$2,988</td>
<td>$121,438</td>
<td>TX</td>
<td>NJ</td>
</tr>
<tr>
<td>Severe skin infection (for example, staph infection) (DRG 603)</td>
<td>41x</td>
<td>$2,516</td>
<td>$102,219</td>
<td>TX</td>
<td>NJ</td>
</tr>
<tr>
<td>Anemia or other red blood cell issues (DRG 811)</td>
<td>39x</td>
<td>$6,912</td>
<td>$269,770</td>
<td>OH</td>
<td>CA</td>
</tr>
</tbody>
</table>

Source: NerdWallet Health analysis of CMS Hospital Inpatient Charge Data FY2012.

**Lowest and highest charges for severe pneumonia or bronchopneumonia (DRG 177) across hospitals in major US cities, in 2012**

In June 2014, the Centers for Medicare and Medicaid released Inpatient Hospital Charge Data for FY2012. Our analysis includes what hospitals charged CMS, referred to as “chargemaster” rates, irrespective of the payment amount from CMS.
Discussion

In May 2013, NerdWallet Health reported that medical bankruptcy is the leading cause of personal bankruptcy in the US. In the last year, there has been a surge of activity intended to lower consumer health expenses. Most notably, the Affordable Care Act’s individual mandate and FICO score calculations have changed to decrease strain on those who hold medical debt.

Nevertheless, consumers should not expect to feel relief for their medical debt troubles. Alex Szeto, a spokesperson for trade organization ACA International, the Association of Credit and Collection Professionals, reports that "over the last three years, overall revenue collected by third-party debt collection has remained flat – except for medical debt, which has steadily increased."

Christina LaMontagne, General Manager of Health at nationwide personal finance site NerdWallet and author of this study, says, “The medical system is a minefield for the average consumer. While expenses mount for households, bills are riddled by a shameful number of hard-to-detect medical billing errors. Consumers may be overpaying for their health care. They want price transparency.”

Nationally renowned medical bill expert and founder of Medical Bill Advocates of America Pat Palmer reported that, “In my 20 years of medical bill advocacy work, our organization has saved clients over $100M. Most of that money was saved after identifying errors and overcharges on hospital billings and improper insurance reimbursements. Over 80% of the medical bills clients send to us have errors.” Palmer further explained, “Our clients feel overwhelmed by the cost of healthcare. Why is our system so complicated that regaining health means losing financial well-being?”

“The system that Americans trust for their medical care is not very trustworthy when it comes to their finances,” says LaMontagne. “Many Americans think they are...
getting the greatest care in the world, and yet the American household is more indebted to the medical system than ever before.

**How consumers can avoid medical debt**

1. *Prepare for your healthcare.* You can’t avoid an accident, but you can avoid overpaying. Comparison shop using price transparency tools for health services, drugs and more. With a little foresight, there’s a way to save money on medical care.

2. *Educate yourself.* Build financial literacy so that you understand your health insurance coverage, can leverage your FSA/HSA and audit your own bills for errors.

3. *Ask for help.* You can use public and private services to help manage, plan, and pay for medical care. Some states, like California, offer free and easy resources to contest a medical bill and medical bill advocates can be hired to reduce bills. Help is out there, even if you have to go digging to find it.

**Sources and Methodology**

NerdWallet relied on primary and secondary research to conduct analysis for this study.

*Primary research:* NerdWallet conducted a 7-question survey to understand consumer experiences with medical expenses. This survey was conducted online within the United States by Harris Poll on behalf of NerdWallet from August 13-15, 2014 among 2,016 adults ages 18 and older. This online survey is not based on a probability sample and therefore no estimate of theoretical sampling error can be calculated. For complete survey methodology, including weighting variables, please contact kathryne@nerdwallet.com.

*Secondary research:* NerdWallet Health reviewed publicly available public and private sector reports in their online version. These sources are organized by study section below.

**Consumer Debt**


**Medical Bill Errors**

Hospital prices


About NerdWallet Health

NerdWallet Health offers consumers financial advice and tools to reduce their medical bills. Our mission is to change lives for the better by providing financial education and empowerment so that people can control their healthcare costs.