FINANCIAL HEALTH NETWORK

Preventing Medical Debt From Disrupting Health and Financial Health

Recommendations for Employers

Contents

Introduction

Medical debt is the nation's most common form of debt, impacting more than 1 in 6 adults.[1] Medical bills are the leading cause of bankruptcy in the United States, and unlike other forms of consumer debt, these bills are often unexpected.[2, 3] The financial disruption and ruin caused by medical debt can harm physical and mental health, as well as social well-being, by impairing the ability to pay for basic necessities like food or housing, avoid credit card debt, save, and pursue education or career plans.[4] People of color and those with disabilities are among those most likely to experience medical debt and its adverse complications.[5]

The COVID-19 pandemic has magnified the interdependencies of health, financial health, and equity. Medical debt, as well as financial health, are therefore key social determinants of health. Disrupting the cycle of downward financial, physical, and mental health and social well-being requires action from players across the healthcare ecosystem, prior to patients incurring medical debt.

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Key Recommendations

Target impact areas and interventions showcased within this report focus on opportunities for employers to improve outcomes for their employees.

- Assess health insurance affordability for all employees
- Provide services or benefits that help employees manage health insurance out-of-pocket expenses
- Educate employees about the basics of insurance and explain out-of-pocket expectations upfront
- Offer insurance plans based on employees' financial circumstances and healthcare needs

[1] *Raymond Kluender, Neale Mahoney, Francis Wong, & Wesley Yin, "Medical Debt in the US, 2009-2020," JAMA, July 2021.*
[2] *David U. Himmelstein, Deborah Thorne, Elizabeth Warren, & Steffie Woolhandler, "Medical Bankruptcy in the United States, 2007: Results of a National Study," American Journal of Medicine, 2009.*
[3] *Sarika Abbi & Raquan Wedderburn, "Medical Debt and its Impacts on Health and Wealth: What Philanthropy Can Do to Help," Aspen Institute Financial Security Program, Asset Funders Network, March 2021.*
[4] *Jennifer J. Griggs & Carlos F. Mendes de Leon, "Medical Debt as a Social Determinant of Health," JAMA, July 2021.*
[5] *Neil Bennett, Jonathan Eggleston, Laryssa Mykyta, & Briana Sullivan, "19% of U.S. Households Could Not Afford to Pay for Medical Care Right Away," U.S. Census Bureau, April 2021.*

Defining Financial Health

Financial health considers the totality of an individual's financial life. Unlike narrow metrics like income and credit scores, financial health considers whether individuals are spending, saving, borrowing, and planning in a way that will either contribute to, or detract from, their resilience in the face of unexpected events and ability to thrive in the long term. Currently, 34% of people in the U.S. are Financially Healthy, 52% are Financially Coping, and 14% are Financially Vulnerable.[6]

The Case for Change: Why Medical Debt Should Concern Employers

Although employers seek affordable health insurance options for their employees, health insurance does not always provide employees adequate financial protection against medical debt. This gap is growing as employers shift more of the cost to employees in the form of deductibles, coinsurance, and copays, on top of the cost of uncovered services. High-Deductible Health Plans (HDHPs) are a common example of such plans, with high annual deductibles associated with higher risk of medical debt.[7]

These rising cost-sharing expectations are taking up greater portions of household budgets and leaving more employees at risk of medical debt. Employee deductibles and premium contributions are rising faster than earnings.[8] For example, from 2010 to 2020, the proportion of employer-insured adults with deductibles reaching 5% or more of their income more than doubled, growing to 14% from 6% of adults.[9]

[6] *Necati Celik, Andrew Dunn, Thea Garon, & Jess McKay, "Financial Health Pulse™ 2021 U.S. Trends Report," Financial Health Network, October 2021.*
[7] *Edlin Garcia Colato, Caress A. Dean, Keith Elder, Echu Liu, & Jacqueline Wiltshire, "Health Insurance Literacy and Medical Debt in Middle-Age Americans," Health Literacy Research and Practice, October 2021.*
[8] *Alison Rodriguez, "Healthcare Costs Increased Twice as Fast as Worker Wages Over Last Decade," American Journal of Managed Care, August 2019.*
[9] *Gabriella N. Aboulafia, Sara R. Collins, & Munira Z. Gunja, "U.S. Health Insurance Coverage in 2020: A Looming Crisis in Affordability," Commonwealth Fund, August 2020.*

An increasing share of adults in employer-sponsored plans are now considered underinsured – up to 26% in 2020, compared with 17% in 2010 – due to high deductibles and other out-of-pocket healthcare costs relative to income.[10]

The risk of having medical debt is substantial for the underinsured, with almost half reporting issues paying medical bills or debt.[11] **About a quarter of underinsured adults report they do not visit a doctor when they have a medical issue (24%), 26% skip recommended testing or treatment, 25% do not fill necessary prescriptions, and 20% do not get needed specialist care.**[12]

Medical Debt Is Common Among Employees

The Financial Health Network conducted a study of 1,058 full-time employees who have unsecured debt and work at mid- to large-sized companies. Thirty-two percent of respondents reported that they or someone in their household had trouble paying medical bills in the last 12 months, and among this group, 50% reported that they had reduced spending on basic needs, such as food and clothing, to repay their medical bills. The findings from this survey reveal a high need for debt-related benefits, as well as gaps between those who need these benefits most and those who currently have access to them. Explore the report for insights on the debt-related solutions employees want most.

More than 4 in 10 U.S. adults currently worry about being unable to afford needed care in the next year.[13] In general, cost concerns and unclear out-of-pocket expectations can disincentivize receipt of needed care and lead to the need for more costly care down the road, ultimately driving higher health insurance costs for employers.[14]

Medical debt can force trade-off decisions that erode the income families depend on for food, housing, education, and other necessities.[15] **When increased cost-sharing leads to costly medical bills and medical debt, employees face long-term financial effects, including eroded savings, lowered credit scores, greater credit card debt, and even bankruptcy.** Employees also face greater financial distress, which can impact productivity and ability to work. In fact, 78% of employees with high financial stress say it distracts them from work.[16]

By working to understand and address factors that contribute to medical debt, employers can develop employee-centric business strategies that promote employee well-being and competitiveness in the labor market. Research shows that when employers address the financial health of their workforce, their actions can increase productivity, employee job satisfaction, and retention – all while reducing employee stress, absenteeism, and even health insurance costs.[17] More than half of U.S. employees with employer-sponsored health insurance (56%) report that liking their health coverage is a key factor in whether to stay at their current job.[18] Comprehensiveness and affordability of insurance are the top factors determining satisfaction.[19]

[10] *Gabriella N. Aboulafia, Sara R. Collins, & Munira Z. Gunja, "U.S. Health Insurance Coverage in 2020: A Looming Crisis in Affordability," Commonwealth Fund, August 2020.*
[11] *Ibid.*
[12] *Ibid.*
[13] *"West Health-Gallup 2021 Healthcare in America Report," West Health & Gallup, 2021.*
[14] *Mandy Pellegrin, "How Medical Debt Affects Health," Sycamore Institute, May 2021.*
[15] *Sarika Abbi & Raquan Wedderburn, "Medical Debt and its Impacts on Health and Wealth: What Philanthropy Can Do to Help," Aspen Institute Financial Security Program, Asset Funders Network, March 2021.*
[16] *Eric Wilson, "The Case for Employers to Invest in Employee Financial Health," Financial Health Network, May 2019.*
[17] *Ibid.*
[18] *Stephen Miller, "Employees Are More Likely to Stay If They Like Their Health Plan," Society for Human Resource Management, February 2018.*
[19] *"Health Plans Have a Customer Engagement Problem, J.D. Power Finds," J.D. Power, May 2020.*

Recommendations for Employers

Because health insurance is so closely linked with employment in the American system, employers are well positioned as potential change-makers in the national medical debt problem, as well as in employee financial health overall. **Almost all employers (93%) share that their top priority is healthcare affordability for employees while controlling costs for their organizations.**[20] However, the reality is that employers are increasingly selecting plans that result in underinsurance and leave employees exposed to a greater likelihood of medical debt and financial ruin.[21]

While there are a number of policy changes around insurance coverage and benefit design that can reduce employees' concerns around medical bills, the focus of this paper is the immediate and proactive actions employers can take to prevent medical debt. Employers are well positioned to take intervening steps now to protect their employees from the adverse consequences of medical debt, specifically by shaping insurance and benefits programs around employees' financial and healthcare needs, as well as by helping enrollees to understand, navigate, and afford health insurance out-of-pocket expectations.

The Financial Health Network developed these recommendations with input from members of its Stakeholder Advisory Council for this report series. While each strategy alone can contribute to medical debt prevention, implementing them all can achieve the greatest possible impact.

[20] "*2019 Best Practices in Health Care Employer Survey Report*," *WTW, April 2020.*
[21] "*2021 Employer Health Benefits Survey*," *Kaiser Family Foundation, November 2021.*

Assess health insurance affordability for all employees.

A first step employers can take is understanding the financial vulnerabilities of their employees, particularly in the context of healthcare needs. Companies can do this by analyzing the administrative data they already have available to them – comparing an employee's annual income relative to their share of healthcare costs, including premiums, deductibles, and out-of-pocket expectations.[22] Additionally, employers can review the administrative data they have on employee participation in retirement plans, as well as hardship distributions, early withdrawals, and loans from these retirement plans. This can help employers identify which employees are at risk of being unable to afford out-of-pocket healthcare expenses.

Employers can also survey employees directly to understand nuances that administrative data analysis may not detect, such as the extent to which employees may be unable to manage an unexpected high-cost medical bill, whether employees are delaying care or not filling prescriptions due to unaffordability, or if uncovered medical costs are causing them to take on credit card debt.

Employer Healthcare Social Equity Audit

A Healthcare Social Equity Audit could help employers determine how much financial risk employees are carrying for large insurance claims, especially their most Financially Vulnerable employees.[23] Companies can conduct these audits by taking the plan selected by an employee, adding the in-network deductible and out-of-pocket limit, and then dividing the sum by the employee's annual income. Employers can then stratify these data by different income levels, employee ZIP codes, number of dependents, and other data points relevant for understanding health plan inequities.

Employers can then explore how these factors impact employees' health, stress levels, and work performance. This additional information can help employers more comprehensively determine the extent to which employees may be Financially Vulnerable or Financially Coping, and use this information to guide actions that can prevent medical debt.

Assessing Employee Financial Health With the FinHealth Score®

Many employers are already surveying employees to understand and help address their overall financial health needs using the FinHealth Score®, a validated composite measure of eight simple questions with a scoring algorithm to accurately and comprehensively assess the financial health of an individual.[24]

[22] "Employer FinHealth Toolkit: Diagnose Needs: Step 1: Gather Relevant Data," Financial Health Network.
[23] Keith McNeil, "Steps employers can take to solve health plan inequities," Employee Benefit News, November 2021.
[24] "FinHealth Score® Toolkit," Financial Health Network.

Educate employees about the basics of insurance and explain out-of-pocket expectations upfront.

Employers should educate employees on health insurance terms like premium, deductible, coinsurance, cost-sharing, out-of-pocket costs, and provider network in order to support a better understanding and utilization of insurance coverage. Employers also have a responsibility to ensure employees understand out-of-pocket costs prior to selecting a plan. Most U.S. adults have an incomplete understanding of basic insurance terms, have inadequate knowledge of annual out-of-pocket and deductible amounts, and report difficulty using their health insurance.[25]

Even with a basic understanding of cost-sharing, employees may not know the full out-of-pocket expense for a particular healthcare procedure or service *prior* to receipt of that care. These unexpected costs can lead to medical debt. Hospitals and health systems are now federally required to post their prices online.[26] Self-insured employers and most insurance carriers will also be required to disclose pricing information for covered services, allowing employees to estimate what they will have to pay out-of-pocket from different healthcare providers so they can shop and compare costs before receiving care.[27] The federal government will implement these health plan price transparency rules in phases, starting July 2022.

All employers who provide health insurance should educate their employees about the existence of price transparency information and how it can help employees lower their out-of-pocket costs.[28] Employers should also reinforce to network hospitals and insurers that they expect full compliance with price transparency regulations, so that their employees can benefit from these tools. Self-insured employers should also prepare to implement these rules.

Tools that empower decision-making can help employees select affordable doctors and hospitals, but also the best type of plan for them. Using employee-centric design strategies can help employees make more informed decisions.[29] Online cost calculators, such as Excellus BlueCross BlueShield HDHP Calculator, help employees compare anticipated out-of-pocket expenses among different plan types.[30] Additionally, employers who have collaborated with the Financial Health Network report using technology vendors to support employees in navigating benefits and making informed benefit decisions.

Price transparency and decision support tools will be most impactful when coupled with complementary assistance to ensure employees can effectively utilize the information provided. Employers can use benefit educators to support employees on health insurance literacy, and assist them in choosing the benefits and programs that meet their specific needs and preferences.[31] Employers can also use healthcare advocates, which can guide employees throughout the year in shopping for needed care and lowering their out-of-pocket costs.[32]

[25] *Jean Edward, Mary Kay Rayens, Amanda Wiggins, & Malea Hoepf Young, "Significant Disparities Exist in Consumer Health Insurance Literacy: Implications for Health Care Reform," Health Literacy Research and Practice, November 2019.*

[26] *"Health Plan Price Transparency," Centers for Medicare & Medicaid Services, January 2022.*

[27] *Ibid.*

[28] *Kim Buckey, "HR Tech Series: How Employers Can Improve Health Care Transparency For Employees," DirectPath, August 2021.*

[29] *Katherine Grace Carman, Christine Eibner, Andrea Lopez, Ashley N. Muchow, Parisa Roshan, & Erin Audrey Taylor, "Consumer Decisionmaking in the Health Care Marketplace," RAND Corporation, 2016.*

[30] *"HDHP Calculator," Excellus BlueCross BlueShield.*

[31] *Kim Buckey, "HR Tech Series: How Employers Can Improve Health Care Transparency For Employees," DirectPath, August 2021.*

[32] *Ibid.*

Provide services or benefits that help employees manage health insurance out-of-pocket expenses.

Employers should offer services and benefits that help employees manage out-of-pocket costs. Considering that medical debt is typically under $800, many employees may be accruing this amount prior to reaching their deductible.[33, 34, 35] The average deductible for single coverage last year was $1,644, a sharp 80% increase from a decade ago.[36]

There are a number of services and benefits that employers are already providing to help employees manage cost-sharing, such as loans or hardship funds that offer short-term grants for unexpected expenses.[37] Managing unexpected expenses is particularly important, as medical debt – unlike most other forms of consumer debt – is often unplanned. Additionally, HDHPs are often paired with health savings accounts (HSAs) and health reimbursement arrangements (HRAs) to assist employees in paying for or reimbursing eligible out-of-pocket expenses.[38] Employer contributions to these accounts may increase employee uptake of these benefits, especially among lower-income employees who may not otherwise find the tax advantages of these accounts worthwhile. Employers can also offer supplemental benefits through vendors that provide consolidated repayment plans for out-of-pocket costs or payroll deductions. Importantly, employers must educate employees about how to access and use these benefits.

Varied Medical Premium Contributions at Bank of America

Recognizing that healthcare premiums make up a significant percentage of employees' take-home pay, particularly for lower-wage workers, Bank of America varies its medical premium contribution by annual pay level, with larger subsidies for those earning less.[39] Since 2012, the company has not raised medical premiums for employees earning less than $50,000.

[33] "Debt in America: An Interactive Map," Urban Institute, December 2020.
[34] Michael Batty, Christa Gibbs, & Benedic Ippolito, "Unlike Medical Spending, Medical Bills In Collections Decrease With Patients' Age," Project Hope, Health Affairs, July 2018.
[35] Raymond Kluender, Neale Mahoney, Francis Wong, & Wesley Yin, "Medical Debt in the US, 2009-2020," JAMA, July 2021.
[36] "Average Family Premiums Rose 4% to $21,342 in 2020, Benchmark KFF Employer Health Benefit Survey Finds," Kaiser Family Foundation, October 2020.
[37] "KPMG report: Employers providing employee hardship assistance related to coronavirus (COVID-19)," KPMG, March 2020.
[38] "Managing Health Care Costs," Society for Human Resource Management.
[39] "2020 Human Capital Management Report," Bank of America, October 2020.

Lowering Costs of Healthcare Benefits at PayPal

In 2018, PayPal surveyed its employees and found that even though the company paid wages at or above market rates, many of its hourly and entry-level employees were struggling financially each month.[40] This meant many employees were faced with difficult trade-offs, like choosing between paying for healthcare and their children's education or long-term planning. In fact, healthcare emerged as the biggest cost-driver for this segment of employees, as it accounted for a significant percentage of their incomes. As part of a larger set of changes designed to improve the financial health of its workforce, PayPal addressed this equity gap by lowering the cost of healthcare benefits in the U.S. by nearly 60% for employees facing high-cost burdens. Since instituting these changes, PayPal has seen several early positive indicators of impact, including increased enrollment in healthcare benefits and upgrades of healthcare plans.

Offer insurance plans based on employees' financial circumstances and healthcare needs.

Employers should offer health insurance plans that best meet employees' financial circumstances and healthcare needs. HDHPs can seem attractive to enrollees because of the low upfront premium costs, but could ultimately be financially ruinous. Offering employees insurance plans with lower out-of-pocket expenses can help reduce the risk of being underinsured and incurring medical debt.

One way to do this is to vary employer contributions to premiums, so that lower-wage employees pay less compared with higher-wage employees. Income-based cost-sharing can be cost-neutral to the employer through a tiered structure, as JPMorgan Chase has done.[41] Yet as of 2019, only 25% of large employers varied their contributions to healthcare premiums based on employee pay levels.[42]

[40] "PayPal Is Setting a New Standard for Employee Financial Health," Financial Health Network.
[41] Joanne Sammer, "Is It Time to Tie Employee Health Care Costs to Pay?," Society for Human Resource Management, April 2021.
[42] "2019 Best Practices in Health Care Employer Survey Report," WTW, April 2020.

Conclusion

Medical debt is a widespread, systemic, and pervasive problem impacting millions of employees in the United States. Medical debt can financially ruin employees while also deteriorating physical, emotional, and social well-being. **Having health insurance alone is not enough to shield employees from medical debt, especially when that insurance leaves them vulnerable to high-cost or unaffordable out-of-pocket healthcare expenses.** Key actions taken by employers can lower employees' risk of medical debt while increasing employee satisfaction and retention, decrease employee stress and absenteeism, and improve access and utilization of health insurance.

*Figure 1. Opportunities to take action **for employers.***

While many upstream factors lead to medical debt, this report focuses on interventions that employers can implement to prevent medical debt and its devastating impacts on financial health and health.

Acknowledgments

About the Report Series

The Financial Health Network is a trusted resource for business leaders, policymakers, and innovators united in a shared mission to improve financial health for all. We believe financial health is a social determinant of health.

Developed with the support of the Robert Wood Johnson Foundation and informed by a council of stakeholder experts, this report series was created by the Financial Health Network to identify actionable interventions and strategies that health system stakeholders should take to prevent medical debt – particularly among commercially insured patients who too often remain unprotected from healthcare costs.

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Recommendations for Hospitals and Healthcare Systems

Recommendations for Insurers

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Stakeholder Advisory Council

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The Financial Health Network is the leading authority on financial health. We are a trusted resource for business leaders, policymakers, and innovators united in a mission to improve the financial health of their customers, employees, and communities. Through research, advisory services, measurement tools, and opportunities for cross-sector collaboration, we advance awareness, understanding, and proven best practices in support of improved financial health for all.

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