



Prescription for Medical Debt in ALICE Family: How collection agencies Can help



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Executive Summary

Millions of Americans struggle with medical debt, especially those who come from working-class backgrounds.¹ In addition to causing economic hardship, this issue also jeopardizes people's health. Helping families get free from medical debt today and avoiding further medical debt in the future is in the best interest of health systems, insurance, and collection agencies to be a part of the solution.

This paper aims to identify and understand what medical debt is, how it is different, who carries medical debt, and how debt collection agencies can help.



What is medical debt and why is it different?

Patients regularly encounter difficult circumstances after receiving crucial medical care, whether from a doctor's office, hospital, or other healthcare provider. Even with insurance, the costs could increase to an unmanageable and terrifying degree. Patients may be forced to borrow money from friends or family members or take out credit card loans when their insurance does not cover the costs, they are not eligible for free care, or they simply lack the finances to meet these expenditures out of pocket.

Medical debt is unique because it differs from other consumer debts like student loans, mortgages, or vehicle loans in several important ways.

Patients unable to pay their bills compromise their healthcare.

A person's physical and emotional health may suffer due to medical debt. It can result in patients delaying the required healthcare treatments for urgent or ongoing issues and causing stress, worry, despair, and high blood pressure. Medical debt has been related to major health repercussions in studies by the American Cancer Society and the Vanderbilt University Medical Centre. Patients who are unable to pay their medical fees could forgo required procedures or prescriptions, which could ultimately result in more serious health issues. Researchers at Vanderbilt University discovered that a sizable portion of Medicare Part D patients failed to fill prescriptions for drugs to treat immunological disorders, cure hepatitis C, or treat cancer 2.

Price transparency is elusive.

It can be difficult to find economical healthcare services. Comparing pricing between shops may appear unattainable due to the lack of price transparency and restrictions on the "network" providers that are available. Unfortunately, a wide range of circumstances, such as insurance coverage, state laws and regulations, and even location, affect how much medical care will cost. The demands of healthcare inflation make this lack of transparency worse by making it impossible for people to anticipate their costs.

While the No Surprises Act's subsequent legislative initiatives are advancing price transparency to provide patients more power, they fall short. Cancer or diabetes patients cannot just refuse treatment because it is too expensive, at least not without severe repercussions. Unprepared patients who face such escalating costs may easily and swiftly rack up staggering sums of debt.

Medical debt affects millions of consumers

You may not be aware, but consumer debt—including medical debt—has a big impact on our economy. Unfortunately, debt obligations can restrict people from making investments in their communities, houses, families, or themselves. Because of this, it's essential to comprehend the extent of medical debt before we discuss finding a remedy. The Consumer Financial Protection Bureau estimates that medical collections line items appear on 43 million credit reports, even if medical debt isn't past due or in collections. Unbelievably, 58% of bills in collections and on people's credit reports are for medical expenses, according to the same poll. Medical debt surpassed all other categories of debt as the primary source of collection activities between 2009 and 2020, according to a study that was published in the Journal of the American Medical Association. ³

According to research, people had an average of \$429 in medical debt in collections, as opposed to \$390 for all other types of debt combined⁴. This is particularly troubling given that, according to the 2022 Personal Capital Wealth and Wellness Index, nearly half of Americans are unable to manage an unexpected \$500 bill without stress. These sums can be catastrophic for lower-income families because they do not have reserves set aside to pay such costs.

We elaborate in this paper that the disturbing accumulation of debt among individuals without the means to pay it is seriously harmful to both their well-being and our economy as a whole, even though the overall amount of personal medical debts in collections may not appear astronomical. Furthermore, although appearing to be little, individual debt levels may be a sign of deeper problems with the larger US healthcare payment system than with the way specific patients navigate it.



Who carries medical debt?

While medical debt is a possibility for everyone in the US, it is more likely to occur for people who have limited access to high-quality healthcare and low-income levels. Numerous studies have found that this includes households with sick or disabled members, individuals without a college degree, those who are raising children, young adults between the ages of 18 and 29, individuals between the ages of 50 and 64 (who frequently have health issues but aren't yet eligible for Medicare), and people who are not employed.

People in states where the Affordable Care Act did not permit more people to use Medicaid tended to have higher levels of medical debt than people in states where more people could use Medicaid, according to a study published in the Journal of the American Medical Association.

All of these elements contribute to our comprehension of those who are most adversely impacted by medical debt. To put it another way, families who are already having a hard time—the ALICE Family, as we'll call them—are the ones who are most affected by medical debt.

Who are the ALICE Families?

In 2022, Abby Hughes Holsclaw, the founder of the Arkansas Asset Funders Network, discussed the idea of the ALICE Family, which stands for "Asset Limited, Income Constrained, and Employed." When we discuss medical debt and other debts that wind up in collections, this concept is essential. Families with ALICE status often have some possessions and some income. Still, they are ineligible for public assistance programs and find it difficult to pay for the necessities of life in their neighborhoods. Their financial plight is made worse by the uncontrollable nature of their medical debt.

We can understand the relevance of medical debt for typical people thanks to the abbreviation "ALICE." For many Americans, a \$500 medical expense may not be out of the question, but for an ALICE Family, whose principal breadwinner may be working two or even three jobs just to get by, it can be catastrophic.

"Every day, people like cashiers, waitresses, delivery drivers, janitors, and home healthcare providers look after us. They may run behind utility bills so they can pay for the medicines of their children, or sometimes cannot make it to work because they had to sell their vehicle to keep from losing their home."

Even people with strong salaries and stable office employment may struggle to pay for their medical expenditures. However, even a minor issue could threaten the ALICE Family's existence, given their tight financial situation. Also, medical debt can lower a person's credit score by about 25 points, even if they have no other issues. People will have a harder time in the future finding housing, transportation, or employment as a result.

ALICE Families live in a healthcare demilitarized zone.

The United for ALICE coalition estimates that 35 million US households (about 29%) would be considered ALICE families, based on data from the 2018 US Census American Community Survey. In combination with people who earn less than the federal poverty limit, this causes 42% of households to struggle to pay for necessities. Given the growing disparity between the price of health insurance and ordinary household finances, an increasing percentage of American houses may fall into the ALICE category.

Making healthcare more accessible and assisting ALICE Families with debt management could be key components of improving the healthcare system as a whole. According to studies, medical debt generally fell after the Affordable Care Act, but it was still higher in the states that did not expand Medicaid. Families in ALICE are in a difficult predicament because their income is too high for Medicaid yet insufficient to stop living paycheck to paycheck.

Rising healthcare costs could be reduced by altering the healthcare system to make it more accessible for everyone, especially those in danger of medical debt. It might be less expensive and better for patients and the healthcare system to switch from pricey emergency care to continuing preventive care. Maintaining the health of these families enhances not just their quality of life but also the economy because they provide necessary labor. The pandemic brought to light the issues that arise when critical positions go unfilled. Therefore, the requirements of these families must be taken into account in any recommendations made to handle medical debt.

The consequences of insufficient household income

Since more than 40% of American households earn less than the ALICE Threshold, millions of families must daily make difficult decisions and risky trade-offs⁶.

This Consequences of Insufficient Household Income report explores:

It discusses four crucial aspects of a family's budget: where they reside, caring for children and paying for their education, and maintaining their health. Taxes have an impact on the financial decisions that families make. They have to make some extremely difficult decisions when there is a significant gap between the amount of money they have and the costs they must pay. Their safety, security, and finances may all be at risk.

Considerations for each area of the family budget are as follows: [information about each aspect of the budget].

Housing: Building Stability

Housing is more than just a place to live; it is the foundation of stability. But for families, it's typically the most expensive outlay. Without a safe and affordable place to live, it is difficult to achieve in other aspects of life, such as education and a job. Stressful situations for families include long job commutes and financial constraints.

Child Care and Education: Getting Ready for the Future

Child care is crucial for parents who work and for kids who perform well in school. For financial success, education is also crucial. However, ALICE households have a hard time finding suitable schools and paying for child care. Children may struggle in school, and parents may not be able to work without quality child care. Children won't acquire the skills necessary for excellent careers without strong schools. Without accessible higher education, students risk accruing debt and passing up better employment opportunities.

Health Care: Staying Well

For ALICE households, maintaining health is challenging. Each family may incur varying medical expenses. Although more families now have health insurance, many still struggle to pay for doctor visits. Financial issues related to health care can worsen if the wrong care is received.

Taxes: Extra Costs

Families must pay additional taxes. Families affected by ALICE frequently pay more in taxes than they do in aid. Families with children can benefit from some tax benefits.

The issues that ALICE families encounter require a wide range of solutions. These solutions must be clever and consider regional demands. Families, friends, groups, corporations, and the government can all work together to find answers. Better outcomes for ALICE families will make the state as a whole stronger and more joyful for everyone.

The drivers of medical debt

- **High deductible plans and expensive out-of-pocket costs**

It's crucial to keep in mind that just because one has health insurance, it doesn't mean that all of their medical expenses will be paid for. Even though more than 90% of Americans have access to health insurance, many nevertheless have debt from medical expenses. The cost of healthcare in the US can be high, and customers frequently believe their insurance will cover everything. However, it can be challenging to identify what services are covered and by whom due to the complexity of insurance plans and the large range of coverage options. Staff members of medical offices may also be perplexed and unable to tell patients whether or not a given service would be covered.

- **Inefficiencies and miscommunication at the provider level**

Numerous assumptions are made about patients and their ability to stand up for themselves in the event of a billing error or miscommunication from a physician by the existing US healthcare payment system. According to a recent poll, respondents were four times more inclined to look into financial aid programs or charitable care if they were aware of the chance that they might qualify.

When ALICE workers look for care for themselves or a family member, it is inevitable that many of them will accumulate high medical bills, quickly turning into medical debt because they are mostly left to their own devices to figure out their health care expenses, given hazy information about what the services would cost, along with limited resources and time to deal with the gap between their estimate and their bills. NPR says these people and their families are "functionally uninsured."

The debt collection process

Once the provider has exhausted all internal options to collect the patient's responsibilities from the Patient, the bill is considered past due. Outstanding medical accounts are either sent to an internal collections person or department or a hired agency for the early phase of bad debt collections. If the bill still lists the services and providers at this level, the Patient will be better able to understand why they need to make this payment.

The procedure of collecting debts is described in general below.

Patient seeks and receives care => Hospital/provider processes insurance (or lack thereof) => Decision made on patient responsibility => Patient evaluates if they can afford the bill=> Patient takes action (pay, dispute, negotiate, ignore) =>Hospital/provider begins collection process.

In a Nutshell

"ALICE" families (Asset Limited; Income Constrained; Employed) are particularly hard-hit by medical debt. Financially stressed, ALICE Families usually have multiple jobs, which leaves them with little time to handle the avalanche of insurance challenges, murky billing procedures, and disagreements with collections agencies. Until these issues are handled, the medical debt problem won't be resolved. Hospitals and other providers must make money to provide necessary services. Due to their incredibly low-profit margins, they have very little room for maneuvering. If these institutions lose too much money due to non-payment, they risk cutting back on essential services or closing their facilities, especially in remote areas.

Implications

Helping Families with Medical Debt

A lot of people who owe money for medical expenses, particularly families like ALICE, struggle to meet their basic financial obligations. They might be able to handle their money better if given more time to pay off their obligations in smaller sums. Additionally, healthcare providers would benefit from this since they would receive more funding for their operations.

Making Collections Better

Companies that take money from customers need to work more efficiently if they want to contribute to the solution. They should quit threatening legal action and other unfair tactics. Instead, they may provide patients with simpler options to repay loans and aid in boosting their credit.

Knowing the Costs and Options

People need to be aware of any potential costs associated with their medical care. Doctors and staff can recommend the best care and financial assistance if they are aware of the costs and the extent of their insurance coverage. This could refer to payment options or even charitable care.

The Vital Edge

You need a medical debt collections agency that cares about patient experience and delivers excellent performance that optimizes your revenue cycle if you want to make sure patients are satisfied and your organization meets revenue targets.

We at Vital Solutions are aware of your difficulties and will support you in overcoming financial strain. In terms of recovering unpaid medical bills, Vital is an authority. We can work with ALICE families and make them aware of the debt collection cycle from the very beginning leading to a repayment process that is hassle-free and easy-to-pockets.

We're a reputed firm with long-term market experience. Meanwhile, the agents have an in-depth understanding of payer billing rules, audits, recoupments, appeals, denials, and more. Meanwhile, our state-of-the-art technology and expertise help maximize revenue collection. We offer timely and compliant first-party and third-party collection services to maximize revenue by ensuring optimal recovery from your delinquent accounts. With us as your first-party or third-party debt collection partner, our patient-focused and compliant approach can significantly increase cash flow and boost CX delivery.

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