

## **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.<sup>1</sup> [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.<sup>2</sup>
  - \$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

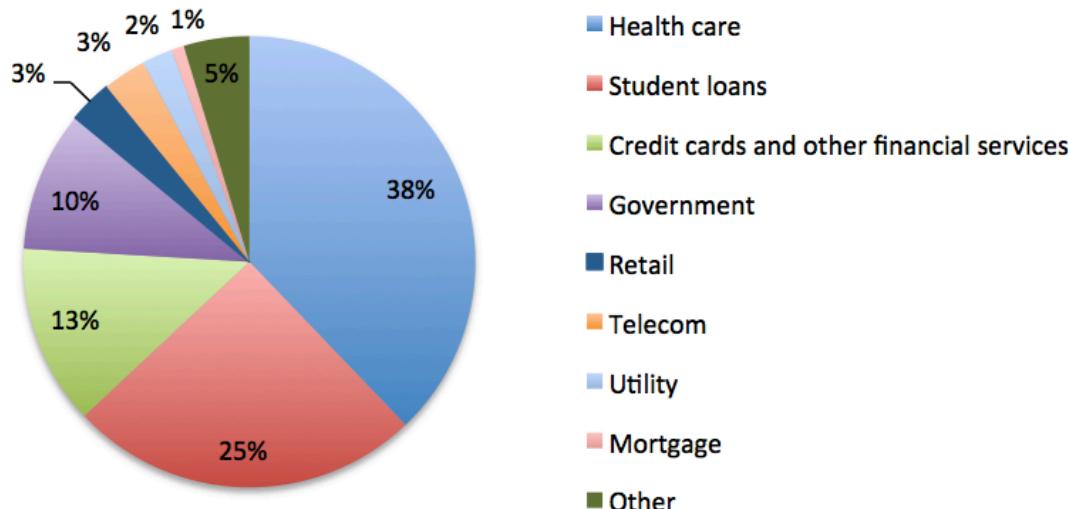
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<sup>1</sup> Sum of increases in employee share of healthcare cost according to [Milliman Medical Index](#) (MMI) reports from 2011 to 2013. MMI is based on a family of four with employer-sponsored PPO insurance.

<sup>2</sup> 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.<sup>3</sup>

#### *Debt collected from consumers, 2013*



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<sup>4</sup> 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.

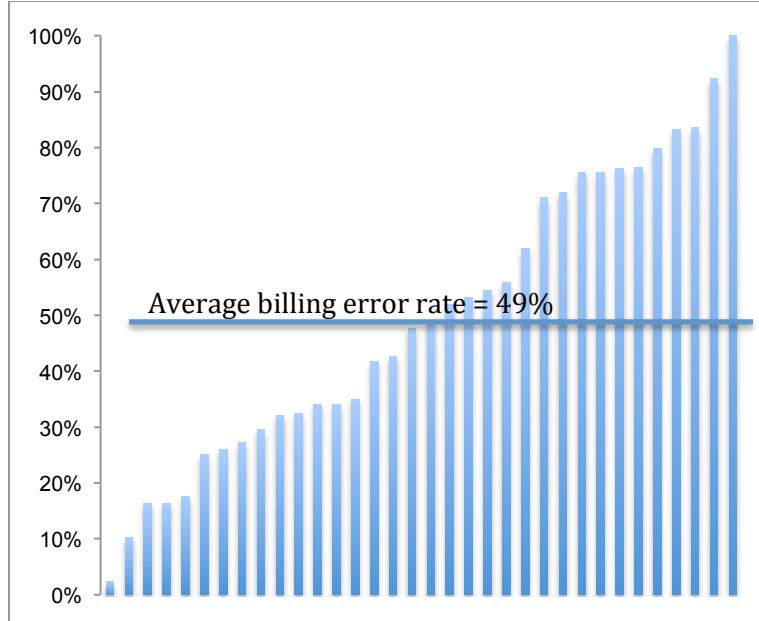
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<sup>3</sup> According to Ernst & Young's [analysis](#) of third-party debt collection in 2013, \$55 billion in debt was collected from American adults and 37.9% of this debt was related to healthcare, compared with 10.1% related to credit cards and 2.8% for other financial services.

<sup>4</sup> 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.<sup>5</sup>
- 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*



Source: Office of Inspector General, Office of Audit Service Hospital Medicare Compliance reviews released in 2013 (n=34).

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

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<sup>5</sup> 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.

Hospital	Location	Claims Included in Billing Audit	% of Audited Claims with Billing Errors	\$ Amount of Payments Audited	% Hospital Overcharged Medicare Due to Billing Errors*
Tufts Medical Center	Boston, MA	117	92.3%	\$1,290,693	84.1%
Cedars-Sinai Medical Center	Los Angeles, CA	490	83.5%	\$5,590,434	40.2%
Brooklyn Hospital Center	Brooklyn, NY	162	83.3%	\$987,213	55.2%
St. Elizabeth's Medical Center	Boston, MA	282	79.8%	\$3,160,718	38.3%
Community Regional Medical Center	Fresno, CA	301	76.4%	\$3,283,707	32.8%
Boston Medical Center	Boston, MA	431	75.6%	\$899,115	68.1%
California Pacific Medical Center	San Francisco, CA	224	71.9%	\$3,118,585	39.1%
MedStar Washington Hospital Center	Washington, DC	313	55.9%	\$3,200,322	33.2%
University of Wisconsin Hospital and Clinics	Madison, WI	186	53.2%	\$3,086,985	10.24%
University of Kansas Hospital	Kansas City, MO	79	51.9%	\$2,075,188	12.3%
Tulane Medical Center	New Orleans, LA	125	48.8%	\$1,517,875	34.5%
Via Christi Hospital	Wichita, KS	67	41.8%	\$1,518,679	11.2%
University of Miami Hospital	Miami, FL	200	34.0%	\$2,905,695	18.0%
University of Utah Hospital	Salt Lake City, UT	243	32.1%	\$5,437,897	4.7%
Hospital of the University of Pennsylvania	Philadelphia, PA	208	26.0%	\$3,961,324	13.6%
St. Vincent's Medical Center	Jacksonville, FL	207	25.1%	\$1,447,957	19.5%
Saint Thomas Hospital	Nashville, TN	250	17.6%	\$3,335,641	8.8%

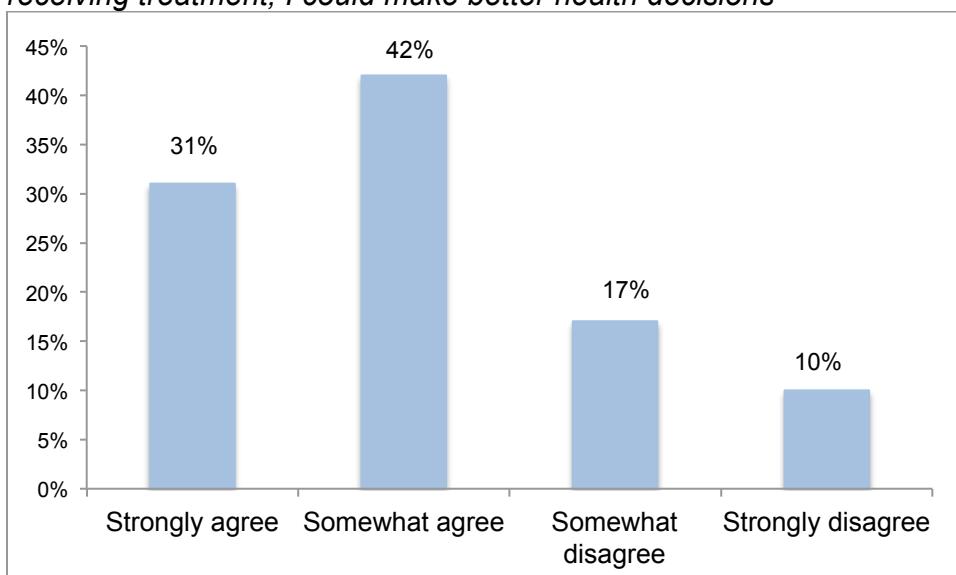
\* All audited hospitals found to have overcharged for care were required to repay Medicare (CMS) the resulting amount.

Source: Office of Inspector General, Office of Audit Service Hospital Medicare Compliance reviews released in 2013 (n=34).

### 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”*



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.<sup>6</sup>
- 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*

Hospital inpatient treatments	Difference between highest charge and lowest charge	Lowest Charge	Highest Charge	State with Lowest Charge	State with Highest Charge
Severe intestinal bleeding, perforation, obstruction, infection <i>DRG 371</i>	54x	\$5,379	\$291,965	AR	CA
Infection and/or inflammation of heart muscle <i>DRG 314</i>	52x	\$4,458	\$231,884	TX	CA
Severe inflammation or ulcer of stomach or gut <i>DRG 392</i>	49x	\$2,170	\$106,902	MS	NJ
Pneumonia or Bronchopneumonia <i>DRG 177</i>	49x	\$6,631	\$322,479	TX	CA
Life-threatening accumulation of fluid in lungs (Pulmonary Edema) <i>DRG 189</i>	48x	\$4,805	\$228,460	AL	NJ
Bronchitis, Asthma with inflammation of airways <i>DRG 202</i>	41x	\$3,696	\$152,913	MS	CA
Heart failure with life-threatening low blood pressure <i>DRG 293</i>	41x	\$2,609	\$106,208	MS	NJ
Schizophrenia, manic episodes, bipolar disorder, and other mental health disorders <i>DRG 885</i>	41x	\$2,988	\$121,438	TX	NJ
Severe skin infection (for example, staph infection) <i>DRG 603</i>	41x	\$2,516	\$102,219	TX	NJ
Anemia or other red blood cell issues <i>DRG 811</i>	39x	\$6,912	\$269,770	OH	CA

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*

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<sup>6</sup> 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.

Row Labels	Lowest Charge	Name of Hospital with Lowest Charge	Highest Charge	Name of Hospital with Highest Charge	Price Premium for Care at Highest Charge Hospital
ANAHEIM	\$59,134	WEST ANAHEIM MEDICAL CENTER	\$131,503	AHMC ANAHEIM REGIONAL MEDICAL CENTER	122%
ATLANTA	\$41,708	EMORY UNIVERSITY HOSPITAL	\$67,795	NORTHSIDE HOSPITAL	63%
BALTIMORE	\$13,432	SINAI HOSPITAL OF BALTIMORE	\$46,753	JOHNS HOPKINS HOSPITAL	248%
BOSTON	\$11,967	CARNEY HOSPITAL	\$76,697	MASSACHUSETTS GENERAL HOSPITAL	541%
CHICAGO	\$29,538	MERCY HOSPITAL AND MEDICAL CENTER	\$89,082	NORTHWESTERN MEMORIAL HOSPITAL	202%
CLEVELAND	\$27,633	METROHEALTH SYSTEM	\$67,438	CLEVELAND CLINIC	144%
DALLAS	\$39,949	BAYLOR UNIVERSITY MEDICAL CENTER	\$134,486	MEDICAL CITY DALLAS HOSPITAL	237%
DENVER	\$32,618	DENVER HEALTH MEDICAL CENTER	\$59,744	ROSE MEDICAL CENTER	83%
DETROIT	\$27,500	ST JOHN HOSPITAL AND MEDICAL CENTER	\$38,647	HENRY FORD HOSPITAL	41%
HOUSTON	\$31,134	MEMORIAL HERMANN MEMORIAL CITY MEDICAL CENTER	\$93,076	CYPRESS FAIRBANKS MEDICAL CENTER	199%
INDIANAPOLIS	\$24,889	COMMUNITY HOSPITAL EAST	\$72,480	INDIANA UNIVERSITY HEALTH	191%
KANSAS CITY	\$45,280	PROVIDENCE MEDICAL CENTER	\$101,809	RESEARCH MEDICAL CENTER	125%
MIAMI	\$35,390	WESTCHESTER GENERAL HOSPITAL	\$108,028	UNIVERSITY OF MIAMI HOSPITAL	205%
MILWAUKEE	\$36,801	WHEATON FRANCISCAN HEALTHCARE- ST FRANCIS	\$52,470	AURORA ST LUKES MEDICAL CENTER	43%
NASHVILLE	\$32,006	TRISTAR SOUTHERN HILLS MEDICAL CENTER	\$64,917	TRISTAR CENTENNIAL MEDICAL CENTER	103%
OKLAHOMA CITY	\$43,108	OKLAHOMA HEART HOSPITAL	\$85,619	INTEGRIS SOUTHWEST MEDICAL CENTER	99%
ORLANDO	\$79,500	FLORIDA HOSPITAL	\$91,033	ORLANDO HEALTH	15%
PHILADELPHIA	\$40,755	ROXBOROUGH MEMORIAL HOSPITAL	\$112,576	HOSPITAL OF UNIV OF PENNSYLVANIA	176%
PORTLAND	\$20,960	PROVIDENCE ST VINCENT MEDICAL CENTER	\$51,214	LEGACY GOOD SAMARITAN MEDICAL CENTER	144%
SACRAMENTO	\$75,291	SUTTER GENERAL HOSPITAL	\$131,508	UNIVERSITY OF CALIFORNIA DAVIS MEDICAL CENTER	75%
SAN DIEGO	\$62,494	UNIVERSITY OF CALIFORNIA SAN DIEGO MEDICAL CENTER	\$94,609	SHARP MEMORIAL HOSPITAL	51%
SAN FRANCISCO	\$95,264	CPMC - PACIFIC CAMPUS HOSPITAL	\$175,765	UCSF MEDICAL CENTER	85%
SAN JOSE	\$90,980	SANTA CLARA VALLEY MEDICAL CENTER	\$176,052	REGIONAL MEDICAL CENTER OF SAN JOSE	94%
SEATTLE	\$33,544	HARBORVIEW MEDICAL CENTER	\$46,244	SWEDISH MEDICAL CENTER	38%
TAMPA	\$42,248	ST JOSEPH'S HOSPITAL	\$99,033	TAMPA GENERAL HOSPITAL	134%

Source: NerdWallet Health analysis of CMS Hospital Inpatient Charge [Data FY2012](#).

## 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 [kathyne@nerdwallet.com](mailto:kathyne@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

The [Association](#) of Credit and Collection Professionals International. 2013 Top Collection Markets Survey.

Ernst & Young for The [Association](#) of Credit and Collection Professionals International. “The Impact of Third-Party Debt Collection on the US National and State Economies in 2013.” July 2014.

American Hospital Association. “[Uncompensated Care Fact Sheet: 2014](#).”

#### Medical Bill Errors

Office of Audit Services, Office of Inspector General of the US Department of Health and Human Services. 34 [Medicare Compliance Reviews](#) of hospitals. Our analysis includes all hospitals audited in 2013.

### Hospital prices

Centers for Medicare & Medicaid Services. Medicare Provider Utilization and Payment Data: [Outpatient](#) Charge Data CY 2012. Released 6/1/2014.

### **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.