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Medical Bankruptcy and the Economy

Do Medical Bills Really Devastate America's Families?

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✔ Reviewed by [Somer G. Anderson](#)

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Unexpected medical costs can bankrupt a family. PHOTO: PHOTO: ARIEL SKELLEY/GETTY IMAGES

Medical bills are reported to be the number-one cause of U.S. bankruptcies. One study has claimed that 62.1% of bankruptcies were [caused by medical issues](#).^[1] Another claims that over two million people are adversely affected by their medical expenses.

employer-sponsored insurance by the [Kaiser Family Foundation](#) (KFF) / LA Times Survey in 2019. The study found that one in five people surveyed have been contacted by collection agencies, while 9% of those surveyed stated that they had declared personal bankruptcy due to medical expenses. ^[2]

It is hard to tell what the actual impact of medical expenses is with so many different interpretations of study results. What is known is that there are many people who are so affected by healthcare debts that they need to file for bankruptcy.

The Harvard Study

The years that were analyzed in a Harvard study with Elizabeth Warren for former President Obama followed the Great Recession. Because of the recession, bankruptcy rates skyrocketed. [Consumer bankruptcies](#) rose from 775,344 in 2007 to 1.5 million in

In Warren's study published in 2005, there were 1.45 million bankruptcies.^[4] The same researchers' 2009 study claimed that 62.1% of all bankruptcies were caused by medical bills.^[1] In this study, the researchers interviewed a group of people who filed for bankruptcy between January and April 2007. It expanded medical causes to include:

Those who mortgaged a home to pay medical bills

Those who had medical bills greater than \$1,000

People who lost at least two weeks of work due to illness^[5]

Later Studies

In 2011, researchers Tal Gross and Matthew Notowidigdo found that out-of-pocket medical costs influenced 26% of bankruptcies in low-income households.^[6]

was a more accurate number than the Harvard/Warren study, while another claimed that two million people are affected by medical bankruptcy. ^[7]^[8]

Also in 2013, bankruptcy attorney Daniel A. Austin [found that](#) up to 26% of bankruptcies were primarily due to medical costs, but added:

"It is important to stress that in most cases, no single element can be cited as the 'cause' of the bankruptcy. The decision to file bankruptcy is typically the product of factors such as long-time financial patterns, family and lifestyle decisions, job loss and sudden adverse events, advice from others, and, ultimately, the individual debtor's perception of the value and utility of filing bankruptcy." ^[9]

Follow-on Studies

declare bankruptcy. Its survey found that 26% of Americans age 18 to 64 struggled to pay medical bills. ^[10] [According to the U.S. Census](#), that's 52 million adults. The survey found that 2%, or one million, said they declared bankruptcy that year. ^[11]

In 2011, Debt.org published that people aged 55 and older account for 20% of total filings. ^[12] Even with assistance from Medicare, the average 65-year-old couple faces \$275,000 in medical bills throughout retirement. ^[13]

Expenses and Spin are Equally High

There is no doubt that medical expenses, and therefore bills, are high. The KFF found that wage increases are not keeping up with [rising health](#) care costs—medical insurance premiums increased 54% while earnings have increased by only 26% since 2009. ^[14]

methods, how the results were interpreted, and the reasons the results were being used.

Spin is a concept of using information in a manner that benefits the presenter, or parties associated with the presenter. The information presented in studies such as the ones cited can be manipulated in a way that makes the information, while not good, appear much worse.

With the right wording, it is possible to make these studies present information that can lead people to believe that nothing is wrong at all. For example, if you look at the data presented by The United States Courts, you'll see that bankruptcy rates have [dropped by](#) 317,488 since 2006. ^[3]

From this, you could infer that The Bankruptcy Abuse Prevention And Consumer Protection Act ([BAPCPA](#)) of 2005 has been effective. The Act may have been effective; however, this statement does not take economic circumstances or the employment rates into

any information can be used in different ways.

The Variables of the Reports

Researchers disagree on the evidence for medical bills causing bankruptcies. The biggest problem in answering this question is that those filing for bankruptcy aren't required to state the reason.

As a result, estimates are based on surveys. Therefore, the answer will depend on how researchers phrase their questions, and how the survey respondents define the cause of their bankruptcy.

A variety of factors cause bankruptcies. Many people with medical debt have other debts as well. They may also have a lower income, little savings, or have lost a job.

Medical debts are generally unexpected—many Americans live paycheck to paycheck due to the cost of living, low wages, or living beyond their means. A

Almost a third of the respondents surveyed by KFF claimed they weren't aware that a particular hospital or service wasn't part of their plan. One in four found that their insurance had denied their claims.

Many insured people are not aware that their policies have limits. [High deductibles](#) and co-payments can cause high debts, and [annual/lifetime limits](#) can cause an insurance plan to run out. Some insurance policies and companies will deny claims or cancel the insurance policy.

Final Thoughts on Medical Bankruptcy

There are many reasons that people file for bankruptcy. Medical expenses do have an effect on people's financial situations, causing some financially responsible people to file for bankruptcy. For others,

The debate over medical expense bankruptcy will continue to have a place on political platforms, around dinner tables, and in academia for the foreseeable future. Politicians will continue to spin the numbers to work for the votes they need. What is undeniable, however, is that a vast number of people are influenced by medical expenses to file for bankruptcy in America.

Frequently Asked Questions (FAQs)

How much medical debt is there in the U.S.?

The Peterson-KFF Health System Tracker estimates that [medical debt](#) totaled at least \$195 billion in the U.S. in 2019. The organization made that estimate using the latest medical debt data available from the Census Bureau. ^[15]

Medical debt will remain on your [credit report](#) as long as it is accurate, and the account is open. Once the account closes, you can expect negative information to fall off your credit report within seven years. If you claim bankruptcy, that can remain on your credit report for 10 years. ^[16]

However, the rules are set to change. On July 1, 2022, medical debt in collections will be removed from your credit report once you pay it. In 2023, the major credit bureaus will stop reporting medical debt of less than \$500. ^[17]

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