



The Basics

## Why medical debts shouldn't count

For many, the road to ruined credit is pockmarked with medical collections, often for tiny amounts or billed in error. The truth is that medical debt rarely indicates whether a borrower high risk.

By [Liz Pulliam Weston](#)

It's a good thing Greg Hilfman of Los Angeles has health insurance because an unpaid medical bill has sent his blood pressure soaring.

Hilfman's wife was in a hospital two years ago for [pancreatitis](#), and Hilfman said she was treated by a "cadre" of doctors and specialists. All but one submitted bills to their insurer, Blue Cross of California, in time to get paid.

Six weeks ago, however, a woman from a neurologist's office contacted Hilfman, explaining that the office "didn't have the right address for Blue Cross" and thus hadn't submitted the bill within the one-year period required for reimbursement. She demanded that Hilfman cough up \$540.

Hilfman was furious. He'd never heard of the doctor and insisted he'd seen no bill or any indication there was a problem with payment. Now he's worried he'll have to pay a bill that should have been covered by insurance or risk damage to the couple's credit reports.

"How is this fair?" he asked. "They can say anything they want (to the credit bureaus), and I have no recourse."

### Tiny debts with huge impacts

Hilfman is right to be concerned. The [Your Money message board](#) is littered with complaints from folks whose otherwise pristine credit was sabotaged by a medical collection. Sometimes their records were besmirched over absurdly small amounts that nonetheless had big impacts on credit scores.

Poster "sunny\_light," for example, recently discovered a medical-collection account for just \$7.

"I pulled my credit report last week and found out," sunny\_light wrote. "I promptly paid the collections people. But now my credit score is down by like 80 points."

Medical collections are surprisingly common, at least according to a [2003 Federal Reserve study](#) of consumer-credit reports. Nearly one in three consumers (31%) with a credit report had at least one collection account reported, and more than half of those were medical collections.

The amounts owed weren't substantial: 36.5% of the medical collections were for \$100 or less, and 86% were for \$500 or less.

Medical collections make up half of all collection accounts:

Collection type	% of collection accounts	Median amount owed
Medical	52.2	\$142
Utility	22.7	\$199
Government	2.3	\$199
Creditor*	5.8	\$587
Other**	16.9	\$116
All	100	\$156

*Source: Federal Reserve*

\*Includes large retailers, banks and finance companies

\*\*Includes smaller retailers, law firms, individuals and educational institutions

Yet any collection account is considered a major negative to lenders and to the credit-scoring formulas they use. Though the impact of a collection on your scores fades over time, it will shave off points for as long as the negative mark remains on your report -- typically seven years.

Your chances of having your credit ruined by a medical bill are soaring for a variety of reasons:

**More people are uninsured or underinsured.** The U.S. Census Bureau counts nearly 45 million uninsured Americans. An additional 16 million or so are underinsured, with too little coverage to protect them from catastrophic medical expenses. Medical costs have been rising at a much higher rate than inflation, and those without insurance are often charged more than those with coverage (read "[How to survive your hospital bills](#)" for details). Thus a single accident, illness or emergency-

room visit can easily result in an impossible-to-pay bill for many uninsured and underinsured families.

**Medical-debt collection has become big business.** An unpaid or disputed bill is more likely to wind up on your credit report because of a sea change in the way medical bills are treated.

"The reporting of medical debt (to credit bureaus) is becoming much more common," said Travis Plunkett, a spokesman for the Consumer Federation of America. "Medical-debt reporting has become more professionalized."

### Video on MSN Money

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Good records, detailed claims and persistence will help you get your money faster and avoid problems.

A decade ago, most hospitals did their own collections or assigned them to a collector who worked on contingency, collecting a portion of what was owed. Smaller providers typically handled collections in-house. Only the largest companies tended to report collections activity to the credit bureaus -- and then only after repeated collection attempts had failed.

Today, physicians groups and other small providers are more likely to outsource their collections to agencies that use negative credit-report entries as a tool to urge patients to pay.

Meanwhile, an increasing number of for-profit hospitals and even some nonprofits regularly sell their bad debts for 2 or 3 cents on the dollar rather than try to collect the money themselves. So-called debt purchasers buy huge portfolios of debt, and one of the first things they do is post the collections on the consumers' credit reports.

"Health-care-debt buying did not exist" 10 years ago, said Michael Klozotsky, an analyst for Kaulkin Ginsberg, which tracks debt-collection trends. In 2005, purchasers bought at least \$3 billion of bad medical debts, and the market seems to be growing 11% to 15% a year.

#### [Continued: Confusion abounds](#)

**Medical billing is a mess.** Even when a consumer is covered by insurance, confusion abounds. Doctors and hospitals often insist the consumer is ultimately responsible for the bills, saying medical providers bill insurers only as a courtesy. Yet frequently the providers have agreements with insurers and government agencies to accept discounted reimbursement as payment in full; the providers aren't supposed to pursue patients for payment.

Meanwhile, insurers are constantly changing what's covered and by how much, and providers move in and out of covered networks. Providers also claim some insurers deliberately drag their heels on reimbursements, adding to the chaos and uncertainty.

"Insurance companies are often contributing to the false reporting of medical debt," the Consumer Federation's Plunkett said, as tussles over payment increasingly get turned over to collection agencies.

#### **Medical debt is no predictor of risk**

Even when medical debts are legitimately owed and left unpaid, though, some experts question whether they belong on credit reports.

There's no question that medical bills pose huge risks for the finances of many families. Medical problems were cited as a factor in nearly half of the bankruptcies studied by Harvard University professor [Elizabeth Warren](#) (.pdf file).

Still, many mortgage lenders who specialize in serving low-income communities have discovered that discarding medical debts often gives them a better picture of a borrower's true creditworthiness, said Michael Stegman, the director of policy for the MacArthur Foundation's program on human and community development.

"If all their other credit accounts are in good shape, or they haven't established credit but they've had no delinquencies on their rent," Stegman said, "the fact you have a bad medical debt or an outstanding judgment over a medical bill is not a good predictor of default."

One such lender, Self Help of Durham, N.C., has a 1% default rate on its mortgages, which public-policy director David Beck said is comparable to mainstream lenders that use credit-scoring formulas that take medical debt into account.

"Our experience has been that medical debt isn't generally reflective of a borrower's ability or willingness to repay," Beck said.

It's not clear that these lenders' experiences with low-income borrowers can be extended to the population in general, but it's time to find out. Credit-scoring companies such as Fair Isaac, the creator of the leading [FICO scoring formula](#), should research whether medical debt really is predictive or not.

#### **In a bind? 4 tips**

Personally, I think we could solve much of the problem of unfair medical-debt reporting by excluding all collections under \$100 from credit reports. I also think medical debts should be treated differently, with shorter statutes of limitation on

collection and reporting (say, four years instead of the current seven), to reflect the fact that medical bills are a fundamentally different kind of debt from credit cards and auto loans.

Unless that happens, here's how to reduce the chances of your credit getting run over by medical debt:

**Bird-dog your medical bills.** Don't assume your health-care provider and your insurance company will eventually work it out. Follow up on every bill or claim with an unpaid balance. If a debt remains after more than a month or two, ask your provider and your insurer what the problem is and what you can do to help.

**Negotiate if you're uninsured.** As I discussed in "[How to survive your hospital bills](#)," you may be able to qualify for charitable assistance that could reduce or eliminate your bills. Even if you don't qualify, you should try to get the amount you're charged reduced to what an insurer or government agency would pay.

**Get payment agreements in writing.** If you don't have insurance and want to make payments, make sure your agreement is in writing. One [Your Money message board](#) contributor agreed to pay her health-care provider \$50 a month to pay off a \$1,600 bill. No agreement was signed, however, and the provider recently started demanding \$150 a month.

**Try to talk your way out.** If despite your best efforts a medical bill lands on your credit report, you have a couple of options. One is to dispute the bill with the credit bureaus as "not mine"; sometimes collection agencies won't bother to verify the disputed account, and it will fall off your reports. Option two is to negotiate with the collection agency to remove the account from your credit reports in exchange for payment.

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Ideally, you'd get that promise in writing before you pay anything, but sunny\_light managed to sweet-talk a collection agency rep into clearing a credit report after sending the \$7.

"I called that collection agency woman again and talked and talked to her with lots of 'please' . . . and then it was quiet for a while so I thought she hung up . . . but then she said she was looking at my file . . . and finally she said 'normally we don't do this' and then she told me to check my report in about 30-45 days," sunny\_light wrote. Two weeks later, sunny\_light checked, "and the \$7 medical bill (paid) has been removed from all three credit reports . . . and my credit scores went back up!!"

*Columns by Liz Pulliam Weston, the Web's most-read personal-finance writer and winner of the 2007 Clarion Award for online journalism, appear every Monday and Thursday, exclusively on MSN Money. She also answers reader questions on the [Your Money message board](#).*

**Published Nov. 19, 2007**