

Three Ways to Avoid the Impact of Medical Debt



For those who may be in or facing bankruptcy, medical debt is the top reason for this financial distress. Medical debt has threatened the financial stability of many of America's vulnerable: the sick, the elderly, the poor, veterans and the middle class.

This sort of debt is treated differently than credit cards or student loans. Unlike traditional lenders, a doctor/hospital typically doesn't report unpaid bills to a credit reporting agency. Healthcare providers usually send the bill to a debt collector, who then reports it.

New regulations aim at giving people more time to resolve problems with healthcare bills or to come up with a payment plan before it impacts their credit standing.

If you're struggling to pay medical debt or resolve a bill issue, here's how to minimize the impact on your finances.

Know your rights. New regulations as of last September make it harder for medical debt to hurt credit scores. The three major credit reporting agencies—TransUnion, Experian and Equifax – have to wait 180 days before adding medical bills to your credit report. This gives you a chance to work through the dispute.

If you are disputing coverage denial with your insurer, contact the provider to request more time before they send your bill to a debt collector.

Unpaid medical bills that later get paid by insurance must be removed from your credit report so they don't continue damaging your credit score. Monitor your credit reports, and if the bad debt doesn't disappear, write to the credit reporting agencies, provide proof of insurance payment and request the debt be erased.

Additional protections (National Consumer Law Center) are in place for each state, so check for information on Utah.

Understand the risks. If you don't resolve the debt, your healthcare provider can turn the bill over to an outside collection agency and your unpaid bill will eventually show up on your credit report, dragging down your score.

A low credit score can impact financial transactions such as applying for a mortgage, getting a new credit card or buying a car. Landlords and employers often ask to run a credit check.

Most lenders use FICO scores, a mathematical algorithm. Under

the newest FICO rating, FICO Score 9, medical debt is weighted less than other liabilities. But the most commonly used version is still FICO Score 8, which treats all debt equally. If applying for a loan, learn which score the lender uses.

Make a deal. If the bill is owed, but paying it would be a struggle, negotiate with your provider to lower the amount or write it off. Nearly 40 percent of people in a Consumer Reports survey negotiated payment, and 57 percent succeeded in lowering their bill.

Don't put the debt on your credit card. You will be charged higher interest, and it will look like regular debt to creditors, so any medical bill protections won't apply. Ask your provider for a payment plan. Many offer installment options with little or no interest.

Nonprofit hospitals are required to devote a portion of revenue to charity care to qualify for tax breaks. This is an option worth checking out.

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