Benefits Insights

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Medical Debt's Impact on Employees

Many workers in the United States struggle with medical debt. According to a recent survey of American workers by consumer financial health organization Financial Health Network, 37% of employees have medical debt, and 32% struggled to pay their medical bills last year. As health care costs continue to increase in the United States, so does the percentage of medical bills or debt that's sent to collections. Health insurance may help Americans cover a portion of their medical costs, but many are still in debt because of high deductibles, out-of-network charges and costs that exceed out-of-pocket maximums. In fact, a medical emergency, chronic illness or prolonged hospital stay can create a financial crisis for many U.S. workers.

Workers' struggles with medical debt are spilling over into the workplace, leading to issues such as lower productivity. However, employers are uniquely positioned to help employees improve their financial health and reduce their medical debt. In today's competitive labor market, prioritizing employee financial wellness can increase attraction and retention efforts.

This article explores medical debt's impact on U.S. workers and what employers can do to help.

Why Are Workers Struggling With Medical Debt?

An annual study by the financial wellness platform Salary Finance reported that 1 in 5 Americans have outstanding medical debt. For nearly 60% of these individuals, their medical debt is the result of a single illness or medical procedure and not recurring care. Rising health care costs are one of the main reasons so many workers are currently struggling with medical debt. According to research from the Kaiser Family Foundation, the average deductible has more than doubled in the last decade. More than half of U.S. workers were enrolled in high deductible health plans as of 2020, up from 35% in 2015. Additionally, health premiums are increasing for many Americans.

Record-high inflation and cost-of-living increases are also straining many workers' financial reserves. Less than half of Americans have sufficient financial savings to cover an unexpected $1,000 expense. As a result, many Americans are only one health issue from medical debt. While many workers have employer-sponsored health insurance, these plans don't necessarily provide employees with adequate financial protections. In fact, nearly 26% of adults with employer-sponsored health plans are considered underinsured and vulnerable to expensive medical bills, according to the Financial Health Network. Underinsured workers are less likely to visit the doctor when they have a medical issue or forgo filling needed prescriptions. This can often lead to more costly care down the road, increasing employers' medical costs.

Despite this impact on employers, many organizations still do not offer assistance. Even though employees are looking to employers for help improving their financial well-being and addressing medical debt, more than half say they haven't received financial advice for investing or retirement from their employers, according to a recent mental health report for health technology service provider TELUS Health.

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Rising health care costs are causing many U.S. workers with health insurance to put off receiving care in order to avoid potentially slipping into medical debt. In fact, one-third of employees are skipping preventive checkups, follow-up care and scheduled procedures, according to a survey by Salary Finance. As a result, workers' physical and mental health is negatively impacted. In turn, this can lead to more emergency room visits and higher health care costs for both employers and employees.

Additionally, medical debt is negatively affecting workers' performance. Medical debt often leads to financial stress, which can cause distractions at work and lead to depression or anxiety. For example, employees with medical debt are often forced to put money towards their debt that they would otherwise use for essentials, such as food, housing and education. Workers who experience financial stress are usually less productive, struggle to complete daily tasks and have worse relationships with co-workers. These drops in productivity can be very costly for employers.

What Employers Can Do Help Employees With Medical Debt

Employers are uniquely positioned to help employees reduce and, in some cases, prevent medical debt. Ensuring workers have access to health and financial well-being benefits that meet their needs can be extremely important to this endeavor.

The following strategies can help employers address and prevent medical debt among their workforce:

- **Measure employees' financial risks**. Performing an audit can help employers better understand their employees' financial risks for large health claims. This can guide employers as they take steps to improve and fortify the financial health of the most at-risk employees.
- **Survey employees**. Knowing what employees need and want in terms of financial wellness is vital. Using anonymous surveys can help employers understand their workforce's needs and then take steps to meet those needs.
- **Educate employees to be better health care consumers**. Better-educated employees are more likely to make better financial decisions regarding their health. Educating employees can help them save money for themselves and their employer by becoming better health care consumers, making better choices and avoiding unnecessary or expensive care. Employers can increase employees' health care knowledge by communicating clearly and often about the benefits plans they offer, educating them on the details of their health plan, and teaching them to compare prices and review medical bills.
- **Help employees manage health care costs**. Employers can offer benefits and services to aid employees in managing their health care costs. For example, employers can contribute to health savings accounts and health reimbursement arrangements to help employees with out-of-pocket expenses.
- **Tailor health care benefits**. Employers can offer benefits that best meet employees' financial and health care needs. They can do this by offering benefits based on individual financial situations and health care needs. For example, employers can vary employee contributions to health care premiums based on annual pay levels so lower wage earners contribute less compared to higher wage earners.

When employers address their employees' financial health, productivity, job satisfaction and retention tend to increase.

Summary

Employers can play a critical role in preventing or reducing medical debt by offering benefits tailored to meet employee needs. Offering financial well-being benefits that complement and enhance health insurance can help keep their workforce healthy and productive and ensure they're getting the treatment they need without incurring debt.

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