

Medical Credit: Safety Net or Debt Trap?

Paying for health care can be a struggle, even if you have insurance. Many doctors and dentists now offer a special **medical credit card** to pay for services. However, medical credit card **interest** and **fees** can be very expensive. They add extra costs to medical care when money is already tight.

Safety Net or Trap?

Medical credit can provide a safety net when care is needed. The purpose of this fact sheet is to help you understand the terms and conditions of borrowing and to keep that safety net from becoming a debt trap.

What is Medical Credit?

A medical credit card can only be used for medical costs. The cards can only be used with participating professionals. The two most commonly used medical credit cards are CareCredit® from GE Capital and Health Advanta^{ge}® from Wells Fargo.

Where are Medical Credit Cards offered?

Medical credit cards are frequently offered in doctors' offices, dentists' offices, and pharmacies as a way to pay. Patients can apply in the provider's office but a bank or finance company makes the credit decision. Sometimes you can apply directly with the finance company over the phone. The finance company can review your credit and approve your account right away. If the credit is approved and used, all payments go to the finance company.

What About Costs?

Interest rates, payment amount, fees and penalties are different for different card companies. They are explained on the **credit card agreement**. Some cards offer many payment choices to their customers. These choices are usually based on the amount borrowed and the number of months payments are made. Sometimes interest charges start immediately. Another common choice is a **deferred interest** plan.

Annual percentage rates (APR) are typically between 14% and 27%. It is very important to read and understand the credit card agreement before signing up for any credit account.

What if....?

- You wake up with a terrible headache, difficulty swallowing, and a fever.
- Your child twists her knee playing soccer during PE class and needs tests.
- The dentist tells you that you have two cavities that need filling.
- A spouse is diagnosed with pre-diabetes.

If you do not have health or dental insurance, you are responsible for paying the full cost of treatment. This is financially risky. Even with insurance, you must pay your **deductible, copayments, and coinsurance**. An unexpected health emergency can result in thousands of dollars in medical bills, even when insurance pays most of the costs. Saving money for emergencies can help you prepare. When there is not enough money to pay, some consumers turn to debt. It is important to fully understand the terms, costs and risks.

Deferred Interest

Some medical credit cards, including CareCredit®, have a **deferred interest** rate option. Deferred interest means no interest charges **IF** the original amount borrowed is paid in full within the agreed number of months. If payments are late or the full amount is not paid by the end of the **promotional period**, interest on the full amount borrowed is added back to the amount owed.

CareCredit, for example, offers this explanation: "With shorter term financing options of 6, 12, 18 or 24 months, no interest is charged on purchases of \$200 or more when you make the minimum monthly payments and pay the full amount due by the end of the promotional period. If you do not, interest is charged from the original purchase date." <https://www.carecredit.com/howcarecreditworks/prospective>)

Risks of Medical Credit

You could end up paying more: You could end up paying much more than planned if there is a remaining credit balance after the promotional period ends. Interest is calculated on the original amount borrowed, not the amount owed at the end of the promotional period.

High interest rates: If you can't pay in the way you planned, the added interest could make your bill much higher. The interest rates on medical credit cards can be much higher than other types of borrowing.

It could keep you from saving money: Money spent on interest charges cannot be set aside to save for future emergencies.

The terms can be confusing: If you apply for credit at the doctor or dentist, there will not be a credit specialist who can explain credit terms and conditions to you.

Complexity: A medical credit card is revolving credit, which means that more charges can be made to the same account later. Each amount borrowed could have a different payment agreement. This can be confusing and increases the likelihood of extra interest and fee charges.

Overindebtedness: Too much debt can make it hard to pay for necessities such as food and shelter. You might need to delay education or career plans. It could lower your credit rating, or even lead to bankruptcy.

Alternatives to Medical Credit Cards

Budget for health care savings: Plan ahead. Estimate out-of-pocket health costs and include health savings in your budget. Not only will you save money on credit charges, but you could earn interest income.

Purchase health insurance: Regularly evaluate your health insurance plan. Make sure you have the best plan based on your use. If you do not have health insurance, go to your state's official health insurance website to check out available plans.

Ask for a discount: You can ask your health provider for charity care. Many hospitals have income-based programs to make care more affordable. Other medical and dental providers also may have programs to meet your needs. But you need to ask.

Ask for a payment plan: Talk to your doctor, dentist, or other professional about partial billing options that fit your budget. Many health providers are willing to establish a payment plan with their patients, especially for those patients who have paid on time in the past.

Find low-cost care: Check with your local department of social services to see if there are low cost health care providers in your area. You may need to provide income information to see if you qualify for services. Many university professional programs also offer free or low cost medical or dental services.

Money-Saving Strategies

When your health is at risk, it is important to see a professional. But, there are strategies to save money and avoid extra health care costs. You can:

- Practice good health habits, such as exercising regularly, eating healthy foods, and taking care of your teeth.
- Make smart use of health insurance. See your doctor when you have a need. Have your wellness check-ups and take prescribed medications.
- Establish a savings account for health and medical expenses. When you don't need borrow money, you will have less stress about paying the doctor or dentist.

Good Record Keeping Helps!

To avoid debt, plan and track expenses. This helps you know what bills are due and how much you've paid so far in each year. If you have health insurance, it is important to know your annual **deductible** and **out of pocket limits**. Write down what you spend. Knowing what costs you might still have to pay helps you save so you don't need to borrow money for medical care. Maintain all documents in an organized file. Keep your Evidence of Coverage from your insurance company along with all bills, receipts, and notices from your insurance company.

Remember...

Illnesses, injuries, or disabilities can be a sudden and unexpected part of life. Diagnosis, treatment, and relief should be the first priorities, but the costs of medical care cannot be overlooked. Even with health insurance coverage, out-of-pocket expenses could present a financial hardship. With preparation and information, consumers can avoid money traps which not only jeopardize their financial wellbeing, but their health as well.

How Much Interest Will I Pay on a Medical Credit Card?

The chart on the next page shows the estimated costs of borrowing \$1,200 on a medical credit card. The interest cost rises as the interest rate rises. There is no interest cost on a deferred interest (promotional rate) plan if the full amount is paid off with on-time payments within the promotional period.

Actual costs may be different based on how the credit card company calculates interest and monthly payments.

Medical Credit Card Cost Scenarios							
	Monthly Payment	Balance Remaining at 12 Months	Balance Remaining at 24 Months	Total of Payments if Paid at 24 Months	Interest Cost if Paid in Full in 24 Months	Years to Pay Using Minimum Payment*	Total of Payments*
26.99% Deferred Interest for 24 months, Paid in Full in 24 Months	\$50.00	\$600.00	\$0	\$1,200.00	\$0.00	N/A	\$1,200.00
26.99% Deferred Interest for 12 months, Minimum Payment Made	From \$39.00 in month 1 to \$31.00 in month 24	\$1,063.56	942.62	\$1,778.40	\$578.40	12 years, 3 months	\$2,192.37
16.90 Fixed Interest Rate	From \$39.00 in month 1 to \$31.00 in month 24	960.08	768.12	\$1,529.86	\$329.86	7 years, 8 months	\$1,912.35
12.99 Fixed Interest Rate	From \$39.00 in month 1 to \$31.00 in month 24	922.51	709.21	\$1,445.11	\$245.11	6 years, 9 months	\$1,671.57
*These figures do not factor in a minimum payment amount. A larger minimum payment will reduce these amounts.							
Calculations obtained from: https://www.bankrate.com/calculators/credit-cards/credit-card-minimum-payment.aspx							

Medical Credit Card Words to Know

Medical Credit Card. Revolving line of credit offered by some doctors, dentists, audiologists, and veterinarians. They differ from traditional bank credit cards because they can only be used to pay for *health care, and only within the network of healthcare providers that accept the card.*

Interest. Cost charged by the credit card company based on the amount you owe. It is usually expressed as an annual percentage rate (APR).

Fees. Additional costs charged by the credit card company, including late payment charges, annual fees, over-limit charges, and debt restructuring charges.

Deferred Interest. Interest that is charged but not owed until a later time.

Promotional Period. The period of time allowed to pay a medical credit card debt before deferred interest is added to the amount owed.

Health Insurance Words to Know

Deductible. The amount you owe for health care services your health insurance or plan covers before your health insurance or plan begins to pay. The deductible may not apply to all services.

Copayment. A set amount (for example, \$20) you pay for a covered medical service. You pay this amount when you get the service.

Coinsurance. Your part of the costs of a covered medical service.

Out-of-pocket Costs. Your costs for medical services that are not paid by insurance. This includes deductibles, coinsurance and copayments. It also includes costs for services that are not covered by insurance.

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