

BANKRUPTCY LAW

**NAVIGATING MEDICAL
DEBT THROUGH CHAPTER
7 BANKRUPTCY**

A COMPREHENSIVE GUIDE

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Executive Summary

Medical debt is a significant financial burden for millions of Americans. With the rising cost of healthcare and the increasing number of people without adequate health insurance, many individuals find themselves facing insurmountable medical bills. This white paper examines the prevalence of medical debt in the United States and explores how Chapter 7 bankruptcy can offer a viable solution for those struggling to manage their medical expenses. We will discuss the process of filing for Chapter 7 bankruptcy, the eligibility requirements, and the potential benefits and drawbacks of using bankruptcy to address medical debt.

Introduction

Medical debt has become a leading cause of financial distress for a significant portion of the American population. According to a study published in the American Journal of Public Health, medical expenses contributed to two-thirds of all bankruptcies in the United States. As healthcare costs continue to rise and health insurance coverage remains insufficient for many, it is crucial to examine potential solutions for those burdened by medical debt. One such solution is filing for Chapter 7 bankruptcy.



Chapter 7 Bankruptcy Overview

Chapter 7 bankruptcy, also known as "liquidation" bankruptcy, allows individuals to eliminate a large portion of their unsecured debt, which includes medical bills. By discharging medical debt, individuals can obtain relief from the financial strain and work towards rebuilding their financial stability.

Eligibility for Chapter 7 Bankruptcy

To qualify for Chapter 7 bankruptcy, individuals must meet specific eligibility requirements. These include:



- 1. Income:** Filers must pass the "means test," which compares their income to the median income for their state and household size. If their income is below the median, they are eligible for Chapter 7 bankruptcy. If their income is above the median, they may still qualify if they can demonstrate that they do not have sufficient disposable income to repay their debts.
- 2. Previous Bankruptcies:** If the individual has received a Chapter 7 bankruptcy discharge within the last eight years or a Chapter 13 discharge within the last six years, they are not eligible to file for Chapter 7 bankruptcy.
- 3. Credit Counseling:** Before filing for bankruptcy, individuals must complete a credit counseling course from an approved provider.

Benefits of Chapter 7 Bankruptcy for Medical Debt

- 1. Discharge of Medical Debt:** Chapter 7 bankruptcy allows individuals to eliminate their medical debt entirely, providing them with a fresh financial start.
- 2. Automatic Stay:** Once a bankruptcy petition is filed, an automatic stay is imposed, preventing creditors from taking collection actions, including lawsuits and wage garnishments.
- 3. No Asset Liquidation:** In many cases, individuals filing for Chapter 7 bankruptcy do not have to sell their assets to repay their debts, as they are protected by bankruptcy exemptions.

Drawbacks of Chapter 7 Bankruptcy for Medical Debt

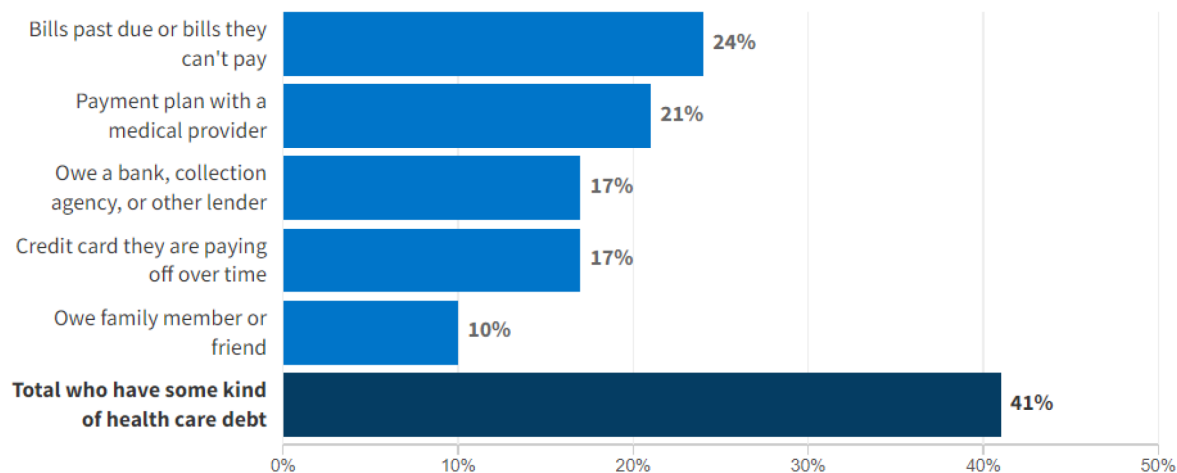
- 1. Credit Impact:** Filing for Chapter 7 bankruptcy will have a negative impact on an individual's credit score and remain on their credit report for ten years.
- 2. Non-Dischargeable Debts:** While medical debt can be discharged through bankruptcy, other debts such as student loans, child support, and certain tax debts are typically non-dischargeable.
- 3. Future Access to Credit:** Filing for bankruptcy can make it more difficult to obtain credit in the future, including mortgages, car loans, and credit cards.

Additional Considerations

- 1. Bankruptcy Alternatives:** Before filing for Chapter 7 bankruptcy, individuals should explore other options for addressing medical debt, such as negotiating with medical providers, applying for financial assistance programs, or consolidating their debt through a personal loan or a debt management plan.
- 2. Timing of Bankruptcy:** It is important to carefully consider the timing of filing for bankruptcy. If an individual anticipates additional medical expenses in the near future, they may want to wait until those expenses have been incurred before filing for bankruptcy, as future medical debt will not be discharged in a current bankruptcy case.
- 3. Post-Bankruptcy Financial Planning:** Once a bankruptcy discharge has been granted, individuals should focus on rebuilding their credit and establishing healthy financial habits. This includes creating and maintaining a budget, building an emergency fund, and carefully managing credit utilization.

What Kind of Health Care Debt Do Americans Have?

Share of adults who have the following types of health care debt:



Source: KFF Health Care Debt Survey of 2,375 U.S. adults, including 1,674 with current or past debt from medical or dental bills, conducted Feb. 25 through March 20. The margin of sampling error for the overall sample is 3 percentage points.

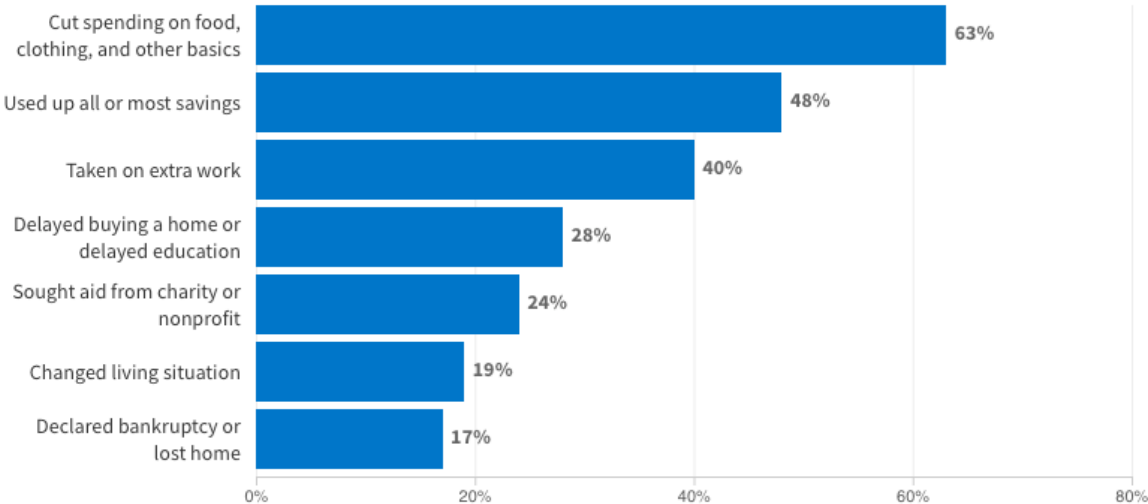
Credit: Daniel Wood/NPR and Noam N. Levey/KHN

Conclusion

Medical debt is an unfortunate reality for many Americans, but Chapter 7 bankruptcy can offer a viable path towards financial recovery. By understanding the process, eligibility requirements, and potential benefits and drawbacks of using bankruptcy to address medical debt, individuals can make informed decisions about whether this option is right for their specific financial situation. Additionally, exploring bankruptcy alternatives, carefully considering the timing of filing, and engaging in post-bankruptcy financial planning can further contribute to a successful financial recovery. It is always advisable to consult with an experienced bankruptcy attorney when considering Chapter 7 bankruptcy to ensure the best possible outcome for your unique circumstances.

What People Sacrificed

Share of indebted adults who have done the following because of health care debt:



Source: KFF Health Care Debt Survey of 2,375 U.S. adults, including 1,674 with current or past debt from medical or dental bills, conducted Feb. 25 through March 20. The margin of sampling error for the overall sample is 3 percentage points.

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