Governments Can Erase Your Medical Debt for Pennies on the Dollar — And Some Are

Some states and cities will use federal money to forgive millions of dollars of their residents' medical debt.

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Medical debt is the leading cause of bankruptcies in the United States, and more than 2 in 5 American adults have some.

In many cases, the money people owe to health care providers forces them to cut spending on food or utilities, forgo other medical care or take on even more debt. Medical debt can make it impossible to buy a home, pay for college or save for retirement.

To address the problem, Connecticut, New Jersey and a growing list of counties and cities are using public money to purchase and forgive millions of dollars of their residents' medical debt. Earlier this month, Pennsylvania Democratic Gov. Josh Shapiro, unveiled a budget proposal that would set aside $4 million to purchase and pay off the debt of Pennsylvanians with low incomes. A disproportionate number of the 1 million state residents who owe money to health care providers live in rural areas, according to Shapiro.

"Combined with higher prices at the stores, this debt is an anchor holding those families and communities back," Shapiro told lawmakers during his budget address. He noted that a relatively small state investment can make a huge difference, because hospitals will sell the debt for pennies on the dollar.

Such programs "can be truly life-changing," said Gabriela Elizondo-Craig, a project lead at Innovation for Justice, a research program at the University of Arizona and the University of Utah. Her research has focused on state policies that impact medical debt.

"They didn't choose to get sick, [and] didn't choose to incur these expenses that can have these devastating effects on their lives," she said.

Americans owe at least $195 billion in unpaid health care bills, according to a 2022 analysis of U.S. Census Bureau data by KFF, a health policy research organization. Black residents, residents of

Southern states — many of which have not expanded Medicaid — and people with chronic conditions or low incomes are most likely to owe money to medical providers. Nearly a quarter of households with children have unpaid health care bills, compared with 17% of those without children.

Berneta Haynes, a senior attorney at the National Consumer Law Center, noted that even people with health insurance can fall into medical debt when they can't afford to pay deductibles or copayments or they receive care outside of their insurer's network of providers. About half of adults with medical debt say they owe less than $2,500, according to KFF.

Unlike with other kinds of consumer debt, people rarely plan to take on debt from medical care. A one-time or short-term expense such as a hospital stay causes about two-thirds of all medical debt, according to the Consumer Financial Protection Bureau. Even people who might want to shop around for the best health care value are thwarted by opaque pricing, restrictive insurance networks, too few providers or a lack of options in an emergency situation.

"Medical debt is a systemic problem, which is what the government is situated and expected to address," said Allison Sesso, president and CEO of RIP Medical Debt, a national nonprofit that takes donor money and uses it to purchase medical debt from providers and collection agencies at a steep discount and then forgive it. The organization has been a popular partner for state and local governments looking to cancel medical debt.

"This is an area that is ripe for public involvement and public-funded solutions," Sesso said, "because the fact is that medical debt is not an individual choice. It is the result of a broken system."

A 2022 poll from YouGov found two-thirds of Americans support government relief for medical debt, making it more popular than relief for other types of debt, including for student loans.

In May, New Orleans set aside $1.3 million from the federal American Rescue Plan Act to establish a medical debt forgiveness program with RIP Medical Debt.

New Orleans will use the $1.3 million to purchase and cancel an estimated $130 million in debt for residents with incomes below 400% of the federal poverty level (about $124,000 for a family of four) and those who have medical debt that's equal to at least 5% of their household income.

The novel use of one-time pandemic funds made sense, said Jeanie Donovan, deputy director of the New Orleans Health Department. More than 1 in 5 adults in Louisiana have medical debt, one of the highest rates in the nation. City leaders figured that erasing medical debt could help as many as 80,000 New Orleans residents.

"Not accessing medical care can be costly and deadly," said Donovan, who noted that New Orleans acted after hearing about a similar effort in Cook County, Illinois, which includes Chicago. "We also know there are inequity issues, that nationwide, Black and brown people are more impacted by medical debt and more likely to owe money for care, and it's particularly problematic

in the South."

New Orleans residents don't have to sign up for the program; those who qualify will receive letters in the mail informing them their debt has been paid.

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Last month, New York City entered a similar partnership with RIP Medical Debt, following cities and counties in Michigan, Ohio and Pennsylvania. New York City plans to spend $18 million to erase $2 billion worth of city residents' medical debt.

Connecticut, New Jersey and Pennsylvania also are looking to partner with RIP Medical Debt. In Connecticut, Gov. Ned Lamont, a Democrat, announced this month that the state would spend $6.5 million in federal pandemic aid to erase as much as $1 billion in medical debt for residents.

In response, Connecticut House Republican leader Rep. Vincent Candelora shared on social media his concern that medical debt relief might draw attention from other budget issues and disappoint those who don't qualify for debt relief.

New Jersey's current state budget allocates $10 million to cancel medical debt in partnership with RIP Medical Debt. Last month New Jersey Gov. Phil Murphy, a Democrat, urged legislators to increase that amount for the coming year.

Like New Orleans and Cook County, many localities have used federal pandemic relief money to pay for their programs. With the end of that money, Sesso said, it remains to be seen whether local and state officials will find other funding to pay down residents' medical debt.

"This is not a permanent solution to the issue of medical debt. It is something [state and local governments] can do today," Sesso said. "But they should be thinking about broader solutions they can get behind" and starting conversations with stakeholders about how to address medical debt.

State-level consumer protections for medical debt are patchy. Elizondo-Craig studied the issue for the Medical Debt Policy Scorecard, a research project from the University of Arizona and the

University of Utah.

Erasing medical debt, she said, “really is a Band-Aid solution because the root cause of the problem is that a part of the population is un- or underinsured, and providers can essentially charge whatever they want in different amounts to different payers.”

“Across all health care services, the pricing is just way too high for people to afford, and we need transparency on pricing to make informed health care decisions,” she said.

Democrats have pushed the debt erasure efforts. But in some places, other medical debt relief measures have been bipartisan.

North Carolina State Treasurer Dale Folwell, a Republican, championed a bill in North Carolina last year called the Medical Debt De-Weaponization Act that would cap the interest allowed on medical debt, require transparency in medical billing and add additional consumer protections. The bipartisan bill stalled in committee, but its primary sponsors were Republicans.

Illinois and Oregon enacted laws last year that require hospitals to take on a more active role in limiting medical debt by screening patients to determine if they’re eligible for financial assistance. And in August, Colorado became the first state in the country to enact a law that prohibits medical debt information from being included on consumer credit reports. Its primary sponsors were two Democrats and one Republican.

Haynes, of the National Consumer Law Center, said she and her colleagues have seen much more interest in medical debt relief at the state level. She predicted upcoming state action to remove medical debt from credit reports and to increase eligibility for financial assistance.

Other changes might include bans on aggressive medical debt collection tactics such as wage garnishment or liens; increased transparency in pricing; and requirements that health care providers inform people who might qualify for charity care or debt relief.

But Elizondo-Craig emphasized that universal health care insurance “would be the single most effective thing to do.”

Expanding Medicaid under the Affordable Care Act would significantly reduce medical debt in the 10 states that still have not done so, she said. People who live in states that haven’t expanded Medicaid are 40% more likely to have medical debt than those living in expansion states, according to a 2022 study.

Not only does Medicaid expansion extend insurance coverage to more people, Elizondo-Craig said, but it also gives the government more leverage to negotiate with health care providers on pricing, “reducing how much medical bills even are in the first place.”

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