

## THE AFN DEBT SERIES

Focusing on the role philanthropy can play in helping people navigate the different dimensions of consumer debt.



## MEDICAL DEBT AND ITS IMPACT ON HEALTH AND WEALTH: WHAT PHILANTHROPY CAN DO TO HELP

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This brief is part of a series of papers focused on three types of consumer debt — government fines and fees, student debt, and medical debt — and the role philanthropy can play in alleviating the burden of debt and creating a pathway for asset-building and wealth accumulation. While each paper goes deep into one of these issues, we must also recognize that households often hold more than one of these types of debt and face the compounding impact of multiple debt burdens. This brief addresses debt burdens stemming from medical debt. While the burden sits with a household, government fines and fees, student debt, and medical debt are not products of consumer choice. Instead, they are a result of our structural failures and racist systems that disproportionately impact people of color.

# 43%

of families that have  
legal debt also have  
medical debt.<sup>1</sup>



# 1/3

of households  
struggling with medical  
bills, are also paying  
off student loan debt.<sup>2</sup>

## Introduction

Unheard of in much of the world, medical debt plagues the United States. The high cost of medical care in our country not only creates a significant financial burden on those who seek care, but it also prevents people who need care from accessing it. Seventy-nine million Americans struggle to pay their medical bills or are paying off medical debt.<sup>3</sup> The consequences of medical care costs are extreme, with an estimated 8 million people pushed into poverty in 2018 due to **out-of-pocket** medical expenses that are not reimbursed by insurance.<sup>4</sup>

*Although more than half of past-due medical debt is less than \$600,<sup>5</sup> this small amount of debt creates such a burden that it can crowd out spending on basic needs and prevent investments in long-term wealth.*

Often, medical bills go unpaid and end up in **collections** when the original creditor sends the debt to a third-party agency to collect it. Medical debt is the most common kind of debt in collections and the most common cause of **bankruptcy**, where debtor's assets may be used to repay outstanding debt.<sup>6</sup> The strong connection between health and wealth — and the impact of medical debt on both — creates a need to understand the cycle of medical debt and the role philanthropy can play to ease the costly burden of medical expenses placed on households.

Medical debt is a complicated issue. While this brief won't address all the aspects of our health care system as it relates to medical debt or all the complexities of each stage of the lifecycle of medical debt, it will provide an overview of the issue and who is most impacted. It will also address opportunities for philanthropy to invest in and support solutions that can prevent medical debt from being incurred, help households manage and pay down their medical debt, and mitigate the risk and negative consequences of medical debt in collections.



## Welcome to Motherhood—A Baby and A Bill

### CLIENT STORY FROM TENNESSEE JUSTICE CENTER<sup>7</sup>

Over the past few months, the Tennessee Justice Center has worked with a mother living in Nashville, Tennessee. She recently had a baby, and when she was pregnant in mid-October of 2019, she had an appointment at a clinic to get her pregnancy verified and to have some routine labs done. At the clinic, she said that someone helped her apply for presumptive eligibility Medicaid coverage (an option for pregnant women in Tennessee to get immediate temporary coverage for 45 days to give them time to submit a full application) and told her that her labs and appointment that day would be covered by Medicaid. Two days later, she went to her local health department in Nashville, and they helped her submit a full application for TennCare (Tennessee's Medicaid program).

The client later found out that she had been approved for TennCare Medicaid, but her starting date of coverage was the date she went to the health department, which was two days after she had gone to the clinic. She soon started receiving bills from the clinic for the labs that had been done, after being told that the labs would be covered. Her bills totaled around \$800. The client and the Tennessee Justice Center called the clinic to inquire about what had been submitted the day the client went in for labs and was told that everything would be covered. The clinic had no documentation that anything was submitted the date of the appointment. The client and her Tennessee Justice Center client advocate then called TennCare to see if they had received an application the date of the clinic appointment. TennCare only had record of an application being submitted the date the client went to the health department, which is the date they approved her for coverage. It seemed that though the client was told by the clinic that an application would be submitted and her bills would be covered, a presumptive eligibility application was never actually submitted for her, leaving her with bills from her clinic visit.

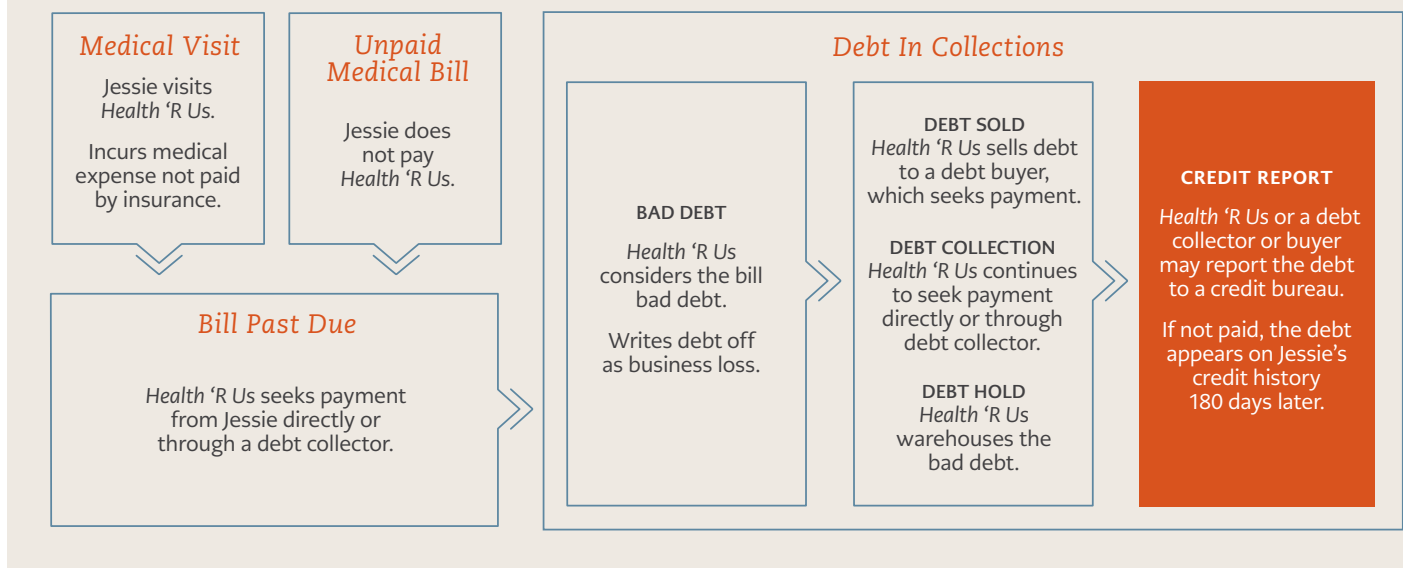
Many states have retroactive Medicaid coverage, so if someone applies for Medicaid, their bills from previous days can be covered. The state of Tennessee does not have retroactive Medicaid coverage, so the earliest that someone can start receiving Medicaid benefits is the day that TennCare receives an application. Because of this, with no record of an application being submitted the day of the clinic visit, there was no way for the client to backdate her Medicaid coverage even two days earlier to cover her medical bills.

The Tennessee Justice Center is still working with the client to see if her lab bills can be covered by charity care. If the Medicaid program in Tennessee had retroactive coverage, the application submitted at the health department would have been sufficient for her lab bills to be covered by Medicaid and she would not be left with the stress of paying medical bills that she had been told would be covered, while trying to provide for her family.



Source: Nora Hendricks, Health Policy and Communications Associate at Tennessee Justice Center

## How a Medical Bill Becomes Debt



Adapted from Sycamore Institute Medical Debt in Tennessee: 12 Options for State Policy Makers 2019, <https://www.sycamoreinstitute.org/medical-debt-policy-options/>

## Background

Health care is not an ordinary consumer good. People utilize our health care system when needed, with medical care often unpredictable in nature. They can't easily plan for the care or cost and often don't have a clear understanding of the expense they will incur when seeking care. Later, they might receive a medical bill or multiple bills from their insurance company, the doctor, or the health care facility, which can be both unclear and incorrect. With its multitudes of plans and various contracts between insurers and providers, our health care system is so complicated that over half of consumers are unable to navigate the system on their own.<sup>8</sup> Without clear pricing transparency, an understanding of bills and payment options, and access to counselors for support, the burden falls solely on patients. They have to navigate the complexities to determine the accuracy of their bill, dispute charges and negotiate with hospital systems to reduce bills, get into payment plans, and explore both the availability of and their eligibility for any financial assistance—all to keep their medical debt from going into collections. And with the power imbalance and lack of transparency, the reduction in bills is mainly at the discretion of the hospital or provider, leaving the patient with few protections and opportunities to advocate for themselves. And if an account does go unpaid and becomes overdue, it can impact a household's credit and result in a judgment against them, if not bankruptcy.



# 3 KEY FACTORS Driving Medical Debt

*"I do get health insurance through my school, but I can't afford the co-pays to go to the doctor—so I just don't go."* **GABRIELLE\***

## 1 Insufficient Insurance Coverage

90% of adults with medical debt in collections have **health insurance** coverage, proving that access to health insurance alone, without ensuring that coverage is adequate and affordable, does not effectively protect households from medical debt. Over 33 million individuals lacked health insurance in 2019. While the **Affordable Care Act (ACA)**, the comprehensive health care reform law enacted in 2010, and the expansion of **Medicaid** under the ACA increased access to health insurance, the rising cost of health care resulted in more people inadequately protected by their coverage. From 2010 to 2018, the **uninsured** rates declined from 20% to 12%, but the **underinsured** rates increased from 16% to 23%.<sup>10</sup> Although more individuals had coverage, they were significantly cost-burdened by it, with out-of-pocket expenses exceeding 10% of their income (or 5% for those with incomes under 200% of the federal poverty level).<sup>11</sup> For the remaining uninsured, which includes low-income residents of states that did not expand Medicaid, low-wage workers, and undocumented individuals, coverage remains unavailable or unaffordable.<sup>12</sup>

*"My main debt is medical. A few years ago, I had to have brain surgery. I'm still paying off six figure bills, medical bills."* **JANICE\***

Find definitions for **bold terms** in the Glossary located in on pages 20-21.

\*These insights were taken from a 2020 focus group convened by the Aspen Institute Financial Security Program Consumer Insights Collaborative.

## 2 Unpredictability of Medical Emergencies

Medical expenses are unplanned expenses for households. Even if people have planned medical care, the cost of that care is often unknown and unexpectedly large. Simultaneously, the unpredictable nature of medical care means people often incur an entirely unexpected bill, with more than one in five adults experiencing an unanticipated medical expense in a year.<sup>13</sup>

*"I was diagnosed with breast cancer. We had good health insurance, but I was out of work for a whole year and my husband had to foot all of the bills and take care of the kids. This wiped out \$50-\$60k savings that we had been building for 20 years, since college. We're just average working people. It's hard to come back from that. We have never recovered from that."* **AYLA\***

## 3 High Out-of-pocket Expenses

Household spending on health care averages \$3,000 per person per year, with over one-third of that expense attributable to out-of-pocket medical costs.<sup>14</sup> Individuals struggle to pay these bills; approximately 43 million Americans hold a total of \$81 billion of unpaid medical debt.<sup>15</sup> The high cost of medical care not only creates a significant financial burden on households that seek care, but it also prevents households that need care from accessing it, with a quarter of adults forgoing necessary medical care because of its cost.<sup>16</sup>

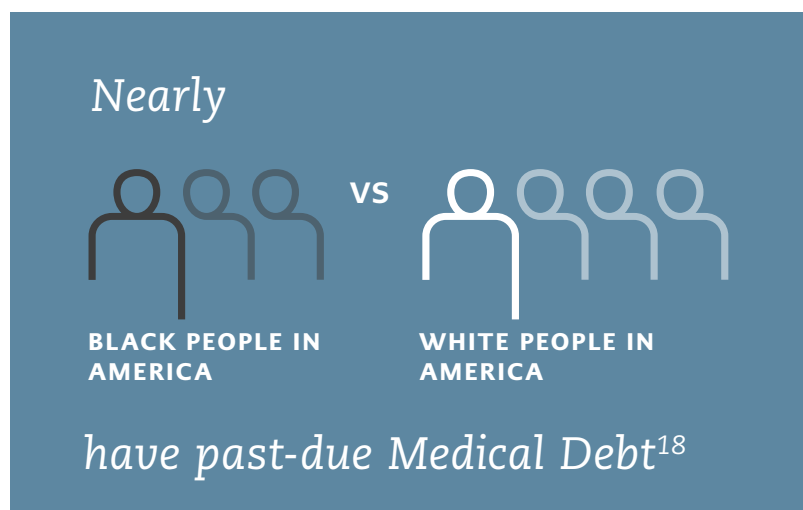
## *Inequities in Medical Debt by Race and Geography*

Medical debt disproportionately impacts communities of color, perpetuating and exacerbating the racial wealth gap by draining cash flow that other households without medical debt can save or invest. Racial inequities in income, wealth, and insurance coverage play a role in the prevalence and burden of medical debt. Black non-elderly adults are 1.5 times more likely, and Latinx and Native American non-elderly adults are 2.5 times more likely, to be uninsured than non-elderly White adults. With less access to insurance, people of color are more likely to face higher medical costs and challenges paying their medical bills.<sup>17</sup>

And while the amount of debt in collections is comparable (median of \$727 in communities of color versus \$668 in White communities), the burden of that debt is higher in communities of color given their lower income levels.<sup>19</sup>

Inequities in medical debt also exist by region. The prevalence of unpaid medical bills varies widely by state, but it affects the South disproportionately.<sup>20</sup> A recent Kaiser Family Foundation study found that states in the Midwest and Northeast regions have among the highest percentage of people in the nation benefiting from group health insurance coverage.<sup>21</sup> In many southern states, people of color disproportionately lack health insurance coverage in large part because their state did not implement Medicaid expansion. Individuals in the South are also more likely to work in agricultural jobs or other low-wage jobs that do not provide employer-sponsored health insurance.

Medicaid expansion has reduced medical debt, but not all states have expanded Medicaid. Non-elderly Black people are more likely than White people to fall in the coverage gap because they make up a more significant share of the population of states without Medicaid expansion. Of the 13 states where more than one in five adults has medical debt in collections, seven states have not implemented Medicaid expansion, and in 11 states, people of color represent more than a quarter of the population.<sup>22,23</sup>

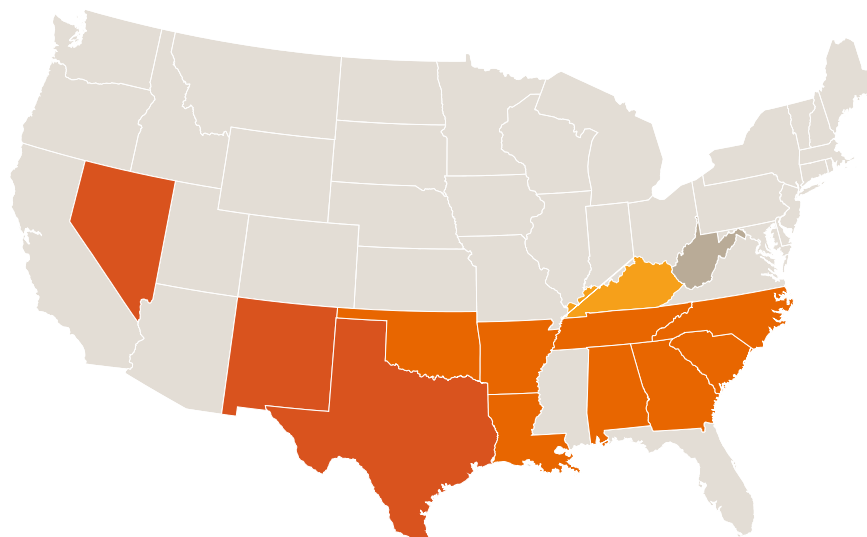
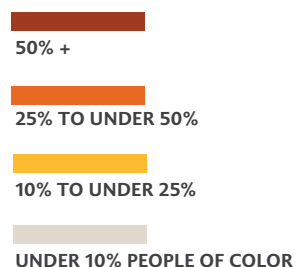


## Background

### Inequities in Medical Debt by Race and Geography

These are the 14 states where more than one in five have medical debt in collections.

#### SHARE OF PEOPLE OF COLOR:



STATE	SHARE W/ MEDICAL DEBT IN COLLECTIONS	SHARE OF PEOPLE OF COLOR	MEDICAID EXPANSION
West Virginia	31%	8%	Implemented
Louisiana	27%	42%	Implemented
South Carolina	27%	36%	No
Oklahoma	26%	34%	Adopted, not implemented yet
Texas	25%	58%	No
North Carolina	24%	37%	No
New Mexico	23%	63%	Implemented
Tennessee	22%	26%	No
Kentucky	22%	15%	Implemented
Arkansas	22%	28%	Implemented
Nevada	21%	51%	Implemented
Alabama	21%	35%	No
Georgia	21%	47%	No

Tabulations of data from a major credit bureau (2018) and the American Community Survey (2017). For more information and definitions of the variables, see the technical appendix accompanying the dashboard.

The majority-white communities are based on credit records for people who live in zip codes where most residents are white (at least 60% of the population is white), and communities of color values are based on credit records for people who live in zip codes where most residents are people of color (at least 60% of the population is African American, Hispanic, Asian or Pacific Islander, American Indian or Alaska Native, another race other than white, or multiracial).

(Source: Braga, McKernan, and Quakenbush. 2019. "Debt in America: An Interactive Dashboard." Washington, DC: Urban Institute.)

Definitions: [https://apps.urban.org/features/debt-interactive-map/downloadable-docs/Debt\\_in\\_America\\_Technical\\_Appendix.pdf](https://apps.urban.org/features/debt-interactive-map/downloadable-docs/Debt_in_America_Technical_Appendix.pdf)

Medical debt info: [https://apps.urban.org/features/debt-interactive-map/?type=medical&variable=perc\\_debt\\_med](https://apps.urban.org/features/debt-interactive-map/?type=medical&variable=perc_debt_med)

Medicaid expansion info: <https://www.kff.org/medicaid/issue-brief/status-of-state-medicaid-expansion-decisions-interactive-map/>

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## Medical Debt's Impact on Health and Wealth

Debt, and the relationship an individual has with it, impacts both physical and mental health. Among individuals with consumer debt, those in financial distress or struggling to repay their debts are more likely to report lower life satisfaction and higher anxiety.<sup>24</sup> Like debt broadly, medical debt can negatively impact health, with one study finding that nearly one in five individuals with medical debt delayed seeking care when necessary.<sup>25</sup> The impact of medical debt on accessing health care and health outcomes suggests that medical debt—like income and wealth—is a social determinant of health.<sup>27</sup>

*“The reality is that much of what makes us healthy and financially secure is rooted in our community conditions and not individual behaviors, and the conditions across communities are not equitable.”<sup>28</sup>*

[Asset Funders Network. Wealth and Health Equity: Investing in Structural Change](#)

Poor health results in less wealth in the future, with medical expenses significantly impacting the financial lives of many households. According to a Kaiser Family Foundation survey on those experiencing trouble paying medical bills, nearly 60% of individuals indicate they used up most or all of their savings to pay medical bills.<sup>29</sup> Over a quarter reported dipping into longer-term savings, such as retirement and college savings accounts.<sup>30</sup> Medical problems are a leading cause of U.S. bankruptcies, with 60% of personal bankruptcies medically related, due to income loss from illness and medical bills. Three-fourths of bankruptcy filers in 2007 had health insurance, and over 90% had medical debt over \$5,000.<sup>31</sup>

To manage their medical debt, households often make decisions that place them in a more financially precarious position. In a survey of individuals with medical debt, 15% of survey respondents indicated that they took out another loan, and 13% borrowed



from a payday lender to pay down their medical debt.<sup>32</sup> These decisions will dig them deeper into a cycle of financial insecurity and debt. The impact of medical debt on people's financial lives explains why health care is one of the top four personal financial concerns, behind mortgage or rent, student loans, and retirement.<sup>33</sup> Even small amounts of medical debt can hinder financial security by feeding debt cycles and reducing access to affordable credit and asset-building tools. This interconnectivity between health and wealth—and the impact of medical debts on both—makes it critical to view solutions in medical debt as solutions in asset-building.



# 3 CHALLENGES in the Lifecycle of Medical Debt

As a byproduct of the health care system we have chosen in America, the nature of medical debt makes it challenging to solve. Indeed, the natural and most obvious solution to avoid the accumulation of future medical debt is to consider different options in our health care delivery system's design. But we must simultaneously solve for the medical debt that has already accrued. To aid in analyzing potential solutions for medical debt past and future, it is helpful to understand the financial experience of the health care consumer in each of the three critical phases in the lifecycle of medical debt: incurring medical expenses, managing medical bills, and navigating overdue medical debt.

## 1 Incurring Medical Expenses

At the start of the medical debt life cycle, many people incur a bill due to failures in our health care system around coverage, discounted care, and the actual cost of care. Our health care system puts the onus on the individual to determine whether they are eligible for health insurance coverage under Medicaid, as well as a hospital's **charity care** program that can provide free or reduced care for those who can't afford it.

Besides eligibility for health insurance, individuals seeking care at a hospital might also be eligible for charity care but are not aware or are not provided with the information and application to apply for assistance. Under the Affordable Care Act, non-profit hospitals are required to provide charity care. Still, nearly half of non-profit hospital organizations send medical bills to patients who would qualify for financial assistance.<sup>34</sup> One estimate shows that non-profit hospitals charged \$2.7 billion to individuals who likely would have qualified for financial assistance. This amount doesn't include the bills that some patients ended up paying, even though they were eligible for assistance.

*"From the x-rays, the labs, the equipment for anesthesia... They [hospitals] were trying to charge me for everything. They were sending all these unreal bills. Everybody gets sick." JORGE\**

\*These insights were taken from a 2020 focus group convened by the Aspen Institute Financial Security Program Consumer Insights Collaborative.

Outside of eligibility for insurance or discounted care, the lack of transparency and often misinformation on the price and cost of health care also impacts the decisions people make. This misinformation includes what their insurance covers and whether doctors they visit are "**in-network**," which is critical to making informed financial decisions. Too often, the burden is placed on the individual to understand their eligibilities and cost of care.



Find definitions for **bold terms** in the Glossary located in on pages 20-21.

## 2 Managing Medical Bills

*“My hospital bills are through the roof, my credit score has dropped dramatically, I have \$35,000 in student loan debt, I have to live with my parents. Paying bills and seeing my mom struggling—it’s not a good feeling at all. It causes me stress and depression.” KÉSHA\**

After seeking medical care, patients receive a bill and are faced with the complexity of navigating and managing the billing and payment process. The lack of pricing transparency and difficulty understanding one’s insurance coverage—along with our three-party system of the medical provider, the insurance company, and the patient—means a bill that is unclear or incorrect is now the patient’s to resolve. Two-thirds of **insured** adults with a significant medical bill in the past two years said they had at least one issue with the bill, which included a higher charge than expected, unclear statements, and late bills.<sup>35</sup>

A high percentage of medical bills contain errors or overcharges, with 30% to 80% of medical bills containing an error.<sup>36</sup> Surprise **out-of-network**

billing is common and occurs when individuals are at an in-network facility where they believe they are covered but end up seeing an out-of-network doctor. **Surprise billing** results in higher costs, with providers billing patients directly and typically at a higher rate. In a two-year period, one in five insured adults experienced an unexpected bill from an out-of-network provider, with 18% of emergency visits resulting in at least one surprise bill.<sup>37</sup> Complexities around the bill and the concerns over the impact of medical debt on credit scores can result in people paying bills they might not even owe. In a Consumer Reports survey, over one-third of respondents indicated they paid a bill they weren’t sure they owed, with one-fifth of that group saying the bill was over \$1,000.<sup>38</sup>

The lack of pricing transparency and the high prevalence of billing issues is an important consumer protection issue. Of consumers who have complained to the Consumer Financial Protection Bureau about debt collection, complaints on medical collections are more likely to be about the debt, its existence, and its amount than non-medical complaints. This highlights the challenging and complex nature of our health care system that makes it difficult for consumers to understand their cost of care.



Recent congressional legislation, the No Surprises Act, increases consumer protections for those receiving medical care from an out-of-network provider. Once implemented in 2022, patients will only be required to pay the in-network cost-sharing amounts for emergency care or when they unknowingly receive non-emergency care from an out-of-network provider at an in-network facility. Medical providers will no longer be allowed to bill patients directly and will instead negotiate with insurers to come to an acceptable payment amount. This new policy change will protect millions of consumers from unexpected medical bills that incur through no fault of the consumer. While this law will provide historic protections to consumers, it does not address the current mountain of medical debt from surprise billing. For those who have already acquired debt from surprise billing, their liability remains.

\*These insights were taken from a 2020 focus group convened by the Aspen Institute Financial Security Program Consumer Insights Collaborative.

Find definitions for **bold terms** in the Glossary located in on pages 20-21.

### 3 Dealing with Overdue Medical Debt

Problems paying medical bills lead many to debt in collections, with one-fifth of all consumers' credit affected by medical debt.<sup>39</sup> Medical debts are non-loan debts or liabilities incurred without the consumer making an affirmative decision to borrow money. The amount of debt is not determined through underwriting, which results in people being left with unaffordable bills. Hospitals or the debt collectors they hire are reported to start with a soft collection approach but get more aggressive over time as bills are not paid.<sup>40</sup> And despite protections in place to help patients who qualify for financial assistance, fewer than half of hospitals comply with the Patient Protection and Affordable Care Act requirement to notify patients about potential eligibility for charity care before resorting to collections.<sup>41</sup>

When a bill is not paid, hospitals and medical providers may attempt to collect on the bill themselves or sell their debt to a third-party debt collector. Debt sold to debt buyers can make it harder for patients to negotiate a deal with the medical provider or clear their record of an error. Collectors—whether the medical services providers themselves or collection agencies—report the debt to credit bureaus, negatively impacting someone's creditworthiness. They can also initiate **litigation**, the process of resolving disputes through the public court system. Debt collections litigation often results in additional court fees, bank levies, wage garnishment, or a lien on property after judgment.

National data on debt collections litigation generally—and medical debt collections litigation specifically—have been difficult to compile and analyze, as the data on the prevalence, amount, and result of these cases are held by thousands of individual district courts in state court systems across the United States. But a few key statistics reveal that in recent decades, debt collections litigation of all kinds, including medical debt, has become a skewed process that greatly advantages plaintiffs over defendants. A comparison of seven studies between 1967 and 2010 found that 70% to 94% of consumers did not respond to collection lawsuits.<sup>42</sup> Unsurprisingly, the low appearance rate corresponds to a high default judgment rate against consumers. Multiple studies have shown that more than 70% of debt collection lawsuits end in **default judgments**, which are judgments against an individual who has failed to defend a claim brought to the civil court.<sup>43</sup> Once the default judgment is entered, there is limited opportunity to challenge inaccuracies, negotiate a discount, or establish a payment plan. Given that 91% of people sued by debt buyers and 95% of people with default

judgments entered against them live in low- or moderate-income communities,<sup>44</sup> it is unlikely that most defendants have the lump sum required to provide leverage in a post-judgment negotiation for better terms.

There are multiple reasons why a defendant might not respond to a debt collections lawsuit, though according to a National Center for State Courts study, there are estimates that more than half of defendants in debt collections claims have a good faith defense.<sup>45</sup> Due to outdated and poorly enforced rules around service of process, defendants may not know that they have been sued.<sup>46</sup> Additionally, even when defendants have been appropriately notified, they may find court processes intimidating and confusing—and are likely unable to afford legal representation. From 2010 to 2019, fewer than 10% of defendants in medical debt collections cases had legal counsel.<sup>47</sup> Finally, defendants are often challenged by the logistics of engaging with the lawsuit, encountering difficulties in taking time off of work or navigating transportation challenges.

*"I have medical debt from a hospital, and they put it with a collection agency. I'll never forget it. They were very aggressive in contacting me and pursuing that debt. It seemed like it was a corporation that I was dealing with because there was no compassion there, there was no interest in negotiating at all." HUANG*

Find definitions for **bold terms** in the Glossary located in on pages 20-21.

\*These insights were taken from a 2020 focus group convened by the Aspen Institute Financial Security Program Consumer Insights Collaborative.

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## Impact of Covid-19 on Medical Debt

While we don't yet know the full impact of the pandemic on households' financial security, nor the increased burden of medical debt placed on them, we can start to see its potential negative impact by looking at each stage of the medical debt lifecycle:

**PREVENT** During the pandemic, access to health care is critical to ensure people seek the care they need and aren't burdened with the cost of testing and treatment for COVID-19. A high percentage of the population relies on their jobs for health insurance, with approximately 49% of the population receiving coverage through employer-sponsored plans.<sup>49</sup> But as millions lost their jobs during the pandemic, by July 2020, at least 5.4 million also lost their health insurance coverage as a result.<sup>50</sup> And while some states opened up special enrollment periods under the Affordable Care Act for those uninsured, the federal government refused to open up special enrollment on the federal exchange, on which the majority of states rely. This decision left millions of uninsured who are not Medicaid eligible without an option to buy needed coverage.<sup>51</sup> Lack of insurance and high levels of underinsurance can result in huge costs to households during the pandemic, with inequitable outcomes given that communities of color have disproportionately experienced higher levels of job loss and higher rates of incidence and mortality from COVID-19.<sup>52</sup>

**MANAGE** The high cost of care has always been a deterrent for people to seek needed medical care. In April 2020, one in seven adults surveyed in a West Health and Gallup poll said they would avoid seeking care for COVID-19 if they had any

key symptoms due to the fear of the cost. Early in the pandemic, Congress passed laws to ensure testing was free and to cover the treatment for those who are uninsured. But households with coverage and those without are still receiving surprise bills for testing and treatment associated with COVID-19. Across the nation, people have been hit with unexpected fees and denied claims related to testing, with around 2.4% of tests billed to insurers leaving the patient responsible for some of the cost, ranging from a few dollars to thousands.<sup>53</sup> Outside of testing, uninsured households that were supposed to be protected under the federal relief package are still receiving unexpected bills, and some are realizing that gaps in the relief act place the cost burden on them if COVID-19 is not their primary diagnosis.<sup>54</sup> While the prevalence and amount of billing for testing and treatment vary, the pandemic is increasing the amount of medical costs households are responsible for, with many battling surprise bills and gaps in protection that they didn't realize existed until the bills arrived.<sup>55</sup>

**MITIGATE** While we don't know how much of the medical bills from COVID-19 will end up in collections, we can expect that the rise and persistence of income loss, the increase in the number of uninsured, and the high cost of medical care for COVID-19 will result in households struggling to pay off their debts. And with health care providers and hospitals also facing unprecedented challenges due to the pandemic, without any policy interventions, we can anticipate that the aggressive collection practices that were still taking place after the pandemic hit will continue long after it ends.<sup>56</sup>

## Opportunities for Philanthropy

Philanthropy has an opportunity to find and invest in solutions to support the millions of households struggling at all phases of the medical debt lifecycle. Investment is needed to support efforts to prevent medical debt from occurring, manage medical debt once a bill is incurred, and mitigate the impact of medical debt once it is overdue and in collections. This type of investment includes innovations at the state and hospital level and to support individuals in managing and alleviating their debt burden.

The solutions we offer here are grounded in our priority to improve households' overall financial security, with careful consideration given to how solutions would impact low-income households and households of color. Each opportunity is accompanied by real examples that have been proposed or enacted and recommendations for philanthropy to support change and solutions at scale.

### Opportunities for Philanthropists to Help Solve Medical Debt

<b>INCUR EXPENSE</b> <i>Prevent Medical Debt</i>	<b>MANAGE BILLS</b> <i>Support Individuals</i>	<b>DEAL WITH DEBT</b> <i>Mitigate Effects</i>
<ul style="list-style-type: none"><li>• Adoption or scale programs that connect consumers to public health insurance and charity care</li><li>• Adoption of financial assistance standards at city, county state or hospital level</li></ul>	<ul style="list-style-type: none"><li>• Adoption, expansion and hospital system integration of financial coaching programs</li><li>• Pilot and expansion of employee benefit models for medical debt management</li><li>• Pilot and expansion of tools that help consumers negotiate down and manage medical debt payments</li></ul>	<ul style="list-style-type: none"><li>• Adoption or scale of programs that cancel medical debt</li><li>• Expansion of community access to legal aid representation</li><li>• Support and expansion of legal technology solutions for debt litigation</li><li>• Pilot and evaluation of programs to signal reforms in debt litigation</li></ul>

Adapted from Sycamore Institute Medical Debt in Tennessee: 12 Options for State Policy Makers 2019, <https://www.sycamoreinstitute.org/medical-debt-policy-options/>



## Prevent Medical Debt by Improving Access and Transparency to Insurance and Financial Assistance

Advocacy organizations make a significant impact working to ensure that patients who are eligible for health insurance coverage and charity care programs receive access to them while also working diligently to expand access to affordable, quality care. Solutions here seek to address medical debt by preventing debt in the first place, so the burden never falls on the household. These innovative solutions can foster system change at the local, state, and hospital levels.

### EXAMPLES

- **The Tennessee Justice Center**, a non-profit public policy advocacy organization and law firm based in Nashville, Tennessee, uses policy work and legal tools to improve the lives of millions of Tennesseans. While they support and advocate for access to affordable health care for all families, within medical debt, they have developed an innovative upstream approach working directly with hospitals to connect patients to public health insurance and charity care programs at the time of care to prevent them from having to incur debt.
- **In its Model Medical Debt Collection Act**, the National Consumer Law Center proposes state law reforms that include:
  - Setting standards to determine eligibility for financial assistance (charity care) under the Affordable Care Act.
  - Requiring hospitals to make their assistance programs public.
  - Setting standards for fair collection practices for all health care providers.

For example, the National Consumer Law Center worked with stakeholders in the State of Oregon to strengthen the state's financial assistance rules, and they are working with advocates in other states to strengthen their practices.

### Role of Philanthropy

- **Fund efforts to adopt and scale programs** to ensure patients can access needed care without the financial stress and burden of debt.
- **Support efforts to expand outreach in communities** to ensure those who are eligible for public health insurance coverage and financial assistance are aware and can receive it.
- **Work with advocates to support the adoption of eligibility standards** for financial assistance and transparency around these standards at the hospital system, city, county, or state level.

## Support Individuals as They Manage Medical Bills

While advocacy efforts are critical to reducing surprise billing and increasing consumer protections, innovative programs and products can be utilized to make it easier for people to manage their bills. These innovations help patients understand their bills, dispute billing errors, negotiate the cost, and manage their payments—all to prevent debt from going into collections.

### EXAMPLES

- **Financial Coaching:** Financial coaching programs offer one-on-one services to improve financial outcomes through customized goal setting and action plans to meet these goals over time. A randomized study of two coaching programs found that financial coaching was effective in helping clients reduce unpaid medical debt.
- **MedPut:** MedPut is an innovative employee benefit that helps employees navigate and manage the billing and payment process. MedPut negotiates any type of unpaid health care bill and then provides interest-free financing to help pay it off. Repayments are then made through small payroll deductions.
- **Health Aid by Earnin:** A service on the Earnin app, the Health Aid team helps Earnin clients save by negotiating with medical providers to reduce balances owed, set up a manageable monthly payment plan, or both. There are no fees to use Health Aid.



## Role of Philanthropy

- **Support non-profits and health care providers to offer financial capability services** such as financial coaching that help people prepare for, understand, and manage their medical bills. Integration of these services in health care settings could also provide upstream support to individuals, helping them understand their coverage and connect them to financial assistance programs to prevent medical debt from incurring.
- **Invest in innovative ideas:** Partner with an employer that might not be able to offer such a benefit, but that has workers who are disproportionately impacted by medical debt. Finance the ongoing management of the program or offer a critical financial contribution to test out its effectiveness.

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## Mitigate the Negative Effects of Debt in Collections through Debt Relief and Support of Defendants in Medical Debt Collections Litigation

Philanthropy can invest in systemic solutions that relieve medical debt burdens on individuals by “abolishing” overdue medical debt or seeking to assist defendants in debt collections litigation with the goal of seeking just resolution of medical debt claims that support, rather than damage, long-term financial security. A wide array of organizations—the Sycamore Institute in Tennessee, the Pew Research Center, the National Consumer Law Coalition, and the Aspen Institute Financial Security Program—have explored and called for a variety of solutions to rebalance power and ensure that debt collection settlements and judgments don’t cause irreparable damage to household financial security. Examples include:

### RELIEVE OR “ABOLISH” MEDICAL DEBT

- **RIP Medical Debt:** Since 2014, this non-profit organization has used donor funds to abolish—or purchase and forgive—individual borrowers’ medical debt. Working with hospitals, they identify and purchase debt portfolios for those in or near the poverty level—and then forgive it. The purchase, amounting to almost \$3 billion, relieved debt for 1.8 million borrowers. Once the debt has been forgiven, they help recipients repair their credit reports, which renews their access to opportunities and resources that will allow them to rebuild and recover.
- **Medical Debt Freedom Fund:** A new campaign by the Maryland Consumer Rights Coalition works to free patients in Maryland from medical debt burden. In Maryland, where a third-party debt collector cannot purchase medical debt, they are working to pay off patients’ medical debt. They focus on relieving the burden of patients at hospitals that are most aggressive in suing to collect debts. They also work to raise awareness about the problems of medical debt in Maryland, the impact of medical debt on patients, and ways to solve medical debt. The Maryland Consumer Rights Coalition regulates predatory and deceptive loan products, limits shoddy debt settlement businesses’ ability to take consumers’ money without eliminating debt and leads statewide efforts to reform local and state debt collection policies that criminalize poverty and deepen the racial wealth gap. The Maryland Consumer Rights Coalition’s debt reform work includes research, consumer education, and policy advocacy.

### SUPPORT DEFENDANTS IN MEDICAL DEBT COLLECTIONS LITIGATION

The gold standard for helping a defendant navigate a medical debt lawsuit is full legal representation. Acknowledging the well-documented challenges of providing access to justice for all people in the U.S., especially given the lack of funding for high-quality legal aid attorneys, there are a range of examples that philanthropists can consider if they seek to help rebalance power in medical debt collections litigation:

- **Funding access to justice by supporting legal aid:** Legal aid organizations across the country provide legal advice and direct representation, helping those with questionable medical bills to successfully navigate collection actions and litigation to a waiver of debt or a settlement. Their experience can inform the courts or public officials about needed systems change, and they are often a source of community education. To do this work effectively with dedicated staffing and to coordinate pro bono efforts, these programs need philanthropic funding that supplements the legal services corporation funding.
- **FairShake:** FairShake simplifies the process for consumers to resolve disputes with large corporations. They help consumers produce an official legal notice to the company and then navigate the process to successfully resolve the complaint. Also, they help bring claims to independent decision-makers through the consumer arbitration system.
- **Hamilton County Online Dispute Resolution Pilot Program:** A pilot program in Hamilton County, Tennessee, is working to shrink the number of default judgments and provide defendants with more support. They are hoping to do this by piloting an online dispute resolution tool in 2020 that allows debtors to negotiate online with a mediator’s help. If successful in decreasing default judgments, it will be expanded in Hamilton County.

## Role of Philanthropy

- **Contribute to funds** like RIP Medical Debt and the Medical Debt Freedom Fund or help adopt similar programs in their community to directly relieve the medical debt burden on individuals. For many funders, canceling the debt can be the most impactful way to provide immediate relief to those burdened by medical debt. This opportunity relieves the burden of medical debt for many people and offers a significant return on investment. Interested funders can approach this with a racial equity lens, working with specific communities to target their investment and impact those disproportionately burdened by debt.
- **Contribute to or support and expand community access to innovations in debt litigation processes** like the Hamilton program and FairShake to test new policies, procedures, and technologies to reform debt litigation. Funders can also support the development of more innovative programs and underwrite critical program evaluation research to track outcomes, strengthen program design, and signal what is impactful and effective to scale.

## Conclusion

Medical debt is a product of our health care system's design that puts a significant burden of the cost of receiving care on the shoulders of households. While avoiding medical care can be detrimental to one's health, seeking care in our country can be harmful to one's financial security. Health care, and equitable access to it, should be a fundamental right that doesn't require people to choose between their health and finances.

The problem of medical debt is endemic to the U.S., though communities of color and the South are disproportionately impacted by it. Households of color are more affected by the prevalence and burden of medical debt, often intersecting with other comorbidities in their lives. And while systemic change is required to fix our health care system to alleviate

this burden on households, there are solutions needed now and a role for philanthropy to play throughout the lifecycle of medical debt to ensure and protect the financial security of households. We aim for nothing less than a society where no one is burdened by medical debt and where the amounts of medical debt are reduced or eliminated completely.

Appendix

Health Policy is Wealth-Building Policy

Medical debt in the U.S. is a product of our health care policy, with its design resulting in the high cost of health care and an enormous burden of that cost falling on households. Reform is needed to not only ensure everyone has access to medical care and health insurance, but to also ensure that the care and coverage are adequate and affordable.

It’s important to look at health policy as wealth-building policy and understand how much the burden of our system today falls on households, impacting their financial stability and stripping them of their wealth.



HEALTH POLICY	IMPACT ON HOUSEHOLDS
A Lack of Universal and Affordable Health Coverage Leaves Millions Un- and Under-insured	<ul style="list-style-type: none"><li>• 33.2 million individuals are uninsured (10.3% of the population). Nearly three-fourths of uninsured adults say they lack insurance due to the high cost.</li><li>• 4.4 million uninsured adults would benefit from Medicaid expansion, with 2.3 million currently in the coverage gap.</li><li>• 31 million Americans are underinsured, with costs high in relation to their income.</li></ul>
High Cost of Medical Care Places the Burden of Medical Debt on Households <i>The U.S. spends \$10,739 per person per year on health care (other comparable countries on average spend about half that amount).</i>	<ul style="list-style-type: none"><li>• Households are responsible for 28% of U.S. health care spending (over \$3,000 per person per year).</li><li>• The majority of household spending comes from out-of-pocket expenses (37%), their share of employer-sponsored health care (28%) and support of Medicare via payroll taxes (17%).</li><li>• As a result of the cost-burden placed on households, 79 million Americans struggle to pay their medical bills or are paying off medical debt and approximately 43 million Americans hold a total of \$81 billion of unpaid medical debt.</li></ul>



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## Accompanying Resources

### INCURRING MEDICAL EXPENSES

US Health Insurance Coverage in 2020: A Looming Crisis in Affordability

- Findings from the Commonwealth Fund Biennial Health Insurance Survey 2020
- <https://www.commonwealthfund.org/publications/issue-briefs/2020/aug/looming-crisis-health-coverage-2020-biennial>

### MEDICAL DEBT 101: HOW A MEDICAL BILL BECOMES MEDICAL DEBT

- A recent report by the Sycamore Institute explores how medical debt occurs.
- <https://www.sycamoreinstitute.org/medical-debt-101/>

### THE UNINSURED AND THE ACA: A PRIMER - KEY FACTS ABOUT HEALTH INSURANCE AND THE UNINSURED AMIDST CHANGES TO THE AFFORDABLE CARE ACT

- The Uninsured and the ACA: A Primer provides information on how insurance has changed under the ACA, how many people remain uninsured, who they are, and why they lack health coverage. It also summarizes what we know about the impact that a lack of insurance can have on health outcomes and personal finances and the difference health insurance can make in people's lives.
- <https://www.kff.org/uninsured/report/the-uninsured-and-the-aca-a-primer-key-facts-about-health-insurance-and-the-uninsured-amidst-changes-to-the-affordable-care-act/>

### AN OUNCE OF PREVENTION: A REVIEW OF HOSPITAL FINANCIAL ASSISTANCE POLICIES IN THE STATES

- <https://www.nclc.org/images/pdf/medical-debt/report-ounce-of-prevention-jan2020.pdf>
- This report is intended to enable community-based organizations, consumer advocates, and others working with vulnerable communities to identify and compare the financial assistance policies that states and hospitals have adopted to address ongoing barriers to health care

### MANAGING MEDICAL BILLS

The Burden of Medical Debt: Results from the Kaiser Family Foundation/NYT Medical Bills Survey

- This Kaiser Family Foundation/New York Times survey provides an in-depth look at the experiences of Americans ages 18-64 who say they or someone in their household had problems paying medical bills in the past year. The survey explores the causes of medical bill problems and the impacts they have on individuals and their families, finances, and access to health care. To provide context, a shorter companion survey was conducted among those who do not report having medical bill problems.
- <https://www.kff.org/wp-content/uploads/2016/01/8806-the-burden-of-medical-debt-results-from-the-kaiser-family-foundation-new-york-times-medical-bills-survey.pdf>

### PAST-DUE MEDICAL DEBT, FINANCIAL KNOWLEDGE, AND HEALTH INSURANCE

- Medical debt can be a significant barrier to financial health. In 2012, nearly 30% of nonelderly adults said they had an outstanding, past-due medical bill. Since then, the economy has improved and health insurance coverage has increased, yet past-due medical debt still affects millions of people's ability to build credit, to get the health care they need, and even to afford basic needs.
- <https://www.urban.org/policy-centers/cross-center-initiatives/opportunity-ownership/projects/past-due-medical-debt-financial-knowledge-and-health-insurance>

### DEALING WITH OVERDUE MEDICAL DEBT

Model Medical Debt Protection Act

- The purpose of this Act is to reduce burdensome medical debt and to protect patients in their dealings with medical creditors, medical debt buyers, and medical debt collectors with respect to such debt.
- <https://www.nclc.org/images/pdf/medical-debt/model-medical-debt-protection-act-082017.pdf>

### MEDICAL DEBT COLLECTION FACT SHEET

- Created by the National Consumer Law Center
- <https://www.nclc.org/images/Medical-Debt-Collection.pdf>

### HOW DEBT COLLECTORS ARE TRANSFORMING THE BUSINESS OF STATE COURTS

- The Pew Charitable Trusts sought to determine what local, state, and national data exist on debt collection cases and what insights those data could provide. The researchers supplemented that analysis with a review of debt claims research and interviews with consumer experts, creditors, lenders, attorneys, and court officials.
- <https://www.pewtrusts.org/en/research-and-analysis/reports/2020/05/how-debt-collectors-are-transforming-the-business-of-state-courts#:~:text=People%20sued%20for%20debts%20rarely,compared%20with%20nearly%20all%20plaintiffs>

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## Glossary

### AFFORDABLE CARE ACT

The comprehensive health care reform law enacted in March 2010 (sometimes known as ACA, PPACA, or “Obamacare”) (HealthCare.gov <https://www.healthcare.gov/glossary/affordable-care-act/>)

### BANKRUPTCY

A legal proceeding involving a person or business that is unable to repay their outstanding debts. All of the debtor’s assets are measured and evaluated, and the assets may be used to repay a portion of outstanding debt. (Investopedia, <https://www.investopedia.com/terms/b/bankruptcy.asp>)

### CHARITY CARE/ FINANCIAL ASSISTANCE

Fee or discounted medical care and especially hospital care provided to patients who do not have health insurance or are unable to pay for all or part of medical costs due to limited income or financial hardship (Merriam-Webster, <https://www.merriam-webster.com/medical/charity%20care>)

### DEBT COLLECTION

The process of pursuing payments of debts owed by individuals or businesses. An organization that specializes in debt collection is known as a debt collection agency, debt collection company, or debt buyers. (CFPB <https://www.consumerfinance.gov/consumer-tools/debt-collection/answers/key-terms/>)

### DEFAULT JUDGMENT

Judgment entered against a party who has failed to defend against a claim that has been brought by another party. (Free Legal Dictionary, <https://legal-dictionary.thefreedictionary.com/Default+Judgment#:~:text=Under%20rules%20of%20Civil%20Procedure,the%20clerk%20or%20the%20court.>)

### CIVIL COURT

Civil court is a government institution that settles disputes between two or more entities. Civil court cases may involve any combination of private citizens, businesses, government institutions, or other parties (Find Law, <https://www.findlaw.com/litigation/legal-system/civil-court-basics.html#:~:text=Civil%20court%20is%20a%20government,that%20also%20tries%20criminal%20cases.&text=Civil%20court%20cases%20may%20involve,government%20institutions%2C%20or%20other%20parties>)

### HEALTH INSURANCE

Health insurance is a type of insurance coverage that typically pays for medical, surgical, prescription drug and sometimes dental expenses incurred by the insured. (Investopedia, <https://www.investopedia.com/terms/h/healthinsurance.asp>)

### IN NETWORK

Services provided by a physician or other health care provider with a contractual agreement with the insurance company and paid at a higher benefit level. In-network usually costs you less than out-of-network coinsurance. (healthcare.gov, <https://www.healthcare.gov/glossary/in-network-coinsurance/>)

### INSURED

The person who a contract holder (an employer or insurer) has agreed to provide coverage for, often referred to as a member/subscriber. (BCBS, <https://www.bcbsil.com/insurance-basics/understanding-health-insurance/glossary#U>)

### LITIGATION

Litigation refers to the process of resolving disputes by filing or answering a complaint through the public court system (Legal Information Institute, <https://www.law.cornell.edu/wex/litigation#>)

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## MEDICAID

Insurance program that provides free or low-cost health coverage to some low-income people, families and children, pregnant women, the elderly, and people with disabilities. Many states have expanded their Medicaid programs to cover all people below certain income levels. (healthcare.gov, <https://www.healthcare.gov/glossary/medicaid/>)

## MEDICAL DEBT

Refers to debt incurred by individuals due to health care costs and related expenses.

## MEDICARE

Medicare is the federal health insurance program for people who are 65 or older, certain younger people with disabilities, and people with End-Stage Renal Disease (permanent kidney failure requiring dialysis or a transplant, sometimes called ESRD) (HealthCare.gov, <https://www.healthcare.gov/glossary/medicare/>)

## OUT-OF-NETWORK

Services you receive are considered out of network when you use a doctor or other provider that does not have a contract with your health plan. When you go to an out-of-network provider, benefits may not be covered, or may be covered at a lower level. You may be responsible for all or part of the bill when you use out-of-network providers (BlueCross BlueShield, <https://www.bcbsil.com/insurance-basics/understanding-health-insurance/glossary>)

## OUT-OF-POCKET COSTS

Your expenses for medical care that aren't reimbursed by insurance. Out-of-pocket costs include deductibles, coinsurance, and copayments for covered services plus all costs for services that aren't covered. (Healthcare.gov, <https://www.healthcare.gov/glossary/out-of-pocket-costs/#:~:text=Your%20expenses%20for%20medical%20care,services%20that%20aren't%20covered>)

## SURPRISE BILLING

Refers to charges arising when an insured individual inadvertently receives care from an out-of-network provider. This situation could arise when the patient has no ability to select their emergency care. Surprise medical bills might also arise when a patient receives planned care from an in-network provider, but other treating providers brought in to participate in the patient's care are not in the same network. (Kaiser Family Foundation, <https://www.kff.org/private-insurance/issue-brief/surprise-medical-bills/>)

## UNDERINSURED

One who has health coverage all year but also meets one of three conditions: 1) annual out-of-pocket medical expenses amount to 10% or more of income; 2) for low-income adults with income under 200% of the federal poverty level, out-of-pocket medical expenses amount to 5% or more of income; or 3) health plan deductibles equal or exceed 5% of income (Commonwealth Fund, <https://www.commonwealthfund.org/publications/newsletter-article/61-million-are-either-uninsured-or-underinsured>)

## UNINSURED

People who lack health insurance coverage. Most of the nonelderly in the U.S. obtain health insurance through an employer, but not all workers are offered employer-sponsored coverage or, if offered, can afford their share of the premiums. Medicaid covers many low-income individuals; however, Medicaid eligibility for adults remains limited in some states. Additionally, renewal and other policies that make it harder for people to maintain Medicaid likely contributed to Medicaid enrollment declines. While financial assistance for Marketplace coverage is available for many moderate-income people, few people can afford to purchase private coverage without financial assistance. Some people who are eligible for coverage under the ACA may not know they can get help and others may still find the cost of coverage prohibitive. (Kaiser Family Foundation, <https://www.kff.org/uninsured/issue-brief/key-facts-about-the-uninsured-population/>)

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