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How the Middle Class Became the Epicenter of Medical Debt



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Sheila from Salt Lake City has recurring kidney stones that, at one point, put her in the hospital with an infection after she attempted caring for herself at home. She was trying to save money but ended up with a pile of debt instead. A full-time worker and single mom, the medical debt left her feeling isolated and unsure about how to afford food for her children. Fortunately, Sheila benefitted from RIP Medical Debt's (RIP) abolishment program, but millions of other Americans remain in dire straits because of medical debt.

Understanding who is afflicted with medical debt is the first step toward helping them. A recent study from Third Way shows that people in households earning between 200% and 400% of the federal poverty level, which is between \$50,000 and \$99,000 for a family of three, have the highest rates of medical debt. RIP's experience is similar; when it abolishes debt, six out of every ten beneficiaries have an income between 150% and 350% of poverty, which is \$37,000 to \$87,000 for a family of three. The Third Way study also found that the impact on the middle class holds across demographic groups like race and ethnicity.

What Has Debt Abolishment Revealed about People with Medical Debt?

RIP abolishes medical debt for large groups of patients by matching donated dollars with qualifying debt. It partners with hospitals and other providers to purchase uncollected medical debt for patients with incomes up to 400% of the poverty level and debts greater than five percent of their income. It also purchases medical debt from collection agencies that are pursuing patients for unpaid medical bills. For many patients, these debts are out-of-pocket costs that they cannot afford. Because patients often don't have the money to pay their medical bills, attempts to collect typically yield much less than owed. RIP uses private and public contributions to purchase debt from providers and collection agencies, and then abolish those debts for patients. The cost is a fraction of the face value of the debt because medical debt is rarely fully collected. In this way, one donated dollar can erase on average \$100 of past due medical debt.

- RIP's research has found some key facts about the patients who benefit from abolishment: 82% have an income above the poverty line and less than four times the poverty level, which is about \$100,000 for a family of three.
- Nearly 40% fall into a slightly higher income segment between 200% to 400% of the poverty level.

- In a recent survey of RIP beneficiaries, most patients have health insurance when accruing their medical debt.

RIP's experience clearly shows that medical debt afflicts working Americans. Their health insurance may be inadequate because of high deductibles or other coverage gaps. They often may not qualify for other kinds of assistance like a hospital's charity program or Medicaid, which usually provides coverage for people earning up to 138% of the federal poverty level unless they reside in the 10 states that have yet to close the coverage gap. People living in poverty may carry less medical debt because they don't get care in the first place, especially when it costs too much. That's not to say that poor Americans are not also hit with medical debt. Nearly 20% of RIP's beneficiaries live under the poverty level.

What Do Surveys Show about People with Medical Debt?

Third Way's recent study shows the people in the heart of the middle class are most likely to have medical debt. This study defines the middle class as people living in families with incomes between two times and four times the poverty level. The data come from the Census's Survey of Income and Program Participation.

Nearly 17 million (23.5%) middle-class people had medical debt in 2020, higher than the 22% of lower-income people. The middle-class medical debt problem holds across all demographics—race, ethnicity, education level, age, parental status, health insurance status, and geography. Black and Hispanic middle-class families are hit the hardest, with 38% and 25%, respectively, having medical debt.

As reported on CNN, Third Way's report reveals the unique impact of medical debt on the middle class:

"Although the middle class has higher rates of good health insurance than lower-income Americans, the financial squeeze is exacerbated by several factors.

Those in the middle class are less likely to avoid care because of cost but are also less likely to qualify for financial assistance and debt relief at some hospitals than those who earn less."

The concentration of debt in the middle class may be getting worse after it got better for everyone because of the Affordable Care Act. According to a Peterson-Kaiser Family Foundation analysis of the Census data from 2019, the medical debt rate for middle- and lower-income families was the same. The 2020 data show the middle class with a higher rate.

Among people in a middle-class family, 22.5% have medical debt despite having insurance coverage. That's compared to 12.3% of people in higher-income families and 20.8% in lower-income families, according to Third Way's study.

If this trend continues, it will reverse some of the gains from the Affordable Care Act. When the implementation of the Affordable Care Act was getting underway in 2011, 20% of Americans reported having problems paying their medical bills. That is down to 11% as of 2021 as coverage has expanded to include all but 10% of the non-elderly population.

What is making the middle class more vulnerable to medical debt? Deductibles for people with coverage at work have been soaring. The amount of a deductible has more than doubled since 2010—with the average now at \$1,763. Nearly one-third of workers with coverage for themselves now face a deductible of \$2,000 or more. Not enough families have the high-quality coverage that will protect them from debt.

What Can be Done?

Middle-class families and everyone else deserve protection from medical debt. That consists of two parts: debt abolishment and debt prevention.

RIP Medical Debt has been leading the abolishment work. It engages with hospitals and collection agencies to buy patients' debts and erase them from the books. It partners with churches, universities, individuals, and state and local

governments across the country to channel private and public dollars into abolishing medical debt.

Abolishing debt federally is something Third Way has proposed to Congress. This proposal would abolish medical debt for anyone who gets and keeps health insurance coverage. It would also ensure that coverage is affordable and adequate based on each family's budget. Lower-income families need lower caps on their out-of-pocket costs, like deductibles, and upper-income families can handle a higher cap. For middle-class families, their health plan should cover 85% to 90% of their health care costs on average.

Freedom from medical debt is essential for health and financial security. By focusing on the needs of the middle class and those struggling to join it, our nation's leaders can truly make a difference in people's lives.

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