THIRD WAY

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States Lift the Weight of Medical Debt from American Families

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In the last two years, at least 17 states, counties, and cities have acted to reduce the damaging effect of medical debt on families' budgets and health. The actions ranged from stopping debt collection on working-class and low-income families to legal action that forces hospitals to provide more charity care. This memo highlights recent prominent actions against medical debt in 17 states.

Arizona: Restrictions on Wage Garnishment & More

After a state-wide ballot initiative passed decisively in 2022, Arizona now has stronger protections against consumer debt collection, including from medical bills. Arizona Proposition 209, which took effect in December 2022, restricts debt collectors' ability to garnish wages, which is particularly hard on working-class families. Debt collectors cannot use wage garnishment to take any amount from a worker with a paycheck up to one and one-half times the minimum wage. For workers with higher wages, wage garnishment cannot exceed 10% of a worker's paycheck. Building on that effort, Arizona Governor Katie Hobbs announced a new program in March 2023 to abolish medial debt for families with incomes up to four time the federal poverty level. This initiative is similar to Connecticut Governor Ned Lamont's described below.

California: Expanded Financial Assistance at Hospitals

California gets high marks for its consumer protections against medical debt, and it recently added to that success. In January 2022, California specified that all hospitals must provide financial assistance to patients with incomes up to four times the poverty level, up from the previous requirement of three and a half times the poverty level. In addition, hospitals must provide patients with information about their charity care programs. If they use a debt collection agency or give the debt to an agency in return for an immediate payment of the debt (also known as selling the debt), then they must inform the patient and provide an application for charity care. Debt collectors must now get a license to operate in the state.

Delaware: More Access to Assistance

Delaware has halted aggressive debt collection by most kinds of health care facilities, including nonprofit and for-profit hospitals. Effective in March 2024, a new law bans wage garnishment, home foreclosure, and bank account seizures for medical debt. It also caps payment plans for debts of $500 or more at 5% of a patient's monthly income. Hospitals and other facilities must provide uninsured patients with information about financial assistance with their bills. As one consumer advocate put it, "you can't get blood out of a stone."

Colorado: Three Protections from Medical Debt Collection

Colorado has been especially busy by taking three actions against medical debt:

- *Banning medical debt in credit reports.* Colorado is the first state to ban credit reporting agencies from listing medical debt and hurting consumers' credit scores. The new law, which took effect in August 2023, also gives consumers the right to remove medical debt from their credit report if the reporting agencies fail to do so.

- *Halting debt collection for hospitals not showing their prices.* Colorado enacted a limit on debt collections using a unique enforcement technique: compliance with a federal price transparency law. The federal law requires hospitals to disclose their prices to help consumers and employers shop for care and avoid high costs. But two-thirds of hospitals have yet to comply with the law. As of February 2023, Colorado halts hospitals' debt collection against its patients if it has not complied with the federal transparency rule.

- *Strengthening consumer protections from medical debt.* Colorado strengthened its highly-rated consumer protections with a new law, which took effect in June 2022. It requires hospitals to cap charges for patients with incomes under two and a half times the federal poverty level who don't otherwise qualify for assistance. It limits patients' payments to hospitals at 4% of income and to clinics at 2% of income. These protections compliment Colorado's safety net program through public and some private hospitals, which provides financial assistance on a sliding scale for patients up to two and a half times the poverty level.

Connecticut: Statewide Debt Abolishment

Connecticut is the first state to abolish medical debt on a state level. Based on a proposal last year from Governor Ned Lamont, the state legislature approved $6.5 million for this innovative program. That amount will leverage $650 million in medical debt cancellation through a non-profit group, RIP Medical Debt, which buys medical debt from collection agencies and hospitals for a penny on the dollar. It will benefit about 250,000 residents with incomes under four times the federal poverty level. Connecticut is also protecting all patients from foreclosures due to medical debt and credit reporting on medical debt during a one year grace period as of October 2022.

Illinois, Louisiana, New York, Ohio, and Pennsylvania: Local Governments Abolish Medical Debt

Cook County, IL (which includes Chicago), New Orleans, New York City, and Pittsburgh have launched their own medical debt abolishment through RIP Medical Debt. Cook County was the first county to use federal economic recovery funds to relieve patients of up to $1 billion in medical debt starting in 2022. So far, they've abolished $281 million of medical debt. The state of Illinois has helped by lowering the amount of medical debt hospitals can take from a family's budget from 25% t0 20% and requiring income-based discounts as of January 2022. In April 2023, Toledo, Ohio, along with its Lucas County counterparts, did the same. New Orleans and Pittsburgh followed. In January 2024, New York City Mayor Eric Adams announced a $2 billion medical debt abolishment project for half a million working-class New Yorkers.

Maryland: More Rights for Patients in Need of Assistance

As of January 2022, Maryland requires hospitals to provide income-based financial assistance to patients and delays the sale of debt or credit reporting for 180 days. Maryland has a strong base of patient protections that include requiring hospitals to provide financial assistance for families with incomes up to five times the level of poverty, restrictions on medical debt credit reporting, and prohibition against home foreclosures for medical debt.

Minnesota: Eligibility Screening for Patient Assistance

Minnesota has seen a lot of legal action over nonprofit hospitals' aggressive debt collection, and last year, the state legislature stepped into the fray. A new law, which took effect in November 2023, requires all hospitals to screen patients for coverage or financial assistance before they can send the bill to collections. The bill's sponsor, State Senator Liz Boldon, explained that patients with large bills "were being taken to court, taken to collections for not being able to pay their bills when in fact they would have qualified for the hospital's own charity care program. They just didn't know about it."

Oregon: Charity Care Requirements for Non-Profit Hospitals

After reports of a major non-profit hospital chain hounding patients to pay their bills without checking eligibility for the hospital's own financial assistance programs, Oregon passed legislation with the support of hospitals that requires non-profit hospitals to screen patients for financial assistance, which they are required to provide. State Representative Lisa Reynolds (D-Washington County), the bill's sponsor, explained the situation leading up to the legislation: "This lack of compliance from hospitals has immediate and often devastating consequences for patients who should automatically receive financial assistance."

Tennessee: Protection for Patients' Home Equity

Although Tennessee ranks low for its protections from debt, it recently improved its protections that allow people to keep a portion of the equity in their homes when they are sued for debt, which is known as a homestead exemption. As of January 2022, Tennessee increased the exemption from $5,000 to $35,000 for all individual homeowners and $7,500 to $52,500 for all joint owners. The exemption had previously been $25,000 for an individual with a minor child, $12,500 for an individual who is 62 years or older, and $25,000 for joint owners who are both 62 or older. The homestead protection applies to medical and other kinds of debt.

Vermont: Capped Debt Payments

Vermont's consumer protections saw a significant improvement as of July 2022. Among many provisions, the new law caps the amount that hospitals and other health care facilities can collect from patients up to 5% of their income if they qualify for financial assistance. The hospital must also provide patients with information about its assistance program, which must meet minimum state requirements. The new law also blocks hospital from selling debt, which can result in aggressive debt collection.

Washington State: Big Pay-out to Patients for Charity Care

Washington Attorney General Bob Ferguson won a major battle against a large, nonprofit chain he accused of aggressive debt collection on patients who qualified for the hospital's financial assistance program. A February 2024 settlement required that Providence provide nearly $160 million in refunds and debt relief to low-income patients in the state. He noted that "most Washingtonians are eligible for significant discounts on their out-of-pocket hospital expenses, including co-pays and deductibles. We will ensure that hospitals honor this important law."

Conclusion

The actions in these 17 states show the potency of the medical debt issue and the need for additional protections to build on past efforts. In fact, at least 17 state legislatures are currently considering bills to further improve medical debt protections, and New Jersey Governor Phil Murphy is pushing for debt abolishment as Connecticut Governor Ned Lamont has done.

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