New York joins local governments in erasing billions in medical debt

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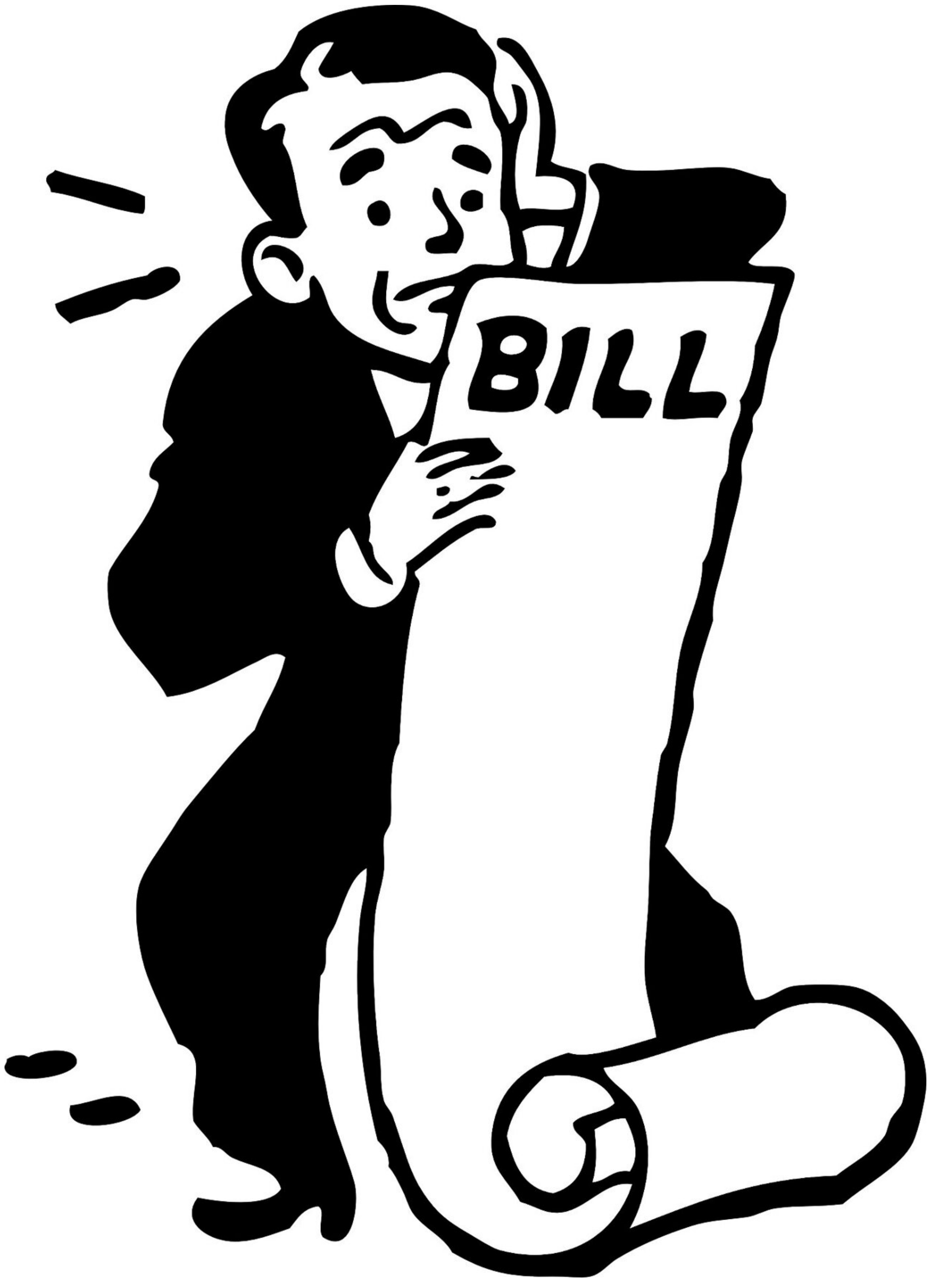
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New York City pledged last week to pay down $2 billion worth of residents' medical debt. In doing so, it has come around to an innovation, started in the Midwest, that's ridding millions of Americans of health care debt.

The idea of local government erasing debt emerged a couple of years ago in Cook County, Illinois, home to Chicago. Toni Preckwinkle, president of the county board of commissioners, says two staffers came to her with a bold proposal: The county could spend a portion of its federal pandemic rescue funds to ease a serious burden on its residents.

In 2022, Cook County became the first local government to partner with RIP Medical Debt, a nonprofit group that uses private donor funds to buy up and forgive patient debt.

RIP's model turns debt collection on its head. Normally, debt collectors buy unpaid bills and then try to collect the money owed. RIP identifies unpaid hospital bills owed by people making up to four times the federal poverty level, then buys that debt on secondary markets or directly from hospitals at a small fraction of the original value. Instead of trying to collect, RIP forgives it—so it simply disappears for the patients.

In the Chicago area, as across the country, medical debt is an ongoing problem, causing mental and financial strain that can follow patients for years. An estimated 100 million people in the U.S. carry some form of health care debt, KFF Health News and NPR reported in 2022.

Preckwinkle said the RIP model dovetailed nicely with Cook County's health care mission. For nearly two centuries, the county has funded its own hospital and health system, Cook County Health, in part to provide care to all residents, regardless of income.

"We have a legacy commitment to delivering quality health care to people without regard to their ability to pay," Preckwinkle said.

She said that health care mission eats up nearly half of the county's $9.3 billion annual budget. It is now in the process of spending $12 million—a tiny portion of its budget—to retire $1 billion worth of hospital bills for residents.

Since Cook County announced its program, seven other local governments have followed suit, including Ohio cities Akron, Cleveland, and Toledo; New Orleans; Wayne County, Michigan; Washington, D.C.; and now New York City, which announced its commitment Jan. 22.

During his announcement, New York Mayor Eric Adams noted that medical debt disproportionately affects Black and Hispanic people, who are more likely to be uninsured or underinsured. For the city's low-income residents, he said, "taking on medical debt isn't a choice."

"Working-class families often have to choose between paying their medical bills or some of the basic essentials that they need to go through life," he said.

RIP is in talks with 30 other municipalities and states, including Connecticut, New Jersey, and Michigan.

Typically, RIP can retire at least $100 worth of debt for every $1 of government funds, so the local initiatives could end up wiping out several billion dollars in medical debt. The software selects eligible patients who remain anonymous, so it's hard to know what the impact of eliminating that debt might be across a community, or for the families that benefit.

Allison Sesso, CEO of RIP Medical Debt, acknowledged that debt is one of many factors contributing to unequal access to health care, and as hospital costs continue to rise, new debts are also piling up perhaps faster than her group can retire it. She said RIP hopes to retire $2.5 billion worth of unpaid medical bills through various government initiatives this year, but that's a drop in the bucket of the $195 billion estimated medical debt held by Americans.

"I'm under no illusions," Sesso said. "I don't think what I'm doing is the solution to getting rid of medical debt, writ large."

An unusual move for local government

Amber Clapsaddle said having the city of Toledo eliminate a $1,500 medical bill of hers from three years ago has given her hope.

In the past, Clapsaddle said, she looked down on those who didn't pay their bills.

Then, several years ago, her entire family of five each got sick one after another, requiring numerous surgeries, ultrasounds, and diagnostic tests. She had insurance, but she and her husband, a warehouse worker, couldn't meet the $6,000 deductible. Clapsaddle, a social worker, realized why medical debt is such a prevalent problem: "It just takes one bill, one bad insurance plan, just one extra diagnosis to have it all fall apart."

When Toledo's program with RIP forgave some of her family's debt two months ago, she cried with joy and relief. She said that motivated her to negotiate with doctors' offices and her insurance company to try to prevent herself from getting into debt again. "It's the spark that lights the fire of getting out of medical debt," she said.

Debt forgiveness is an unusual solution for local governments. More are taking it on, aided by access to federal pandemic rescue funds through the American Rescue Plan Act of 2021, and RIP Medical Debt offered a quick and easy fix to distribute those funds to those most burdened by medical expenses.

Nationally, medical debt is shown to disproportionately affect people of color and people who earn less. It also contributes to a vicious health cycle, discouraging patients from seeking preventive or follow-up care, leading to worse and more expensive outcomes.

Cook County's Preckwinkle said the pandemic only deepened racial and income gaps that affect people's access to health care.

"I always talk about the fact that medical debt is the leading cause of bankruptcy in the United States," she said.

Getting down to the root causes of debt

Medical debt is being created at high rates, Sesso said, and stronger policies—such as protecting consumers and strengthening insurance coverage—are needed to stop it at its source.

Often that boils down to high prices charged by hospitals and providers.

As Adams, the New York City mayor, put it, "You know, not only do you hold your breath when you go into a hospital or a doctor's office and wait for a diagnosis, you continue to hold your breath when you see the bill and what it costs, particularly for low-income New Yorkers."

The idea of forgiving medical debt has broad political support, said Sesso, perhaps because the issue affects people of all political stripes. A recent RIP survey, she said, showed that "84% of people agreed that it is the responsibility of government to ensure health care is affordable, and that position is held by people on the left and the right."

The enduring benefit of the recent local government initiatives is that they have helped draw more attention to the problem, raising its profile in useful ways, she said. "I think the issue of medical debt is becoming a priority, local governments are talking about it," and that is leading to other conversations about what else they can do to get more eligible families insured through Medicaid, or through the Affordable Care Act insurance marketplace, for example.

It is also inspiring programs like one recently adopted by Milwaukee County, in which it's urging more hospitals and health systems to use credit reports to screen and automatically enroll eligible patients in financial assistance programs. These programs already exist to help reduce medical expenses for patients making up to three times the poverty level, but often patients are unaware or not told to apply for them.

By automating the process, as many as 50% more patients may receive free or reduced-cost care, so they have a better chance of avoiding incurring medical debt in the first place, said Shawn Rolland, a member of Milwaukee County's board of supervisors.

"Why make it more difficult than necessary to get enrolled?" he said. "Because ultimately this will make it more likely that they'll come back for preventative care."

About this project

"Diagnosis: Debt" is a reporting partnership between KFF Health News and NPR exploring the scale, impact, and causes of medical debt in America.

The series draws on original polling by KFF, court records, federal data on hospital finances, contracts obtained through public records requests, data on international health systems, and a yearlong investigation into the financial assistance and collection policies of more than 500 hospitals across the country.

Additional research was conducted by the Urban Institute, which analyzed credit bureau and other demographic data on poverty, race, and health status for KFF Health News to explore where medical debt is concentrated in the U.S. and what factors are associated with high debt levels.

The JPMorgan Chase Institute analyzed records from a sampling of Chase credit card holders to look at how customers' balances may be affected by major medical expenses. And the CED Project, a Denver nonprofit, worked with KFF Health News on a survey of its clients to explore links between medical debt and housing instability.

KFF Health News journalists worked with KFF public opinion researchers to design and analyze the "KFF Health Care Debt Survey." The survey was conducted Feb. 25 through March 20, 2022, online and via telephone, in English and Spanish, among a nationally representative sample of 2,375 U.S. adults, including 1,292 adults with current health care debt and 382 adults who had health care debt in the past five years.

The margin of sampling error is plus or minus 3 percentage points for the full sample and 3 percentage points for those with current debt. For results based on subgroups, the margin of sampling error may be higher.

Reporters from KFF Health News and NPR also conducted hundreds of interviews with patients across the country; spoke with physicians, health industry leaders, consumer advocates, debt lawyers, and researchers; and reviewed scores of studies and surveys about medical debt.