

Study finds that efforts to help low-income Americans by buying up their medical debt aren't going as planned

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When it comes to helping Americans manage rising health care costs, one increasingly popular policy stands out for both its simplicity and

potential payoff: Buy up vast amounts of medical debt for pennies on the dollar and cancel it, thereby giving struggling families a break from one major stressor.

Over the last two years, 15 state or local governments passed programs to acquire about \$8 billion worth of medical fees that have either been—or are about to be—sent to bill collectors. Five others are considering programs that would raise that total to nearly \$13 billion.

It's not just governments that think medical [debt](#) relief holds promise: Private donors are financing the purchase of outstanding medical debts worth billions of dollars at steep discounts.

But are these efforts delivering on their promise?

Not according to the largest study to date of medical debt relief programs released April 8 as a *National Bureau of Economic Research* [working paper](#) and co-authored by Neale Mahoney, a professor of economics in the Stanford School of Humanities and Sciences.

Mahoney and his collaborators find no evidence that buying and then forgiving medical debts that are in collections improved on average beneficiaries' finances, access to credit, or their physical or [mental health](#). People were even less likely to pay existing medical bills after their debt was eliminated.

Calling the results "largely disappointing," Mahoney says that policymakers, philanthropists and even the experts in [health care costs](#) that the study authors surveyed as part of their experiment had every reason to think that buying medical debts in collections would be a relatively low cost, scalable tool for helping people in need.

"We are not saying with this study that medical debt relief doesn't help

people," says Mahoney, who is the George P. Shultz Fellow at the Stanford Institute for Economic Policy Research (SIEPR) and will become director of the institute in January 2025.

"What we are saying" he says, "is that trying to help them by reducing their medical debt when it's either in collections or headed there may be happening too late to make a difference or else there are problems with how it is currently done that need to be addressed."

In response to the study's results, Mahoney says that RIP Medical Debt, the [nonprofit organization](#) that partnered with Mahoney and his collaborators on the research and is working with state and [local governments](#) on their debt relief plans, is changing its approach—including buying up debts before they reach collections, when the hoped-for benefits are more likely to be felt by patients.

"This is what we, as scientists, set out to do, which is to help people in the business of reducing medical debts figure out how to actually have the impact that they want to have," he says.

"The overriding question now is, how do we find the sweet spot between low cost and high impact?" says Mahoney, whose ongoing research into health care costs includes a study that found significant benefits for patients who participated in a hospital debt-forgiveness program.

Beyond correlations

Medical debt is a real problem in the U.S.: 2 of 5 Americans have outstanding health care bills, according to the Kaiser Foundation. Those with payments overdue are more likely to be uninsured, low-income, and either Black or Hispanic. What's more, the total amount of outstanding medical debt in the United States is, as Mahoney has shown, much bigger than people think.

Eight years ago, comedian John Oliver turned RIP Medical into a household name with a segment on his HBO show in which he announced he had financed RIP's purchase of \$15 million worth of medical debt held by some 9,000 Americans. An outpouring of donations to RIP followed, including a \$30 million grant in 2022 from Mackenzie Scott, ex-wife of Amazon founder Jeff Bezos.

With RIP gaining traction, Mahoney teamed with the company and with Raymond Kluender, an assistant professor at Harvard Business School; Francis Wong, an assistant professor at Ludwig Maximilian University of Munich; and Wesley Yin, an economics professor at UCLA, to study its effects on people whose debts are forgiven.

To do that, the researchers conducted two experiments, both of which allowed them to compare one group selected at random to have their medical debts paid for against another group, also selected at random, whose outstanding bills remained in collections.

In doing so, Mahoney and collaborators were able to get to the root of a vexing question in health care economics: "We know that people with medical debt are struggling with their health and with other aspects of their life," Mahoney says. "But is medical debt a cause or a symptom of these issues? Our study shows that medical debt is a symptom, and not an underlying cause."

Possible explanations

The researchers' first experiment looked at what happened when RIP Medical relieved nearly 14,400 patients of \$19 million in hospital debt that was unlikely to be paid but had not yet been sent to third-party collection. The second involved a similar analysis of \$150 million worth of medical debt incurred by 69,000 individuals and that had languished with debt collectors for several years.

The first test mattered because the hospital debt was "younger"—meaning patients were more likely to experience benefits once it was written off than they would with "older" debt that they may have already put behind them.

To Mahoney and his co-authors' surprise, in both instances they didn't see in their data any payoff on average in their measures of financial well-being, physical health, or mental state. Beneficiaries of debt relief were also less likely to pay their existing medical bills. And those with the most medical debt were more likely to feel depressed upon learning that their debt had gone away.

Mahoney says it's difficult to know for sure why removing debts in collection or near-collection didn't help patients—but the evidence suggests that the help came too late.

"These findings reject the idea that people who had some debt relieved would have more resources to pay other bills," Mahoney says.

One explanation for why people on average weren't paying their current [medical bills](#), he says, could be that they now figured those would be forgiven, too. As for the rise in feelings of sadness, he says people may have taken the debt forgiveness as a reminder of their overall financial distress and of their need for charity to help address it.

A silver lining

Mahoney cautions that the study doesn't analyze every potential outcome of having medical debt relieved, so could be that there are benefits that his study does not account for.

But it does offer one piece of good news for proponents of medical debt relief efforts, he says. In recent years, the Consumer Financial

Protection Bureau has been cracking down on the practice of listing medical debts on credit reports, which it says is a poor predictor of whether people are likely to pay their bills. Even so, Mahoney and his co-authors were able to study nearly 2,800 individuals that had their outstanding bills listed on their credit reports when RIP Medical bought their debt.

The researchers find that debt relief immediately raised their credit scores as well as credit limits.

To Mahoney, the finding is significant for what it says about the power of policymaking to reduce the fallout of health care costs—and for evidence-based research to help identify what's working and what isn't.

"My hope is that the next study on medical debt relief shows positive impacts, not because our study is wrong but because the world will have responded to our research," he says.

More information: Raymond Kluender et al, The Effects of Medical Debt Relief: Evidence from Two Randomized Experiments, *National Bureau of Economic Research* (2024). [DOI: 10.3386/w32315](https://doi.org/10.3386/w32315)

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