Statement before the Senate Committee on Health, Education, Labor, and Pensions
On "What Can Congress Do to End Medical Debt in America?"

The Evolving Role of Medical Debt in Consumer Finances

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Summary
In this testimony, I briefly summarize the empirical research on medical debt in the United States, discuss how recent policy changes have altered this picture, and highlight tradeoffs policymakers should consider in this area. I make a few key points:

- Medical debt is relatively common in the United States; however, recent policy changes have starkly reduced the amount that is reported on credit reports. These changes have not eliminated patient financial obligations, but have reduced one of the mechanisms through which not paying medical bills can potentially harm consumers.
- Perhaps surprisingly, a large body of literature—including randomized control trials and analysis of real world "natural experiments"—shows that reductions in medical debt do not consistently translate to improvements in broader measures of personal finances on average. In part, this may reflect the fact that medical debts are rarely repaid, suggesting their elimination may not free up money for other uses. These results suggest that recent policy changes that reduce the reporting of medical debts may have modest effects on consumer finances on average.
- Eliminating unpaid medical collections from consumer credit profiles (or forgiving the debt) reduces the costs of unpaid bills to consumers. Mechanically, this also reduces the incentives for consumers to pay such bills. This may trigger reactions from health care providers that affect health care access. To this point, evidence suggests providers are securing larger share of payment prior to delivering services in recent years and relying on medical credit cards to secure prompt payment. These kinds of tradeoffs are important for policymakers to consider given the goals of debt forgiveness.
- Given the extent of recent changes regarding the reporting of medical debt, it may be prudent to better understand how these policies have affected important outcomes like health care acess or behavior of lenders before considering further policy in this area.

Medical debt in recent years[1]

How common is (and was) medical debt?

Until recently, roughly 16-18 percent of credit reports included medical collections—bills from health care providers which have gone unpaid, sent to a collection agency, and reported to a national credit reporting agency—on which Americans owed roughly $88 billion.[2] The total value of medical

[1] Note that parts of this testimony draw heavily from Benedic Ippolito. "Medical Debt in the United States." Senate Committee on Banking, Housing, and Urban Affairs. March 29, 2022.

[2] While precise estimates vary across studies, results are broadly consistent. The CFPB (2022) estimates $88 billion in collections. Batty, Gibbs, and Ippolito (2018) estimate that 16 percent of consumers had medical collections on their credit report, which totaled $81 billion in 2016. Kluender, Mahoney, and Wong (2021) estimate a prevalence of 17.8% and a total value of $140 billion (the larger dollar estimate largely owing to a bigger implied universe of credit accounts).

collections on credit profiles had generally fallen over the 2010s and 2020s.[3] This likely reflected many factors, including improving economic conditions after the Great Recession and the effects of Medicaid expansion.

Medical collections are a very important form of medical debt and have been the focus of most research in this area. However, medical collections are not an exhaustive measure of total medical debt. For example, they does not include situations where consumers use their credit card to pay a health care bill and are unable to pay the resulting balance (though, this would instead manifest in other outcomes on credit reports, like higher credit card utilization). Surveys that attempt to collect more comprehensive measures of medical debt often indicate higher debt levels.[4] While survey based measures come with limitations, it is undoubtedly true to that total medical debts exceed what is observed in collections.

Characterizing the relative importance of medical debts in household finances depends, in part, on the context. On one hand, medical collections represent a small portion of aggregate household debt levels, which total $17.7 trillion (or nearly $5 trillion in non-mortgage debt).[5] Medical collections, however, have been common when compared to debts of similar types. Until recently, medical collections represented a slight majority of all collection tradelines on consumer credit profiles.[6]

What do "typical" medical debts look like?

While some medical debts reflect the high costs of unexpected health shocks, many likely do not. In particular, while some collections can be in the thousands of dollars, the median individual medical collection averaged just over $300 in 2020 (figure 1). While many of these collections no longer will appear on consumer credit profiles, they help give a sense for what kinds of bills are most commonly triggering debts. Combined with the relatively large share of consumers who incur such collections, the data suggest that many medical debts in collections are incurred from relatively "typical" interactions with the health care system rather than rarer catastrophic events that are often emphasized.

Slightly earlier analysis from the CFPB indicated that 19.5 percent of consumer credit reports contained a medical collection. See Consumer Financial Protection Bureau. 2022. Medical Debt Burden in the United States. Batty, M., Gibbs, C., & Ippolito, B. (2018). Unlike medical spending, medical bills in collections decrease with patients' age. *Health affairs*, *37*(8), 1257-1264. Kluender, R., Mahoney, N., Wong, F., & Yin, W. (2021). Medical Debt in the US, 2009-2020. *JAMA*, *326*(3), 250-256. Consumer Financial Protection Bureau. 2014. Consumer credit reports: A study of medical and non-medical collections.

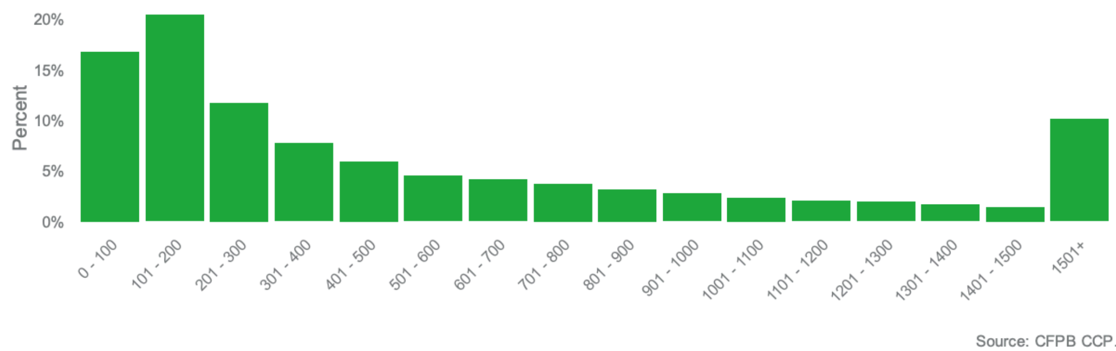
[3] E.g., Kluender, R., Mahoney, N., Wong, F., & Yin, W. (2021).

[4] Rae, M., Claxton, G., Amin, K., Wager, E., Ortaliza, J., and Cox, C. 2022. The burden of medical debt in the United States.

[5] Federal Reserve Bank of New York. Quarterly report on household debt and credit 2024:Q1

[6] CFPB (2022)

Figure 1: Distribution of medical collections balances in consumer credit panel, 2020. Reproduced from CFPB (2022).[7]



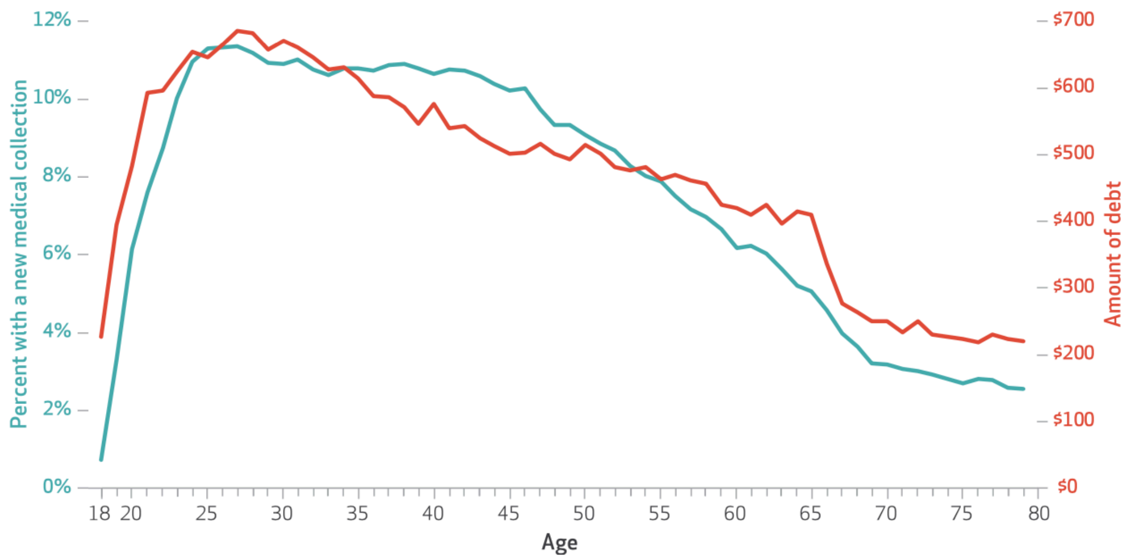
Distribution of medical collections balance amounts (in dollars) in the CFPB's Consumer Credit Panel as of 2020.

The distribution of medical debts varies across many dimensions. The highest frequency of medical collections has been found among relatively young adults (figure 2), where health care expenditures are lower but where other important factors, like insurance coverage and assets, are also lower. Variation in insurance coverage clearly plays a role in these trends but does not fully explain observed debt patterns.[8]

[7] Consumer Financial Protection Bureau. 2022. Medical Debt Burden in the United States.

[8] E.g., Goldsmith-Pinkham, P., Pinkovskiy, M., & Wallace, J. (2021). The Great Equalizer: Medicare and the Geography of Consumer Financial Strain. Working paper. Batty, M., Gibbs, C., & Ippolito, B. (2022). Health insurance, medical debt, and financial well-being. *Health Economics*.

Figure 2: Percent of consumers with any new medical collections and the median size of their debt, by age, 2016. Reproduced from Batty, Gibbs, and Ippolito (2018).



SOURCE Authors' analysis of data for 2016 from the Consumer Financial Protection Bureau's Consumer Credit Panel. **NOTE** *Medical collections* are defined as outstanding bills that have been reported to a nationwide credit reporting agency as a collection, with an original creditor classification code for medical or health care.

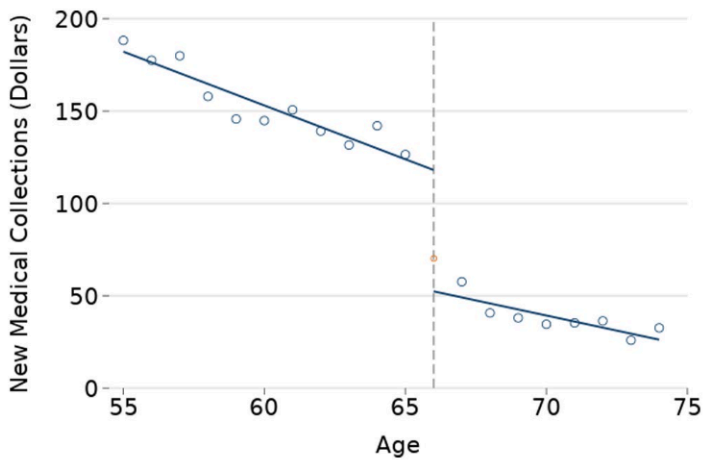
How do medical debts affect broader personal finances?

One of the most important concerns about medical debts is that they can potentially trigger broader deterioration of personal finances. That is, medical debts could lead individuals to get behind on other financial obligations, lower credit scores, increase credit card balances, trigger bankruptcy, and more. However, real world empirical evidence suggests that medical debts play a relatively modest role in personal finances.

Researchers have examined several settings in which medical debts decrease sharply and tested whether this improved broader financial health. For example, the increase in insurance coverage owing to Medicare eligibility at age 65 clearly reduced the amount of medical debt incurred by individuals.[9] Batty, Gibbs, and Ippolito (2022) showed that the mean dollar value of medical collections incurred per year fell by $63, or 56 percent, following Medicare eligibility (figure 3).

[9] Batty, M., Gibbs, C., & Ippolito, B. (2022). Health insurance, medical debt, and financial well-being. *Health Economics*. Goldsmith-Pinkham, P., Pinkovskiy, M., & Wallace, J. (2021). The Great Equalizer: Medicare and the Geography of Consumer Financial Strain. Working paper. Caswell, K. J., & Goddeeris, J. H. (2020). Does Medicare reduce medical debt?. *American Journal of Health Economics*, *6*(1), 72-103.

Figure 3: Mean dollar value of medical collections, 2013. Reproduced from Batty, Gibbs, and Ippolito (2022)



Note: Mean dollar value of medical collections, 2013. RD estimate: -$63***. Figure and regression discontinuity estimate are generated from evaluating Equation (2) linear polynomial in age. We omit consumers who turn 66 in a year when calculating polynomials on either side, but we illustrate the age 66 value in our figures as a red circle. Data are from the CFPB CCP for 2013 (1,279,844 observations). $*p < 0.05$, $**p < 0.01$, $***p < 0.001$.

However, there was little evidence that these reductions in medical collections triggered improvement in other observable financial outcomes. Outcomes not directly tied to health care bills—like credit scores, credit card utilization, the dollar value of non-medical collections, rate at which consumers become more delinquent on debt, public records, or bankruptcy filings—hardly changed around the age 65 threshold.

Evidence surrounding the enactment of the Affordable Care Act's (ACA) "under 26" provision revealed broadly similar results.[10] The most compelling real-world evidence that medical debt reductions have spurned broader personal financial improvements comes from Medicaid, where a clear reduction in medical collections[11] lead to some small improvements in outcomes like credit scores.[12]

Prior research is generally consistent with recent evidence from a randomized control trial of medical debt forgiveness in which researchers forgave $169 million worth of medical debts for over 80,000 people.[13] The authors reported three sets of results:

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[10] Batty, M., Gibbs, C., & Ippolito, B. (2022). Health insurance, medical debt, and financial well-being. *Health Economics*.
[11] E.g., Miller, S., Hu, L., Kaestner, R., Mazumder, B., & Wong, A. (2021). The ACA Medicaid Expansion in Michigan and financial health. *Journal of Policy Analysis and Management*, *40*(2), 348-375. Brevoort, K., Grodzicki, D., & Hackmann, M. B. (2020). The credit consequences of unpaid medical bills. *Journal of Public Economics*, *187*, 104203. Finkelstein, A., Taubman, S., Wright, B., Bernstein, M., Gruber, J., Newhouse, J. P., Allen, H., Baicker, K., & Oregon Health Study Group. (2012). The Oregon health insurance experiment: evidence from the first year. *The Quarterly journal of economics*, *127*(3), 1057-1106.
[12] E.g., Brevoort, K., Grodzicki, D., & Hackmann, M. B. (2020).
[13] Kluender, R., Mahoney, N., Wong, F., & Yin, W. (2024). *The Effects of Medical Debt Relief: Evidence from Two Randomized Experiments* (No. w32315). National Bureau of Economic Research.

> "First, we find no impact of debt relief on credit access, utilization, and financial distress on average. Second, we estimate that debt relief causes a moderate but statistically significant reduction in payment of existing medical bills. Third, we find no effect of medical debt relief on mental health on average, with detrimental effects for some groups in pre-registered heterogeneity analysis."

The balance of empirical evidence suggests that, on average, medical debts have a relatively small role in overall personal or household finance. One of the reasons for this potentially surprising result is that medical bills in collections are rarely repaid—only about eight percent are ever reported as paid on a credit report.[14] If consumers were not diverting resources to pay these obligations, then their removal would not directly free up money for other purposes.

How recent policy changes affect medical debt and consumer finances

Recent policy changes have dramatically altered the landscape of medical debt in the U.S. The major credit bureaus stopped reporting medical collections that had been paid or that were less than one year old in July 2022[15] and stopped reporting unpaid medical collections under $500 in April of 2023.[16] Beyond this, some credit scoring models no longer include medical collections as a factor.[17]

Research has shown that the number of consumers with medical collections on their credit reports has fallen, as expected. By August of 2023, only around 5 percent of consumers had a medical collections reported (figure 4).[18] While providers can still seek repayment of these bills, this mutes one consequence of not paying a bill.

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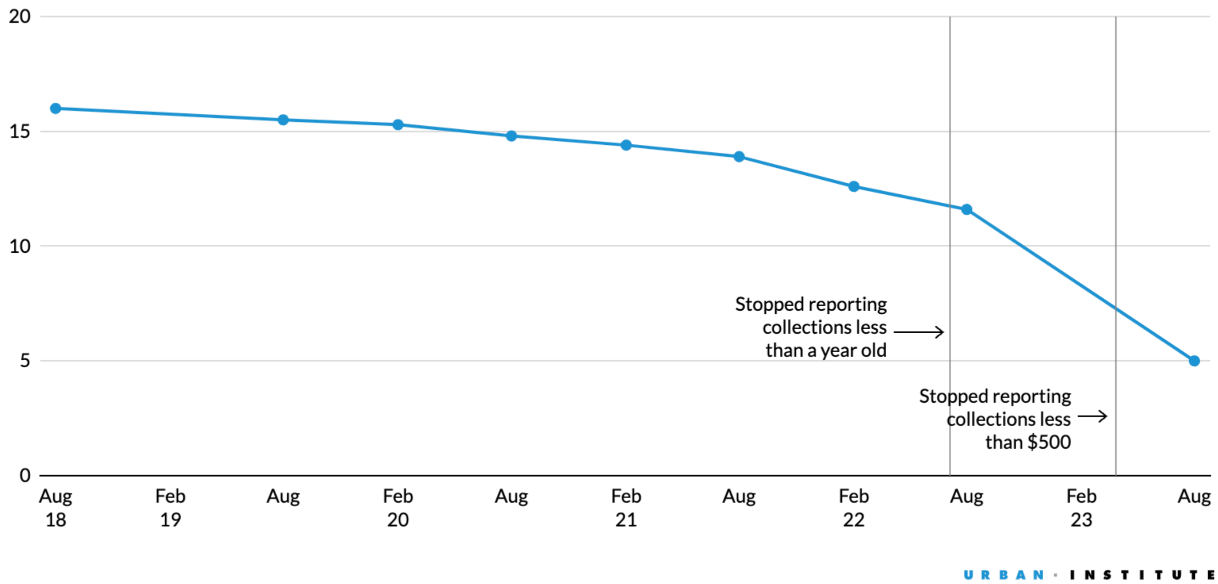
[14] Batty, M., Gibbs, C., & Ippolito, B. (2022). Health insurance, medical debt, and financial well-being. *Health Economics*.
[15] Experian "First Changes to Reporting of Medical Collection Debt Roll Out July 1, 2022." Press Release.
[16] Consumer Financial Protection Bureau. "Consumer Credit and the Removal of Medical Collections from Credit Reports." April 26, 2023.
[17] VantageScore. "VantageScore Takes Steps to Further Support Consumers Affected By Medical Debt Collections." Press Release. August 10, 2022.
[18] Blavin, F., Braga, B., Karpman, M. "Medical Debt Was Erased from Credit Records for Most Consumers, Potentially Improving Many Americans' Lives." November 2, 2023.

Figure 4: Share of adults with medical debt in collections in their credit record



Source: Urban Institute's credit bureau data, August 2018 through August 2023.

Proposed policy changes would further reduce the impact of unpaid medical bills on consumers. The Consumer Financial Protection Bureau has recently proposed a rule that would remove all medical collections from credit records.[19] A recent Congressional proposal would also eliminate existing medical debt.[20]

Based on existing evidence, policymakers should recognize that the effects of such policies may be relatively muted. In other words, it is unlikely that removing medical collections from credit reports or forgiving such debts will lead to large improvements in household finances on average. Existing evidence does not rule out the possibility that eliminating medical debts meaningfully improves finances for some individuals or subgroups, however, they suggest that is unlikely to be the average effect of such a policy. (This is particularly true in cases where lenders have shifted away from using credit scoring models that include medical debts in the first place).

Tradeoffs Associated with Recent and Proposed Policies

The potential benefit of policies that remove medical debts from credit reports or otherwise forgive these obligations are clear (even if prior research suggests they may be small, on average). However, there are also tradeoffs policymakers should be cognizant of. In this section, I highlight a few potential ways that these changes may affect behavior of actors in this market. Given the scale of recent policy changes, it is likely worth taking the moment to assess whether such changes have occurred before altering the treatment of medical debt further.

Possible changes to health care access and payment patterns

[19] Consumer Financial Protection Bureau. "CFPB Proposes to Ban Medical Bills from Credit Reports." Press Release. June 11, 2024.
[20] See "Sanders, Merkley, Khanna, Tlaib Introduce Legislation to Eliminate Medical Debt for Millions of Working Class Americans." Press release. May 8, 2024.

By design, eliminating unpaid medical collections from consumer credit profiles (or forgiving the debt) reduces the costs of unpaid bills to consumers. Mechanically, this also reduces the incentives for consumers to pay such bills, particularly in cases where they are unlikely to visit the same provider multiple times. If this incentive is salient to consumers, it has the potential to affect rates of payment and alter providers' willingness to treat patients who are perceived to be of higher non-payment risk. It is worth noting that prior to recent changes, consumer advocacy groups advised consumers to treat medical debts as low priority debt, suggesting these incentives are likely to become salient.[21] Consistent with this theory, a recent randomized control trial also found that medical debt forgiveness resulted in a modest reduction in payment of existing medical bills.[22]

Providers are also likely to pursue a greater share of patients' financial obligations at the point of service. Evidence from hospitals suggests that the share of patient cost sharing paid in advance of care has risen in recent years to 23 percent.[23] Recent policy changes are likely to push this rate higher. While this billing behavior may not be inherently bad, it is likely to affect access for consumers who would otherwise have not paid their medical bill.

Many observers have also noted the sharp rise in the use of credit products like medical credit cards that are offered by health care providers at the point of sale. These products allow providers to be paid for services immediately and require that patients subsequently reimburse the issuer of the credit card. The CFPB notes that the use of one notable medical credit card "grew from 4.4 million cardholders and 177,000 participating providers in 2013 to 11.7 million cardholders and over 250,000 enrolled healthcare providers in 2023."[24] This is consistent with the theory that providers are increasingly focused on the lack of payment from patients. Again, it is likely that recent policy changes further encourage the use of these types of payment methods.

Access to health care is a first-order element of consumer wellbeing in this market. Efforts to reduce medical debts are, in part, motivated by concerns that medical debts, themselves, may dissuade consumers from seeking care in the first place. Thus, this margin is worth particular attention as policymakers seek ways to address medical debts. It may be prudent to examine whether recent policy changes have affected these trends in important ways before further altering the treatment of medical debts.

Possible lender reactions

Finally, policymakers should be aware of potential reactions from lenders. Medical collections may be less predictive of future repayment risk than other collections, but that does not imply they contain no predictive value (or that lenders think they contain no value). Disallowing the reporting of this debt does not eliminate the perceived source of risk, but rather, obscures it. There are a few ways lenders might respond in this setting.

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[21] E.g., Dealing with medical debt: Consumer advice from NCLC. Dealing with Medical Debt: Consumer Advice from NCLC | NCLC Digital Library. (2018, May 17). Retrieved March 23, 2022, from https://library.nclc.org/dealing-medical-debtconsumer-advice-nclc

[22] Kluender, R., Mahoney, N., Wong, F., & Yin, W. (2024). *The Effects of Medical Debt Relief: Evidence from Two Randomized Experiments* (No. w32315). National Bureau of Economic Research.

[23] Melanie Evans. "Hospitals Are Refusing to Do Surgeries Unless You Pay in Full First." *The Wall Street Journal.* May 9, 2024. https://www.wsj.com/health/healthcare/hospitals-pay-before-treatment-patients-c477e2d6

[24] Consumer Financial Protection Bureau. "Medical Credit Cards and Financing Plans." May 2023. https://files.consumerfinance.gov/f/documents/cfpb_medical-credit-cards-and-financing-plans_2023-05.pdf

First, if lenders believe medical collections held predictive power over future repayment, they may seek to place more emphasis on other entries on credit reports that they believe carry similar information. For example, one might place higher weight on non-medical collections or other delinquencies, raising the cost of borrowing for consumers with those flags on their credit reports. It is not immediately obvious that raising the cost of borrowing for consumers with these flags would have preferable distributional consequences than the status quo (of course, if an alternative flag was highly correlated with medical collections, then similar consumers would be impacted).

If lenders do not think that they can proxy for the obscured source of risk they may consider alternative responses. One option would be to raise the cost of borrowing relatively evenly across all consumers. This would essentially represent a financial transfer from consumers without medical collections to those with them. Another alternative would be to adjust lending behavior in populations where risk is perceived to be high and unobservable.