

When medical debt relief is not enough: A study showing what doesn't work may help point to better solutions

By Katherine Hempstead June 7, 2024

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Philanthropists and foundations like the one I work for take a lot of calculated risks. We invest in research, advocacy, strategic communications, technical assistance, and many other activities, hoping they will help us advance our strategic priorities. We evaluate our efforts whenever we can, but many defy measurement — assessing the impact of our work is a persistent challenge.

Results [from a recent study](#), currently published as a National Bureau of Economic Research (NBER) working paper, on the important topic of medical debt relief provided an all-too-rare burst of clarity.

The amount of medical debt in the U.S. is estimated to exceed [\\$220 billion](#), and affects [2 in 5 adults](#). Medical debt most often results from unexpected injuries and illnesses, and disproportionately affects people of color, low-income households, women, and parents. With medical debt comes poor financial and health outcomes and psychological duress.

Although people who don't have health insurance are at the highest risk for incurring medical debt, most people with such debt do have insurance, a byproduct of high and rising provider prices and the cost-sharing burden they create for those with insurance.

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Hospitals often sell outstanding debt to collection agencies, and medical debt relief works by using donations to negotiate the purchase of large amounts of debt from these agencies at a fraction of the face value.

A team of researchers assessed the impact of medical debt relief using a rigorous randomized design that allowed them to compare people who had medical debt relieved with those who did not. Contrary to expectations, they found that relieving medical debt did not improve financial outcomes such as access to credit, health care utilization, or financial distress, and actually reduced the likelihood of repaying existing medical bills. Debt relief was even found to have a small but significant negative effect on the mental health of certain subpopulations in the study.

The results have [surprised and disappointed observers](#), and threaten to disrupt a trending charitable activity. Medical debt relief, once largely a [cause for celebrities and high net worth individuals](#), has grown into a mainstream movement involving elected officials and philanthropies. As I write this, a number of [state and local governments](#) have established, or plan to establish, medical debt relief programs, while private and philanthropic contributions to this effort continue to grow.

The leading medical debt relief organization, [Undue Medical Debt](#), which participated in the study published by the NBER, [reports](#) that nearly \$12 billion in debt has been relieved so far as a result of their efforts. (The organization receives funding from my employer, the Robert Wood Johnson Foundation, but had no input into this essay.)

The level of philanthropic interest in this issue is no surprise given the ubiquity and catastrophic impact of medical debt. In an economic and policy environment where so much seems intractable, the tangible and charitable nature of relieving an individual's or family's medical debt is appealing. Joining with others to contribute to such campaigns feels good, something like participating in a turbo-charged GoFundMe campaign on behalf of all the victims of our health system's financial dysfunction.

Related: [How hospitals and health systems can help patients avoid medical debt](#)

But just as new research suggests that [medical crowdsourcing is too far from the source](#) of the problem to create real change, medical debt relief may also be an excessively downstream strategy. The fact that debt can be purchased for pennies on the dollar is part of the appeal of debt relief, allowing donors to feel like their donations are going farther. But here lies a clue as to why debt relief did not have the hoped-for effect.

As the authors of the NBER working paper foreshadow in their introduction, this feature may be a bug: “Although proponents of medical debt relief tout the low cost as a feature ... the price reflects low recovery rates, which suggests the financial impacts on households may be a small fraction of the face value of debt relieved.” In other words, a lot of medical debt never gets paid. This is a good way of understanding the results, and why they differ from studies of other types of debt, such as [student loans](#), where recovery rates are higher and research has shown that relieving debt meaningfully affects financial outcomes.

Medical debt, by comparison, may be so overwhelming that the prospect of payment is not realistic, especially among the lowest-income households. For people who have many other debts, paying off some of their medical debt may not have a transformational effect. The authors speculate that the negative impact on the mental health of some participants they observed may reflect the fact that the debt relief has heightened awareness of “the gap between resources and needs.” In short, for some, the intervention of medical debt relief may be both too little and too late.

While these results provide discouraging news about debt relief as a solution to the problems caused by medical debt, the hardships caused by debt are all too real. People with medical debt often incur other debts as a consequence, resulting in spiraling financial instability. Medical debt can lead to unconscionable choices between paying bills and paying for other necessities — including getting needed medical care. Falling disproportionately on people of color, medical debt both reflects and worsens existing inequities.

Related: [Medical debt is crushing many Americans. States can help fix that](#)

People who care about health care affordability and health equity must begin to think differently. Undue Medical Debt, for example, has extended its eligibility for debt relief for individuals or families earning up to 400% of the federal poverty limit, [observing](#) that “this population is more likely to benefit from debt relief as they face fewer additional stressors.” The organization is also trying to relieve debt more quickly, before it goes to a collection agency.

There are a number of efforts that aim to prevent medical debt in the first place by intervening further upstream. Some state and local governments are working on policies that [restrict aggressive debt collection](#). Some initiatives [increase requirements on hospitals](#) to standardize financial assistance policies and ensure that no one who is eligible for aid is billed for their care. Other efforts include [capping interest rates and strengthening consumer protections](#).

The federal government has taken steps to [remove medical debt from credit reporting](#), and is exploring how to [protect consumers with debt](#) who may be offered medical credit cards and provider loans. Needless to say, larger reforms such as Medicaid expansion in states without it and policies that reduce provider prices would go even further to prevent unmanageable financial burdens on patients. Undue Medical Debt [notes](#) that “to prevent new debts, we need to fix the broken healthcare system itself.”

Studies that provide such a clear readout on philanthropic tactics are rare. Yet as definitive as these results are, this is likely not the last word on medical debt relief. Undue Medical Debt believes that changes they have made since the study was conducted, such as increasing the

eligible income level and relieving debt earlier in the collections cycle, have increased their impact. The [organization calls for](#) additional research that would assess a broader range of financial and mental health outcomes over a longer time horizon. The authors of the NBER working paper also suggest additional studies of more upstream debt relief efforts targeted at different populations, noting that “the disappointing results from the intervention we studied should not distract from the underlying problem we sought to address.”

Though disappointing, these results have provided clear guidance about what not to do, while catalyzing a search for more effective solutions. For that, the philanthropic community owes the study team and Undue Medical Debt a debt of gratitude.