



Medical Debt Relief Proposal

I. Introduction

Many Vermonters, like millions of other Americans, are burdened with increasing amounts of medical debt, impacting their financial stability and ability to access healthcare. Due to the high cost of healthcare in our state, Vermonters have the highest percent of medical debt by population in New England and the sixth highest nationwide.

Unlike other types of debt – medical debt is not a good indicator of an individual's credit-worthiness – but nonetheless – having medical debt negatively impacts the credit scores of tens of thousands of Vermonters. A lower credit score makes it more expensive to purchase a home, a car or truck, auto insurance or hold any other kind of consumer debt including credit card balances. In short, medical debt makes it disproportionately less affordable to live in Vermont.

The Office of the State Treasurer proposes to address the challenges caused by medical debt in Vermont in two ways.

- First, by requesting one-time funds in the amount of \$1 million to purchase and then forgive over \$100 million aged, outstanding medical debt for eligible Vermonters facing financial hardship.
- Second, by proposing legislation to prohibit the inclusion of medical debt in consumer credit reports.

Together, these proposals will provide medical debt relief to Vermonters, leading to increased economic stability, decreased financial concerns related to accessing healthcare, and will make it easier to afford living in Vermont.

II. Background on Medical Debt

Medical debt burdens about 100 million American adults – 41% of us.¹ And it disproportionately impacts low-income households and people of color,² and people with complex health needs or

¹ Lunna Lopes et al., Kaiser Fam. Found., Health Care Debt In The U.S.: The Broad Consequences Of Medical And Dental Bills (June 16, 2022), <https://www.kff.org/report-section/kff-health-care-debt-survey-main-findings/> (reporting results of 2022 Kaiser Family Foundation Health Care Debt Survey, which polled 2,375 adults).

² Shameek Rakshit et al., Kaiser Fam. Found., The Burden of Medical Debt in the United States (February 12, 2024), <https://www.healthsystemtracker.org/brief/the-burden-of-medical-debt-in-the-united-states/#Share%20of%20adults%20who%20have%20medical%20debt.%20by%20health%20status%20and%20disability%20status,%202021>.



disabilities.³ Among Vermonters facing financial hardship⁴, approximately 62,000 residents hold about \$150 million in medical debt.⁵

Medical debt significantly worsens financial stability and health outcomes. People with medical debt are more likely to forego medical attention, have difficulty paying for other basic needs, and are at a higher risk of filing for bankruptcy.⁶ Medical debt also exacerbates racial health inequities and wealth gaps.⁷

Medical debt has unique characteristics that make it harder to avoid and worse in its effects than other debt types. Medical debt is often the result of an unexpected bill following an accident or sudden illness.⁸ Unlike other debt, consumers often have no idea of the cost of medical care before they receive it and cannot negotiate price or shop around.⁹ In many cases, unlike with other spending, the consumer has no choice as to whether to incur the cost. When medical debt is unpaid, it may be reported as a collections tradeline on a consumer credit report, hampering access to credit.¹⁰ A recent Urban Institute survey suggests that most medical debt is owed to hospital providers.¹¹

Recent industry actions have reduced medical debt reporting and the consumer impact has been significant.¹² And several states have legislatively prohibited medical debt reporting.¹³ In June 2024, the Consumer Financial Protection Bureau (CFPB) published a proposed rule that would prohibit or limit creditors from using medical debt information for credit eligibility

³ Margaret Sims, Minding the Wealth Gap: Putting Policy in Place to Increase Black Wealth, National Urban League's State of Black America (July 17, 2021), <http://www.stateofblackamerica.org/index.php/authors-essays/minding-wealth-gap-putting-policy-place-increase-black-wealth>

⁴ "Financial hardship" is defined here as individuals in households at or below 400% of the Federal Poverty Level or that owe medical debt equal to or exceeding 5 percent of household income.

⁵ Based on estimates provided by Undue Medical Debt, a 501(c)(3) not-for-profit national charity that acquires and cancels unpayable medical debt for those facing financial hardships.

⁶ Health Care Debt In The U.S.: The Broad Consequences Of Medical And Dental Bills, <https://www.kff.org/report-section/kff-health-care-debt-survey-main-findings/>.

⁷ Miranda Santillo et al., Urban Institute, Communities of Color Disproportionally Suffer From Medical Debt, (October 14, 2022), <https://www.urban.org/urban-wire/communities-color-disproportionally-suffer-medical-debt>.

⁸ See Consumer Fin. Prot. Bureau, Complaint Bulletin: Medical billing and collection issues described in consumer complaints, at 7 (Apr. 2022), https://files.consumerfinance.gov/f/documents/cfpb_complaint-bulletin-medical-billing_report_2022-04.pdf (describing consumer complaints received by the CFPB about unexpected medical care).

⁹ See Lunna Lopes et al., Kaiser Fam. Found., Health Care Debt in the U.S.: The Broad Consequences of Medical and Dental Bills (June 16, 2022), <https://www.kff.org/report-section/kff-health-care-debt-survey-main-findings/> (reporting survey results that 7 in 10 adults with health care debt say the debt arose from bills for a one-time or short-term medical expense).

¹⁰ Consumer Fin. Prot. Bureau, Prohibition on Creditors and Consumer Reporting Agencies Concerning Medical Information (Regulation V), 89 FR 51684 (June 18, 2024), <https://documentcloud.adobe.com/spodintegration/index.html?locale=en-us>.

¹¹ Miranda Santillo et al., Urban Institute, Communities of Color Disproportionally Suffer From Medical Debt, (October 14, 2022), <https://www.urban.org/urban-wire/communities-color-disproportionally-suffer-medical-debt>.

¹² Consumer Fin. Prot. Bureau, Recent Changes in Medical Collections on Consumer Credit Records, March 2024, <https://documentcloud.adobe.com/spodintegration/index.html?locale=en-us> (industry changes in 2022 show that by June 2023, only five percent of consumers, or approximately 15 million individuals, with a credit record had a medical collection on their credit records, down from around 14 percent in March 2022, before the reporting changes.)

¹³ Consumer Fin. Prot. Bureau, Prohibition on Creditors and Consumer Reporting Agencies Concerning Medical Information (Regulation V), 89 FR 51686 (June 18, 2024), <https://documentcloud.adobe.com/spodintegration/index.html?locale=en-us>.



determinations.¹⁴ In the proposed rule, the CFPB commended “the work of States to proactively protect consumers against the harms of medical debt reporting.”¹⁵ They also noted their interpretive rule that permits States to enact laws involving consumer reporting, with limited exceptions.¹⁶

III. Summary of Proposal

Treasurer Pieciak proposes to partner with a nonprofit organization to acquire medical debt incurred by Vermonters who: (1) have patient accounts that have reached “terminal bad debt status”¹⁷ and (2) are in households at or below 400% of the Federal Poverty Level or that owe medical debt equal to or exceeding 5 percent of household income.

Using state appropriated funds, the nonprofit will contract with the provider to buy the medical debt of eligible debtors at fair market value (typically cents on the dollar) and then abolish the debt at no cost or tax consequence to the debtor. Any adverse information resulting from the medical debt is then removed by the provider or collections agency from a consumer credit report.

Treasurer Pieciak recommends a one-time reapportioning of \$1 million of a previously appropriated \$20 million to purchase of outstanding state bonds. The impact of retiring over \$100 million in medical debt will have a more significant, direct and ongoing financial benefit to Vermonters than an approximate one-time interest savings of approximately \$49,000 gained by retiring \$1 million in outstanding bonds.

Treasurer Pieciak also recommends companion legislation prohibiting medical debt reporting to credit rating agencies.

¹⁴ Consumer Fin. Prot. Bureau, Prohibition on Creditors and Consumer Reporting Agencies Concerning Medical Information (Regulation V), 89 FR 51682 (June 18, 2024), <https://documentcloud.adobe.com/spodintegration/index.html?locale=en-us>

¹⁵ *Id.*, at 51695.

¹⁶ *Id.*; see Consumer Fin. Prot. Bureau, The Fair Credit Reporting Act’s Limited Preemption of State Laws (June 2022), https://files.consumerfinance.gov/f/documents/cfpb_fcr-preemption_interpretive-rule_2022-06.pdf.

¹⁷ Financial requirement set by Undue Medical Debt, meaning that the routine medical billing and collections process has been completed and balances owed by patients (or guarantors) remain unpaid.