

State Efforts To Cancel Medical Debt

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Summary of State Action

New Jersey

The Garden State was the [first to announce a statewide initiative](#) to commit American Rescue Plan Act of 2021 (ARP) COVID-19 relief funds to tackle medical debt. The state is using [\\$10 million to cancel up to \\$1 billion in medical debt](#) for [tens of thousands of residents](#). New Jersey is partnering with [Undue Medical Debt](#) (formerly known as RIP Medical Debt), a national nonprofit that purchases and eliminates medical debt, and using data analytics to pinpoint those most in need. Undue Medical Debt will send individuals a letter in the mail that their debt has been completely eliminated, targeting those with incomes less than 400 percent of the federal poverty level or those with debt equal to 5 percent or more of their income.

Arizona

Most recently, Arizona Governor Katie Hobbs announced a partnership with Undue Medical Debt to invest [\\$30 million to cancel up to \\$2 billion in medical debt](#) for up to one million residents. To date, this marks the largest state medical debt relief initiative. [Arizona will use ARP COVID-19 relief funds](#) to, like New Jersey, target residents earning up to 400 percent of poverty or those who owe more than 5 percent of their annual income.

District Of Columbia

Last year, District of Columbia (DC) Mayor Muriel Bowser announced the plan to leverage fiscal year 2023 year-end surplus funds, an anticipated [\\$900,000, to cancel up to \\$90 million in medical debt](#) for up to 90,000 District residents. Mayor Bowser highlighted the policy as an effort to address health inequities and racial disparities related to medical care. The Department of Health Care Finance launched the initiative with a Notice of Funding Announcement for [“Debt Free DC in 2023,”](#) seeking a third-party purchaser to work with hospitals across the District to buy down the debt of residents with incomes up to 400 percent of poverty or medical debt more than 5 percent of their annual income.

Connecticut

Governor Ned Lamont announced that Connecticut will spend [\\$6.5 million to cancel \\$650 million in medical debt](#) for an estimated 250,000 residents. The announcement follows the governor's [proposal](#) during last year's legislative session to invest ARP funding for medical debt forgiveness. The state is negotiating a contract with a nonprofit group to purchase and eliminate the debt and [began accepting requests for proposals](#) last fall. Individuals who qualify for the program are expected to see the debt relief [as early as June 2024](#).

Pennsylvania

Governor Josh Shapiro proposed [\\$4 million to cancel \\$400 million in medical debt](#) for low-income Pennsylvanians. This effort would apply to residents with incomes below 400 percent of poverty and those with medical debt that is at least 5 percent of their annual income. The proposal is included in the [governor's fiscal year 2025 budget](#) and calls for health care providers to implement transparent practices to limit medical debt from being incurred. Unlike the initiatives described above, this effort would use state dollars to fund the program and is intended to be an ongoing initiative.

Illinois

Illinois is similarly proposing the use of [state dollars for a multiyear initiative to cancel medical debt](#). Governor J.B. Pritzker's proposed budget for fiscal year 2025 would use general funds beginning with a [\\$10 million appropriation to relieve \\$1 billion in medical debt](#) for the first cohort of 340,000 Illinois residents. The state aims to eliminate [\\$4 billion for more than one million residents](#) over the span of four years, for individuals with incomes up to 400 percent of poverty and those with medical debt that is 5 percent or more of their annual income. Illinois would partner with Undue Medical Debt, which has implemented a similar program for residents living in Cook County.

Local Efforts To Cancel Medical Debt

In January, New York City Mayor Eric Adams announced a plan for the city to invest [\\$18 million to cancel \\$2 billion in medical debt](#), providing relief to up to 500,000 residents with incomes below 400 percent of poverty or medical debt above 5 percent of annual income. The program will launch later this year and run for three years. New York City will be Undue Medical Debt's [largest municipal effort](#), following previous partnerships with other local governments.

According to the White House, the initiatives in New Orleans, Louisiana; Pittsburgh, Pennsylvania; Toledo, Ohio; and Cook County, Illinois are using approximately [\\$16 million from ARP funding to wipe out nearly \\$1.5 billion in medical debt](#).

Other State Efforts To Address Medical Debt

While cancellation initiatives are an important step to lift individuals out of debt and [testimonials show](#) these efforts drastically improve recipients' lives, states are taking other steps to reduce the burden of—and even prevent—medical debt through various [actions](#).

- **Capping interest rates:** In 2022, Arizona voters overwhelmingly approved a ballot initiative capping interest rates on medical debt; [Proposition 209](#) limits interest rates on medical debt to 3 percent and increases the range of assets shielded from predatory debt collection practices such as forfeiture or garnishment.
- **Prohibiting inclusion in credit reports:** In 2023, [Colorado became the first state to prohibit the inclusion of medical debt](#) in consumer credit reports, [followed by New York](#).
- **Screening for financial assistance:** States such as [Oregon](#) and [Illinois](#) are aiming to prevent medical debt accumulation in the first place, for example, by requiring hospitals to screen patients for financial assistance.
- **Promoting transparency and bolstering consumer protections:** New Jersey Governor Phil Murphy [introduced a medical debt relief package](#) to enhance consumer protections, requiring medical bills to be clear and transparent and allowing patients recovery time before debt collectors may contact them. The bill would also prevent debt below \$500 from appearing on a consumer's credit report.
- **Enhancing fairness:** Minnesota Governor Tim Walz [announced support for a legislative package](#), "The Debt Fairness Act," which incorporates several initiatives including banning the withholding of medical services due to unpaid debt. The bill would also prohibit medical debt reporting to credit bureaus and prohibit interest charges on medical debt.

Federal Efforts To Address Medical Debt

Of course, states and localities are not the only source of policy action on this issue. In 2022, the [major credit agencies voluntarily stopped reporting](#) medical

debt below \$500, removed paid debt on reports, and extended the grace period for reporting to a year. The Biden administration announced significant action to build on this effort, charging the [Consumer Financial Protection Bureau \(CFPB\) to develop a new rule](#) to prohibit medical debt from being included on one's credit report altogether. The proposed rule is expected this year. The administration also [announced a collaboration](#) with the CFPB, the Department of the Treasury, and the Department of Health and Human Services to explore whether health care providers and third parties that encourage consumers to obtain medical credit cards and loans are operating outside of existing consumer protections.