The Burden of Medical Debt and the Impact of Debt Forgiveness

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Motivation

- Medical debt is a large burden for many Americans
  - 15% of individuals have unpaid medical debt in collections
  - $140B in aggregate outstanding medical debt in collections
  - Medical debt in collections exceeds all other debt in collections combined
- Yawning disparities across regions and incomes
  - States that forwent Medicaid expansion had largest pre-ACA medical debt levels

Research Questions

What are the consequences of medical debt?

- Effects observable on credit reports
  - Amount of debt, access to credit, borrowing
  - Repayment rates, bankruptcy filings
  - Separate **supply** and **demand** responses to medical debt forgiveness
- Many interesting effects not observable on credit reports $\rightarrow$ survey
  - Consumption (basic necessities, durables), business investment
  - Physical and mental health (stress, anxiety, depression)
  - Health care utilization (forgone care, prescription medication)
  - Earnings

Effects of medical debt hard to identify: Always concurrent with negative health shock

Research Agenda

4 interrelated projects to address these questions

- Descriptive analysis of prevalence and disparities in medical debt
  - Use Chicago Booth consumer credit panel to describe the problem
- "Fresh debt" abolishment randomized control trial
  - Randomized whether debt from hospital is forgiven or sent to collections
- Older debt abolishment randomized control trial
  - Randomized forgiveness of existing portfolios of medical debt in collection
  - $171m for 87k patients with debt 4+ years old
    - Ad hoc randomized forgiveness anytime available debt exceeds funds available to forgive
- Evaluation of financial assistance program from large integrated health care provider
  - Program pairs debt forgiveness and cost-sharing reductions
  - Income discontinuity in eligibility

Today: Focus on fresh debt RCT and financial assistance study

"Fresh Debt" RCT

- Partner with RIP Medical Debt
  - 501(c)(3) non-profit that buys and abolishes medical debt in collections
    - Started in 2014 by two former collections industry executives
    - Recently received $50m gift from MacKenzie Scott
  - Purchase debt through debt collection company at price they face
    - Roughly the expected recovery rate (pennies on the dollar)
    - Buy & forgive ∼20% of portfolio purchased from hospital chain each month
- Randomized medical debt forgiveness
  - $21m for 16K patients from large for-profit hospital chain
    - Monthly portfolios of "fresh debt" intercepted on its way to a debt collector
- Pull credit reports through TransUnion
  - Arrangement to offer discounted credit reports to RIP Medical Debt
- Multi-modal survey of with National Opinion Research Center (NORC)
  - Emails, postcards, letters, FedEx'd paper surveys, phone interviews

Intervention and Randomization Details

- Monthly forgiveness for $\sim$1k individuals (20% of portfolio)
  - 14,379 individual-months treated, 11,695 unique individuals
- October 2018 through July 2020 (some intermittent stoppages)
- Mean debt amount forgiven \$2,320 (median \$1,360)
  - 25th percentile \$550, 75th \$2,527, 90th \$4,786, 99th \$15,099
- Surveying is expensive!
  - Prioritize 6,400 unique treated individuals with non-missing SSNs, debt forgiven prior to September 2019, and debt amount $<$500
  - Select equal number of controls

Financial Outcomes Study

Credit bureau data will allow us to look at effects on borrowing behavior and outcomes

- Examine standard set of outcomes
  - Credit score, credit limits, default, delinquency, bankruptcy, foreclosure, etc.
- Test whether debt forgiveness is significant enough to spring borrowers out of (or prevent) debt traps
  - For half of people with medical debt, it is their *only* debt in collections

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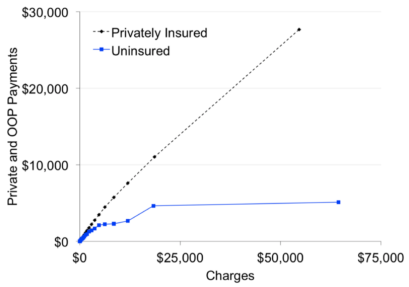
Hiccups in the experiment will provide an opportunity:

- FFAM had to pause reporting to comply with CFPB requirements
  - Can't document first-stage on credit reports
  - Delayed the financial outcomes study by 15 months (so far)
- When debts reported, we will be able to separate demand and supply effects
  - Demand: Randomized forgiveness, effects at *notification*
  - Supply: Randomized forgiveness, effects at *reporting*

Budgetary impacts of health shocks are a bit puzzling

- Most uninsured / underinsured face only moderate budgetary costs of health care shocks due to charity care and bad debt
- Current system has build- in wealth-based price discrimination
- However, charity care + bad debt may exert large non-pecuniary costs on patients



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Non-Financial Outcomes Study

Medical debt potentially enormously costly beyond pecuniary costs:

- Impacts on physical health:
  - Could prevent patients from seeking high-value follow-on care
  - High bills could crowd out prescription drug adherence
    - Could reduce consumption of basic necessities
- Impacts on well-being:
  - Potentially large causal effects on mental health (anxiety, depression), stress, and happiness
- Implicit tax on earnings and business investment
  - Especially in states allowing garnishment for unpaid medical debt

All difficult to observe in available administrative datasets!

Survey Instrument

34 question survey collects asks:

- Finances
  - Medical bills/debts (can pin down share observed on credit reports)
  - Reasons for trouble paying medical bills, other bills
  - Expectations around ability to repay, what is fair
  - Insurance coverage (inc. impact of COVID)
  - Forgone consumption
- Health
  - Mental health (subjective happiness, stress, PHQ8, GAD7)
  - Subjective physical health
- Health care utilization
  - Prescription drug adherence, forgone care
- Employment and income (inc. impact of COVID)
- Demographics (race, education)

Survey Protocols and Challenges

- It turns out that surveying people being hounded by debt collectors is hard
  - Surveying in 2020 is also hard
  - Baseline response rates across methodologies are on average 4.6%
    - (Yan, Kalla, Broockman 2018)
- Ran first pilot survey October 2019 through December 2019
  - $20 survey incentive and $5 pre-paid incentive
  - Postcards with weblink and paper survey yielded 5.1% response rate
- Ran second pilot survey April 2020 through July 2020
  - Randomized $10, $20, $40, and $60 incentives
  - Letters, emails, FedEx'd paper survey, phone interviewing
  - Yielded 13.4% response rate

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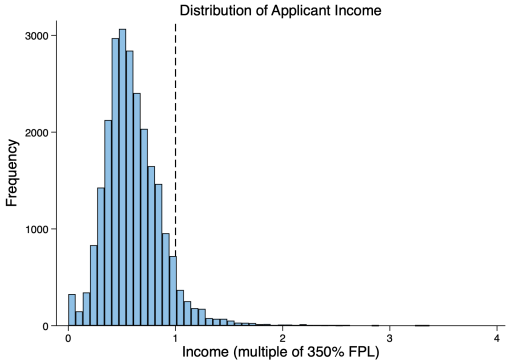
Main Survey Study Timeline

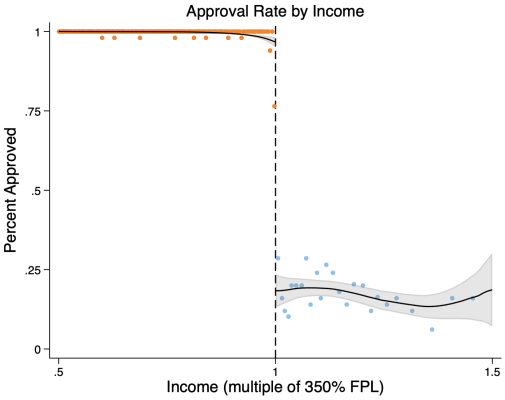
- Started first wave of the main survey November 2020
  - $50 survey incentive
  - Advance letter w/ web survey link + $2
  - Twice weekly email reminders (cycle through email addresses)
  - Reminder postcard, reminder letter, last chance letter
  - FedEx'd paper survey + $5
  - Telephone interviewing available phone numbers
  - Response rate: so far so good!
- Recently received NIH R01 to fund survey of remaining treated individuals
  - Will launch in early 2020
- Registering PAP for survey outcomes soon
  - We welcome feedback on which dimensions of heterogeneity you find most interesting
  - e.g. amount of debt, age of debt, income, age, race, education, credit report attributes

Companion Project: Evaluating Hospital Debt Relief Program

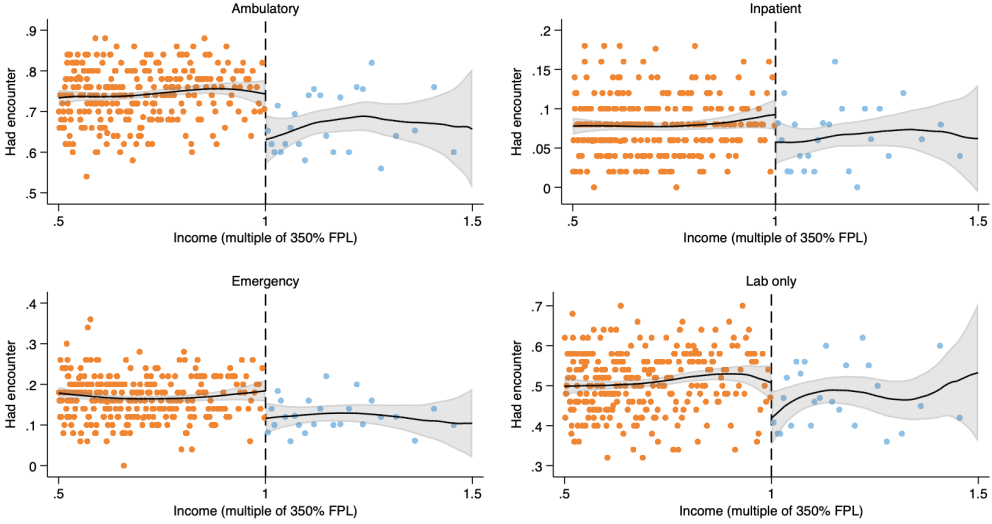
- Evaluate a financial assistance program within a large integrated health care provider
  - Means-test program bundles debt forgiveness with reduced future cost-sharing
  - Leverage income eligibility discontinuity at 350% of the FPL
- Can use administrative data to test for effects on health care utilization
  - Monthly dataset of program applicants in 4-year window around approval/rejection
  - Characteristics: income, demographics, baseline health
  - Patient Outcomes: Program enrollment, encounters, Rx, labs

First-Stage looks good

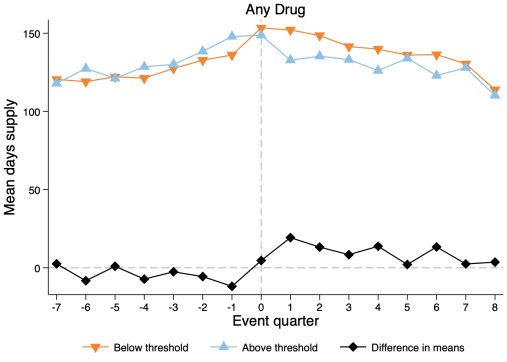


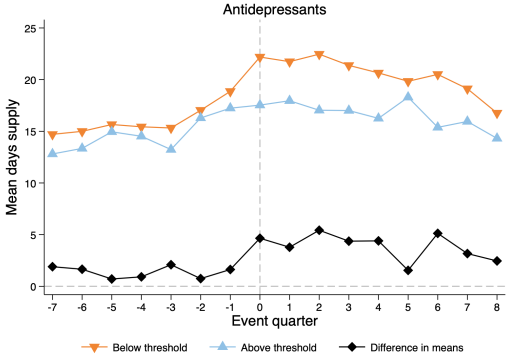


Modest effects on utilization in first quarter



Effects appear short-lived





Zooming Out: Why are we doing this work?

- Medical debt is the most prevalent financial risk Americans face
  - Difficult to isolate impacts of medical debt itself
  - Insurance bundles access, cost-sharing (price), and reductions in financial risk
- Understanding the effects of medical debt is important for some policy questions
  - How big and wide-ranging are the benefits of subsidizing health insurance?
  - How costly are deductibles and cost-sharing when the bill goes unpaid?
  - How should debt collectors and credit bureaus be regulated around medical debt?
  - How should hospital financial assistance programs target their benefits?
  - Is there a wedge between "likelihood-to-pay" predictors and the costs of collection and repayment?
  - What would be the benefit of Sanders' proposed universal medical debt forgiveness?

Why is understanding medical debt important?

- Current health care policy debates more about economic distress than "health"
  - Current system has high levels of debt and uncompensated care
  - Expanding health insurance is expensive
    - Finkelstein et al. (2019): <50% of uninsured are WTP for insurance at 25%<costs
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  - Dobkin et al. (2018) found **lost earnings** from a hospitalization are 5x greater than increased OOP medical expenses
    - Despite $6K increase in medical debt for uninsured, similar credit report effects
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- Piling financial hardship on top of illness is arguably morally unconscionable
  - Important to understanding the pecuniary and non-pecuniary costs of medical debt and for whom to prioritize and target the policy responses