1 Boston University School of Law and School of Public Health, Boston, Massachusetts, USA

2 City University of New York at Hunter College, New York

3 Cambridge Health Alliance/Harvard Medical School, Cambridge, Massachusetts

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Arizona's debt collection reform—a small step towards health justice

A new law will protect people in Arizona from some of the harshest consequences of medical debt. Yet the policies of individual states can't substitute for the US implementing a more humane system of universal health insurance coverage, say David U Himmelstein and colleagues

Christopher Robertson, [1] Steffie Woolhandler, [2,3] David U Himmelstein[2,3]

Americans are swimming in medical debt—or, more aptly, drowning in it. And, if the results of elections in Arizona on 8 November are any indication, they're angry about it. Proposition 209,[1] a ballot initiative on whether Arizona should place limits on debt collection for medical bills, garnered support from nearly three quarters of voters.[2] That lopsided margin is particularly striking in a state whose government has long been controlled by Republicans and where the 2022 midterm election votes were almost evenly split between Republican and Democratic candidates.

The Arizona initiative continues the US trend of voters passing progressive health reform policies for an individual state that their Republican controlled legislatures had resisted. In the November election, for example, South Dakota became the latest jurisdiction to use a popular vote to expand Medicaid coverage for people on low incomes—following states such as Idaho, Missouri, Nebraska, and Utah. Like Arizona's proposition 209, these votes suggest a mismatch between US politicians and many of their constituents.

US patients can incur medical debt either because they lack health insurance coverage (11.4% of Arizonans; 8.6% of Americans nationwide)[3] or because their insurance policies leave them exposed to substantial costs through deductibles and co-payments,[4] which federal law allows to be as high as $15 000 (£12 600; €14 600) a year for families. As a result, Americans carry a total of at least $88bn in medical debt, and it's the most common adverse item on credit reports.[5]

Collection reforms

For Arizonans, proposition 209 does nothing to reduce the amount of medical debt they acquire, but it softens the consequences. The proposition's most notable provision caps the interest rate on medical debts at 3% (or a percentage indexed to the yield on US Treasury bonds). Nonetheless, federal law allows national banks to export higher interest rates from the states where they are chartered. Consequently, if Arizonans put medical expenses on a credit card, or take on medical debt with another national lender, that debt will be unaffected by the 3% cap. Still, for Arizona healthcare providers that don't persuade a patient to pay with credit offered by a third party (thereby implicitly becoming the creditor themselves), the 3% cap will apply when the provider attempts to collect on the debt or sell it to a third party.

Proposition 209 includes several debt collection reforms, and these apply generally, not just to medical debt. Debt burdens can still affect people's health regardless of the source, since debt is associated with a range of health problems[6,7] and can compromise access to care and housing and food security, which are important social determinants of health.[8]

The proposition also protects a portion of debtors' assets and incomes, making them "exempt" from debt collection. The categories of exempt assets include the value of homes, household furnishings, cars, and savings. In each of these cases the proposition has raised the threshold amounts that are sheltered from debt collection and set them to adjust upwards with inflation. Given that house prices have risen dramatically across the US, and as cars are essential to get to work in places such as Arizona with weak public transit systems, these reforms are important.

When it comes to the incomes of people with debt, creditors (such as hospitals) were previously allowed to get a court order requiring employers to "garnish" a worker/debtor's wages, sending as much as 25% of the debtor's disposable income to the creditor. Proposition 209 dramatically reduced this limit to 10%, cutting by more than half the amount that can be extracted by creditors before it reaches the worker. The proposition also doubled another threshold that may be more important, exempting wages up to 60 times the minimum hourly wage for each week of full time work from debt collection. As of 2023 that wage is set to be $13.85 an hour in Arizona.[9] If an Arizonan works full time for 50 weeks a year, the first $41 550 would be completely protected against debt collectors. This is a much more substantial protection than the 10% limit.

Less lucrative

These sorts of exemptions from asset seizure and wage garnishment won't resolve the medical debt and all its attendant problems. Even if uncollectible, the debt stays on a person's record and thereby can continue to impinge on their health and access to credit for subsequent medical care or other needed expenses, such as housing or transportation. Only federal bankruptcy law can permanently discharge debts, but that comes with its own expenses and stigma and can entail a long process that many people in debt are unable to complete.

Proposition 209 does, however, make it somewhat less lucrative for healthcare providers to pursue patients for unpaid bills. A 2022 study of the 100 largest US hospitals found that only 26 of them were using court processes such as wage garnishments to pursue patients' medical debts.[10] In addition to naming and shaming the minority of hospitals that still pursue aggressive debt collection (as the laws allow), reforms such as proposition 209 may discourage hospitals from doing so, since they stand to recover less.

Although proposition 209 is an important effort, these sorts of changes can't substitute for the US implementing a simpler, more humane system of universal and robust health insurance coverage. One can imagine a world where consumer medical debt doesn't exist—but Americans aren't living in it.

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