Weekly Checkup

Why a Federal Medical Debt Buyout Would Backfire

JOHN WALKER | JULY 19, 2024

Last week, the Senate Committee on Health, Education, Labor and Pensions (HELP) held a hearing titled "What Can Congress Do to End the Medical Debt Crisis in America?" **With 41 percent of adults reporting that they have some form of outstanding health care-related medical debt, it's not surprising there are calls to eliminate it.** In fact, HELP Chairman Bernie Sanders introduced legislation earlier this year intended to do just that: "forgive" $220 billion in patients' medical debt – with no cost to the patients – by buying up patients' debt for pennies on the dollar. It would also wipe clean their medical debt records. Supporters of his bill point to research showing an association between medical debt and poorer health outcomes as proof such legislation is needed to improve debt-carriers' health. But **a study from the National Bureau of Economic Research (NBER) on the effects of medical debt cancelation on health outcomes shows debt cancelation would not have the desired effect.** Let's dig into the NBER report to better understand why debt cancelation is not a panacea for the problems of medical debt – and may even reduce access to care.

Medical debt often has a compounding effect, resulting in decreased access to housing, transportation, and insurance. As a result, many patients with higher medical debt also often have poorer health outcomes than their non-indebted counterparts.

Nevertheless, **NBER's report, entitled "The Effects of Medical Debt Relief: Evidence from Two Randomized Experiments," throws some cold water on the idea of a national debt-forgiveness program.** It highlights three key findings:

> First, we find no impact of debt relief on credit access, utilization, and financial distress on average. Second, we estimate that debt relief causes a moderate but statistically significant reduction in payment of existing medical bills. Third, we find no effect of medical debt relief on mental health on average, with detrimental effects for some groups in pre-registered heterogeneity analysis.

These findings show that while medical debt may be associated with poorer health outcomes, wiping medical debts clean does not translate to substantially improved measures of a patient's personal finances and, by extension, health care outcomes. As NBER's report explains, **because medical debts are rarely repaid, wiping them from patients' records doesn't free up funds; rather, it further incentivizes patients not to pay.** The report also hypothesizes that this subsequent lack of payment may result in a future reduction of accessible, quality care.

As Congress continues its efforts to address medical debt, it is crucial that lawmakers refrain from pursuing policies that place a significant financial burden on taxpayers without sufficient data to justify them.

CHART REVIEW: CHEVRON DEFERENCE AND THE FDA–AN OVERVIEW OF FEDERAL APPEALS COURT RULINGS

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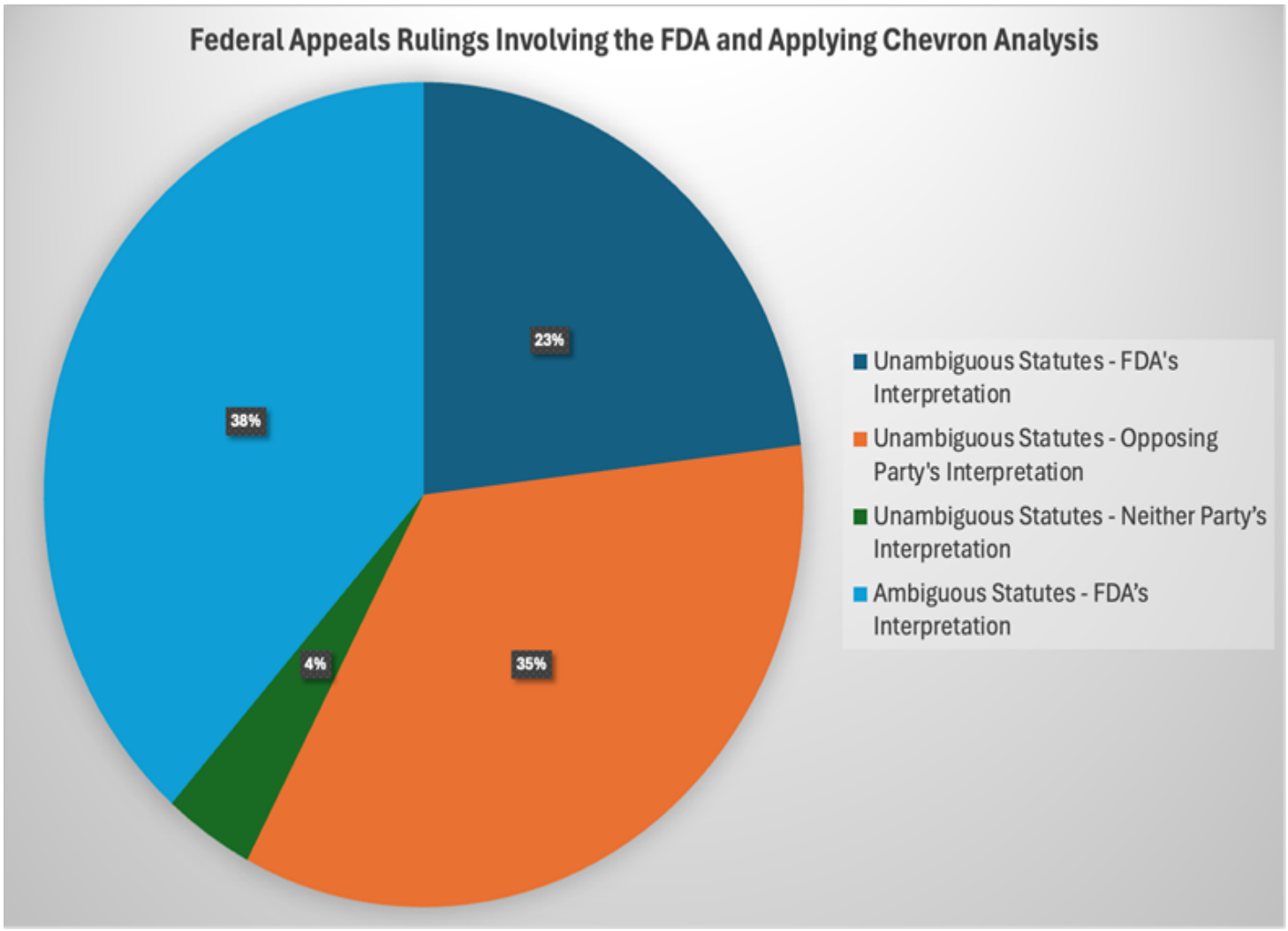
In a landmark ruling last month, the Supreme Court overturned the longstanding precedent of Chevron deference, which allowed government agencies to interpret unclear laws. A recent case review from the Food and Drug Law Institute demonstrates the effects Chevron had on federal appeals court decisions. As the chart below shows, courts deferred to Food and Drug Administration (FDA) interpretation of ambiguous statutes in all cases in which they determined the relevant statutes to be ambiguous. In cases where statutes were determined to be unambiguous, the court ruled in favor of the FDA 38 percent of the time and the opposing party 56 percent of the time. One can only speculate on how the *Loper Bright v. Raimondo* decision, which overturned *Chevron*, will shape rulings in future cases involving ambiguous statutes. Chevron deference had traditionally required courts to defer to FDA interpretations of these statutes even if the court would have decided otherwise.

Now that courts are required to exercise their independent judgment in evaluating whether an agency has acted within its statutory authority, it is likely that we will see some cases decided against the agencies, perhaps with wide-reaching effects. In the FDA cases involving unambiguous statutes, the court has more frequently ruled against the agency than in its favor. It is possible that a similar breakdown could arise in cases involving ambiguous statutes.



Sources:

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https://www.supremecourt.gov/opinions/23pdf/22-451_7m58.pdf