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Policy Opportunities to Prevent Medical Debt and Provide Consumer Relief

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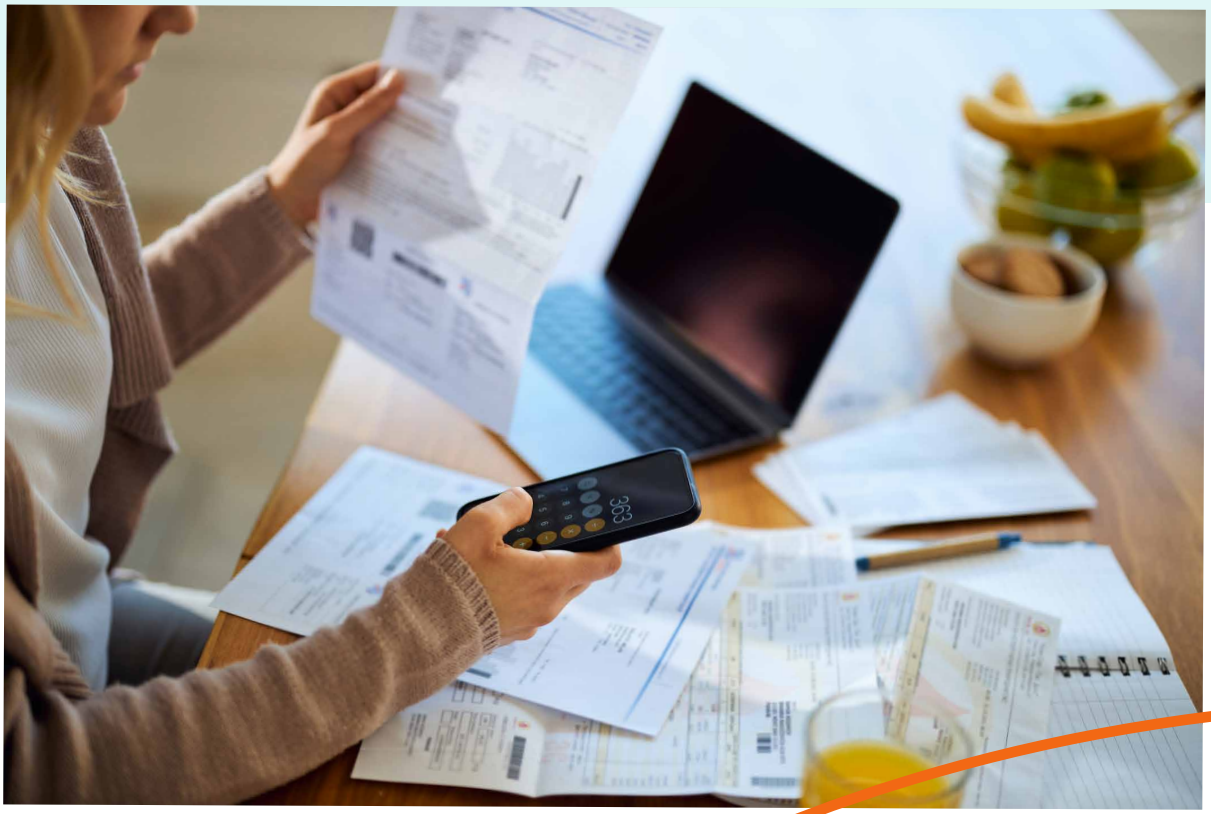

Issue Spotlight

For years, California's health care costs have grown faster than wages, leaving individuals and families under mounting pressure. Unsurprisingly, Californians across the political spectrum want health care affordability to be a top priority for policymakers.[1]

California enters this health care affordability reform moment from a position of relative strength — with established institutions, significant market influence, and a track record of meaningful policy action. *Policy Options to Improve Health Care Affordability: What California Can Learn from Other States* examined state activity across the United States over the past five years to control health care costs and identified policy opportunities for California in four priority areas. This issue spotlight summarizes policy opportunities to prevent medical debt and provide consumer relief.

Medical debt is a significant and growing burden for American families. Forty percent of all Californians report carrying medical debt, and for Californians with low incomes, that figure rises to over half.[2] In response, states pursuing health care affordability reform are adopting strategies to eradicate existing medical debt, prevent its accumulation, and shield patients from its harmful effects. California's 2007 Hospital Fair Pricing Act established a foundation for this work.[3] The following steps could bolster that legislation's impact.

1) Strengthen Financial Assistance Program Standards

Reducing the burden of medical debt begins with preventing its accumulation in the first place. Hospital-based financial assistance programs (FAPs) are instrumental in doing this. States around the country have addressed additional consumer protection gaps through the following measures:

Community benefit spending minimums. Although federal law does not set a minimum requirement for community benefit spending, some states have established spending floors. Illinois and Utah, for example, require tax-exempt hospitals to spend at least the equivalent of their property tax on community benefits.[4] California could adopt similar floors to ensure tax-exempt hospitals appropriately direct dollars toward community benefits, including financial assistance.

Income-based free and discounted hospital care. California sets a single eligibility limit of 400% of the federal poverty level (FPL) for financial assistance but does not distinguish between free and discounted care. California could adopt a two-tier structure that ensures patients with the lowest incomes receive free care while those with moderate incomes receive meaningful discounts.

Protections for patients with unsatisfactory immigration status. Five states explicitly prohibit hospitals from discriminating against undocumented patients for FAP eligibility. California statute is unclear on this issue, leaving hospitals to interpret whether members of this population are eligible.[5]

Expanded FAP requirements for additional provider types. California could extend FAP requirements beyond acute care hospitals to include large medical groups, ambulatory surgical centers, and other provider types, consistent with the National Consumer Law Center's Model Medical Debt Protection Act.[6]

Increased awareness of FAPs. Awareness of hospital FAPs remains inconsistent and low: only 37% of Californians with medical debt have tried to find information about financial assistance.[7] California could allocate more funding to FAP education through advocacy groups and social service organizations.

Simplified FAP application processes. California could fast-track financial assistance program applications by implementing "income passports," which use a single verified credential to establish patient eligibility for health care and other state safety-net programs.

Expanded presumptive FAP eligibility. Of the states leveraging presumptive eligibility, Oregon goes furthest by statutorily requiring hospitals to screen

all patients with bills over $1,500.[8] California could consider adopting the same broad trigger.

2) Strengthen Medical Debt Collection Protections

To protect consumers from medical debt collection, California prohibits property liens, wage garnishment, and the inclusion of medical debt in consumer credit reports.[9] Other states offer additional consumer protections through the following actions:

Expanding the definition of medical debt. California could consider following Colorado, Minnesota, and New York by expanding the definition of medical debt to include balances on medical credit cards and medical loans.[10]

Prohibiting civil action for medical debt collection. California could prohibit civil action to collect medical debt in cases that meet specified criteria, such as a family's income level or the amount of medical debt.

Prohibiting bank account seizure. Seizing a bank account to satisfy a medical debt is one of the most destabilizing collection tools. California could prohibit bank account seizure for medical debt collection for people who meet certain income and/or asset thresholds, ensuring the protection targets those most at risk while preserving collection options where meaningful assets exist.

Extending prohibitions on the sale of medical debt. California only allows hospitals to sell medical debt when a patient is deemed ineligible for financial assistance or has not responded to either the bill or to financial assistance outreach for 180 days.[11] Other states have gone further. California could consider prohibiting the sale of medical debt to debt collectors for specific low-income populations or ban the sale of medical debt to third-party collectors. These approaches could reduce patients' exposure to aggressive debt collection practices and maintain hospitals' accountability under the Hospital Fair Pricing Act.

Making a private right of action explicit. California statute does not expressly permit a patient to take a hospital or debt collector to court. California could follow in the footsteps of Connecticut, where patients can sue for any unfair trade practices, and Colorado, where patients can sue providers individually or via class action for actual damages, statutory damages, and attorneys' fees. However, without greater public awareness of FAP requirements, patients are unlikely to seek legal recourse for violations.

3) Establish a Statewide Medical Debt Relief Program

Even with strong billing and debt collection protections, a substantial backlog of existing medical debt remains beyond the reach of prospective policy changes. Debt relief programs address this directly by purchasing qualifying patients' debt at a fraction of its face value and forgiving it entirely.

Los Angeles County's medical debt relief program, launched in December 2024, has attracted national recognition. The Los Angeles County Supervisors committed an initial $5 million in county dollars (alongside additional investments from LA Care Health Plan and the Los Angeles County Medical Association) to medical debt relief.[12] California could consider establishing a statewide equivalent.

4) Strengthen Enforcement of the Hospital Fair Pricing Act

California's Hospital Fair Pricing Act imposes meaningful obligations on hospitals, but the infrastructure to enforce those obligations could be strengthened through the following actions:

Establishing a proactive hospital audit program. California could proactively audit whether hospitals are meeting Hospital Fair Pricing Act requirements.

Requiring FAP screening before collection. California could specify what constitutes screening documentation (e.g., patient-specific outreach

records, eligibility determinations, application outcomes) and require collectors to produce such evidence before filing suit.

Strengthening enforcement in the courts. California could increase judicial training on recognizing and correctly classifying medical debt. It could also require courts to verify that collectors have met the Hospital Fair Pricing Act's medical debt prerequisites before allowing collection actions to proceed.

Learn More

Read *Policy Options to Improve Health Care Affordability: What California Can Learn from Other States* for more information or explore the issue spotlights on the other three priority areas:

- Addressing consolidation and anti-competitive market practices
- Controlling unreasonable hospital prices
- Reducing administrative waste and complexity

About the Authors

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Bailit Health is a health policy consulting firm that assists state agencies and their partners with strategy development and implementation, program design, multistakeholder process management, project management, and health policy research and analysis.

About the Foundation

The **California Health Care Foundation** is dedicated to advancing meaningful, measurable improvements in the way the health care delivery system provides care to the people of California, particularly those with low incomes and those whose needs are not well served by the status quo. We work to ensure that people have access to the care they need, when they need it, at a price they can afford. CHCF informs policymakers and industry leaders, invests in ideas and innovations, and connects with changemakers to create a more responsive, patient-centered health care system.

Endnotes

1. *The 2026 CHCF California Health Policy Survey*, CHCF, February 2026.
2. The 2026 CHCF California Health Policy Survey, CHCF.
3. "Hospital Fair Billing Program Laws and Regulation," California Department of Health Care Access and Information (HCAI), accessed February 18, 2026.
4. "Community Benefit State Law Profiles Comparison," Hilltop Institute, University Of Maryland, Baltimore County, accessed February 18, 2026; and 35 ILCS 200.
5. Kona and Raimugia, *State Protections Against Medical Debt*.
6. Jenifer Bosco et al., *Model Medical Debt Protection Act* (PDF), NCLC, March 2024.
7. *The 2026 CHCF California Health Policy Survey*, CHCF.
8. *H.B. 4040*, 2026 Leg., Reg. Sess. (Ore. 2026)
9. "Hospital Fair Billing Program Laws and Regulation," HCAI.
10. H.B. 23-1126, 2023 Leg., Reg. Sess. (Colo. 2023); S.F. 4097, 2023–24 Leg., (Minn. 2024); and S. 4907A, 2023–24 Leg., (N.Y. 2023).
11. "Hospital Fair Billing Program Laws and Regulation," HCAI.
12. Conn. Gen. Stat. § 20-7f(b)-(c); Conn. Gen. Stat. § 38a-193(c); Colo. Rev. Stat. § 25.5-3-506; and Erin C. Fuse Brown, "Federalism, Private Law, and Medical Debt," in Health Law as Private Law, Cambridge University Press, March 16, 2025.
13. "Los Angeles County Medical Debt Relief Program," County of Los Angeles Public Health, accessed February 18, 2026; "Over 134,000 LA County Residents Will Receive Notices of Medical Debt Relief by Next Week as New Data Highlights Need for Continued Efforts," Undue Medical Debt, May 15, 2025.