California Health Care Foundation

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# Preventing Medical Debt in California: Hospital Financial Assistance Requirements and Options to Strengthen Them

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Issue Brief

California has some of the strongest hospital financial assistance laws in the country, and they are about to get stronger. Beginning in July 2027, hospitals will have to screen and identify patients who may qualify for free or discounted care.

The timing matters. Most of the changes to Medicaid eligibility and enrollment caused by H.R. 1, the 2025 federal budget law, take effect in 2027 or later. Those changes are expected to make it harder for many Californians to enroll in or retain Medi-Cal. At the same time, federal changes continue to make Covered California insurance more expensive for many Californians, which may lead to additional lapses in coverage as people struggle to afford their premiums. As more people experience coverage losses or gaps, hospital financial assistance will become an increasingly important safeguard against medical debt.

Here is what advocates and policymakers need to know about how hospital financial assistance works, what will change, and how California could do more to keep unaffordable hospital bills from becoming medical debt.

## Why Does Hospital Financial Assistance Matter?

Four in 10 Californians carry medical debt. Among those with low incomes, that figure jumps to 55%. Almost half of Latino/x residents and Spanish speakers report having medical debt.

Hospital bills are the single biggest source of medical debt. A 2023 Urban Institute study found that nearly three in four adults with past-due medical debt owed at least some of it to a hospital. Adults with past-due hospital bills also carried substantially more debt than those who owed only nonhospital providers.

Many hospitals operate as nonprofit charitable organizations, meaning they receive tax exemptions in exchange for providing benefits to their communities. Financial assistance is a central part of the bargain between nonprofit hospitals and the communities they serve.

For all these reasons, hospitals are the starting point for preventing medical debt. That's what financial assistance policies are designed to do.

## What Is Hospital Financial Assistance?

Hospital financial assistance is free or discounted hospital care for patients who cannot afford to pay their bills and who meet a hospital's eligibility requirements. It may be described as charity care, discounted payment, medical financial assistance, or sliding-scale assistance.

Financial assistance can reduce or eliminate what an eligible patient owes for hospital care. The availability and amount of assistance vary by hospital, however. Federal and California laws establish minimum requirements for free and discounted care. Hospitals develop their own policies to meet these requirements and may choose to assist more patients or provide more assistance than the law requires.

## What Does Federal Law Require?

Two federal rules set a baseline for nonprofit hospitals.

1. **The federal Internal Revenue Service community benefit standard.** To obtain or maintain tax-exempt status, nonprofit hospitals must show that they provide benefits to their communities. Financial assistance is one form of community benefit.
2. **Section 501(r) of the Affordable Care Act.** Tax-exempt hospitals must have a written financial assistance policy that they both publicize and follow. They may not charge patients who qualify for assistance more than the amounts generally billed to insured patients. Hospitals also must make

reasonable efforts to determine eligibility for financial assistance before taking extraordinary collection actions (ECAs) — like credit bureau reporting or legal action — against patients.

These rules matter, but they are a floor. California law goes further.

# What Does California Law Require?

## The Hospital Fair Pricing Act

California's Hospital Fair Pricing Act was passed in 2007 and has been amended multiple times since.[1] It applies to general acute care, acute psychiatric care, and specialty hospitals, regardless of a hospital's tax status. State-operated hospitals are excluded from the law.

The law requires these hospitals to provide free or discounted care to the following patient groups:

- **Uninsured patients** with family incomes at or below 400% of the federal poverty level (FPL), which in 2026 is $63,840 per year for one person and $132,000 per year for a family of four. Rural hospitals may use lower income thresholds in some cases.
- **Insured patients with high medical costs** whose family incomes are at or below 400% of the FPL and who have unreimbursed medical expenses exceeding 10% of their family income during the previous 12 months (though hospitals may establish a lower threshold).

Hospitals can also extend assistance to people with incomes above 400% of the FPL.

Importantly, immigration status does not affect eligibility for hospital financial assistance. And people can apply for hospital financial assistance at any time — even after their bills have been sent to collections. Hospitals cannot deny assistance based on when a person applied.

The Hospital Fair Pricing Act applies to charges billed by the hospital for medically necessary hospital services, and it is not limited to emergency care. Emergency physicians are subject to a separate but similar discount obligation.[2] However, other professionals who treat patients in hospitals, such as anesthesiologists, radiologists, pathologists, or hospitalists, do not have specific financial assistance requirements.

## Who Qualifies for Free Care?

California law requires hospitals to maintain both charity care, which means free care, and discounted payment policies. It does not, however, establish a statewide income threshold below which every hospital must provide completely free care.

Hospitals therefore have discretion to determine which eligible patients receive free care and which receive discounted care. Many hospitals provide free care to patients with incomes up to 200% of the FPL, but state law does not require them to use that threshold.

## What Billing and Collection Protections Does the Hospital Fair Pricing Act Provide?

Aggressive collection timelines, adverse credit reporting, and selling debts to third parties without notifying patients are examples of practices that make medical debt harder for patients to manage. California has built the following guardrails to protect patients from such actions:

- Hospitals have to provide reasonable payment plans, capped at 10% of monthly family income after deducting essential living expenses.
- Hospital debt cannot appear on credit reports.
- Hospitals are limited in when they can send bills to collections and must notify patients (and give them information about financial assistance) when that happens.
- Purchasers of hospital debt cannot charge interest or fees on that debt.

- Hospitals cannot use property liens or wage garnishment against patients eligible for financial assistance; other collectors cannot place property liens either, but may garnish wages if they get a court order.

# What's Changing in 2027?

## The Patient Debt Prevention Act (A.B. 1312)

Today, the burden generally falls on patients to complete detailed financial assistance applications, including documenting their incomes and, for insured patients, their medical expenses. Awareness is also limited: Only 37% of Californians with medical debt reported even trying to find information about financial assistance programs.

This will soon change, thanks to the Patient Debt Prevention Act that California enacted in 2025.[3] Beginning July 2027, hospitals will have to do the following:

- **Screen certain patients for financial assistance eligibility** if they are uninsured, enrolled in Medi-Cal with cost sharing, eligible for Medi-Cal via the Hospital Presumptive Eligibility program, or enrolled in a Covered California plan.
- **Presumptively qualify certain patients for assistance,** including people experiencing homelessness; people who qualified for financial assistance from the same hospital within the previous six months; and people who participate in certain assistance programs, including CalFresh, CalWORKs, Tribal Temporary Assistance for Needy Families (TANF), Women, Infants, and Children (WIC), California Alternate Rates for Energy (CARE), the Low-Income Home Energy Assistance Program, and the Housing Choice Voucher program. Hospitals can identify additional programs that qualify their patients for presumptive eligibility.

For presumptive eligibility, hospitals must consider whether the patient or a member of the patient's family participates in a qualifying assistance program. If screening determines that a patient is financially qualified, the hospital must determine eligibility without requiring a separate financial assistance application.

# Who Enforces California's Hospital Financial Assistance Policies?

The California Department of Health Care Access and Information (HCAI) enforces the Hospital Fair Pricing Act. HCAI reviews every hospital's financial assistance policy for compliance. All policies and applications are searchable on the HCAI website, and hospitals must post them on their own websites, too. Before A.B. 1312 takes effect, hospitals will need to update their policies and procedures and submit them to HCAI for review. They also will need to disclose what third-party tools or software they use for eligibility screenings.

Patients who believe a hospital improperly denied assistance or violated billing, notice, or collection requirements can file a complaint through HCAI's Hospital Bill Complaint Program.

# What Gaps Remain?

Even after A.B. 1312 takes effect, important gaps will remain:

- California does not specify a uniform income threshold for free care.
- With the exception of emergency physicians, the Fair Pricing Act does not cover bills from many hospital-based providers — even when the patient has no choice of provider.
- Insured patients will typically still need to demonstrate high medical costs in order to qualify for assistance.

# What More Could California Do?

California could build on its existing protections in four areas. Some of the following options would require changes to state law, while hospitals could adopt others voluntarily.

## 1. Expand which providers must offer financial assistance.

- Require hospital-based physicians, including radiologists, pathologists, anesthesiologists, and hospitalists, to provide financial assistance. Hospitals can do this voluntarily, through policies and provider agreements. Los Angeles County's model financial assistance policy and best practices suggest that hospitals require all credentialed medical staff to honor the hospital's financial assistance determinations for their own professional charges, as a condition of their privileges. Providers who refuse could be required to submit an "opt-out" declaration during credentialing or renewal, with public disclosure of those providers who choose not to participate.
- Extend financial assistance requirements to large medical groups and ambulatory surgical centers.

## 2. Expand which patients receive financial assistance.

- Establish a statewide minimum standard for free care so that people with very low incomes do not receive hospital bills. For example, California could require hospitals to waive charges for patients with incomes below a specified percentage of the FPL, like 200%.
- Eliminate or reduce the requirement that insured patients document medical expenses exceeding 10% of family income before qualifying for assistance. Documenting those expenses can be burdensome for patients and can make automated eligibility determinations more difficult.
- Expand presumptive eligibility screening for privately insured people with low incomes so they too can receive financial assistance without a burdensome application process.
- Add enrollment in county indigent care programs established under Section 17000 of the California Welfare and Institutions Code to the circumstances that trigger presumptive eligibility.
- Encourage hospitals to presumptively qualify patients who live in low-income neighborhoods, using zip code or similar geographic measures alongside safeguards for accuracy, privacy, and equitable treatment.

## 3. Increase transparency and enforcement.

- Require hospitals to report how much assistance they provide, and to whom, to the state and to their own governing boards. This could include accounting for all financial assistance applications received from patients, the number of applications approved and denied, and total spending, among other information. Los Angeles County already has these reporting requirements and is building a public dashboard to make the data more broadly accessible.
- Expand consumer education through public awareness campaigns and outreach by Covered California navigators, county eligibility workers, community health workers, and other trusted messengers.
- Authorize HCAI to conduct proactive compliance audits instead of relying primarily on individual complaints to identify violations.

## 4. Strengthen billing and credit protections.

- Permanently prohibit legal action to collect medical debt from patients with family incomes below 400% of the FPL.
- Reduce monthly payment plan maximums from 10% to 5% of monthly family income, and simplify the calculation by eliminating the requirement to document essential living expenses. New York, Maryland,

and North Carolina cap certain payment plans at 5% of income, while Colorado and Maine use a 4% limit. None of these states require documentation of living expenses.

- Require health care providers, collections agencies, and debt buyers to warn patients that they lose important medical debt protections if they pay bills using credit cards.

## Conclusion

Improving access to financial assistance is one of many strategies needed to make health care affordable for Californians. Learn more about CHCF's work to make health care more affordable.

### About the Author

Catherine Teare is associate director of the CHCF's Market Analysis and Insight team, which promotes greater transparency and accountability in California's health care system. Her work focuses on health care affordability, the number one health policy priority for Californians.

### About the Foundation

The California Health Care Foundation is an independent, nonprofit philanthropy that works to improve the health care system so that all Californians have the care they need. We focus especially on making sure the system works for Californians with low incomes and for communities who have traditionally faced the greatest barriers to care. We partner with leaders across the health care safety net to ensure they have the data and resources to make care more just and to drive improvement in a complex system. 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. Cal. Health & Safety Code §§ 127400–127446.
2. Cal. Health & Safety Code §§ 127450–127462.
3. Cal. Health & Safety Code § 127406.