Senate Bill 981- Hospitals – Financial Assistance and Collection of Debts – Policies

In the Senate Finance Committee
Hearing on February 18, 2025 at 1:00 p.m.
Position: FAVORABLE

Maryland Legal Aid (MLA) submits its written testimony on SB 981 at the request of bill sponsor Senator Stephen Hershey.

Maryland Legal Aid (MLA) is a non-profit law firm that provides free legal services to Maryland State's low-income and vulnerable residents, including abused and neglected children, nursing home residents, and veterans. With 12 offices serving residents in each of Maryland's jurisdictions, MLA handles civil legal cases involving a wide range of issues, including family law, housing, public benefits, consumer law, and criminal record expungements. MLA strongly supports SB 981.

The Need for Reform

SB 981 represents a vital reform in Maryland's approach to hospital financial assistance policies. This bill will expand access to financial assistance for those living paycheck to paycheck, promote transparency and consistency in hospital financial aid, and eliminate medical debt lawsuits for small balances that often disproportionately harm low-income families. Medical debt is a significant issue for Maryland residents, especially among low-income and marginalized communities. Key data highlights the urgent need for reform:

1. Maryland hospitals filed over 140,000 lawsuits to recover medical debt between 2009 and 2018, with more than 25% of these cases resulting in wage garnishments.[1] These lawsuits disproportionately impact low-income households.

2. Residents in Maryland's lowest-income regions are three times more likely to be sued for medical debt than those in higher-income areas.[2]

3. According to a 2024 Johns Hopkins Bloomberg School of Public Health study, individuals with medical debt are significantly more likely to delay or forgo necessary care. Among adults with current depression, 36.9% delayed seeking mental health care, and 38% did not receive needed care in the past year.[3]

[1] Abell Foundation. (2019). Limits on medical debt lawsuits: How Maryland hospitals collect millions in debt from low-income patients. See https://abell.org/publication/limits-on-medical-debt-lawsuits.
[2] Id.
[3] Johns Hopkins Bloomberg School of Public Health. (2024). Medical debt and barriers to mental health care access. See https://publichealth.jhu.edu.

At MLA, we have directly observed the harm caused by these practices. Many of our clients, despite being eligible for financial assistance, face aggressive collection tactics, including lawsuits and inaccurate credit reporting. Such practices not only erode trust in the healthcare system but also compound financial stress, perpetuate credit woes, and delay or prevent patient access to critical medical care.

Client Stories

Consider the case of Ms. J., a single mother from Baltimore City. After a minor but medically necessary surgery at a local hospital, Ms. J. received a bill she could not immediately pay. She was unaware that the hospital had included a 'sign under seal' provision in her discharge paperwork. Seven years later, she was served with a lawsuit demanding payment. By then, the interest and fees had grown the original $800 bill to over $2,000. Struggling to make ends meet with garnished wages, Ms. J. was overwhelmed trying to cover basic expenses like rent, transportation, and childcare, and was forced to file for bankruptcy.

How SB 981 Helps: By limiting the statute of limitations for medical debt to three years, the bill would prevent hospitals from reviving long-settled financial burdens and keep medical debts off her credit report, protecting individuals like Ms. J. from prolonged hardship.

Another example is Mr. R., a retired veteran living alone in Southern Maryland. His main source of income is Social Security. Mr. R. received a bill for $600 after an accident in his home resulted in a hospital visit. Although he qualified for financial assistance, he was never informed of his eligibility. The hospital's use of a 'sign under seal' clause allowed them to pursue the debt for over a decade. Mr. R. eventually had to choose between paying the debt and affording his medication.

How SB 981 Helps: The bill's requirement for hospitals to improve transparency and notify patients of financial assistance options would ensure that eligible individuals like Mr. R. receive the help they need.

These stories are not isolated. They reflect a systemic issue that disproportionately impacts Maryland's low-income residents.

The "Sign Under Seal" Issue

A particularly egregious practice is the use of "sign under seal" provisions, which extend the statute of limitations for medical debt from 3 to 12 years. Clients have recounted being unaware that they were committing to prolonged liability simply by signing standard hospital forms. This tactic disproportionately impacts low-income individuals, perpetuating cycles of poverty and discouraging trust in the healthcare system. HB 268 builds on recent efforts to address these challenges. Key provisions include:

1. **Eliminating the "Sign Under Seal" Practice**

Maryland's "sign under seal" provision unfairly extends the statute of limitations from 3 to 12 years. This practice traps patients in prolonged debt cycles and contradicts principles of fairness and justice. Maryland's general statute of limitations for contract actions is 3 years and there is no reason to grant hospitals the ability to extend that period for an additional 9 years.

2. **Creating Standard Subsidy Levels**

Current law allows hospitals to determine their subsidy levels for reduced-cost care, leading to wide variability. SB 981 ensures consistent and equitable subsidy levels for eligible patients statewide.

3. **Prohibiting Reporting to Credit Agencies**

Medical debt is not a reliable indicator of one's financial capability or creditworthiness. By banning adverse credit reporting for medical debt, this bill prevents long-term financial repercussions, such as difficulty securing housing or access to credit. At present, there is a federal rule prohibiting medical debt credit reporting, but that rule is in jeopardy. State protections are needed to ensure consumers are protected.

4. **Banning Lawsuits for Debts Under $500**

Small-debt lawsuits often create undue hardship, particularly for low-income individuals who must take time off work, arrange childcare, and incur transportation costs to attend court. These lawsuits provide negligible value to hospitals while inflicting significant harm.

Medical debt is not merely a financial burden; it is a barrier to health care and economic stability. Research reveals that individuals with medical debt are significantly more likely to delay or forgo necessary care, prolonging health problems and increasing future costs of care. Furthermore, economic studies reveal that hospital collection practices disproportionately impact low-income Marylanders and communities of color, perpetuating cycles of poverty and exacerbating health disparities. By addressing these inequities, SB 981 prioritizes fairness and transparency while protecting Maryland families from unjust financial strain.

This legislation is a vital step toward a more equitable and compassionate health care system. Therefore, Maryland Legal Aid strongly urges the committee to given SB 981 a favorable report. Thank you for your time and attention to this critical matter. I am happy to answer any questions.

Respectfully Submitted,

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