

State takes Minnesotans' tax refunds for debts owed to hospitals

Hospitals say state's help to collect medical debts is lifeline; some already struggling Minnesotans say it's added hardship.

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Jean Hehn had her income tax refunds taken by the state to pay off owed medical debt to Regions Hospital.

The discovery of seven tumors on her liver forced Jean Hehn to make some tough financial choices: Pay her medical bill or pay rent. Pay her medical bill or buy groceries. Pay her medical bill or put gas in her car.

But the state of Minnesota took that choice away from Hehn when it started seizing her state income tax refund to pay an overdue bill with Regions Hospital.

The first time it happened, Hehn said she was shocked — and then angry — that the state had the power to act as a debt collector for private health care companies. When she told close friends about her experience, some confessed privately that it had happened to them as well.

"It's kind of that deep, dark secret that no one wants to talk about because they're ashamed," Hehn said.

Between 2014 and 2019 the Minnesota Department of Revenue took \$81.6 million in refunds from about 24,000 taxpayers per year to pay medical debt that some of the state's largest private nonprofit hospitals said they were owed. Some Minnesotans had refunds seized more than once, the Department of Revenue said.

Regions Hospital, owned by HealthPartners, received \$21.4 million through the state's revenue-recapture program during that period. Allina Medical Transportation received \$9.2 million, and North Memorial Ambulance \$11.4 million, according to a Star Tribune analysis of revenue department data.

Only one other state, South Carolina, takes individual tax refunds on behalf of private health care companies.

In Minnesota, hospitals and other health care firms do not need a court judgment or order before retaining the state to take tax refunds on their behalf. The Revenue Department, which earns a \$15 fee for every collection made through its revenue-recapture program, does not check to ensure a health provider's claim is valid before seizing a refund, said Sara Westly, director of the agency's collection division.

State income tax and property tax refunds are often small windfalls for households, with those funds used to replenish emergency savings, pay for home repairs, make large payments on credit card or student loan debt and catch up on other bills. Minnesota Attorney General Keith Ellison says the practice of allowing the state to seize refunds for medical debt should end given that consumers are already at a disadvantage when it comes to understanding and challenging medical bills.

"I don't know why the state has to be the agent of the hospitals," Ellison said in an interview. "As a state that considers itself friendly to the consumer this seems like an anomaly to me. We shouldn't be doing something for one industry that we wouldn't do for another."

The health care industry says it needs this tool to stay in business, and that it's only a last resort used for people who have the means to pay.

"If the patient is not paying that's when we have to start thinking about well, what can we do to support this individual and what can we do to support the health care system," said Dr. Rahul Koranne, CEO and president of the Minnesota Hospital Association. "At the end of the day the health care system does need to keep the electricity on, does need to provide care for other Minnesotans and does need to stay alive so that we can remain as an asset to other Minnesotans."

Koranne said his members are taking more steps to educate patients about how their insurance works and enroll people who qualify for assistance in federal programs like Medicaid and Medicare "so they're not ending up in this very difficult situation."

In 2017, the most recent year for which data are available, Minnesota hospitals said they provided \$691 million in uncompensated care. The bad-debt portion of that total climbed almost 25%, to \$467 million, according to the Minnesota Hospital Association's [2018 Community Benefit Report](#).

At the same time, 265,000 Minnesotans reported being without health insurance in 2019, an increase of 16.5% since 2016, according to [surveys conducted by the Kaiser Family Foundation](#). And people with coverage through a large employer [paid 67% more for care](#) in 2018 than they had a decade earlier.

'Catches you off guard'

The Revenue Recapture program was [established by the Legislature in 1980](#) to help cities, counties, human service agencies, housing authorities, courts, jails and other government agencies recover unpaid fees and bills.

State lawmakers [expanded the program in 1999](#) to include private nonprofit hospitals that lease space from local governments. They can use the revenue department to intercept income tax refunds, property tax refunds, lottery winnings and forest land incentive payments for as many years as it takes to satisfy medical debt.

The debt has to be at least \$25, and medical providers cannot use the program to take tax refunds away from [taxpayers making less than \\$25,520](#) a year, or about \$12.27 per hour if working full time.

It's an action residents often are unaware of until they receive a warning letter in the mail, or do not receive the refund they expected.

Sen. Sandy Pappas, DFL-St. Paul, helped bring hospitals into the program. She said she wanted to help them mitigate uncompensated care costs so they wouldn't be passed on to the rest of the patients.

Pappas acknowledged that she's torn between the need for people to be responsible about paying their bills and the financial burden that medical debt can impose on anyone who is uninsured or underinsured. She said she would consider changes to the law, such as requiring more notice to patients, but she has "not really heard from anyone in the 20 years since we've done this, nor has anyone else."

"In the end I don't want my hospitals to get to a place like St. Joe's where their uncompensated care is so high, where Fairview might close or offer less services," Pappas said. "Now in the days of coronavirus we don't want hospitals to close; we're going to need them all eventually."

Dan Woolley was surprised to see a letter in late February from Hennepin Healthcare threatening to take his tax refund if he didn't pay the more than \$500 he owed for visits in 2017.

Woolley, 32, said he did not know the bills existed but he did not want to add another medical bill to his budget. He's paying off more than \$20,000 to United Hospital in St. Paul through a debt collection agency, the result of using an out-of-network hospital for an emergency appendectomy a week before he was supposed to start a new job. With the \$400 monthly payment he makes, "in my mind I just bought a brand-new car with like a 60-month loan."

Woolley called Hennepin Healthcare and paid \$300 — a discount the billing department offered over the phone — on the spot. He did not try to dispute the charges because "I didn't want to be in the system" and wanted "the peace of mind" that he had one less medical bill to worry about.

"I'm happy to pay for services rendered; it just catches you off guard," Woolley said. "It's a small amount in the grand scheme of things for them maybe, but it's not small for me. What else have I forgotten from five years ago? Should I put away \$100 a year for forgotten visits that maybe got miscategorized in their system and my insurance isn't going to pay for it?"

Former Minnesota Attorneys General Lori Swanson and Mike Hatch both think nongovernment health providers should have to go through the courts to collect an unpaid debt, like other private companies would.

Hatch, who [investigated debt collection practices](#) of health care organizations in the early 2000s, said he was unsuccessful in persuading the Legislature at that time to remove hospitals from the revenue recapture program.

"I get the government putting a hold on taxes or fines or whatever, but for a hospital that you don't know is associated with the government that doesn't make sense," he said.

Swanson said it's important for consumers to ask hospitals to send proof about what they owe.

"It's a little bit different in terms of private hospitals using this clause to recoup money," Swanson said. "There may be shades of gray in terms of did the person really owe it, was the right amount charged, should insurance have paid."

Hospitals' thin margins

Melanie Wilson, vice president of revenue services with Essentia Health, said her company enlists the state to collect debt only "from those who do have the ability to pay." Between 2014 and 2019 the two Essentia facilities using the program have received more than \$3 million worth of tax refunds, according to revenue department data.

Wilson said the hospitals use the state to collect only after multiple mailings, calls and attempts to work out payment plans. Part of the problem, she said, is that people often put their medical bills toward the bottom of their bill pile.

"I don't think people understand how small our margins are that we operate in," she said. "People say, 'Oh, it's just a \$20 or \$30 copay.' They assume [hospitals] make enough money they should be able to afford it. But I don't think people understand that \$20 or \$30, that could be the difference in whether or not we're able to invest in services."

In recent years, Essentia made changes so that anyone within certain income limits automatically qualifies for 100% of their balance to be written off. Wilson said Essentia Health also sends letters up until 270 days after a patient's first billing statement before starting the collections process if they do not hear from the patients.

Wilson said no medical provider wants patients choosing between a medical bill or having their basic needs met. She said the Revenue Recapture program helps with this.

"We don't want to burden the courts with those types of things and we don't want to ruin people's credit, but again if people have the ability to pay, this is just another mechanism for them to be able to pay and in many cases they'll say that's fine," Wilson said.

Taxpayers can [dispute a plan to take](#) their refund through the Office of Administrative Hearings but few do. The hearings are conducted in person or by phone. Hospitals must prove the debt is owed with bills or collection letters and show they gave the customer timely notice that their tax refund would be taken.

But only 26 revenue recapture related cases came before the Office of Administrative Hearings between 2014 and 2019, and only six of them were against hospitals, according to records obtained by the Star Tribune. Only three people who disputed the medical debt won.

One taxpayer was able to have \$1,382.97 returned to them after a hospital representative failed to show up for a prehearing. Another person's workers' compensation covered the cost. The third had car insurance pay off their medical debt after an accident.

Hatch and Swanson said they often receive calls from lawyers asking how to navigate the Office of Administrative Hearings. The process for nonlawyers can often be even more intimidating.

In 2010, Richard C. Seng was surprised to see a letter from Life Link III saying he still owed \$292.98 from his fall off a boat on Lake Minnetonka several years earlier. After his accident, he was taken to Fairview Ridges Hospital and then airlifted by Life Link III to HCMC.

At the time of the accident, Seng recalled he didn't have the money to pay the debt and after not hearing anything "thought it was behind me."

"It snags some people when they're having the hardest moments in life from medical illnesses and issues, and the state takes out more than you were relying on," Seng said.

He said he asked for an itemized list of how they came up with the fees he owed. He said the hospital simply sent another bill with no explanation of specific services he received. Seng asked Life Link III to [set up a hearing](#) with the Office of Administrative Hearings but a work event came up that day and he could not attend.

Life Link III got his tax refund.

On a better payment plan

Hehn's dilemma began after a visit to Regions Hospital in 2016. Doctors found the tumors were caused after years of taking oral contraceptives.

Now, "because of the genetic lottery I got," Hehn, 46, said she is anticipating being billed \$1,600 each year to go to a doctor to check that the tumors are shrinking.

Hehn initially made payments whenever she could toward the \$3,476.55 she owed, but some months she could not. The first time the state took her refund, Hehn had been planning to use it to move out of an apartment where she felt unsafe. When she realized her income tax refund wasn't coming, she dipped into her 401(k) to pay for her move.

Not having a choice in how she used her tax refund bothered her.

"Everyone has a choice but at some point you throw your hands up and say, 'What else do you want me to give up to pay this bill?'" Hehn said.

Typical refund taken is less than \$450

For privately-owned companies that have used the program most since 2014, even small amounts of money over several thousand refunds can amount to millions in revenue.

AVERAGE AMOUNT RECAPTURED FROM A TAX REFUND, 2014-2019

Medical company (Total revenue from recapture program, 2014-2019)

Lakewood Health System (\$6.2m)	\$432
Centracare Health-Monticello (\$3m)	\$419
Gold Cross Ambulance Service (\$5.4m)	\$399
North Memorial Ambulance (\$11m)	\$392
Firstlight Health Systems K.C. (\$4.8m)	\$392
Essentia Health-Virginia (\$2.1m)	\$392
Allina Medical Transportation (\$9.2m)	\$388
Hutchinson Health (\$4.4m)	\$379
Glencoe Regional Health Services (\$3.4m)	\$347
Regions Hospital (\$21m)	\$330

Chart: C.J. Sinner, Star Tribune • Source: Minnesota Department of Revenue

Regions has taken Hehn's income tax refund for the past four years. When she calls to find out how much she owes, she's often met with multiple phone transfers or being told she could not talk to hospital billing staff in person. It's not easy for her to take off work with the city of St. Paul, where she's a paralegal.

She has had to call a collection agency and make a minimum payment of \$35 "and two phone transfers" before she can see a doctor at HealthPartners, which owns Regions.

"It affects your whole body when you know that you have debt and you want to be responsible," Hehn said. "Every time I call and talk to billing specialists I have so much anxiety I can't even finish the conversation, I want to cry."

James Bellamy, a spokesman for Regions, said in a statement that the hospital is "committed to helping our patients pursue every option possible to cover their health care costs through existing avenues such as insurance, government programs and charity care."

"Revenue recapture is a last-resort measure that is used after exhausting other options," Bellamy said. "It's one of the final steps in a process that takes each patient's specific financial situation into consideration."

Hehn now says she is on a better payment plan of \$119 per month, and anticipates getting her refund next year. But she could do that only because her partner shouldered their household costs while she paid down her medical debt. She is still going to take her annual MRI for the tumors in her liver and is slated to have better insurance after getting married next summer.

"I want to make sure I'm not going to die," Hehn said. "I'm not walking away from my medical bills on purpose but I need to eat. I need my car to get to work so I can hopefully try and make payments on my medical bills."

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