Healthcare Debt Sales
Tips to Boost Revenue and Effectively Manage Patient Relationships
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Healthcare Debt Sales:
Tips to Boost Revenue & Effectively Manage Patient Relationships

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Today’s Speakers

Lyman Sornberger

Mark Detrick
Prior to forming Health Care Solutions in 2013, Lyman Sornberger was with the Cleveland Clinic Health Systems since 2006 as the executive director of revenue cycle management (RCM) for the Cleveland Clinic Health System (CCHS). Prior to his affiliation with CCHS he was with the University of Pittsburgh Medical Center (UPMC) for twenty two years as a leader in the revenue cycle management. Mr. Sornberger has great admiration for both health systems (each with revenues of greater than $6 billion) and highly respects their missions, vision, and strategies.

In the past twenty-nine years he is proud to have served as a consultant and advisor with various healthcare practices across the country. He has authored over 2200 articles for HFMA, AAHAM, and other leaders in the revenue cycle arena.
Mark Detrick first entered the collection industry in 1993 when he worked for Medaphis Services Corporation, serving as the company’s group controller and then chief financial officer. Mark was one of the founding partners of Attention, LLC serving as CFO from its founding in 1999 until it was sold to West Asset Management in 2002. From 2002 to 2006 he served as SVP of strategy at West Asset Management.

In 2008, Mark became one of the founders of Capio Partners where he served as CFO until December 2012. On January 1, 2013, Mark assumed the role of CEO of Capio Partners.
Introduction

• Challenges and Trends in Healthcare Finance
• Patient Payment Experience: A Typical Billing Cycle
• Medical Debt Sales
  • Financial Impact
  • Patient Behavior
• The Process of Portfolio Sales
• Advice for Providers: Ensuring Your Portfolio is Composed of Patients with the Ability (But Not the Willingness) to Pay
Did You Know...

...That over 500 hospitals have sold at least one portfolio of bad debt accounts?

By selling late stage self-pay balances they have realized millions of dollars in increased profit!

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Industry Stakeholders

Physicians
Payers
Patients
Physicians & Hospital Executives Challenges

- Rising Self Pay Populations
- Growth of Underinsured Populations
- Increases in Hospital Bad Debt
- Bottom Line Declining
Payers Challenges

- Employer Behavior
- Contracting Leverage Declining
- Failure to collect Out-of-Pocket/POS Revenue

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Patient Behavior, Pre-Sale
Patient Behavior, Post-Sale

Payment Cycle

0% 25% 50% 75% 100%

Bill No. 1  Bill No. 2  Bill No. 3  Final Bill  Agency Bill No. 1  Agency Bill No. 2  Agency Bill No. 3  Debt Sale

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Bad Debt

Charity Care Bucket: Patients who legitimately cannot afford to pay

Bad Debt Bucket: Patients who are unwilling to pay
Hospital Program Offerings

• Many Hospitals Offer 200-400% of Federal Poverty Guidelines for Charity
• Medicaid Coverage Assistance
• Credit Card Payment
• Loan Programs
• Discount Options
• Payment Plans

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Remember When 12-15% Recoveries Were Cause For Concern?

• Historically, hospitals have written off about 3-5% of revenues to bad debt

• Today that number is trending toward 7-9%

• Providers recover less than 9% of every dollar of healthcare self-pay bad debt
Why Sell Medical Debt?

- If you can increase collections by $100,000 through improved practices and your net margin is 2%, that additional recovery is the equivalent of generating $5 million in new revenue for the same bottom line impact.

- As a provider, there are many things you can’t change, like Medicare reimbursement rates, but you can improve your revenue cycle through improved collections.
Debt Sale Goals

• The sale of bad debt accounts can serve as a “booster” or supplement to what you’re already doing. It can also serve as an alternative or substitute to your current collections program.

• The goal here is to boost your overall, long term performance and accelerate a quicker recovery of your funds…
A Simple Process

- Forward flow agreement
- As a creative option a buyer will purchase older accounts in a one-time purchase of “archive” accounts using analysis of placements and past collections performance
  - Age of accounts can vary by state
- Agree on price; funding date
- Buyer will collect on purchased accounts
Options: Forward Flow Sale

• Sell accounts after placement with primary agency for 120 or 240 days. This sale represents a “secondary” placement or forward flow program.

• For example, if you sold $100 million of placements per year, and the price was 75 basis points, you could generate an additional $750,000 per year.

• Using the same calculation above, your organization would have to generate an additional $37.5 million in revenue to create this same bottom line impact with a 2% margin.

• Using the industry’s average 9% liquidation rate, this new, additional forward flow, secondary sale would represent a 9-14% increase in net recoveries overall.
You Can Be Creative

- When a hospital sells on a forward flow basis, there is a backlog or “archive” of old accounts that have been closed and returned from agencies.
- This “archive” is an additional sale based on the same analysis as the forward flow. Pricing will be different given the aging and other factors of the overall portfolio.
- This type of sale, provides the hospital additional revenue in a one-time boost to the bottom line.
Options: Backlog Sale

• If a hospital typically placed or wrote off $100M annually to bad debt and 90% of that was unrecovered (national average)... looking back 3 years would create a portfolio of about $270M

• A sale of those accounts at 1/3 of 1% percent of face value would generate a (cash) payment to the hospital of $900K

• Remember: These are very old accounts, a hospital would expect little or no recovery by warehousing under an inactive collection status
“Selling bad debt accounts is a creative means to offset the continued decreases in payer reimbursement, which left unchecked will ultimately destroy your bottom line.

The key is choosing the right partner that will work with you to create a smooth process and will understand and support your collection philosophies.

Without question I would do it again.”

Lyman Sornberger
Managing Patient Relationships

• Effective leaders in healthcare have minimal concerns with selling debt when they are confident in their internal collection practices

• Organizations that offer various means/options to pay [i.e. payment plans, loan programs, etc.] recognize that many options are provided for those with the ability to pay

• Selling debt changes patient behavior for those that did not or would not pay historically

• Increased out of pocket expenses and decreased collections of those patients “able” to pay is deteriorating providers’ bottom lines

• Providers deserve to be paid for services rendered to continue to provide the best patient care!
Key Tips and Takeaways

• Ensure that your internal options are patient friendly, minimizing challenges in the debt sales process
• Finding the right partner is critical to your success
• Insure that your debt buyer supports your mission, vision and collection philosophies
• Target patients that have the ability to pay and are just unwilling to reimburse the provider for services
• Your customer service area is the hub for tracking the compliance of the debt buyer
Questions?

And my question to you?
Why Wouldn’t You Do It?

It’s the right thing to do!
Thank You

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