Tips to Prepare for the Rise in Healthcare Bad Debt

*a prescription for hospitals’ fiscal well being*
Introduction

The rising cost of healthcare has captured national attention for over two decades. This comes as no surprise given that healthcare spending accounts for approximately 1 in every 6 dollars spent in the United States each year. Primary causes for rise in bad debt include: a down economy resulting in job loss (resulting in an increase in the amount of self-pay); and employers passing the rising costs of insurance premiums, co-pays, and deductibles on to their employees.

Meanwhile healthcare providers must deal not only with declining payments from all payers, but also face some troubling yet unmistakable facts: more treatment of the growing population of baby boomers and their increasing medical needs; increased number of uninsured or underinsured individuals; larger co-pays and deductibles passed on from employers to employees and Medicare eligible seniors; and the resulting increase in self-pay patients.

Although hospitals and physicians understand the inevitable changes they will likely face in the future, they must find some short-term relief from rising healthcare costs, the poor economy, and a staggering increase in bad debt. Without solutions to address this non-clinical aspect of medical care, the delivery of medical care itself may be adversely affected.

What the healthcare industry needs today is a clear prescription for fiscal well being from qualified service partners. A solution that assists healthcare organizations in taking a proactive stance to address current bad debt loads now and prepare to handle increasing bad debt in years to come.

The Rise in Healthcare Bad Debt: By The Numbers

The following statistics help build a framework for managing patient payment processes today that will help avoid the burden of bad debt in the future.

- A 2010 survey by Chicago-based credit agency TransUnion of 46 healthcare organizations in all 50 states found that almost 75 percent said the current recession had done more damage than the 2001 downturn. Additionally, approximately two-thirds (65 percent) of survey respondents indicated their healthcare organization has a bad debt percentage of between 1 percent and 5 percent. About 23 percent indicated they have bad debt percentages between 5.1 percent and 10 percent.

- Currently, the amount of bad debt accumulated by hospitals across the country is estimated at $40 billion to $60 billion a year, according to TriCap Technology Group, a firm that matches hospitals with medical debt purchasers and debt servicing companies.
Looking at future trends, Towers Watson & Co. published a summary of results from a new health employer survey that tracks employers’ 2010, 2011, and 2012 strategies and practices. The survey was completed by 588 employers between November 2010 and January 2011. It found that “employers expect average costs for active health care benefits to increase by 7% in 2011, up from a 6% increase in 2010, the survey concludes.” The total anticipated annual costs per active employee are expected to reach $11,176, up 7.6% from $10,387 in 2010. And the average employee’s share of costs in 2011 is expected to rise 11.8%, to $2,660.

Each of these findings point to increasing costs for patients not only the form of increased contribution to premiums, but also an increase in the self-pay portion of responsibility such as co-pays and deductibles.

Complexities Built into the Process of Self-Pay

The statistics above highlight some obvious facts regarding the financial effects of the complex nature of the healthcare payments cycle. When adding in multiple payers, deciphering patients’ self-pay balances, and the inherent difference between inpatient and outpatient settings, the complexities multiply. The third party payer system alone causes problems that begin with pre-service at pre-registration, registration, scheduling, and admission. Few other industries add multiple layers of permission-based access before service can be rendered.

And yet systemic challenges do not cease once the patient has received care. Unlike almost any other service industry, clinical documentation must be gathered, reviewed, finalized and summarized. Only then can the final bill be submitted – to the third party payer. Providers must play the waiting game to receive their due payments from third party payers, and eventually patients. Once the patient receives information regarding his or her remaining self-pay balance, providers must make “next steps determinations” if those patient accounts become delinquent, collectible, or eventually uncollectible bad debt.

Three Steps for Healthcare Providers to Reduce Self-Pay Bad Debt Immediately:

1. **Start the dialog with patients early in the process.** Providers who communicate with patients at pre-registration and scheduling about co-pays and deductible set clear expectations regarding payments and efficiently identify those individuals who are entitled to financial assistance or who may qualify for charity care.

2. **Utilize services and tools to help with verification and eligibility for benefits.** Including public assistance, to qualify patients for programs, assist with the applications for Medicaid and provide help in the application process. “Propensity to Pay” determinations can also take place prior to service.
Collect some form of co-pay, down payment, and deductible or make payment arrangements prior to service. Studies show that chances of collecting payment drop by as much as 60% after the first visit. Having the flexibility of multiple options of payment, increases your chances of collection and reduces the percentage of self-pay balances that end up as bad debt.

Classification of Bad Debt vs. Charity Care

While dealing with the complexities of the compensation system, providers must also check and classify their bad debt and charity care buckets. Accounting for each must not be co-mingled. Regulatory scrutiny over uncompensated care has increased, and the impact on healthcare providers has been significant. The IRS recently updated form 990 Schedule H to report and track uncompensated care expenses. Proper documentation of uncompensated care is required for most not-for-profit hospitals in order to retain their not-for-profit exemptions. Several associations representing the healthcare industry continually work with the IRS to simplify and define what constitutes charity care, but the bottom line is that hospitals will continue to be compelled to properly determine patient eligibility for charity care, how those cases are documented, and how they are reported to the IRS to avoid penalty assessments for non compliance or risk losing not-for-profit status altogether.

How is Your Healthcare Organization Preparing for the Inevitable Increase in Bad Debt?

Ask yourself these questions:

- Are your Net Days A/R over 45?
- Is your hospital’s bad debt over 5 percent of total revenue?
- Are your Days in Total Discharged Not Final Billed (DNFB) over 4?
- Are your Pre-Service Point of Service Collections increasing on a year over year basis?
- Are your self-pay collections increasing on year over year basis?
- Has your charity care as a percentage of revenue been increasing on a year over year basis?
Do you check for charity care, Medicare and Medicaid eligibility prior to admission?

Do your ED admissions receive the same eligibility and verification of benefits as inpatient admissions?

Do you collect a co-pay, deductible, or down payment prior to treatment?

Do you offer payment arrangements, accept partial payments, or offer discounts for prompt payment?

Do you offer convenient and flexible payment options such as online bill payment?

Do you offer credit or financing options?

Consider these changes, solutions, alternatives:

By developing a comprehensive yet flexible approach for self-pay resolution, providers can address the primary cause for rising bad debt – increased patient financial responsibility – and improve their organizations’ financial performance by helping patients understand (and pay) their financial obligations. Healthcare providers will truly benefit from an easily adaptable approach, one more commonly found in a full-service partner rather than a one-size-fits-all software solution.

The end result of a partner-based strategy will be a custom-fit service based upon the healthcare providers’ unique needs (not the limitations of an off the shelf software package) that simultaneously assists patients in finding various options for paying their medical bills. The bottom line outcome of a holistic, partner-based approach grants healthcare providers the benefits of less costly service, with simple and efficient implementation, that improves cash collection by reducing bad debt.
About NCO Healthcare Services

NCO Healthcare Services is part of NCO Group, Inc. and focuses on meeting the revenue cycle management needs of more than 2,000 healthcare organizations. Providing services from first point of patient access through health information management and collections, NCO Healthcare Services consults with healthcare organizations to provide solutions customized to meet their needs. These customized solutions increase customer satisfaction, reduce costs and increase financial return on investment. In May 2011, NCO Healthcare Services’ Eligibility Patient Advocacy Liaison Services (EPALS), Extended Office Services (EOS), and Bad Debt and Legal Recovery Services were all granted the “Peer Reviewed by HFMA®” designation, an extremely important distinction for organizations serving the healthcare industry.

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