Reversing the Trend of Bad Debt

Revenue Cycle Management and Hospital Financiers Must Confront This Trend Together in Order to Reap its Rewards.

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Yes, bad debt is on the rise everywhere including hospitals. However, you still have the power to decide how to react to this trend. At a high-level, there are two strategies:

A. Wait to see if international healthcare will be adopted by the United States; or
B. Take action to streamline and improve the processes that impact your hospital's bad debt.

Most of us would opt to control our destiny, and adopt strategy B. After all, with industry analysts such as Lehman Brothers reporting that bad debt expenses for hospitals could reach as much as 17%, now is not a good time to sit back and wait.

Unfortunately, there is a stalemate.

Executive Leadership; Limited Purse
In recent years, the direction from many hospital board rooms on how to minimize bad debt was to add more visibility and high-level attention to the revenue cycle side of the organization.

A new position, the Vice President or Director of Revenue Cycle, was created. This executive was tasked with improving the hospital's bottom line by implementing changes and minimizing bad debt by improving collections and patient payment communications, and streamlining its charity care programs – but given a meager budget to do so until s/he demonstrated savings. Unfortunately, changes cannot be achieved with a budget to purchase new systems, enlist alternative collection agencies, train internal staff and more.

When these Vice Presidents approached the board to secure the actual amount of funds necessary to launch the needed changes, the response was most often, '*show us the savings first, and then we'll invest in the plan.*' However, without sufficient budget, significant savings couldn't be demonstrated.

Unfortunately, this game of what comes first – savings or budget – has kept many hospitals at an impass and prevented them from achieving the cost savings they all desired.

Breaking the Impass
As bad debt increases, the cost of doing nothing is high and getting higher. Instead progressive hospitals are breaking this cycle and wisely invest in automating process that will provide payback in **6-12 months**.

The following are two strategies that deliver rapid return-on-investment (ROI) and can cut bad debt by 50% or more:

<u>Strategy #1: All Bad Debt Isn't Bad Debt</u>
Too often accounts that are tagged as bad debt, should never have been in the hospital's billing system in the first place. Often 25-50% of bad debt accounts qualify for government programs, such as Medicaid, or the hospital's charity care program but were not screened properly at registration.

This misclassification can cost hospital hundreds of thousands of dollars, if not millions, over time. Not only do they negatively impact a hospital's financial health, they also incur collection costs on accounts with little or no chance of payment. This is simply throwing good money away.

By using an automated screening system, hospitals can easily verify whether or not a patient's income and demographics qualifies them for government programs or charity. If done consistently with every patient and at the point of registration, a hospital should never expend resources to collect from these accounts. Instead, those resources can be used to improve collections on the remaining accounts that are collectable.

By removing qualifying charity and government aid accounts from bad debt, a hospital has a healthier balance sheet. By reclassifying bad debt using an automated system to screen for charity accounts, many hospitals can shift 1.7% or more of bad debt to charity by enrolling all qualified patients in their charity care program.

Real-Life Example – Novant Health:
Since automating its screening process, Novant has more than tripled its number of charity cases and experienced a 50% decline in bad debt. For accounts sent out to collections, there is also a greater expectancy for payment as we have validated all contact information and provided the initial income screening for determining the patient's ability to pay.

Lesson 2: Validate Each Patient's Identity & Address
Identify theft is on the rise, especially in healthcare as patients are paying more and more of their hospital expenses. In 2007, Good Morning America did a feature on the apprehension of a Texas ring of individuals who had used false identities to secure hundreds of thousands of dollars of healthcare services from local hospitals. Unfortunately, this case isn't unique.

Every patient entering the hospital must have their identity validated by a third-party service, regardless of their appearance or paperwork. By doing so the hospital can further repel fraud, remain unbiased in their operations, and validate the address to be used for billing purposes.

In 2007, we saw several hospitals use simple identity and address verification to reduce their returned mail by 50% or more. The financial gains were significant and also resulted in lower aging of accounts.

Real-Life Example – Mercy Hospital & Medical Center:

As an urban healthcare provider, Mercy's self-pay patient community is significant. Despite a recent push to have every patient present a valid ID, many patients arrive without proper identification. Mercy knew that with accurate demographics, they could eliminate some of their bad debt that resulted from inaccurate information.

Using a third-party solution, Mercy is able to validate the identity of their self-pay patients by making sure that a patient's date of birth (DOB), Social Security Number (SSN) and the patient's name match. Registrars are able to immediately confirm or correct this patient information within seconds using accurate demographic data.

An increase in accurate patient demographics has led to a reduction in return mail and increased patient satisfaction at Mercy.

Positioned for Greater Tangible Results
Revenue cycle executives and board members are often surprised by the savings their organizations can reap in a short period of time, with some investment in the above strategies. After reclassifying bad debt, and uncovering those accounts that should be allocated to a government aid or the charity care program, they reduce bad debt AND:

- Reduce processing time per charity account by automating the identification and enrollment process.
- Improve collection rates as charity accounts are no longer included.
- Produce more compliant IRS filings (e.g., 501(C)3) to prevent audits.
- Deliver better revenue cycle metrics and ratios:
  - Lower bad debt as a % of revenue
  - % of charity accounts may rise or remain stable, but all charity accounts are assured to fit defined criteria
  - Reduced aging or days in Accounts Receivable, as accounts are moved to charity at the beginning of the process and never reach collections

As bad debt rises, the reasons for inaction, and the current stalemates, need to be resolved. This trend is being reversed by hundreds of hospitals across the United States, who have chosen to change instead of wait for change.