

Analysis: Bad Debt Accounts Could Often Be Collected

Self-pay management system addresses missed opportunities

An analysis of 40 health care service providers' aged trial balances (ATB) showed that about half of accounts written off as bad debt could have been paid by patients. Another 17 percent of accounts could have been eligible for government assistance or charity care programs but were also written off as bad debt.

"As the number of self-pay patients rises, so does the urgency for health care providers to adopt systems that effectively and efficiently deal with these accounts, whether they involve charity care, government assistance, discounting, or simply collecting appropriate payment on the front end," according to Earl T. Winter, Chairman and Chief Executive Officer of nTelagent, the Nashville, Tennessee-based company that conducted the business analysis. "Often these accounts are written off as bad debt, a policy that has been accepted as a standard practice. Providers should embrace the more proactive approach of ensuring these patients receive appropriate financial assistance, and, in doing so, increase their net revenue. It's a win-win situation for everyone involved," Winter says.

Startling Results

As noted, a review of ATB reports from 40 health care service providers across the country revealed that approximately 50 percent of the accounts were written off despite showing a capacity to pay. For example, 16 percent were classified as having a high household income and/or high net worth, and 33 percent were classified as having a moderate household income and/or moderate net worth. Instead of being written off as bad debt, these accounts with a high or moderate ability to pay could have been re-billed or outsourced for collections.

Of the other accounts written off as bad debt, 17 percent were classified as having low household income and/or low net worth, indicating that they could have been evaluated for government assistance programs (e.g., Medicaid or local or state programs) or charity care processing. Finally, the study showed that over 30 percent of accounts were written off as bad debt because income and net worth data were unavailable. This means that adequate personal information was not collected or verified at pre-registration or at the point of service.

Front-End Programs Needed

As we often report in these pages, this study showed that there is a need for providers to implement an effective front-end accounts receivable (A/R) solution. "Missed opportunities for collection are tremendous, and with an appropriate system in place, hospitals and other providers can dramatically improve up front collections and reduce bad debt, as well as consistently handle charity care cases," Winter said.

Bad debts result when a patient who has been determined to have the financial capacity to pay for health care services is unwilling to settle the claim, whereas charity care is provided to a patient with demonstrated inability to pay. Bad debt is widely viewed by industry experts as the leading culprit behind the rapidly deteriorating financial conditions in the health care system. A Health Forum/American Hospital Association Annual Survey reports that in 2006, registered community hospitals provided \$31.2 billion of uncompensated care (including charity care and bad debt), or 5.7 percent of their total expenses.

The System

For *Health Care Collector* subscribers who are interested in investigating it, nTelagent has a product called the Self-Pay Management System that could offer a solution for providers looking to improve the handling and documentation of their self-pay accounts. The Self-Pay Management System may help health care providers increase up front cash and overall collections by providing registrars and financial counselors with interactive scripts that integrate patient demographic information with each provider's unique business policies and rules. The system automatically identifies discounting and charity care options when applicable, and helps to ensure that patient financial accounting—for both insured and uninsured patients—is handled appropriately and in a non-discriminatory manner. The result can be improved cash flow, A/R, and profitability by reducing bad debt and improving the revenue cycle process for patients who must pay a portion of the bill through payment requirements, such as co-pays, co-insurance, and deductibles.

For more information, go to <http://www.ntelagent.com/>. ■