

# Managing Bad Debt in Unmanageable Times

Chris Johnson  
Carolinas HealthCare System

Carolyn Swanson  
CSwanson Consulting and AR Management

# Is This Your World Today?

Facility	2011			2012			2013		
	Gross Revenue	Cash	% Gross Revenue	Gross Revenue	Cash	% Gross Revenue	Gross Revenue	Cash	% Gross Revenue
A	453,568	128,815	28%	521,556	138,352	26%	590,030	142,752	24%
B	2,929,571	1,011,678	34%	3,230,857	1,066,591	33%	3,629,133	1,090,465	30%
C	440,377	140,295	31%	506,782	149,558	29%	593,075	162,594	27%
D	173,462	59,912	34%	188,667	61,557	32%	218,299	63,059	28%

Multiply Dollars x 1,000

# Decreasing Reimbursement

## The Perfect Storm

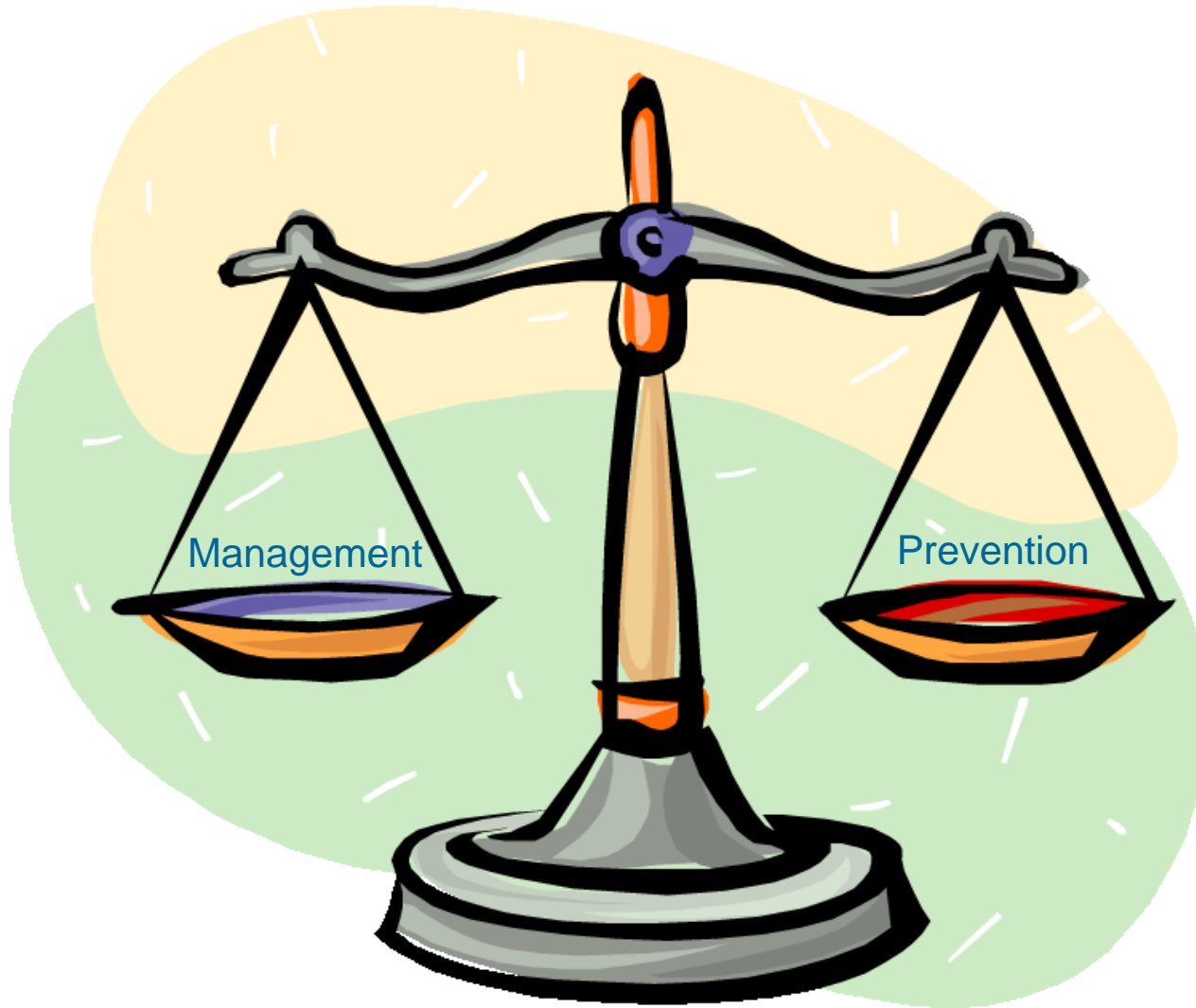
Community General Hospital – Annual Cash Collections  
\$143,214,336

- 2013 Medicare Decrease - \$2.4 Million
- 2013 Medicaid Decrease - \$2.2 Million
- 2013 Managed Care (BC) Decrease - \$800,000
- 2013 Worker's Comp Decrease - \$600,000
- Affordable Care Act
- Increasing Use Of High Deductible Health Plans
- 501r Regulations
- Wavering Public Support Of Hospitals

# Session Objectives

- Understand The Impact Bad Debt Has On Financial Performance
- Create Tools Which Will Allow You To:
  - Manage AR Movement
  - Analyze Your Elective Revenue
- Determine Departments/Locations That Experience The Highest Level Of Bad Debt Contribution
- Learn To Identify “Hidden” Areas That Can Cause A Hit Without Recognizing It
- Gain In-sight On How To Educate Key Stakeholders On Facility/Department Specific Issues And Opportunities

# What to do With Bad Debt?



# Current Industry Best Practice Tools

## Prevention

- Pre-registration (98% Scheduled Patients)
- Point Of Service Collections - Solid Process
- Registration Quality Measurement Tool
- Medicaid Eligibility Program/Charity
- Automated Insurance Eligibility Program (Verification)

# Future State Tools - Best Practice

## Prevention

- Solid Financial Clearance Policy
- Accurate Price Estimation Tool
- Propensity To Pay Tool
- Account Segmentation

# Current State - Best Practice Management

- Defined Time Line For Account Movement Within Core Systems
- EBO – Vendor
- Financing Option(s) For Patients
- Primary Collection Agency(s)
- Secondary Collection Agency(s)
- Contingency Fees Versus Recoveries (Balance)
- Vendor Reporting / Performance Comparison (Analytical Assistance)



# Bad Debt Expense Bookings

- Hindsight Analysis



- Reserve Model



- Reserve Calculation

Bad Debt Expense is  
the Change in Required  
Reserve

## Examples of Models

- All AR > 180 Days
- All Patient Receivables > 30 Days
- Combination Of
  - Self Pay Billed +
  - Self Pay After Ins > 90 +
  - % of Ins Balances > 150

Understand your variables & track them closely...

# Standard Monthly ATB

## Where Is my Bad Debt Impact?

	A	B	C	D	E	F	G	H	I	J
1	SelfPay	IHUB	0-30	31-60	61-90	91-120	121-150	151-180	181+	Total
6	May-12	625,907	835,112	1,342,297	1,299,446	1,261,967	1,347,227	1,216,867	36,958	7,965,781
7	Jun-12	450,582	834,291	1,302,885	1,473,333	1,184,913	1,220,936	951,574	584,203	8,002,715
8	Jul-12	496,383	1,085,305	1,285,462	1,391,902	1,298,384	857,854	551,704	749,634	7,716,629
9	Aug-12	491,171	912,565	1,630,227	1,208,953	1,147,297	846,865	351,718	616,044	7,204,839
10	Sep-12	438,965	901,994	1,668,364	1,593,449	1,190,863	970,122	398,075	692,970	7,854,801
11	Oct-12	711,307	961,946	1,345,506	1,474,764	1,384,692	1,037,511	365,132	680,640	7,961,496
12	Nov-12	757,715	992,781	1,237,192	1,253,875	1,336,694	1,151,497	483,322	866,479	8,079,556
13	Dec-12	570,721	1,054,319	1,304,739	1,305,089	1,173,599	1,182,112	496,227	1,137,483	8,224,290
14	Jan-13	384,402	1,072,799	1,457,182	1,265,789	1,304,353	947,085	339,479	1,051,147	7,822,237
15	Feb-13	605,880	772,109	1,404,027	1,332,446	1,295,878	913,830	283,451	653,048	7,260,668
16	Mar-13	944,562	699,697	1,400,929	1,381,219	1,271,757	912,137	251,079	605,013	7,466,394
17	Apr-13	879,128	865,141	1,443,892	1,281,600	1,275,278	914,914	264,473	606,567	7,530,993

- Know which AR Segments are impacted by the Reserve Model
- Compare AR Time Line “today” with rules in effect during Hindsight Analysis, especially those impacting AR in buckets that drive Reserves
- Communicate

# AR Tools –Key to Bad Debt Reduction

- Review Weekly ATB - - - - 80/20 Rule
  - Top 20% Of Accounts Usually Equal The 80% Of Revenue
  - Push High Dollar Work List – Call Weekly (3-4 Days)
  - Create A Focus Team For High Dollar Accounts And Meet Weekly
- HIM - Push For Reduction In Days, Meet Weekly To Review Aged Accounts/Include CFO
- Financial Analyst – Worth Their Weight In Gold
- Review Of Payor Issues – Schedule Payor Meetings Monthly To Resolve Outstanding Problems

# AR Tools –Key to Bad Debt Reduction

- Track Movement Of SP Accounts (MCD To SP Or OTHER To SP)
- Hold Your Vendors Accountable For Performance
- Report Bad Debt Numbers By Department At Leadership Meetings
- Suggest Outsourcing Your Small Dollar Accounts At An Early Age... Your Staff Will Never Get To Them
- Accountability And Communication, You Can't Have Too Much

# Where Is It Coming From?

- Determine The Area(s)/Department(s) Causing The Greatest Negative Impact On Bad Debt Outcomes
- Analyze Your Bad Debt Inventory Based On Multiple Factors – I.E. Patient Type, Service Line, Insured Vs. Uninsured, And Potential Of Collection
- Review Length Of Stays/Weekend Extensions Due To Cardiac Issues Causing Denials (Example: Heart Cath)
- Create A Tool That Allows You To See Controllable Outcomes For Specific Departments – For Example - In The ED – Lower Acuity Levels Without Need Of Emergent Situations Or Unusual Physician Practice Patterns

# Bad Debt Recoveries Are Not Gravy

## Did You Know?

Hospital A		
Bad Debt	Grand Total	%
Payor		
SI	\$3,962,966	33%
SP	\$7,711,763	66%

Hospital B		
Bad Debt	Grand Total	%
Payor		
SI	\$6,037,330	30%
SP	\$13,475,521	69%

Opportunity To Improve Your Bad Debt Number Is Much Broader Than Pure Self-Pay

# Identify Bad Debt By Service Line

## Hospital A

Service	Write-off	%
EMD	\$3,903,255	33%
MED	\$3,293,992	28%
SUR	\$1,078,965	9%
CUCC	\$999,221	8%
OBS	\$935,932	8%
OPRMR	\$235,268	2%

## Hospital B

Service	Write-off	%
EMD	\$11,411,747	58%
MED	\$3,489,076	18%
SUR	\$2,031,196	10%
RAD	\$1,161,761	6%
PSY	\$470,324	2%



# Take A Deeper Dive – Patient Type

	Hospital A	
Pat Type	Write-off	%
ER	\$11,410,940	58%
IP	\$2,550,828	13%
OBS	\$1,726,767	9%
OPSG	\$1,633,051	8%
OP	\$1,267,480	6%
IPBH	\$462,061	2%

	Hospital B	
Pat Type	Write-off	%
ER	\$3,937,216	33%
IP	\$3,176,272	27%
OBS	\$934,743	8%
OPSG	\$1,218,716	10%
OP	\$2,358,696	20%
IPBH	\$130,068	1%

# Even Deeper

## ER LEVEL BAD DEBT SOURCE

Age	Acuity Level	Physician	Total Chgs	Primary Symptom
26	2	Shaw	7,600	Abdominal Pain
22	3	Patel	5,800	Headache
42	3	Jones	6,500	Lower Back Ache
53	3	Shaw	5,400	Lower Back Ache
33	3	Patel	3,725	Migraine
28	4	Patel	4,800	Abdominal Pain
40	4	Patel	3,600	Headache
29	3	Shaw	2,875	Neck Pain
62	4	Shaw	2,800	Headache/Vomiting
55	4	Shaw	3,300	Headache/Blurred vision
72	4	Shaw	4,400	Urinary Burning
55	4	Patel	11,000	Chest Pain
78	4	Patel	12,000	Trouble Breathing

# A Different Perspective - Collectability

Hospital A				
Account Balance	0 - 150	150 - 300	300 - 450	> 450
Total Balance	\$595,678	\$895,826	\$665,357	\$9,503,160

Collecting ½ of the balances less than \$300 would increase cash by \$745K

Hospital B				
Account Balance	0 - 150	150 - 300	300 - 450	> 450
Total Balance	\$331,064	\$682,669	\$1,057,671	\$17,460,588

Collecting ½ of the balances less than \$300 would increase cash by \$500K

## ED – Clear Opportunities....

- Obtain Administrative And Clinical Buy In Prior To Changing Current Registration, Billing Or Collection Processes
- Provide Point Of Service Collection Training To All Registration Staff To Ensure Message Is Consistent And Correct
- Ensure Registration Staff Are Versed In Interview Techniques To Capture All Appropriate Information On Potential MCD, Crime Victims, Auto Accident Or Any Other Payment Option For ED Patients

## ED – Clear Opportunities....

- Capture Sufficient Information During The Registration Or Discharge Process To Pursue Charity Classification If Appropriate
- Provide Real Time Insurance Verification Tool For Registration Staff
- Implement Bedside Registration Which Includes Collection Of Co-pays At The Time Of Service (EMTALA Compliant)
- Implement ED Patient Discharge Process To Ensure Patients Are Advised Of Balance Due
- Develop Tool To Monitor Staff Performance In Regard To Actual Collections Compared To Collection Potential

# Examine Every Area For Opportunity

Hospital A		
Service code	Write-off	%
EMD	-3,903,255	33%
MED	-3,293,992	28%
SUR	-1,078,965	9%
UCC	-999,221	8%
OBS	-935,932	8%

Hospital B		
Service Code	Write-off	%
EMD	-11,411,747	58%
MED	-3,489,076	18%
SUR	-2,031,196	10%
RAD	-1,161,761	6%
PSY	-470,324	2%

While ED Opportunity Is Significant Other Areas Should Be Addressed

# Hidden Opportunity



# Vendor Dashboard

Client Dashboard

Sample Facility

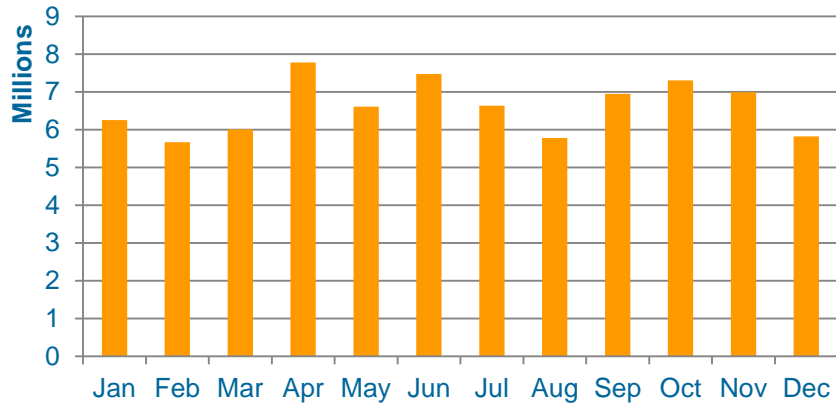
Report Period Covering From 06/01/2012 Through 05/31/2013

	December, 2012	January, 2013	February, 2013	March, 2013	April, 2013	May, 2013
Placements						
Amount Placed:	4,157,593	5,379,583	5,214,662	5,860,742	5,214,568	5,738,244
Accounts Placed:	14,577	16,072	14,895	17,790	15,086	19,123
Average Age:	66	72	62	63	71	68
Average Placements:	285	335	350	329	346	300
Payment Break:						
Private Cash						
Collected:	103,534	163,058	109,518	146,897	127,866	139,908
Other Cash Collected:	760,910	800,671	745,982	1,063,527	964,209	982,196
Total Cash Collected:	864,444	963,729	855,500	1,210,424	1,092,075	1,122,105
Placement Break:						
SP Dollars:	1,973,029	2,949,383	2,678,381	2,872,656	2,557,636	2,831,442
SP Count:	2,525	3,469	3,128	3,008	2,941	3,284
SP avg Age:	28	54	30	32	41	21
Other Dollars:	2,184,564	2,430,199	2,536,282	2,988,086	2,656,932	2,906,801
Other Count:	12,052	12,603	11,767	14,782	12,145	15,839
Other Avg Age:	74	77	71	69	79	77

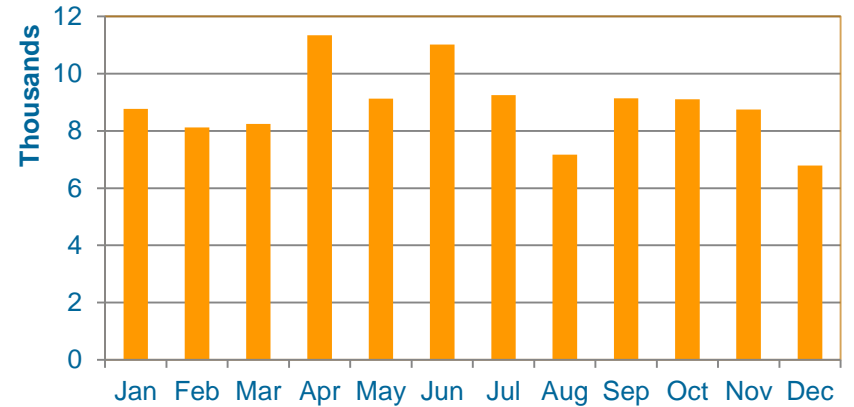


# Vendor Dashboard

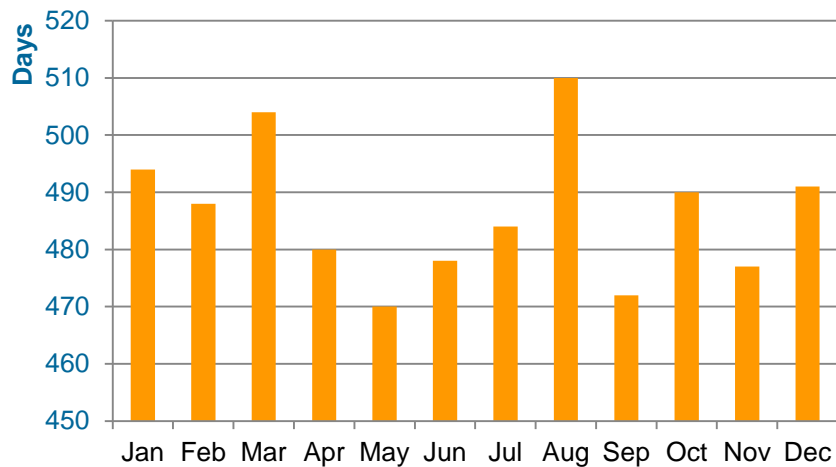
**Amount Placed:**



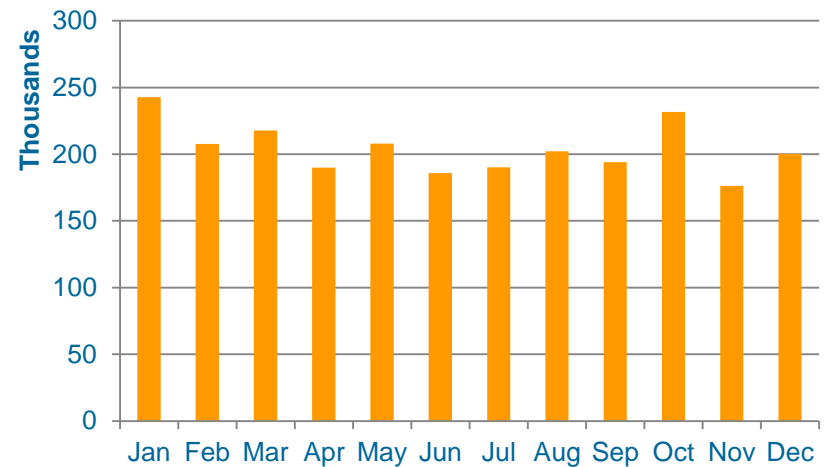
**Accounts Placed:**



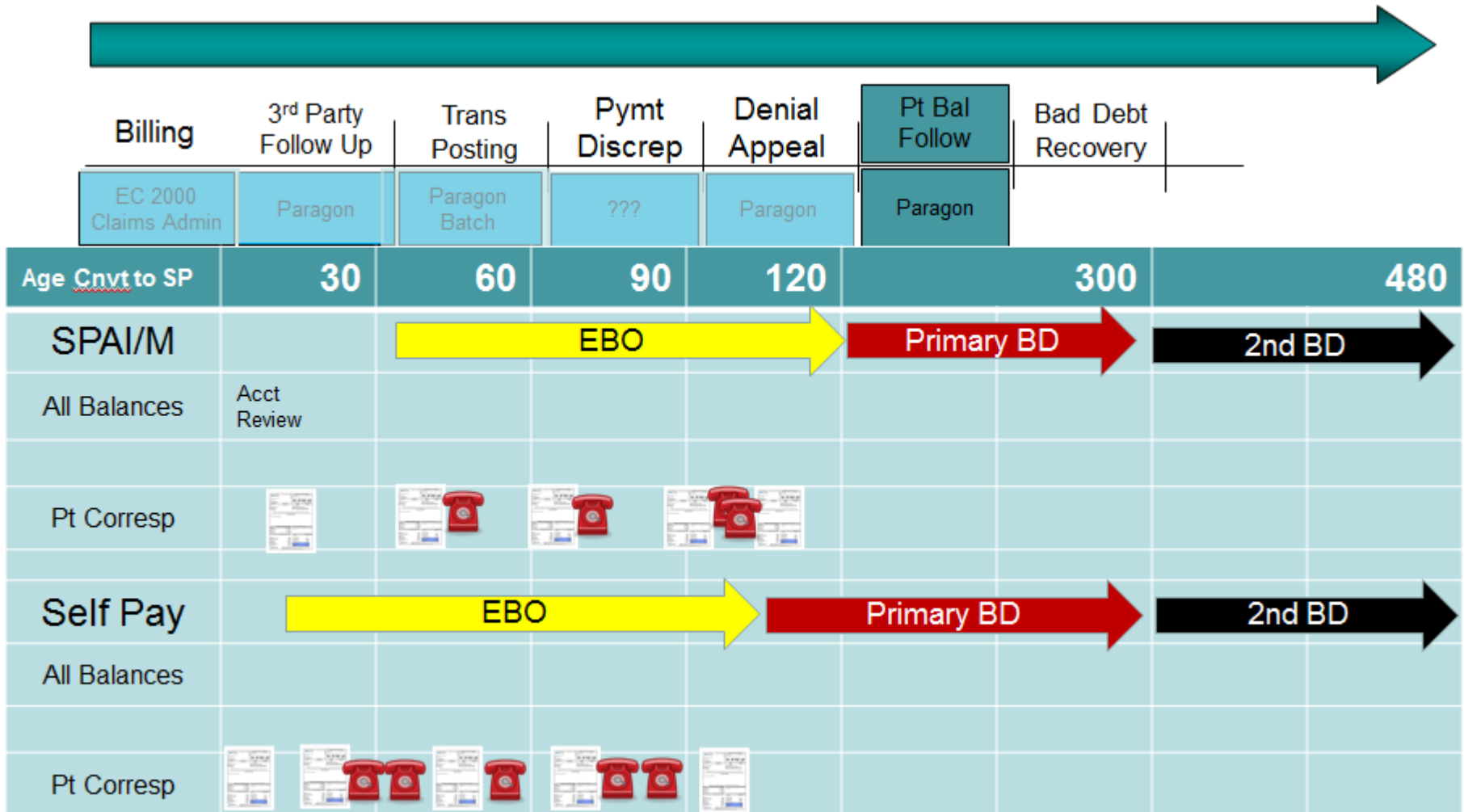
**Average Age:**



**Total Cash Collected:**



# Timed AR Account Movement



# Untimely Write Offs Build Up

SelfPay	0-30	31-60	61-90	91-120	121-150	151-180	181+
May-12	835,112	1,342,297	1,299,446	1,261,967	1,347,227	1,216,867	36,958
Jun-12	834,291	1,302,885	1,473,333	1,184,913	1,220,936	951,574	584,203
Jul-12	1,085,305	1,285,462	1,391,902	1,298,384	857,854	551,704	749,634
Aug-12	912,565	1,630,227	1,208,953	1,147,297	846,865	351,718	616,044
Sep-12	901,994	1,668,364	1,593,449	1,190,863	970,122	398,075	692,970
Oct-12	961,946	1,345,506	1,474,764	1,384,692	1,037,511	365,132	680,640
Nov-12	992,781	1,237,192	1,253,875	1,336,694	1,151,497	483,322	866,479
Dec-12	1,054,319	1,304,739	1,305,089	1,173,599	1,182,112	496,227	1,137,483
Jan-13	1,072,799	1,457,182	1,265,789	1,304,353	947,085	339,479	1,051,147
Feb-13	772,109	1,404,027	1,332,446	1,295,878	913,830	283,451	653,048
Mar-13	699,697	1,400,929	1,381,219	1,271,757	912,137	251,079	605,013
Apr-13	865,141	1,443,892	1,281,600	1,275,278	914,914	264,473	606,567

Reserve model can be inappropriately affected by lags in Write Offs

# Cash Opportunity

<b>Payor Intel Results</b>		
Number of Accounts with Self-Pay Status		16,221
Exclusions		-29
Other Exclusions		0
Net Number of Accounts Searched		16,192
Accounts with Active Insurance		414
<b>Overall Hit Rate</b>		<b>2.60%</b>
<b>Insurance Description</b>		
	<b>Count</b>	<b>Gross Charges</b>
Aetna	2	\$101
Cigna	57	\$204,421
Georgia Medicaid/Peachcare	2	\$1,897
Humana	10	\$30,178
Medicare/United Healthcare	8	\$6,516
Medicare	83	\$133,274
South Carolina Medicaid	87	\$98,539
Tricare	5	\$5,096
United Healthcare	78	\$101,313
BCBS South Carolina	82	\$185,995
<b>Total</b>	<b>414</b>	<b>\$767,327</b>

# Make Contingency Fees Work For You!

## Agency A

Annual

Placements

\$12,000,000

Recovery Rate

5%

Gross Recoveries

\$600,000

Rate

**12.5%**

## Agency B

Annual

Placements

\$12,000,000

Recovery Rate

5.75%

Gross Recoveries

\$690,000

Rate

**16%**

# Align Message, Goals And Strategy

- Create A Facility Financial Policy Written In Understandable Terms Which Can Be Highly Publicized
  - Ensure Collection Time Line Is Logical And Easily Explainable
  - Transparency Will Be The Key To Community Trust!
- Establish A Long-term Payment Option For Patient Who Need This Option (Potential Healthcare Credit Card)
- Obtain Administration, Physician And Clinical Staff Buy In To Support The Established Patient Financial Expectations
- Review PFS Department Goals With The CFO To Ensure There Is No Conflict Administration's Expectations
- Confirm The Message, Goals And Strategy Could Be Printed In The Local Paper (They May Be!)

# Key Trending Tools For better Reporting

- Establish A Daily Communication Tool To Update Key Stakeholders On Performance – Actual To Goal
- Produce Monthly And Quarterly Dashboard Report For Revenue Cycle Performance
- Three Keys To Success
  - Measure What's Important
  - Establish Targets For Each Metric
  - Require Accountability From All Stake Holders

# Sample Daily Dashboard



Daily\_Dashboard-2013-05\_xlsx.htm



# Patient Financial Service Composite Scorecard

## Regional Facilities through September 2012

\*\*\* Indicators are based on Quarter End Averages\*\*\*

	1st Quarter (end 12/31/2011)		
	Oct - Sept Fiscal Yr		
	Facility A	Facility B	Facility C
Cash Collections as a Percentage of Net Revenue (Cash Collections)	101%	92%	99%
Gross Accounts Receivable Days (Gross AR Days)	63.14	48.68	52.65
Discharged Not Final Billed Days (DNFB)	8.94	9.26	8.30
Billed Accounts Receivable Days (Billed AR Days)	50.79	37.57	41.49
Accounts Receivable Dollars > 90 Days	39.47%	28.3%	28%
Point of Service Cash as a Percentage of Total Cash	0.51%	0.58%	1.13%
Final Denial % of Gross Revenue <=3%	0.26%	0.15%	0.30%
Cost to Collect	1.70%	2.77%	3.61%
Gross Uncollectible as a Percentage of Gross Revenue (Gross Uncollectible)	9.86%	7.98%	9.35%
<b>PFS Composite Score</b>	<b>0.88</b>	<b>0.81</b>	<b>0.88</b>
	2nd Quarter (end 03/31/2012)		
	Oct - Sept Fiscal Yr		
	Facility A	Facility B	Facility C
Cash Collections as a Percentage of Net Revenue (Cash Collections)	101%	92%	90%
Gross Accounts Receivable Days (Gross AR Days)	63.82	50.49	59.97
Discharged Not Final Billed Days (DNFB)	8.90	9.14	8.05
Billed Accounts Receivable Days (Billed AR Days)	51.50	39.79	48.86
Accounts Receivable Dollars > 90 Days	39.15%	30.4%	31%
Point of Service Cash as a Percentage of Total Cash	0.53%	0.62%	0.94%
Final Denial % of Gross Revenue <=3%	0.23%	0.32%	0.34%
Cost to Collect	1.53%	2.55%	3.33%
Gross Uncollectible as a Percentage of Gross Revenue (Gross Uncollectible)	9.42%	7.24%	8.84%
<b>PFS Composite Score</b>	<b>0.90</b>	<b>0.80</b>	<b>0.80</b>
<b>YTD AVERAGE</b>	<b>0.90</b>	<b>0.80</b>	<b>0.83</b>

Overall Weighted Composite Score	Range	
	Min	Max
Threshold	0.75	0.80
Target	0.81	0.90
Max	0.91	1.00

# Questions? Need more Information?

Christopher Johnson

Carolinas HealthCare System

or

Carolyn Swanson

CSwanson Consulting and AR Management

704-488-6975

[carolyn@carolynswanson.com](mailto:carolyn@carolynswanson.com)

