healthcare registration

Aspen Publishers

September 2008 • VOLUME 17, NO. 12
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Changing the Status Quo

Moving collections to the front end of the health care revenue cycle

The US health care payment system processes $1.9 trillion a year, consuming 15 percent or more of each dollar spent on health care (compared with about 2 percent for the payment system in the retail industry). Expenditures on the processing of bills, claims and payments, bad debt, and other transactions total more than $300 billion a year.[1]

In today's fiscal environment, health care organizations must increase revenue and improve administrative and collections processes in order to remain successful and financially viable. In fact, the need for hospitals and other health care service providers to be proactive in increasing up-front collections has never been greater.

This is because the patient responsible portion of the bill has increased dramatically in recent years for a variety of reasons, resulting in a higher number of self-pay patient accounts. For example, trends such as increases in copayments, coinsurance, and deductibles for traditional insurance plans, and the creation of consumer-driven health plans—such as health reimbursement arrangements and health savings accounts—have shifted more financial responsibility to the individual patient.

Many employers continue to shift a greater share of health care costs to employees. Just consider this telling statistic: Since 2000, the average out-of-pocket costs for deductibles, copayments for medications, and coinsurance for physician and hospital visits rose 115 percent.[2]

Wolters Kluwer
Law & Business

In addition, the more than 49 million uninsured and 16 million underinsured Americans are considered to be self-pay patients, and these populations continue to rise. This does not take into account Americans in employer-sponsored plans who are being asked to contribute greater out-of-pocket amounts toward the cost of their health insurance premiums, deductibles, copays, and coinsurance.

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Many health care service providers are aware of the growing need to move collections from the back end of the revenue cycle to the front end—but most want to do so by "keeping the status quo." The tendency to rely on collection agencies and early-out solutions in lieu of modifying the front end appropriately has become the norm. In fact, most health care service providers are erroneously sending indigent and government program eligible patients to collection agencies.

The challenge for today's health care institutions is to become customer focused and performance based. These goals mean changing how they operate, beginning with pre-service and point-of-service patient interactions. It means changing the status quo.

One thing we can be sure of: The health care industry will continue creating challenges for providers, health plans, and patients on many levels. Some tactics of responding to these challenges are uncertain, and their effects remain to be seen. But there is a certainty in the debate on how best to meet health care's coming challenges: by establishing and maintaining a strong revenue cycle—from the very beginning to the very end.

The Challenges of Up-Front Collections

While those revenue cycle management technologies and services that encompass the entire continuum of care—from the front end to the back end—are widely recognized as being most effective, providers have historically focused on post-service billing, denial management, and collection activities. (That is, the back end of the process.) In fact, such large financial investments have been made to automate the back end of the revenue cycle that many health care service providers have been reluctant to abandon or significantly modify them.

Recent trends, such as the increase in self-pay accounts and the difficulties that come along with collecting individual payments post-service, have shifted revenue cycle focus to pre-service and point of service. Health care decision-makers and hospital chief financial officers across the country are on the lookout for technological enhancements that will save their organizations both time and money.

For health care providers, moving collections to the front end is such an enhancement. The process for making this change is simple, but not easy. It requires strategic execution, which means that once an issue is identified, there is action and accountability to make an impact.

And even if they have yet to focus on it, most organizations at least recognize the benefits of up-front collections. Among the benefits:

- Reduction of outstanding accounts receivable;
- Cash in hand sooner;
- Decrease in follow-up billing and collections (and the expense that goes along with outsourcing); and
- Better customer relations, because all parties are informed of responsibilities at the front end, so there are no "surprises" when the final bill comes.

Simply put, the sooner providers ask for what they are owed, the more likely they are to collect it.

Factors to Consider Before Moving Forward

In order to be successful in collecting payments up front, providers must have appropriate policies and business rules in place for all patient types. They must be able to assist all health care consumers irrespective of their financial profile, insurance status, or health care condition.

For example, providers must be able to consistently and efficiently handle the accounts of those patients who fall under the following categories:

- No insurance, but charity eligible;
- No insurance, but not charity eligible;
- A government program with copays, (Medicare/Medicaid);
- A government program without copays (workers' compensation); and
- A self-insured or commercial insurance plan with and without copays.

One strategy that will help organizations reduce the inefficiencies of denials—not to mention delayed or reduced payments and re-bills—is to determine the eligibility, benefits, and co-payments and deductibles for all patients from the outset. Today, it is more important than ever to determine whether patients' insurance or patients themselves are responsible for fees, and what portion they are responsible for paying.

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Successful up-front collections require buy-in not only from administration and staff, but also from the patients. Going one step further, management must ensure that staff members involved in collecting up-front payments receive appropriate training and efficient, effective tools to do their jobs.

Indeed, health care providers have a new ally in the fight to collect the revenue to which their organizations are entitled—one that has been right under their noses all along: registration and scheduling staff (*i.e.*, patient access staff). These individuals are the first point of contact for most patients, and they have the best opportunity to collect copays, deductibles, and coinsurances.

A dedicated up-front collections program allows these front-line employees to increase early cash collection through targeted yet discreet methods, as well as to establish various patient payment options to make revenue collection more efficient. In addition, a successful system will screen patients for eligibility programs and consistently apply discounting and charity policies where appropriate.

Although the details vary from state to state, under most current hospital payment systems, there is some reasonable payment to providers for uncompensated care, treatment, and service performed for the medically indigent. Demographic patient analysis can allow this type of care to be identified on the front end.

With an effective self-pay management system in place, providers can ensure patients receive visibility into their health care costs, their specific financial responsibility, and their payment options.

Meeting these goals requires tools specifically designed for the unique needs of health care organizations—tools that can capture, organize, and verify patient information. For this approach to work in health care, three components must be in place, according to a McKinsey Quarterly report:[3]

- Providers must be able to tell patients how much they will owe while they are still at the hospital or doctor's office. (The real-time adjudication of claims, while technically feasible today, could take years to gain acceptance in providers' offices. Meanwhile, providers could give good faith estimates by using pricing tools.)
- Providers must have systems to accept cash, credit, or debit payments. For hospitals and providers undertaking larger transactions, financing options should be available.
- Providers must become firmer at the time of treatment about requiring patients to arrange for payment, even if they have insurance coverage.

In order to spend their health care dollars wisely, consumers need to know their financial responsibility in advance. Many patients find the billing process that takes place in the health care arena to be the number one area of dissatisfaction with health care services. With an effective self-pay management system in place, providers can ensure patients receive visibility into their health care costs, their specific financial responsibility, and their payment options. This ability to effectively communicate an estimate of the patient's responsibility can result in dramatically improved patient relations.

Why the Status Quo Doesn't Work

Most patient accounting systems do not offer a payment solution that supports up-front collection efforts. In fact, front-line cashiers and registrars typically have no access to the availability of discount options, charity guidelines, and price transparency for the patient portion of the bill, even if they do know an insured patient's copays and deductibles.

Without the integration of all of this information, easily and quickly accessible, it is difficult to have a helpful conversation about the financial aspects of care. And the impact emergency department (ED) admissions have on hospitals' bottom lines cannot be overlooked. The ED is becoming the dominant source of hospital inpatient admissions.

Nationally, for the key medical service lines, seven out of ten admissions start in the ED.[4]

Many health care organizations simply lack the advanced payment capabilities needed to maximize their up-front collections and improve their revenue cycle management process in the ED area. In addition, adequate personal information is less likely to be captured in ED admissions due to the nature of the clinical care and patient access circumstances in this area.

The Importance of Offering Discounting Options

It is imperative that health care organizations have a strategy for dealing with the ever-growing self-pay population in all situations—from inpatient admissions to the ED to doctor's office visits to outpatient procedures. And this strategy must include tools and policies for consistently and appropriately offering discounts.

In many cases, self-pay patients are not offered discounted care, and hospitals effectively shift costs on to the uninsured. (The Centers for Medicare & Medicaid Services (CMS) has reassured hospitals that deductions for self-pay patients are permitted.) Over the past several years, federal and state lawmakers and consumer advocates have taken action to ensure that low-income uninsured and underinsured Americans are charged fair (*e.g.,* discounted) prices for their care and are protected from aggressive debt collection practices. Many health care providers are struggling to determine and implement proper, consistent processes for applying these discounts and sharing these prices at point of service.

With an effective up-front system in place, service providers can offer discounts at the point of service, taking into account a patient's current capacity to pay, total account balance, and type of service. This enables fairness and consistency in the discounting process, as truly needy patients are identified, compared with those patients who simply choose to go without health insurance, even if they have the financial ability to obtain it.

The Need to Help the Patient, Medically and Financially

Finally, out-of-pocket health care costs will only continue to rise, and patients will have increasing difficulty paying their debt. As a proactive, successful, caring facility, there are steps providers can take to help patients with their health care bills. Here are just a few ideas to consider:

- Move financial counseling to up-front collections so patients will know what to expect and your organization will know what it is going to be paid;
- Provide patient access areas with additional tools that enable them to increase efficiencies, automate work processes, and improve customer service;
- In addition to providing your patients with excellent health care services, offer superior patient financing options;
- Develop clear charity guidelines and make sure hospital staff members are adequately trained and adhering to those guidelines;
- Develop an up-front collection policy and adhere to the guidelines;
- Consider partnering with a lender instead of offering internal payment plans; and
- Develop a relationship with a patient loan company that can quickly approve and fund patient loans.

Conclusion

In the case of self-paying patients, the best practice is to determine financial responsibility from the outset. Organizations that are unwilling or ill-equipped to implement this practice pay dearly. And, as patients are required to take on more and more costs for their health care, the importance of this practice will grow.

Successful solutions to address the growing self-pay patient population deliver a rapid return on investment for health care providers. Results include the following:

- Improved revenue capture;
- Improved cash flow;
- Decreased insurance denials;
- Improved business office operations;
- An automated financial registration process;
- An improvement in days in accounts receivable;
- Better management of bad debt;
- Expanded payment options for patients, including discounting;
- Automatic identification of government program eligibility or charity care;
- Fewer billing errors;
- Improved patient relations;
- Decreased labor costs associated with the back-end posting and reconciliation process; and
- Decreased billing and collection costs as well as agency fees. ■

Notes

1. *The McKinsey Quarterly*, "Overhauling the US health care payment system," June 2007 (Web exclusive).
2. National Coalition on Health Care, *http://www.nchc.org/facts/cost.shtml*. Accessed June 4, 2008.
3. *The McKinsey Quarterly*, "Overhauling the US health care payment system," June 2007 (Web exclusive).
4. Healthcare Financial Management, "The emergency department as admission source," November, 1 2007.

Reader's Resource

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