



**From the Back to the Front:
The Current Evolution of Healthcare Collections**



An nTelagent White Paper

www.ntelagent.com

nTelagent, Inc., 330 Mallory Station Road, Suite B-3, Franklin, TN 37067
615-866-0483
Updated 2009

Table of Contents

Executive Summary	3
Background	4
Rising Bad Debt.....	4
Healthcare by the Numbers	4
The Importance of Predictive Modeling	6
Ensuring Operational Efficiencies	7
Conclusion	8
About nTelagent, Inc.	9

Executive Summary

For healthcare providers, the revenue cycle is a continuous process, beginning when a patient is identified as needing or requesting medical services and ending at the time payment is received and the account is closed. In the past, healthcare organizations have invested more money and more time in managing the back end, not the front end, of revenue cycle operations. However, as the number of self-pay patients grows, operational improvements on the front end can often result in a more dramatic bottom-line impact through increasing upfront and overall collections and reducing bad debt.

In fact, given current trends, **it is “mission critical” that hospitals and other healthcare providers take steps now to better manage and reduce bad debt, improve collection rates and increase cash flow.** Outside forces such as regulation changes, the growing number of uninsured and underinsured patients, and the consumer-directed healthcare movement are all shaping how healthcare organizations are managing their revenue cycles. The importance of effective, streamlined processes and systems to manage the revenue cycle can't be understated.

With a greater percentage of healthcare costs being placed on the patient, coupled with the growing number of uninsured/underinsured, providers can no longer rely on the certainty of payments from private insurance companies or government programs. Procedures must be altered to account for the growing number of self-pay patients.

At one time, healthcare providers could easily answer the following questions. That's no longer the case. To ensure a successful future, providers *must* be able

to answer these questions on the front end:

1. How am I going to get paid?
2. Who is going to pay me?
3. How much will I be paid?

A recent article notes: “Competition, low operating margins and high deductibles in consumer-directed health plans are all putting pressure on healthcare providers to pay even greater attention to accounts receivable (AR) management. ... Experts agree that focusing on front-end processes will help reduce time and money spent taking care of bad debt. Taking care of billing on the front end includes collecting co-pays upfront, accepting credit cards, checking balances of accounts and pre-certifying during the scheduling of appointments.” (*Source: www.healthcarefinancenews.com/story.cms?id=6160*)

Using a self-pay management system, hospitals and other healthcare providers can address the challenges of accurately and consistently handling self-pay accounts on the front end, increasing upfront and overall collections and reducing bad debt. Specifically, a self-pay management system should integrate patient demographic information with each provider's unique business policies, helping providers to predict payment probability and to determine which collection efforts are most productive, as well as to identify bad debt and charity cases on the front end. Such a system allows providers to collect the most money possible upfront and overall, while expending the least amount of resources. A self-pay management system also benefits the patients, ensuring all parties are treated in a fair, consistent, non-discriminatory manner.

Background

Since the advent of health insurance options, including private insurance, Medicare and Medicaid, the focus of collections for healthcare service providers has been on the back end. Before insurance, healthcare services were paid for and bartered at the front end -- just like most other products and services in the marketplace.

With recent trends -- such as increases in co-pays, coinsurance and deductibles for traditional insurance plans and the creation of consumer-driven health plans such as health reimbursement arrangements and health savings accounts -- collection efforts for service providers need to focus more on the front end, at admission and registration (i.e., patient access areas). Compounding the need to focus more on upfront collections are the more than 49 million uninsured and 16 million underinsured Americans.

Rising Bad Debt

Simply put, improving front-end operations can help providers better manage bad debt. Bad debt is defined as uncollectible charges from those patients *unwilling*, as opposed to *unable*, to pay for services rendered. Bad debt continues to be on the rise in the healthcare industry, and managing it is a complex and time-consuming challenge for healthcare providers. Consider these numbers:

HCA reported that its bad debt expenses for the fourth quarter of 2007 were 13.2% of revenue, about 21% more than the 10.9% level the company reported for the fourth quarter of 2006. Meanwhile, bad debt expenses for all of 2007 were 11.7% of revenue, up from 10.4% in 2006.

LifePoint Hospitals, meanwhile, saw profits drop 30% for fiscal year 2007, undermined not only by volume losses of 15% but also a rise in bad debt to 16%.

Financial issues like these can divert valuable time and resources that could be better spent on patient care.

An article in *Fortune* magazine clearly states one of the causes of this rising bad debt: "The problem, in short, is us. Thanks to increases in co-pays and deductibles, among other things, **individuals will be responsible for a growing percentage of health-care expenditures in the coming years. That reduces the amount of guaranteed payments to hospitals and increases their exposure to people who don't pay their bills.**" (Source: http://money.cnn.com/magazines/fortune/fortune_archive/2004/01/12/357941/index.htm) Add in the growing number of uninsured/underinsured, and one can see how the traditional back-end collections are no longer enough.

Barring dramatic circumstances (e.g., sweeping support for universal healthcare), the trends discussed above will only continue to increase, as individuals take on a larger and larger share of financial responsibility. Clearly, we have reached a mission-critical stage where healthcare providers must shift their revenue cycle focus to the front end, in order to address the changing payment structures brought on by the increase in self-pay patient accounts.

Healthcare by the Numbers

According to the Centers for Medicare and Medicaid Services (CMS), U.S. healthcare spending growth increased 6.7% in 2006, up from 6.5% in 2005 -- the slowest rate of growth since 1999. Healthcare spending continues to outpace overall economic growth and general inflation, which grew 6.1% and 3.2% respectively in 2006. Healthcare spending reached a total of \$2.1 trillion (or \$7,026 per person) in 2006, up from \$6,649 per person in 2005.

At the same time, **out-of-pocket spending accounted for 12% of national health spending**, and private health insurance

premiums grew 5.5% in 2006, the slowest rate of growth since 1997. Total Medicaid spending declined for the first time since the program's inception, partly due to the introduction of Medicare Part D, which shifted drug coverage for dual eligibles from Medicaid to Medicare. Hospital spending, which accounts for 31% of total healthcare spending, grew 7% in 2006. The 2006 growth rate was partially driven by lower utilization of hospital services, especially within Medicare as fee-for-service inpatient hospital admissions declined.

Many hospitals are already operating with negative total margin; bad debt only increases those losses. With 12% of total health spending now out of pocket, there is a clear, urgent need for hospitals to take

steps now to better manage and reduce bad debt by more effectively dealing with self-pay accounts.

As one expert put it: "We are watching with interest the shift of responsibility from employer to employee, who expect to get competitive prices from providers. ... As a result, providers will need to manage their AR at a time when upwards of 20 to 40 percent of healthcare costs will be the patient's responsibility. Point of sale and financial counseling are preventive measures that providers need to implement." (Source: Quotation from Mike McGhees, director of extended business services for Deloitte Consulting, <http://www.healthcarefinancenews.com/story.cms?id=6160>)

The Importance of Predictive Modeling in Front-End Operations

A recent report on self-pay patient accounts begins: "Do you understand your self-pay patients well enough to assess their ability and willingness to pay their bill? Or do you hope for the best?" The report continues: "Although 'self-pay' is sometimes referred to as 'no-pay,' it is important to acknowledge that not all self-pay patients are the same. Each individual has a different willingness and ability to pay healthcare bills." (Source: HFMA's "Innovative Strategies for Self-Pay Segmentation," January 2006)

As the focus shifts from the back end to the front end, hospitals and other providers need tools that can help them to predict whether a patient will pay his or her bill. This will help healthcare service providers tailor their collection approach according to whether patients have a high probability of paying or a low probability of paying. (The business world outside of healthcare routinely uses such technology to make this distinction.) Such predictive modeling at point of service can allow a hospital or health service provider to take an integrated approach to reduce bad debt, increase cash flow and improve reporting.

At the point of service, predictive modeling (preferably going beyond credit scores and credit data*) that is integrated with a self-pay management system can help providers:

- Verify patient identification and financial information
- Determine whether patients are likely to qualify for financial assistance or if they should be considered self-pay
- Determine appropriate payment plans or collect patient balances upfront

- Define the organization's patient collections strategy using consistent business rules, policies and procedures
- Outline the steps, communication and tools necessary to facilitate collections
- Define the roles and responsibilities for registrars and financial counselors

Predictive modeling will not only increase upfront collections, but it can also directly impact the ability to collect efficiently post-discharge, including how to direct outsourced collections efforts.

In addition, predictive modeling can streamline efforts to qualify patients for charity care and government programs -- and ensure that charity practices are implemented consistently and documented appropriately. For everyone's benefit, patients who qualify for charity discount programs can be enrolled in them right away, on the front end, saving both parties time and money.

**Editor's note: For more information on the limitations of credit scoring, read nTelagent's report on "The Limitations of Credit Scoring in Assessing Patients' Ability to Pay," available at www.ntelagent.com.*

Ensuring Operational Efficiencies at the Point of Service

Self-pay patients are responsible for the majority of uncompensated care, yet most healthcare organizations lack the necessary tools and technology to optimize self-pay collections (or to ensure that charity care and public assistance patients don't fall through the cracks). By some estimates, **hospitals only collect up to 25% of payment due at the time of service.** With the increasing number of self-pay patients and those in consumer-directed health plans, providers will need to up that percentage in order to maintain a viable revenue cycle.

Most patient access managers acknowledge tremendous inefficiencies in workflow at the front end of the revenue cycle. Indeed, as this HFMA article points out, there are definite opportunities for improvement: "Industry experts agree that a big part of the problem is that hospital front-line staff lack the necessary resources to properly categorize patients into the appropriate financial classifications (charity, public assistance, potential bad debt). The unfortunate, and avoidable, result is unnecessary bad debt. ... And the reason, in large part, is the complexity of the financial assistance identification and application process. For example, many hospitals are unable to accurately identify the true amount of the charity services they deliver, thanks to age old policy guidelines that often, inadvertently, work against the very people they are designed to help. Trying to prove that a patient is eligible for financial assistance under these guidelines can be

like asking an unemployed person to verify his or her income using tax returns and pay stubs--impractical." (Source: *Healthcare Financial Management*, "Collection reform: build stronger relationships with self-pay patients," September 2005)

In today's environment, ensuring that front-end systems are streamlined and efficient is paramount. For instance, inefficiencies and inaccuracies at registration can impact post-discharge collections. If a patient's address is input incorrectly or is not valid and it goes to collection, the patient will not receive a bill. Additionally, incorrect or missing information can result in denied claims. Co-pay amounts that were not verified or collected upfront create additional work on the back end, when it is more difficult and expensive to collect, especially for small balances.

Implementing a web-based self-pay management system gives providers timely access to a patient's overall financial status and demographic information. This allows financial counselors to quickly establish consistent payment terms and charity guidelines. Counseling patients about financial issues early in the process using scripting is the best time to determine eligibility for charity care, correct co-pay amounts or deductibles, or to set up a payment plan that a patient agrees to and signs.

Conclusion

To address the increasing number of self-pay patient accounts (due to the rise in consumer-directed plans and the uninsured/ underinsured populations), revenue cycle management needs to focus more on pre-access and time-of-service activity, all in the patient access area.

Implementing front-end, web-based, automated systems to handle self-pay accounts is necessary for hospitals and other healthcare providers to ensure a successful future.

An effective, comprehensive self-pay management solution can and should:

- Determine patient responsibility for both uninsured and insured patients, including insurance verification, co-pays and deductibles
- Address patient financial and demographic verification and consistently apply discounting and charity policies
- Provide online scripting for registrars and financial counselors, instructing the registrar or financial counselor of the exact steps to be taken with each patient
- Enable pricing transparency and medical financing options
- Provide real-time information on an individual's capacity to pay

About nTelagent, Inc.

nTelagent, Inc. has developed The Retail Application for the healthcare industry, called the Self-Pay Management System (SPMS). Similar to applications used in the retail industry at the point of sale, the company's proprietary, automated system tells healthcare registrars and financial counselors exactly what to do and what to say to each patient at the point of service regarding financial responsibilities. Moving workflow to the front end of the revenue cycle, nTelagent helps providers ensure a better patient experience through clearer communication and better handling of patient accounts, while

improving upfront and overall cash flow, receivables and profitability by reducing bad debt. Using non-credit scoring data, SPMS provides interactive scripts that integrate patient demographic information with each provider's business policies and rules. The system allows for price transparency and automatically identifies discounting options, social services eligibility and charity care options when applicable, ensuring that patient financial accounting—for both insured and uninsured patients—is handled appropriately and consistently. Visit www.ntelagent.com for more information.