

Minimizing Bad Debt: Point-of-Service Collections

The Single Most Powerful Lever for Decreasing Uncompensated Care

Highlights

- **Accelerate POS collections transition:** Hospitals must shift a greater share of patient collections to the point of service (POS) to outpace expected increases in bad debt from high deductibles. The portion of patient debt collected at point of service is increasing, but is not keeping up with the growth in patient obligations.
- **Implement modest pre-payment policy:** Requiring an up-front minimum payment of as little as a \$20 is the best tactic for maximizing POS collections and if received consistently from all patients, can reduce bad debt to less than 4% of net patient revenue (NPR).
- **Target outpatient collections:** As a percentage of net patient revenue, bad debt stemming from outpatient services surpasses debt from inpatient procedures—yet collections tactics are often underutilized in the outpatient setting where they are most effective.

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Contacts

Natalie McGarry

Consultant

mcgarryn@advisory.com

Eric Fontana

Practice Manager

fontanae@advisory.com

Christopher Kerns

Managing Director

kernsc@advisory.com

Patient propensity to pay decreases as patient obligation increases

Our analysis indicates that as the dollar value of a patient's obligation increases, their propensity to pay any portion of the obligation decreases—for all patients, at all income levels. Unfortunately for providers, as the size of the deductible increases, the less likely patients are to pay any portion of their obligation.

Refocus collection efforts in response to higher proportion of HDHPs

Patients with high-deductible health plans (HDHP) now account for more than a quarter of the commercially insured, up from less than 5% a decade ago. Collection tactics have been slow to adapt to the changing marketplace. It is imperative that hospitals adapt by setting patient expectations towards payment obligations and working to collect a higher proportion of payment at the point of service.

Focus on small up-front collections to reduce bad debt

Modest pre-payment requirements (of as little as a \$20 minimum) are the best single tactic for maximizing POS collections. If applied to all services and patients this practice can reduce a typical organization's bad debt levels to less than 4% of net patient revenue, a modern historical low.

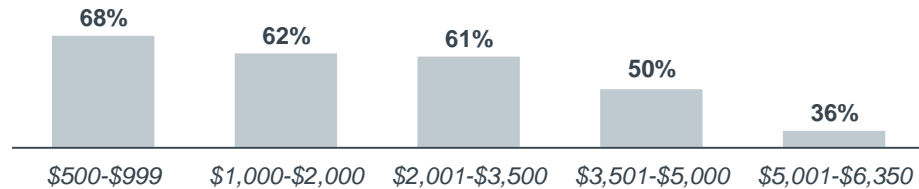
Target outpatient POS collections for the greatest impact on reducing bad debt

Outpatient POS collections represent the greatest sources of bad debt as a percentage of NPR. For the greatest return on investment, target POS collections effort on outpatient imaging and the ED. Financial Leadership Council research reveals high-performing organizations collect 0.72% of NPR in total, while low performers only collect 0.15%.

Know your market: a high rate of HDHPs likely signals an increase in bad debt

Our analysis of 400,000 patient claims¹ reveals the degree to which a patient's propensity to pay decreases as deductibles rise, irrespective of the patient's income level. The challenge with HDHPs is the responsibility placed on patients to cover such a large portion of their care. The expected growth of HDHPs due to the rise in public exchanges and changes to employer insurance requires providers to alter their collection strategies. Unfortunately for providers, the larger the deductible, the less likely patients are to pay any portion of their obligation.

Patient Propensity to Pay by Deductible Size



Source: Advisory Board interviews and analysis.

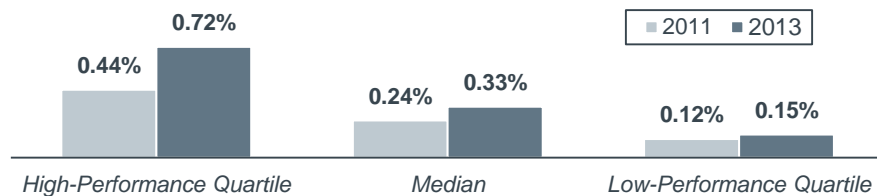
Increasing POS collections is the single most powerful tool for decreasing uncompensated care

Financial Leadership Council benchmarking data² shows median performers collect 0.33% of net patient revenue at the point of service, a 38% improvement from 2011. High-performance quartile respondents collect 0.72% of NPR, while the low-performance quartile members collect only 0.15% of NPR when care is provided.

Point-of-Service Collections

Percentage of Net Patient Revenue

n=72 (2011), n=38 (2013)



Source: 2013 Advisory Board Revenue Benchmarking Survey.

Our modeling of bad debt estimates that a typical organization collecting the median 0.33% of net patient revenue is likely to have a bad debt level around 5.28%. By increasing point of service collections from 0.15% of NPR to the high-performing quartile of 0.72%, a typical hospital could reduce their bad debt load to 4.90%. By collecting 1% of net patient revenue, that typical organization could substantially reduce bad debt to 4.63%.

Require modest up-front payments to reduce bad debt

Upfront payments, of as little as a \$20, are the single best tactic for maximizing point of service collections. If applied consistently to all services and patients, pre-payments can reduce a typical organization's bad debt levels to less than 4% of net patient revenue, a modern historical low.

1) Self-Pay Compass, The Advisory Board Company.

2) 2013 Revenue Benchmarking Survey, new data expected Q4 of 2015.

Progressive organizations are setting policies requiring patients to pay a percentage of the estimated service cost before a procedure. To analyze the impact of requiring a pre-payment on bad debt, we modeled the requirement of a modest \$20 deposit for all self-pay and commercially insured patients. In this scenario, the modeled organization significantly reduced bad debt from 5.28% to 4.64% and increased net payment by \$1.5 million. Increasing deposits to \$50 reduces bad debt to 3.67% and net payment by nearly \$4 million.

Implement front-loaded payment prompts to set patient expectations toward payment obligations

Successful point of service collections programs have payment discussions hardwired into all pre-registration and point-of-service patient contact. This may include an automated solution to provide patients with an estimate of their full payment obligation prior to and at point of service, supplemented with staff equipped to educate patients on how their financial share is determined and offer additional eligibility or financial assistance screening.

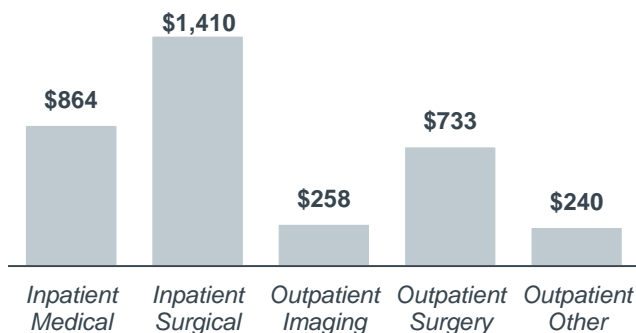
As many patients return to the same hospital despite not meeting prior financial obligations, an automated solution can help integrate previous unpaid balances into POS payment requests to capture revenue that would otherwise be headed towards bad debt. By integrating unpaid balances into POS payment requests, hospitals can boost front-end collections while also capturing revenue on patient accounts that are either in, or headed for bad debt.

Make outpatient POS collections a focal point

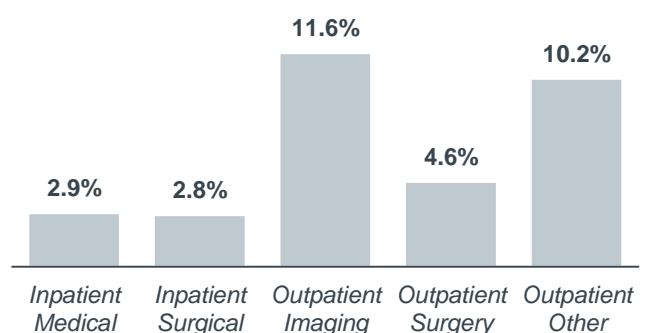
Although on a case-by-case basis inpatient surgical procedures result in a greater amount of bad debt than outpatient procedures, the picture looks very different when calculated as a percentage of NPR.

When we include total volumes in the analysis, in aggregate, the greatest source of bad debt is outpatient imaging followed by “outpatient other.” This is unsurprising given the fact that “outpatient other” includes ED visits and traditionally many self-pay patients have utilized the ED for all of their health care needs. Focus POS improvement efforts on the outpatient setting to see the greatest reduction in bad debt

Bad Debt per Case
By Type of Service



Bad Debt as a Percentage of NPR
By Type of Service



Source: Advisory Board interviews and analysis.

Maximize ED collections with staff support and a coordinated workflow

The most successful ED POS programs attempt to discuss financial obligations with patients both at the bedside and at the discharge desk. Nursing department support can be extremely helpful in alerting patient access staff when patients are cleared, and directing patients to the checkout desk upon discharge. When all staff view patient collections as a shared responsibility, they can better provide in-the-moment education and reinforcement of payment obligation expectations.

Background

Patient collections are increasing in importance as health care coverage expands and shifts costs to patients. In both the public exchanges and employer-sponsored health insurance, deductibles are increasing and requiring patients to take on a greater portion of the cost of care. This transition places a huge burden on providers as well; in aggregate, patient obligations will account for a significant portion of net patient revenue, forcing providers to focus on patient collections.

When given a choice of health plans on either public or private health insurance exchanges, consumers tend to choose options with low premiums and relatively high patient obligations. Even absent exchanges, employers are rapidly shifting financial risk to patients; HDHPs now account for more than a quarter of commercially insured patients, up from less than 5% a decade ago.

Methodology

We examined financial records of nearly 400,000 de-identified patient records from the Advisory Board's Self-Pay Compass, stratifying the cohort according to potential obligation levels. To assess the impact of increased insurance coverage and accelerating patient obligations on a typical hospital, the Council developed a financial model based on a hypothetical organization with a typical payer mix and margins. Reimbursement, volumes, and case mix were based on national data, and inputs were adjusted to forecast impact on bad debt. Historical payment rates were then layered into the analysis to determine how likely patients are to pay, and how much they were willing to pay at different deductible levels.

Related Resources

- **White Paper:** [Future of Uncompensated Care](https://advisory.com/research/financial-leadership-council/white-papers/2014/the-future-of-uncompensated-care): advisory.com/research/financial-leadership-council/white-papers/2014/the-future-of-uncompensated-care
- **White Paper:** [Optimizing Front Office Performance](https://advisory.com/research/financial-leadership-council/studies/2010/optimizing-front-office-performance): advisory.com/research/financial-leadership-council/studies/2010/optimizing-front-office-performance
- **Study:** [2013 Revenue Benchmarking Survey](https://advisory.com/research/financial-leadership-council/resources/2013/2013-revenue-cycle-benchmarking-survey): advisory.com/research/financial-leadership-council/resources/2013/2013-revenue-cycle-benchmarking-survey
- **Toolkit:** [Enfranchise Staff in Point-of-Service Collections](https://advisory.com/technology/payment-navigation-compass/complimentary-resources/pos-collections-kit): advisory.com/technology/payment-navigation-compass/complimentary-resources/pos-collections-kit