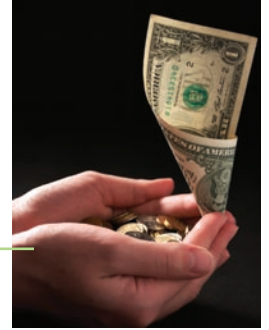




## Patient Debt Management

Supporting the Hospital's Mission by Helping patients improve their financial health

By Andrew Gill Smith



Healthcare collections are a prisoner's dilemma, wherein hospitals must compete—blindly—against every other creditor that a patient has. In the context of rising unemployment, rising bankruptcies, rising out-of-pocket healthcare costs, and rising consumer debt, most hospitals find themselves at a severe disadvantage.

The result: uncompensated care costs are increasing across the board, and CFO's and patient accounting departments are "feeling the pain."

One of the most challenging features of the new economic environment is that patients who previously were good payers are becoming more delinquent. Past experience tells us that these people are not deadbeats, nor are they indigent. They genuinely want to pay their bills. Furthermore, they have some ability to pay their bills.

So why aren't they doing so?

### **Credit Card Debt: A National Epidemic**

The average American now carries nearly \$10,000 in credit card debt. Fully one quarter of Americans are paying in excess of 25% in interest on those cards, and that is before the impact of late and over the limit fees. What's more, the fastest growing category of credit card debtors is the 50-64 age bracket. This is a key constituency for most hospitals: baby boomers that are nearing the end of their careers and are starting to experience more incidental medical expenses.

Add it up, and most families are spending upwards of \$350 per month in debt service alone. There simply isn't anything left over at the end of the month to pay hospital bills.

Back in the 1950's, the fledgling credit card industry realized that it needed a "kinder, gentler" way to collect on bad debts from some of its customers. The result was the creation of the credit counseling industry. Credit counseling agencies sprang up on Main Streets across the country, offering sound advice and—more importantly—access to Debt Management Plans, the credit card industry's escape valve for at-risk debtors. Debt Management Plans (DMPs) work by reducing or eliminating interest rates, waiving late and over-the-limit fees, re-aging accounts, and allowing debtors to make a single monthly payment (rather than the 6 or 7 monthly payments they currently average). The result is that debtors in DMPs are able to pay off their principal much faster—usually in 3-5 years, rather than the 15-20 years it might take under standard interest rates. What's more, the debtors see their credit profile gradually repaired, setting them up to be future customers. Debt Management does not leave a negative mark on credit reports. At its core, Debt Management works because it delivers a solution to the debtor by increasing his or her monthly cash flow through interest rate reduc-

tions. Customers who were at risk for charge-off are rehabilitated instead.

### **A "Kinder, Gentler" Approach to Hospital Collections**

A "kinder, gentler" approach to collections that also happens to solve the biggest financial problem facing most patients may be just what the doctor ordered for the healthcare industry. If you can deliver a compassionate solution to the patient AND create additional cash flow, then some of that additional cash flow can be used to pay the hospital's bills. This effectively ends the "blind competition for limited dollars," transforming the prisoner's dilemma into a cooperative, multiparty approach.

Debt Management was never intended to replace normal collections activity for the credit card industry, nor should it be used in this way by hospitals. But as an incremental tool in the hospital revenue cycle, it can be invaluable. The key, as with any revenue cycle tool, is how you use it.

For Debt Management to be successful in a healthcare context, it must be actively managed. It is not enough to simply refer patients to the local credit counseling agency and hope that they follow through. For one thing, most credit counseling agencies still have a cozy relationship with the credit card industry. Credit card companies send them most of their referrals and pay them the lion's share of their revenues. As a result, hospital debt is an afterthought. Hospitals may have experienced this bias in the form of unsolicited proposals for \$10 monthly payments against a \$10,000 bill. You can be sure that the credit card companies are being paid a much healthier rate than that!

Instead, hospitals should look to agencies that will build Debt Management Plans around the medical debt first. This makes sense, given that medical debt is responsible for over 50% of all personal bankruptcies in the United States.

Active management also means identifying the right point in the revenue cycle to offer debt management. Which patients should be referred to Debt Management? Who does the referring? What about Medicare eligibility screening? Should we be offering this program at patient access, or at the tail end of the cycle?

Hospitals need to seek out partners who understand the revenue cycle and can maintain high standards when it comes to patient privacy and HIPAA compliance. If a credit counseling agency doesn't have a HIPAA policy, then it's a safe bet that they aren't set up to service the healthcare industry.

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# Georgia Scroll

Finally, the hospital must demand the same reporting standards from a credit counseling agency that it expects from other vendors in the revenue cycle. Most credit counseling agencies are not set up to deliver that level of reporting accountability.

### Incremental Revenue

Introducing a new tool into the revenue cycle is never easy, but with proper execution, the rewards can be significant. Progressive organizations like Deaconess Health System (a 750 bed, multi-facility system based in Evansville, Indiana) have been offering targeted patient debt management through Achieve CCA for years. **Deaconess has reported a 9% incremental lift in its baseline collection rate as a result of the program** and anecdotal evidence suggests that patient loyalty and patient satisfaction numbers have improved as well. What's more, introduction of the Debt Management Program did not disrupt any existing vendor relationships.

Hospitals are in the business of helping people, but they are still in business. They need to get paid in order to continue to offer the world-class service that patients have come to expect. Hospitals would do well to learn from the credit card industry and adopt targeted Debt Management as a mission-supportive, incremental revenue cycle tool.

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## FROM THE DESK OF THE EDITOR...

*Donna Casey  
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*Donna Casey*

Another year is almost over for Georgia HFMA, and what a year it has been. I have been in healthcare for quite a number of years (yes, I am old), and I guess I have just come to expect the unexpected. I think I can honestly say though that this year has been one of the most challenging years I have experienced in my entire career.

Between the President's Healthcare Reform initiative, the Governor's Budget initiatives, costs up and reimbursement down, MACs,

RACs, MICs ( the list just goes on and on), I wonder how any of us are maintaining our sanity. And yet, we come together and work together to keep things going so we can take care of our patients. Georgia HFMA - what a fantastic group that I can proudly say I am a part of.

As I work on finalizing my last Scroll edition, I want to say thank you to the Georgia Chapter for allowing me the honor of being your Newsletter Editor this year. The members of my team have been fantastic and so helpful. To all Team Chairs and Co-chairs who were so great to get your team articles in on time, thank you so much. A huge thank you to everyone who submitted articles for publication, and a special thank you to our Board Member, Kimberly Farmer, for all of your help and support throughout the year.

I'm happily handing over the responsibility for the Scroll to John Iodice so I can move on and learn something new. I know John will do a great job in this role next year.

Good luck!

*Donna Casey*

### See you at the Spring Institute!

