

# Performance Strategies



## A Strategic Approach to Reducing Bad Debt



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A new era of transparency and accountability has arrived for America's hospitals. The updated IRS Form 990, which all tax-exempt organizations must file beginning in 2009, requires disclosing a wider range of data about charity care policies and costs, community benefit activities, bad debt expense, and executive compensation.

While Form 990 will demand more time and resources for completion, it offers organizations the opportunity to ensure they are minimizing bad debt, appropriately identifying reportable community benefits, and maximizing cash flow. Achieving these objectives requires a strategic approach.

### Essential Elements of a Strategic Plan

Every healthcare organization wants to reduce bad debt by optimizing cash collections and reportable charity care. To be successful, healthcare providers must develop a strategic plan for revenue cycle management that includes these essential elements.

1. Finding third-party sources of payment for self-pay patients, including Medicaid and other governmental sources.
2. Ensuring that policies governing charity care and collections incorporate best practices and are consistently implemented. Examples of these policies – and much more on meeting the requirements of Form 990 – can be found at the [990 Coalition for Hospitals](#) Web site.
3. Improving point-of-service and post-service collections from self-pay patients.
4. Building an operational revenue cycle structure that is well managed with competent and knowledgeable employees, efficient, “patient friendly,” and guided by effective policies and procedures for self-pay accounts receivable management.
5. Ensuring that the accounting process properly recognizes revenue, bad debt expense and charity care. Healthcare Financial Management Association (HFMA) [Statement 15](#) suggests that bad debt is overstated because “healthcare providers inappropriately classify some items as bad debts that were never revenue in the first place.” This occurs because they were never truly collectible.
6. Installing modern technology that supports processes and data analysis needed in today's environment.

### Role of Information Technology

While all of these elements are needed to achieve optimal outcomes, effective implementation is achieved with information technology. Technology enables providers to systematize financial assistance policies by incorporating best practices into their workflow and enabling patient access employees to apply them consistently — at the front end of the revenue cycle.

## A Strategic Approach to Reducing Bad Debt (Cont.)

- An emerging best practice is to grant charity care to patients who are “medically indigent” because their out-of-pocket healthcare expenses exceeded a specified amount of household income during the prior 12 months. Future technology will need to track patient spending, estimate upcoming patient out-of-pocket amounts, and flag patients who qualify for this form of assistance.
- Hospitals can use technology to support documentation requirements for charity eligibility — so long as the policies incorporate these procedures.
- Technology can help establish fair payment options by relying on scoring based on the patient’s credit history and record of paying medical bills.
- Technology supports operations by providing:
  - Real time and batch eligibility on all self-pay patients
  - Identifying patients who could be eligible for Medicaid
  - Automation of the financial assistance and Medicaid application process
  - Workflow management
  - Consistent application of policy
  - Integration of payment processing
- Technology can help ensure that revenue is recognized appropriately and bad debt is reduced. Technology systems can also provide the basis for reclassifying bad debt to charity care retroactively.

### Putting Policies into Action

From a strategic viewpoint, technology is not a quick fix. Instead it is a means by which carefully crafted policies and procedures are integrated into daily operations. Providers can create and implement a charity care policy that accurately identifies patients who truly have difficulty paying their bills. With ready access to patient data such as coverage information and ability-to-pay scoring, providers can use IT to make those kinds of determinations early in the process.

In summary, technology can:

- Find eligibility for coverage early in the process
- Support documentation requirements for granting financial assistance
- Provide metrics on charity care
- Automate the financial assistance and Medicaid-application processes
- Provide data for informed patient discussions regarding payment options
- Perform retroactive analysis to justify account reclassification from bad debt to charity care
- Support the accounting and revenue recognition process
- Help incorporate best practices into policies and operations

Implementing a strategic plan provides positive operational and financial benefits for everyone — patients and healthcare providers alike.

*Keith Hearle, president of [Verité Healthcare Consulting, LLC](#), has more than 20 years of consulting, management, and research experience in the healthcare field. He assisted the National Association of Children’s Hospitals, the Catholic Health Association (CHA), and the American Association of Medical Colleges (AAMC) in preparing comments on the draft IRS Form 990 for tax-exempt healthcare organizations, which is based on the CHA accounting framework for community benefit. Verité specializes in healthcare strategy development, financial analysis and decision support, self-pay accounts receivable management, and public policy analysis.*

## A Strategic Approach to Reducing Bad Debt (Cont.)

Shari L. Bailey, vice president of Verité Healthcare Consulting, previously served as senior director of Revenue Cycle for Mercy Health Partners of Southwest Ohio. While in that role, she was responsible for access management, self-pay accounts receivable management, centralized scheduling, and insurance verification. Shari has extensive clinical and financial operations management experience in urgent care, occupational medicine centers and a multi-specialty physician practice.

### Reducing Bad Debt – Helping the Uninsured Get Well and Stay Well

Hospital emergency rooms tell the story of how the uninsured get care. Uninsured patients with chronic diseases often cannot afford regular office visits, maintenance of prescription regimens and other care recommendations. A recent report documents that story. "[Eroding Access among Nonelderly U.S. Adults with Chronic Conditions: Ten Years of Change.](#)" was published online July 28, 2008, in *Health Affairs Journal*.

The study finds that access to care by nonelderly, uninsured adults with chronic conditions has declined over the past decade, and the reason is cost of care. By definition, chronic diseases require continuing care to manage symptoms and prevent complications — and to save health dollars.

- One-third of those with chronic conditions had difficulty getting the care they needed due to cost, and were twice as likely to either forgo or delay care.
- The uninsured with a newly diagnosed chronic condition are less likely to follow the recommendation for follow-up care due to cost, and they end up making more visits to the emergency department (ED).

Return visits are more costly than regular exams or drugs to treat the chronic condition, and often result in a bad debt burden for the hospital.

While bad debt can be reduced using IT tools to help qualify the uninsured and underinsured for charity care, it can also be reduced by helping these patients get well and stay well. Return visits can be reduced through strategies such as placement with a primary care physician in the community, care coordination, education and monitoring to assist patients in management of chronic diseases, and disease management for the high-risk, high-cost uninsured.

An innovative multi-pronged program from McKesson is designed to help these patients manage their disease and reduce readmissions or return visits to the hospital ED. McKesson's [Community Care Advantage](#) improves community wellness, chronic care management and patient satisfaction, and reduces the burden of uncompensated care with services that include:

- Analytics
- Individualized care coordination
- Establishment and reinforcement of a medical home or usual source of primary care
- Disease management of high-cost, high-risk patients
- 24x7 telephonic access to a nurse

Helping the uninsured and underinsured manage their chronic diseases can improve patient outcomes and overall hospital quality scores while reducing uncompensated expenses.

## IRS Updates to Form 990

### IRS Updates to Form 990

[News Release](#)

[Overview](#)

[Form 990](#)

[Instructions](#)

[Frequently Asked Questions](#)

## Feature Event

### Feature Event

See McKesson  
Revenue Cycle Solutions at:

**HFMA Executive Summit**  
**March 8-10**  
**Phoenix, Ariz.**