

# Performance Strategies



Reducing Bad Debt Using IT Tools and Services

Vol. 2, Issue 4, 2008

## Limiting Bad Debt with Enterprise Revenue Management



*By David Hammer  
Vice President, Revenue Cycle Solutions  
McKesson Provider Technologies*

### **The Domino Effect of Fiscal Drivers**

Average aggregate hospital margins could reach zero by 2013 if bad debt as a percentage of revenue grows at 10% per year — as some prognosticators predict and hospital leaders fear. But bad debt is just one of many symptoms of our struggling healthcare revenue management environment.

Shrinking margins, rising costs, inefficient processes — and a host of other challenges — are making it difficult for healthcare organizations to achieve financial success. The domino effect of all these factors is the growing difficulty of providing the care that patients need and deserve.

### **What's the cure for these challenges?**

As hospital finance professionals, we need to realize what clinicians have known for years: *You can't just treat the symptoms and get the results that you want.*

Simply trying to heal current revenue management processes may bring stop-gap improvements but never achieve transformative progress. For example, as an industry, we have made significant advances in electronic data interchange — providers submitted only 80 million paper claims in 2006, compared to 114 million in 2005 — a 30% reduction. But even with this success, providers still submit over 300,000 paper claims every business day. Our goal as an industry should be to eliminate paper claims entirely, and of course, submitting all those paper claims requires an army of billers.

### **The Prescription — Enterprise Revenue Management**

The prescription is a complete, holistic reinvention of the healthcare revenue management model. Designed to address the new revenue management environment, enterprise revenue management is aimed at improving the *economics* of care. It automates financial processes and connects key healthcare stakeholders: hospitals, payors, financial institutions, physicians and consumers. With enterprise revenue management, healthcare organizations use software, services and connectivity to completely reinvent the way they manage and collect revenue.

By reinventing processes, relationships and organizational structures, this new methodology more effectively deals with the new realities of the healthcare business environment — such as the increasing need to go directly to consumers to get paid. Consider the following: According to the Advisory Board Company, 80% of patient self-pay net revenue is never collected. And the percent of patients without any insurance whatsoever continues to increase — forcing providers to collect the entire cost for care from a greater percentage of patients.

Enterprise revenue management helps by completely reinventing how healthcare organizations interact with consumers. Under the traditional revenue cycle process, consumers adopted passive roles. With enterprise revenue management, consumers actively participate in all facets of their care. Patients can go online and compare prices or procedures, request services online and even conduct some basic pre-registration activities online. Further, after they receive their services, they can track the progress of their accounts and pay their bills online.

CONTINUED ON PAGE 2

## Limiting Bad Debt with Enterprise Revenue Management (Cont.)

### Ensuring Expected Outcomes

To support this increased collaboration between healthcare organizations and consumers, healthcare providers need to implement technologies that offer the following:

- Self-scheduling and self-regulation
- Pricing and quality transparency
- Out-of-pocket expense estimation
- Self-service direction-finding, check-in, signature capture and payment
- Point-of-service claim adjudication
- Electronic funds transfer from health savings accounts
- Online insurance updates and bill payment

With such functionality in place, healthcare providers can create a completely new billing experience for patients. As a result, healthcare organizations will not just implement temporary fixes to problems. Instead, they can move forward with an entirely new approach that radically improves the interaction between providers, payors and patients. Consequently, the healthcare industry can sustain financial success by creating a new reality that mitigates many financial problems – such as bad debt – that currently plague our ailing healthcare system.

*David Hammer, FHFMA, is Vice President of Revenue Cycle Solutions for McKesson Provider Technologies. David has been extensively published in healthcare magazines and featured as a speaker at healthcare conferences related to best practices for improving revenue cycle operations. He is a member of HFMA's Florida chapter and has written numerous articles for HFMA's peer-reviewed journal, hfm. He is also a member of the Healthcare Information and Management Systems Society (HIMSS) Financial Systems Steering Committee.*

### Seven Key Attributes of an Advanced Revenue Cycle Solution

How will you recognize an advanced revenue cycle solution for enterprise revenue management? Here's the list of the top seven attributes you'll want to check for.

1. **Built-in capabilities** that eliminate the need for bolt-on applications. The system will provide an integrated, seamless flow of financial information throughout the enterprise, including clinical solutions. True integration leads to better efficiency, improved cash flow and lower cost of ownership.
2. **Adaptability and flexibility** to meet regulatory changes by giving providers tools to configure screen display fields, data elements, screen flows, security levels and other system components.
3. **Workflow rules-driven capabilities** that transform revenue cycle operations from an inspection-based process to exception-based quality control.
4. **Powerful analytics** that are built into the system and not data extraction machines. These built-in analytics should combine adaptable and flexible designs with clinical/financial shared database structures. The dashboards can be Web-deployed to desktops for review or drill-down.
5. **Consumer-focused features** that address the move to consumer-directed healthcare. Web-deployable solutions empower the consumer with self-service capabilities such as scheduling appointments, reviewing estimates of their share of the cost of care, and providing access to an online business office to review and make payments. For the provider, offer upfront financial clearance services versus the more traditional financial clearance activities after care is delivered.
6. **Single-database structures** for clinical and financial applications so that charges and clinical data from the care delivery process flow seamlessly to the claim for accurate, complete billing.
7. **Lower total cost of ownership** through increased efficiency, a lower "cost to collect," reduced software maintenance fees (from eliminating bolt-ons), and quality control that is exception-based.

While the thought of replacing a current set of financial solutions with an advanced solution is daunting, the efficiencies and reduction in costs will outweigh the implementation effort with improved business performance.

## Related Solutions

[Enterprise Revenue Management](#)

[Access Management](#)

[Revenue Cycle Management](#)

[Performance Management](#)

[RelayHealth Financial Services](#)

### **Become a Member: Million Dollar Club**

Join the 100+ Customers  
with Total Savings/Recovery  
Of \$1.3 Billion+ using  
McKesson Solutions