

15. Improving Collections

Minimizing Unpaid Accounts

Attracting patients and setting fair, competitive fees is only half the battle. A medical practice has to maximize collections. An effective accounts receivable management system is a key to improving practice results. **To be effective, your office must make a concerted effort to maximize collections; otherwise, things often seem to “slide” until someone starts aggressively monitoring results and taking appropriate action.**

Medical practices that have a patient volume sufficient to maintain viability may experience financial difficulties if collection efforts falter. Our consultants often find that medical practices experiencing difficulty are not collecting everything to which they are entitled. Your net income will suffer, you will have to make other cutbacks, or you will be forced to increase fees (assuming you can) inordinately to patients who pay on time if you fail to: obtain adequate credit and insurance coverage information from patients, establish systematic collection procedures, strike a balance between too heavy handedness and firmness, monitor effectiveness of your system, and seek improvements as conditions change.

This chapter addresses ways to avoid collection related problems or catch deficiencies early enough to do something about it. In many medical practices – including large groups – deficiencies in the collection system are not identified until cashflow problems arise. Even if cashflow is covering the bills, many medical practices will find they can collect an additional \$10,000, \$20,000 or more per physician every year by emphasizing improvements to the collection and related systems. And, a good system will minimize administrative hassles and free staff to attend to other needed activities.

Your billing and collection system will be geared toward two major sources of payments: Third Party Payers, and Patients.

- Today, Third party Payers—the government, commercial insurance plans, PPOs, self-insured employers, etc. —seem to take longer to process claims certain types of claims. Part of this has to do with the complexity of the billing system and bureaucratic red tape. Increasingly, you will find it necessary to follow-up the original claim to achieve reimbursement. **Ineffective insurance follow-up is a sure way to undermine your medical practice.**

Obviously, CPT/ICD-9 coding is a prerequisite if you expect to achieve optimal reimbursement and reduce audit exposure. You will have to watch CPT/ICD-9 coding and carefully follow-up on unpaid insurance claims.

- **Payments due directly from patients pose other problems.** Some patients are prone to put medical bills last on their priority list. That means your bill is often considered less urgent than utility bills, car payments, credit cards, etc. **In fact, your bill will rank slightly ahead of a small loan from a friend unless you develop a system to encourage payment.** You must make sure postponing your bill is not that easy. And, you must do this while maintaining the dignity of the patient-physician relationship.

Even in capitated health plans— where patients pay small co-payments like \$5 or \$10 per visit —you will have to be careful to collect these amounts. Collecting from patients become very important under so-called consumer directed health plans because patients pay a greater share out-of-pocket.

Physicians should not generally get directly involved in collection contacts with patients; but, they must monitor performance to make sure the system is working effectively. Remember, very few of your staff will enjoy collection efforts, especially phone contacts with patients. If you do not monitor effectiveness closely, the job will not be accomplished satisfactorily.



Monitor effectiveness in terms of: (1) How many dollars are collected relative to dollars billed (considering amounts actually collectable after contractual write-offs); and (2) How well staff is able to maintain desirable relations with patients when dealing with this sensitive aspect of medical practice.

A Collection Policy that Works

A good collection policy will help maintain relationships with patients while ensuring you get paid for your services. Briefly, the essential elements are discussed below (we'll look at these in more detail in a moment):

- 1. Communicate your collection policies to patients.** Inform patients of your general collection policy in your patient brochure (or in a separate written financial policy), and inform new patients over the telephone when they first call for an appointment. Discuss payment at time of service, use of collection agencies, etc. Because managed care contractual requirements vary, you may want to put a general statement in your practice brochure or financial policy to this effect:

Trout Valley Medical participates with many insurance plans as a convenience to our patients. However, we expect patients covered by these plans to pay their share for our services, as specified in your benefits contract. We will help you determine these amounts.

In most cases, we require payment of coinsurance, deductibles, etc. at the time of service. If necessary, we will *consider* adequate payment arrangements. In any event, our patients are responsible for applicable coinsurance, deductibles, etc. Please call our Business Office, at (888) 765-9450, if you have any questions or concerns.

It's even better if you draft a separate sheet with your collection policy for patients covered by large managed care plans or if you are experiencing a problem with a particular plan. Then hand it out or include it in billing statements for patients covered by the plan.

- 2. Make certain patients know what services were performed.** An itemized statement will generally accomplish this. Provide a phone number and the name of staff members who can answer their questions. In other cases, such as a hospital consultation, it may help to send a letter with the statement so that the patient understands why they are getting a bill from a "strange" doctor (some consultants leave their card with the patient or family when they visit the patient in the hospital).
- 3. Make it convenient for patients to pay at time of service,** or upon receipt of a mailed statement *if they have made satisfactory payment arrangements*. To collect at the time of service, it is essential that staff is trained to calculate the patient's responsibility while they are still in your office.

This means checking eligibility, and keeping up with allowables, copays, and deductibles applicable to HMOs, PPOs, Medicare, et cetera for each contract. Keep a summary of the contract's coverage, prior approval, and billing rules. Determine patients' responsibility regarding copayments, deductibles, and non-covered services. And watch patients seeing you through a point-of-service plan.

It is often a good idea to review major managed care plans' marketing literature aimed at patients. This literature may help you see why some patients do not understand why they get a bill from their physician. The salespeople don't always emphasize coinsurance, larger deductibles under Point-of-Service plans, etc. If things are really bad, it might be worth talking to plan representatives (or consider the impact of terminating participation with the plan).

- 4. Collect accurate information about the person responsible for the bill. Ensure statements are mailed to them on a REGULAR basis and followed-up according to your office's policy.** Follow these policies conscientiously; otherwise, collection contacts (especially the more effective telephone calls) are often postponed.

A Collection Policy that Works (Continued)

5. **Establish a standardized system for submitting insurance claims and following-up unpaid claims.** Adhere to the system religiously. **Collect accurate insurance coverage information and make sure claims are filed correctly the first time** with all information including proper CPT and ICD-9 codes. Otherwise, avoidable denials will impede the process as unpaid claims pile up. Watch Explanation of Benefits (EOBs) and/or requests for additional information to monitor accuracy of original claims submissions.

Some third party Payers are notorious for losing claims, asking for additional information, and similar delay tactics. Unless the claim is very small, do not give up until you are paid or receive a satisfactory explanation.

6. **Monitor the effectiveness of your collection system to ensure the process is working as well as possible.** Look at collection ratios, accounts receivable aging reports, EOBs, patient complaints, etc. You should routinely monitor changes in your collection ratio and initiate corrective action when needed. Appropriate corrective action will depend upon the reason collections are falling behind.

Also, watch for write-offs due to failure to obtain prior approvals, authorizations, etc. Your office should not be making too many, if any, mistakes in this respect.

Evaluating Collection Effectiveness

Physicians and/or office managers should monitor the effectiveness of the collection process by reviewing collection ratios and the Accounts Receivable Aging Report. Before discussing ways of monitoring and improving collections, let's define the term *collection rate/ratio*.

What is the collection ratio? It is a measure of the success of your collection system. Mathematically, it is: **Fees Collected / Fees Charged**.

An example of calculating a *simple* collection ratio is: If you collect \$8,000 and bill \$10,000, your collection ratio is **80%** ($8,000/10,000 = .80$).



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Many medical practices calculate collection ratios by dividing the current month's collections by the current month's billings. **But, the best way to compute the ratio is to keep track of dollars received in relation to when the service was performed.** This is difficult to perform in most offices unless one's computer is setup to do so; therefore, collection ratios are often computed by dividing *dollars received* in a given period by *billings* during that period.¹

To get a meaningful estimate of your collection ratio, look at more than one month. The longer the period of time, the better (unless unique circumstances skew data).

A calculation based upon the most recent 6 to 12 months is usually best. Comparisons to prior period ratios will help assess adequacy of efforts and effectiveness of new collection techniques.

¹If necessary you can calculate this more exact collection ratio by selecting a random sample of patients who received services three to four months ago. That is, go to the "Day Sheet" or similar records completed 90 to 120 days ago. Take a random sample of patients and record the amount charged. Then look at the patient's ledger (or computer account file) and tally the amounts actually collected against those charges. Divide collections by billings. **Use this method to monitor the effectiveness of major changes made to your collection system** (because the traditional method of dividing one month's collections by that month's charges is often not reflective of the true collection rate).