11 Tips for Improving Return On Healthcare Receivables
This whitepaper is based on research developed in partnership with healthcare providers and receivables management companies throughout the U.S. To read more about the full research publication, visit the insideARM.com bookstore online.

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Kaulkin Media is the worldwide leader in providing timely news and information on the recovery of debt in all industries. We put the news in perspective, provide unique insight into challenges that face the industry, and facilitate collaboration among peer executives. Publications include www.insideARM.com™, www.jobsinsideARM.com™, The ARM Insider™, Inside Card & Creditor Receivables™, and other monthly e-newsletters for the accounts receivable management industry (ARM). Kaulkin Media’s analyst group conducts sector-specific research that provides a level of authority and in-depth analysis not found anywhere else.

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The U.S. healthcare industry is enormous, representing one in every six dollars spent in this country, or roughly $2 trillion, in 2005. The aging of the population and other macroeconomic trends suggest that this industry will grow moderately for the foreseeable future. Part of this growth has heightened an industry problem: more bad debt. Healthcare providers in the United States set aside $129 billion annually to cover bad debt, amounting to roughly 7 percent of the industry's revenues – and more than double the industry's average net profits of 3 percent. As bad debt has caused profitability to wane, healthcare providers have partnered more with companies that specialize in the collection of delinquent receivables.

This has led to opportunities for companies that provide healthcare providers with receivables management services. The healthcare sector of the accounts receivable management (ARM) industry generated $2.4 billion in revenues in 2005. All signs suggest that this figure is likely to grow as healthcare providers utilize these service providers in the pursuit of receivables.

Whether healthcare providers and receivables management companies can maintain levels of profitability during this period of revenue growth remains another question entirely. Downward movement in prices, increased competition, and a variety of regulatory threats pose real challenges to companies in both industries.

Healthcare providers and receivables management companies must work collaboratively to confront the challenge of bad debt. This whitepaper describes 11 ways in which this collaboration is improving return on healthcare receivables.
#1: Acknowledge the impact of self-pay patients
The U.S. Census reports that 46.6 million citizens, or 16% of the population, had no health insurance in 2005, an all-time high. With fewer employers providing health coverage for employees, the incidence of uninsured patients has grown even with unemployment near all-time lows. Uninsured patients place financial strain on healthcare providers in obvious ways, particularly when they arrive through emergency rooms, which are required by law to treat all patients regardless of their ability to pay. Employees covered by insurance may also have increased co-pays, further placing the burden of healthcare costs on the consumer. The impact of these trends on healthcare providers has been formidable, forcing these companies to place more emphasis on the recovery of outstanding debts, both early in the revenue cycle and later as receivables management in order to maintain profitability.

#2: Start early
Many healthcare receivables are caused by patients who use hospital emergency rooms as their primary destination for medical care. These individuals are likely to be uninsured or underinsured, placing strain on the operational and financial resources of the hospitals and physicians that provide them care. Recovery efforts succeed most when efforts begin early in the revenue cycle, both by healthcare providers and their service providers, sometimes before a patient even arrives at a medical facility. In fact, the healthcare companies that manage receivables most effectively mitigate the severity of bad debt towards the end of the revenue cycle by maximizing the effectiveness of front-end procedures such as patient admittance, charity care classification, and insurance approval. As a result, receivables management companies are frequently asked to provide revenue cycle management, first party collection, insurance processing, and other related services that would not typically be offered by companies in other sectors of the ARM industry.

#3: Use different services for different purposes
Healthcare providers have intensified their use of receivables management companies for a variety of purposes. First party or early stage collections takes place under a healthcare provider’s name, either by the creditor itself or by receivables management companies working under its brand. Contingency collections take place as a third party service provided by receivables management companies to healthcare companies seeking to monetize delinquent or charged-off accounts. Healthcare providers also sell portfolios of delinquent receivables to debt
buyers that specialize in the acquisition and collection of medical receivables. Given the diverse needs of their clients, all but the smallest competitors in this sector of the ARM industry are likely to be pursuing some combination of first party work, contingency collections, and debt buying, rather than specializing in one service.

**#4: Negotiate based on price, but only to a point**
Increases in healthcare placements have made this sector of the ARM industry more appealing to established receivables management companies and new entrants alike. Many new competitors have utilized lower pricing to gain entry to this market. Healthcare providers have benefited from these trends in the form of lower fees. Executives of receivables management companies, however, suggest that there are limits to viable prices for receivables management services. Our research publication suggests that the average contingency fee for primary placements of healthcare paper has decreased to an average of about 21%.

**#5: Benefit from fragmentation**
Healthcare providers in the United States are comprised of roughly 5,759 hospitals, 193,000 doctors’ offices, and 118,000 dentists’ offices. These healthcare facilities are located throughout the country, from populous cities to small towns. Hospital chains tend to contract with larger companies in the ARM industry, while smaller healthcare providers tend to be locally focused, contracting with local collection agencies as part of that strategy. Companies in the healthcare and accounts receivable management industries benefit from the fragmentation of their industries as they find partners that match their own resources and needs.

**#6: Maintain community reputation**
Healthcare companies are challenged to manage their receivables effectively because of their need to maintain positive community reputations. Aggressive collection tactics can place a healthcare provider in jeopardy of alienating both existing patients and prospective customers. Moreover, a negative reputation can severely impact a healthcare company’s financial performance. At the same time, it can be in a healthcare provider’s best interests to forego delinquent receivables for the sake of having repeat customers, particularly when bills are being partially covered by insurance, charity care, or government programs. As a result, policies about collection methods, recovery rates, and litigation are likely to be made differently by healthcare providers than other credit-granting companies. Receivables management companies must implement these policies with a softer touch than they might for other clients.
#7: Turn regulatory compliance into a competitive advantage

Overlapping layers of federal and state laws and regulations have significantly increased the challenge of operating successfully in the healthcare ARM market. State attorneys general across the country have recently attempted to further regulate this market, placing more restrictions on the collection of healthcare debt. At minimum, these restrictions force service providers to spend more time and money on collector training and compliance. At worse, increased notoriety on the part of both collection agencies and healthcare companies can decrease the receptivity of patients to collection efforts, lead to more patient complaints, and increase the difficulty of collecting receivables. Companies that emphasize more empathetic and patient-friendly collections processes, invest in collector training programs, and integrate legal compliance efforts thoroughly with collection operations turn regulatory compliance into a competitive advantage and are most likely to succeed in this market over time.

#8: Borrow some lessons of credit card collections

All of the executives that participated in our research suggested that managing healthcare receivables is different than managing credit card receivables. However, healthcare providers and ARM companies have successfully borrowed techniques and best practices developed in the arena of credit card collections to their own operations. In fact, advanced collection technologies and management techniques are increasingly being utilized to measure and improve healthcare receivables management. Credit scoring is allowing healthcare companies to segment patients according to their likelihood to pay. Healthcare providers are utilizing batch reports to increase competition and improve performance among service providers. Net back is being used to measure the performance of collection agencies over time. In these ways, healthcare providers and their service providers are borrowing lessons from the collection of credit card debt and managing receivables more effectively as a result.

#9: Consider debt buying

Delinquent debt purchases across all market segments reached an estimated $110 billion in face value in the United States during 2005, with an estimated $3 billion to $4 billion in face value of healthcare debt purchased during that year. This relatively small market has grown considerably, as debt buyers experienced in the purchase of credit card debt have entered the healthcare market, contributing to higher prices of healthcare debt portfolios and providing immediate cash to healthcare providers. Important differences remain between credit card and
healthcare debt purchasing, including prices, recovery methods, buy-back provisions, and resales, to name a few. However, healthcare providers and receivables management companies agree more and more that healthcare debt buying will have a considerable impact on the future of healthcare receivables management.

#10: Lean on vendors
While the healthcare receivables management is competitive, funding partners, technology vendors, and industry associations provide support to companies within this market, both contributing to and benefiting from their growth in the process. These entities have promoted growth in the industry by providing an influx of capital for companies to expand and diversify, technology platforms that enhance the collection process, and helpful networking opportunities. These entities will benefit from and contribute to the healthcare receivables management market as it continues to grow.

#11: Plan strategically
Healthcare is one of the largest industries in the country, with continued growth expected for the foreseeable future. Companies in the accounts receivable management industry serving the healthcare sector will continue to see significant demand for their services in years to come. This demand will create continued opportunities for the market’s major players and investors, who will continue to utilize mergers and acquisitions as tools for external growth.

Perhaps the most pressing question for all that are active in this market could be, how profitable will it be? Answers to this question are likely to be as diverse as the companies in this market. Still, competitive pressures and other threats suggest that unless companies have achieved economies of scale, margins as a whole may shrink even as revenues grow. Owners and managers of companies that are active in healthcare receivables management – whatever their size and business model – must plan and execute their businesses strategically in order to grow profitably.