



BUSINESS

Unique aspects of patient debt collection

Practice Management. By [Pamela Lewis Dolan](#), *AMNews* staff. Jan. 29, 2007.

A recent report looking at accounts receivable management practices in the health care industry estimates that there is roughly \$129 billion in bad health care debt in United States today. That's about 7% of industry revenues, and more than double its 3% net profit margin.

For the nation's physicians and hospitals, that's a lot of money to have to swallow. For the accounts receivable management industry -- also known as collection agencies -- it's a growth opportunity.

With this article
■ See [related content](#)

But fortunately for physicians, even as collection agencies grow larger, they still understand that collecting from a patient is not like collecting from someone who has fallen behind on credit card bills. In fact, the report recommends physicians and others in health care find ways to work with collectors to make sure that more debt is collected, in the most understanding way possible.

The bad debt figure -- which refers to money patients owe, but physicians and hospitals have mostly written off collecting -- comes from a report by the Atlanta-based company Kaulkin Ginsberg, which advises the accounts receivable management industry on mergers and acquisitions and other business strategies.

The figure is linked to growing unemployment rates, high-deductible insurance plans and increased co-pays, according to the company's "Healthcare ARM Report, 2006." The health accounts receivable management business had \$2.4 billion in revenue in 2005, an amount likely to increase in 2006, the report said.

"Bad debt may be the most pressing financial problem of the health care industry," said Paul Legrady, director of Kaulkin Ginsberg's Research Group.

Official policy of the American Medical Association is that physicians should use compassion and discretion when dealing with the collections of hardship cases. The policy also states that no account should be sent to collections without the physician's knowledge.

The AMA's policy coincides with the charitable mission of many nonprofit hospitals and the

**PRACTICE
MANAGEMENT**

A column about keeping
your practice in good
health

[SEE ARCHIVES](#)

The AMA's policy comports with the charitable mission of many nonprofit hospitals and the desire by most practices to uphold a good reputation in the community. These factors, along with federal regulations regarding health care debt and the way in which it is collected, have forced the ARM industry to modify its tactics for health care, the report said.

They also have forced the health care industry to proceed with caution when contracting with outside collection companies.

Because of laws governing patient privacy (HIPAA) and those regulating collection practices (Fair Debt Collection Practices Act), health care debt is the most regulated in the ARM industry. As such, contracts between debt collectors and health care contain stipulations and features found in very few places outside the health care industry.

For example:

- Lower contingency rates. According to the report, because a variety of factors, including an increased number of health care entities willing to sell debt and the increase in the number of agencies bidding on the debt, the average contingency fee -- the percentage of collections the agency gets to keep -- is 21% for health care collections. Meanwhile, the average for the industry as a whole is 28.9%.
- No secondary market. While it is common for collection agencies to sell debt to other agencies, the secondary market is small for health care debt. As outlined in AMA policy, physicians and hospitals are uncomfortable with unknown agencies dealing with their debt. Many remain involved in the collection process, working side by side with the agency contracted to recover the debt.
- Prohibition of legal proceedings. Litigation is a common tactic in most other areas of debt collection, but because of the charitable missions of some organizations and an overwhelming desire to uphold reputations, many contracts include provisions that prohibit legal actions against a patient.
- Liberal buy-back options. Because many physicians and hospitals are selective in who they send to collections, many want the option to buy back the debts of people wrongly identified as bad debtors, according to the report. The report recommends that doctors do more of what they already are doing -- staying actively involved in the collections process even after they have hired an agency.

They also recommend that doctors, particularly those with more self-pay patients or patients with high-deductible health plans, do more from the start to assess patients' ability to pay and set up payment plans to ensure that a greater percentage of their patient billings is collected without having to hire outside help.

Darrel Woodside, collections supervisor for Pershing Healthcare System, a one-hospital, one-medical-group organization in Brookfield, Mo., said it's sometimes very difficult to determine whether someone is truly low income, or has the means but lacks the motivation to pay their debt.

In recent months, several hospitals have lost millions in settlements with uninsured patients who claimed that their collection tactics were too harsh. As physicians and hospitals have softened their collection tactics, they are forcing the collectors they contract with to soften their approach, as well, the Kaulkin Ginsberg report said.

Doug Gardner, patient financial service director for Health Alliance, a seven-hospital network in Cincinnati, said he spent eight years in retail collections with Citibank and knows firsthand that health care collections are different. With credit card debt, there's no question the debtors owe the money, he said. But with health care debt, there could be a legitimate reason, such as a mistake with insurance filings, that have led to the unpaid debt.

"You can't go in, guns blazing," he said.

Gardner has found that working with collectors who deal only with health care receivables makes a difference. The collector must act as a partner that is committed to the same goals, which include protecting the reputation of the hospital and doctors, he said.

Others have found that, by determining which accounts likely will go unpaid no matter how much effort goes into collecting, a practice can save money by reducing the efforts placed on those accounts.

Woodside said this is an approach his staff uses.

If someone with little means is making an effort to pay, he or she is not likely to be turned over to collections. But if someone with a steady income is paying \$10 a month on a \$1,000 bill, that person will likely be turned over to collections, he said.

Dolan covers practice management issues. You can send her tips or suggestions by [e-mail](mailto:pamela.dolan@ama-assn.org) (pamela.dolan@ama-assn.org) or call her at 312-464-5412.

[Back to top.](#)

Copyright 2007 American Medical Association. All rights reserved.

RELATED CONTENT *You may also be interested in reading:*

[Collecting patients' share up-front getting easier](#) Feb. 27, 2006

[Cash advance: Should you sell your accounts?](#) Jan. 30, 2006

[Collections etiquette: How far should doctors go?](#) Sept. 27, 2004