



June 3, 2008

Hospitals Put Patients' Debt Up for Auction

Collection Agencies Bid Online For Right to Recoup Funds; Worries About Tougher Tactics

By SARAH RUBENSTEIN
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In a move that consumer groups say could increase pressure on people with unpaid medical bills, some hospitals are trying out a new tactic to recoup patients' debts: They're auctioning the debt online.

Hospitals have long relied on outside collection agencies to go after debtors. Under traditional arrangements, these agencies receive a percentage of any money they get from a debtor; the more they collect, the more they earn.

QUALITY CONTROL

In online auctions of medical debts ...

- Sites say they vet the collection firms that participate.
- Site owners say they try to ensure that collectors comply with hospital rules, such as whether collectors must record phone calls.
- Hospitals have final say over who bids on their accounts.

Now, some of the same collection agencies, as well as other firms that purchase debt outright, have begun participating as bidders in online auctions, in which they buy the debt or provide guaranteed payments to hospitals for access to the unpaid accounts. Some experts say this gives them more reason to aggressively pursue patients in arrears. Auctions can drive up the amount paid for debt, meaning a collector must recoup more money from patients to cover its initial

investment and turn a profit. And the winning bidders often get to keep all the money they collect on the auctioned debt.

Winning bidders may "have to work harder" to make a profit from auctioned debt, says Michael Klozotsky, an analyst at Kaulkin Ginsberg Co., a collections-industry strategic-advice company. "Working harder means sometimes using strategies that are more aggressive."

Many of the auctions of hospital debt have been done through Web site [ARxChange.com](http://www.arxchange.com)¹ -- shorthand for "accounts receivable exchange" -- owned by TriCap Technology Group. Another site is [medipent.com](http://www.medipent.com)², run by Medipent LLC. The auction-site owners, both small companies based in New York, say their systems create safeguards that protect patients from potential abuse. Collection firms are vetted for their tactics and approach to patient needs and concerns before they are allowed to participate in auctions, the site owners say. The site owners also try to ensure that collectors comply with hospital rules -- whether they must record phone calls, for instance, or get

the hospital's permission before initiating a lawsuit against a patient. Hospitals have final say over who bids on their accounts, and, on ARxChange.com, don't necessarily award the contract to the highest bidder.

Hospitals "don't want a black eye from a PR standpoint," says Joseph LaManna, TriCap's chief executive. Both TriCap and Medipent receive fees from the hospitals and collectors, based on the size of the winning bid.

Looking to Collect

The auctions reflect hospitals' continuing search for ways to collect from the uninsured and underinsured. In 2006, nearly 5,000 community hospitals provided uncompensated care totaling \$31.2 billion -- mostly unpaid patient bills or charity care -- representing nearly 6% of all costs, according to the American Hospital Association.

Debtor's Rights

When a debt-collection company comes calling, consumers have certain rights under federal law. Here's a sampling:

■ **When may a debt collector contact you?**

Between 8 a.m. and 9 p.m., but not at work if they know your employer disapproves.

■ **Can you stop a debt collector from contacting you?**

Yes. Write the collector a letter telling them to stop. This doesn't mean your debt has gone away. You could still be sued by the collector or original creditor.

■ **What must a debt collector tell you about the debt?**

They must send you a written notice with the amount of money you owe, whom you owe it to, and what action to take if you believe you don't owe the money.

■ **What if you believe you don't owe the money?**

Promptly send the collector a letter requesting verification of the debt. Then, the collector can't resume collection activities until it sends you confirmation of the debt.

■ **Whom can you complain to if you're upset by the collector's tactics?**

ACA International, a trade group representing debt collectors, says it tries to resolve disputes. Also call the hospital, which may intercede to maintain good patient relations. You can report problems to your state attorney general and the FTC. You also have the right to sue a collector in state or federal court.

For more information, go to:

www.ftc.gov/bcp/edu/pubs/consumer/credit/cre18.shtm

www.acainternational.org/consumers.aspx?cid=8992

www.privacyrights.org/fs/fs27-debtcoll.htm

Sources: Federal Trade Commission; ACA International

million of debt on ARxChange.com that had already gone through collection efforts by the hospital's staff and by CBJ Credit Recovery, an outside collection agency. CBJ decided to take another shot at the accounts and submitted the winning bid, an agreement to pay the hospital \$80,000 over the course of a year in exchange for keeping what it collects from the debtors. "Even though [the unpaid bills] were very old, it was additional value we were able to extract from them," says Chuck Iverson, chief financial officer at the hospital.

CBJ co-owner Andrew Hartweg says his firm is approaching the collection effort in the same way it would if it were working on a traditional contingency basis. This generally involves sending letters to debtors, calling them on the phone, reporting them to credit bureaus and, as a "very last-

The amount of debt auctioned so far is relatively small.

ARxChange.com says it has handled more than \$400 million in patient debt in about 27 auctions, involving nine hospital systems and four individual hospitals. Medipent.com says it has hosted events involving 12 New York hospitals and \$60 million of debt.

Participating hospitals say they are still testing the process, often putting up for bid some of their older debt with a low likelihood of being repaid. Bidders typically offer just pennies or fractions of pennies on each dollar owed, reflecting the small amount they expect to collect from patients while still pulling in a profit.

Woman's Christian Association Hospital of Jamestown, N.Y., last fall auctioned about \$7

ditch effort," getting clearance in court to garnish their paychecks, he says. Mr. Hartweg wouldn't say how much CBJ has collected so far on the accounts, but said it has extracted payments on bills dating back to 2003 and anticipates making a profit.

Consumer advocates say patients are less likely to successfully dispute bills or negotiate them downward if they are dealing with a third-party collector rather than a hospital directly. Collectors also are further removed from hospitals' financial-assistance policies.

"The hospital is an institution in the community, has a reputation, in many cases has a nonprofit mission to uphold," says Anthony Wright, executive director of the consumer-advocacy coalition Health Access California. "Once it goes to collections, that starts a process that can get a lot more antagonistic, a lot more aggressive, and a lot more damaging to a family's credit history and financial future."

One health system that has backed away from the online auctions is St. John Health. The Detroit system, which owns six hospitals, says it learned recently that, without its knowledge, some of its patient debt had been posted on ARxChange.com by Accretive Health, an outside company that manages collections for St. John. The hospital system says it "expressed our displeasure" to Accretive and told it not to continue because "we do not believe an environment such as a Web site is appropriate in dealing with patient accounts." No transaction was completed, St. John says. Accretive declined to make a statement about its business with St. John.

The federal Fair Debt Collection Practices Act and some state laws govern how debt collectors can treat consumers. For instance, debt collectors aren't allowed to harass consumers or make false statements, including implying they will sue if they don't intend to do so. Consumer groups say calling the medical provider or your insurer could help clarify any confusion about what you owe. The hospital also could provide information about financial assistance or charity-care.

What the hospitals can do to help patients may depend on the terms of their agreement with the collector, says Mark Rukavina, executive director of the Access Project, a research and advocacy group that focuses on medical debt. Many hospitals include provisions in their contracts with the debt buyers that allow the hospitals to help resolve confusion over bills and retrieve patient accounts from the firms in circumstances such as charity-care qualification. (TriCap also says it looks for charity-care cases prior to auctions by guessing at incomes based on factors such as ZIP Codes.)

Familiar Firm

"We do not want our patients' debt handled in any egregious manner," says Neal Somaney, vice president of business office operations at Vanguard Health Systems, a Nashville, Tenn., company that owns 15 hospitals in four states. When Vanguard sold \$48.8 million of patient debt in an auction in January on ARxChange.com, it chose to award the contract to a firm it had worked with previously and trusted, says Mr. Somaney.

New Island Hospital of Bethpage, N.Y., participated in medipent.com's first health auction last year, offering \$7.3 million of unpaid patient bills that ranged from about four to 15 months old. Drew Pallas, New Island's chief financial officer, says the hospital received complaints from two debtors about the collection agency. But when the hospital subsequently listened to recordings of the agency's calls to those people, it determined that the collector had acted with professionalism, he says.

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(1) <http://ARxChange.com>

(2) <http://medipent.com>

(3) <mailto:sarah.rubenstein@wsj.com>

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