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Hospitals auction off unpaid accounts

Collections could get more aggressive

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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.

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, said 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 — shorthand for "accounts receivable exchange" — owned by TriCap Technology Group. Another site is medipent.com, 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," said 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.

Industry in early stages

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 percent of all costs, according to the American Hospital Association.

The amount of debt auctioned so far is relatively small. ARxChange.com said it has handled more than \$400 million in patient debt in about 27 auctions, involving nine hospital systems and four individual hospitals. Medipent.com said 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 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 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," said Chuck Iverson, chief financial officer at the hospital.

CBJ co-owner Andrew Hartweg said 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-ditch effort," getting clearance in court to garnish their paychecks, he said. Hartweg wouldn't say how much CBJ has collected so far on the accounts, but said it has extracted payments on bills dating 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," said 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."

Appeal is limited

One health system that has backed away from the online auctions is St. John Health. The Detroit system, which owns six hospitals, said 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 said 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 said. 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. 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.
