



## **Article: Changing the Status Quo: Moving Collections to the Front End of the Healthcare Revenue Cycle**

The U.S. healthcare payment system processes \$1.9 trillion a year, consuming 15% or more of each dollar spent on healthcare (compared with about 2% for the payment system in the retail industry). Expenditures on the processing of bills, claims and payments, bad debt, and other transactions total more than \$300 billion a year.<sup>i</sup>

In today's fiscal environment, healthcare organizations must increase revenue and improve administrative and collections processes in order to remain successful and financially viable. In fact, the need for hospitals and other healthcare service providers to be proactive in increasing upfront collections has never been greater. This is because the patient-responsible portion of the bill has increased dramatically in recent years for a variety of reasons, resulting in a higher number of self-pay patient accounts.

For example, trends such as increases in co-pays, co-insurance and deductibles for traditional insurance plans, and the creation of consumer-driven health plans such as health reimbursement arrangements and health savings accounts -- have shifted more financial responsibility to the individual patient. Many employers continue to shift a greater share of healthcare costs to employees. Just consider this telling statistic: Since 2000, the average out-of-pocket costs for deductibles, co-payments for medications, and co-insurance for physician and hospital visits rose 115%.<sup>ii</sup>

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In addition, the more than 49 million uninsured and 16 million underinsured Americans are considered to be self-pay patients, and these populations continue to rise.

Many healthcare service providers are aware of the growing need to move collections from the back end of the revenue cycle to the front end -- but most want to do so by “keeping the status quo.” The tendency to rely on collection agencies and early-out solutions in lieu of modifying the front end appropriately has become the norm. In fact, most healthcare service providers are sending indigent and government program eligibles to collection agencies, and they are not even aware that they are doing so.

The challenge for today’s healthcare institutions is to become customer-focused and performance-based. These goals mean changing how they operate, beginning with pre-service and point-of-service patient interactions. It means changing the status quo.

While those revenue cycle management technologies and services that encompass the entire continuum of care -- from the front end to the back end -- are widely recognized as being most effective, providers have historically focused on post-service billing, denial management and collection activities. (That is, the back end of the process.) In fact, such large financial investments have been made to automate the back end of

the revenue cycle that many healthcare service providers have been reluctant to abandon or significantly modify them. Healthcare decision-makers and hospital CFOs across the country are on the lookout for technological enhancements that will save their organizations both time and money. For healthcare providers, changing collections to the front end is such an enhancement.

Simply put, the sooner providers ask for what they are owed, the more likely they are to collect it.

In order to be successful in collecting payments upfront, providers must have appropriate policies and business rules in place for all patient types; they must be able to assist all healthcare consumers irrespective of their financial profile, insurance status or healthcare condition. For example, providers must be able to consistently and efficiently handle the accounts of those patients who fall under the following categories:

- No insurance -- but charity eligible
- No insurance -- but not charity eligible
- A government program with co-pays (Medicare/Medicaid)
- A government program without co-pays (workers' compensation)
- A self-insured or commercial insurance plan with and without co-pays

One strategy that will help organizations reduce the inefficiencies of denials -- not to mention delayed or

reduced payments and re-bills -- is to determine the eligibility, benefits, and co-payments and deductibles for all patients from the outset. Today it is more important than ever to determine whether patients' insurance or patients themselves are responsible for fees, and what portion they are responsible for paying.

A dedicated upfront collections program allows front-line employees to increase early cash collection through targeted yet discreet methods, as well as to establish various patient payment options to make revenue collection more efficient.

In addition, a successful system will screen patients for eligibility programs and consistently apply discounting and charity policies where appropriate. Although the details vary from state to state, under most current hospital payment systems, there is some reasonable payment to providers for uncompensated care, treatment and service performed for the medically indigent. Demographic patient analysis

can allow this type of care to be identified on the front end.

Meeting these goals requires tools specifically designed for the unique needs of healthcare organizations -- tools that can capture, organize and verify patient information. For this approach to work in healthcare, three components must be in place, according to a McKinsey Quarterly report<sup>iii</sup>:

- Providers must be able to tell patients how much they will owe while they are still at the hospital or doctor's office. (The real-time adjudication of claims, while technically feasible today, could take years to gain acceptance in the providers' offices. Meanwhile, providers could give good-faith estimates by using pricing tools.)
- Providers must have systems to accept cash, credit or debit payments. For hospitals and providers undertaking larger transactions, financing options should be available.

- Providers must become firmer at the time of treatment about requiring patients to arrange for payment, even if they have insurance coverage.

In order to spend their healthcare dollars wisely, consumers need to know their financial responsibility in advance. Many patients find the billing process that takes place in the healthcare arena to be the number-one area of dissatisfaction with healthcare services. With an effective self-pay management system in place, providers can ensure patients receive visibility into their healthcare costs, their specific financial responsibility, and their payment options. This ability to effectively communicate an estimate of the patient's responsibility can result in dramatically improved patient relations.

### ***Why the Status Quo Doesn't Work***

Most patient accounting systems do not offer a payment solution that supports upfront collection efforts. In fact, front-line cashiers and registrars typically have no access to the availability of discount options, charity guidelines and

price transparency for the patient portion of the bill, even if they do know an insured patient's co-pays and deductibles. Without the integration of all of this information, easily and quickly accessible, it is difficult to have a helpful conversation about the financial aspects of care.

It is imperative that healthcare organizations have a strategy for dealing with the ever-growing self-pay population in all situations -- from inpatient admissions to the ED to doctor's office visits to outpatient procedures. And this strategy must include tools and policies for consistently and appropriately offering discounts.

In many cases, self-pay patients are not offered discounted care, and hospitals effectively shift costs on to the uninsured. (CMS has reassured hospitals that deductions for self-pay patients are permitted.) Over the past several years, federal and state lawmakers and consumer advocates have taken action to ensure that low-income uninsured and underinsured

Americans are charged fair (e.g., discounted) prices for their care and are protected from aggressive debt collection practices. Many healthcare providers are struggling to determine and implement proper, consistent processes for applying these discounts and sharing these prices at point of service.

With an effective upfront system in place, service providers can offer discounts at the point of service, taking into account a patient's current capacity to pay, total account balance and type of service. This enables fairness and consistency in the discounting process, as truly needy patients are identified, compared with those patients who simply choose to go without health insurance, even if they have the financial ability to obtain it.

Finally, out-of-pocket healthcare costs will only continue to rise, and patients will have increasing difficulty paying their debt. As a proactive, successful, caring facility, there are steps providers can take to help patients with their healthcare bills. Here are just a few ideas to consider:

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- Move financial counseling to upfront collections so patients will know what to expect and your organization will know what it is going to be paid.
  - Provide patient access areas with additional tools that enable them to increase efficiencies automate work processes and improve customer service.
  - In addition to providing your patients with excellent healthcare services, offer superior patient financing options.
  - Develop clear charity guidelines and make sure hospital staff are adequately trained and adhering to those guidelines.
  - Develop an upfront collection policy and adhere to the guidelines.
  - Consider partnering with a lender instead of offering internal payment plans.
  - Develop a relationship with a patient loan company that can quickly approve and fund patient loans.

In the case of self-paying patients, the best practice is to determine financial responsibility from the outset. Organizations that are unwilling or ill-equipped to implement this practice pay dearly. And, as patients are required to take on more and more costs for their healthcare, the importance of this practice will grow.

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- - Decreased billing and collection costs as well as agency fees

## References

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- <sup>i</sup> The McKinsey Quarterly, Overhauling the US health care payment system, June 2007 (Web exclusive)
- <sup>ii</sup> National Coalition on Health Care, <http://www.nchc.org/facts/cost.shtml>. Accessed June 4, 2008
- <sup>iii</sup> The McKinsey Quarterly, Overhauling the US health care payment system, June 2007 (Web exclusive)