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## Maximizing Collections

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Point-of-Service Payment

# Maximizing Collections: Mercy Medical Center Introduces Point-of-Service Payment

BY REBECCA LENZ

Years ago, if a patient walked out of one of our group practices without settling the bill at the front desk, we would shrug our shoulders and move on. After all, we could collect the lion's share of the payment from a third-party payer.

We have had to adopt a proactive approach and make improvements in our processes and technologies in order to stay fiscally fit.

Fast forward to today: at Mercy Medical Center, Des Moines, Iowa, we have come to the conclusion that, in fact, the times, they are a changin.' And, just as Bob Dylan is no longer topping the charts with his laid-back tunes, we are no longer taking such a laissez-faire attitude toward collecting payments from patients.

Why? The economics of care are not what they used to be and—like other healthcare providers—we have to deal with that reality, however unsettling. Consider the following: uncompensated care including bad debt and charity care cost U.S. hospitals \$31.2 billion in 2006, representing 5.7 percent of annual hospital expenses and an 8 percent increase from uncompensated care costs in 2005.<sup>1</sup>

Faced with the challenges

associated with changes in the economics of care, we have had to adopt a proactive approach and make improvements in our processes and technologies in order to stay fiscally fit. More specifically, Mercy—just like many other healthcare providers across the country—has had to adjust to the fact that patients are now paying for a greater portion of their care.

A look at the growing importance of self-pay revenue—and how we are implementing innovative processes and technologies to maximize collections in our system's 40-plus medical group practices—illustrates how we are succeeding despite the many challenges in the modern healthcare market.

## The Self-Pay Situation

Inklings of the self-pay challenges surfaced about 10 years ago when we centralized our billing office—and realized that our clinics were not uniformly collecting co-payments from patients. We did not have a formal process in place to collect at the time of service, and had a difficult time determining patients' responsibility for balances down the line. As a result, if patients walked out the door without paying their share of the bill, we had little chance of recovering the revenue. And, we started to absorb a fairly large portion of patient-responsible balances as bad debt.

The problem started out as an

annoyance, but kept growing more troublesome as we—like other healthcare providers—had to deal with a changing reimbursement model.

Unsettling reality No. 1: the rising number of uninsured Americans is forcing healthcare providers to collect a greater percentage of payments directly from patients. Nearly 47 million Americans, or 16 percent of the population, were without health insurance in 2005, according to figures from the U.S. Census Bureau. In addition, the number of uninsured rose by 2.2 million between 2005 and 2006 and has increased by almost 9 million people since 2000, according to the U.S. Census Bureau.<sup>2</sup>

The need to collect revenue directly from patients also is being driven by the breakneck growth in high-deductible or consumer-directed health plans. These plans have a higher annual deductible than traditional health plans, thereby placing a greater burden for payment directly on patients.

The most recent count by America's Health Insurance Plans shows that about 4.5 million people were covered by high-deductible health plans in January 2007, up from the 3.2 million figure reported by AHIP members in January 2006.<sup>3</sup> What's more, self-pay share of gross revenues reached 7.7 percent in 2006. Adding to the frustration, only 15 percent of patient obliga-

tions are collected at the point of care and 81 percent of self-pay net patient revenues are never recovered, according to a report from the Advisory Board Company, Washington, D.C.<sup>4</sup>

### Coping with Consumer Collections

With self-pay becoming a more critical component of our revenue mix, we quickly saw that we were falling short because our processes and technologies were not optimized to deal with collecting payments directly from consumers.

The self-pay problem started to gnaw away at our medical group physicians' compensation.

Because Mercy operates on a "virtual private practice" model, our medical group physicians are compensated based on their individual clinic's revenue and expense numbers. Therefore, the self-pay problem started to gnaw away at our medical group physicians' compensation. With an increasing amount of money walking out the door with patients, the doctors wanted the healthcare system to do something about the situation—and were ready to get their groups on board with any performance improvement initiative.

We quickly realized that a two-pronged approach was necessary. We needed to focus on implementing new processes that would help us collect money more effectively at the point of service. At the same time, we had to implement technologies that would improve the entire consumer-centric billing experience.

Our revenue cycle task force—which consists of professionals from across the organization—concentrated exclusively on improving point-of-service payment collection practices. Simply changing how we thought about collecting

money from patients was a job in and of itself. In short, we had to abolish the commonly held axiom that as caregivers we need to treat all patients without consideration for reimbursement. As a matter of fact, we came to the realization that we need to address reimbursement issues in order to continue to provide high-quality healthcare services to our community.

To improve the point-of-service collection process, we set the expectation that all group practices would collect payments at the time of service, and we encouraged collection as part of the check-in process, rather than as patients were leaving the clinics. The reasoning behind this was that all patients check in when they arrive at a physician's office; however, many patients—in a hurry to get home or back to work—leave the doctor's office without stopping at the desk.

Even though we already had strong integrated financial management, practice management, receivables management, and business intelligence systems in place, we knew that we needed to fine-tune our technologies to support changes in the industry's revenue cycle model—specifically to support the growing need to collect funds directly from patients.

So, while the task force worked on changing processes, our central billing office director and our customer service/collections manager worked closely with McKesson Provider Technologies, our Atlanta-based healthcare software company, to implement technology enhancements geared toward better meeting the challenges associated with collecting revenue directly from consumers.

Here are some of the specific improvements that we implemented:

**Developed Custom Code:** Mercy contracted with McKesson to develop custom code that would enable all patient-responsible balances to be loaded into an ancillary

system, allowing for the automation of the collections process and the improved tracking of patient-responsible balances.

**Automated Patient Statement Creation and Delivery:** Previously, all patient billing letters were created manually—and, as a result, letters were delivered ad hoc, instead of according to a specified schedule. With an automated patient statement processing system in place, Mercy's group practices now deliver patient statements at specific intervals: billing statement at 30 days, past-due notice at 60 days, and a final notice at 90 days. Mercy had never before used this structure to issue billing notices—and hoped that the statements would push patients to send in payments.

When patients do not comply by 120 days, the file is automatically pushed to a third-party collection agency. In the past, because there was no formal timeframe, a majority of the statements never made it to the collection agency—and bad debt began to skyrocket.

**Applied Custom Code Designed to Produce Refined Patient Statements:** Working with the software vendor, we refined custom code to create single-page (instead of multi-page) patient statements. The statements now illustrate what is due on the front and list all services in a single-grid format on the back. Because they are more reader-friendly, patients quickly recognize what they owe and are more likely to pay for the services in a timely manner.

### Results

With these changes in place, Mercy has made substantial revenue management improvements, and we are handling self-pay much more effectively. For example, we have achieved the following results:

- An increase of \$437,000 in payments from patients in the first

seven months following the automated final-notice campaign

- Reduction in mailing and postage costs of about 30 percent, due to streamlined patient statements
- A 91-percent jump in self-pay payments directly attributed to the automated final-notice campaign
- A decrease of 11.5 percent in patient-responsible receivables, while patient payments doubled between March 2006 and March 2007, exceeding the \$2 million mark

In addition to these bottom-line results, our patients are responding positively to the changes.

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positively to the changes. Satisfaction has improved because patients have the opportunity to discuss their payment options with a staff member when money is collected at the point of service. In addition, our new billing statements are easier to read, making it possible for patients to easily discern what they owe. All in all, these improvements make for a much less stressful patient experience.

Although these results are impressive, we have not stopped fine-tuning our self-pay collection efforts. We now are looking at implementing an automated outgoing call system that would offer patients the ability to make payments over the phone. By continuing to leverage the technology we have in place and making incremental improvements, we will be able to improve revenue management even more—and maximize our collections from all sources, including patients.

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