

Considering Selling Your Bad Debt? *Here's a Prescription for Recovery*

By Mitch Patridge, Varisol and CSI Financial Services

While unpaid patient bills continue to soar, more hospitals than ever are examining how to manage their bad debt. But what should leaders of your hospital do if they want to realize value from the bad debt charged off over the years – and how do they do this without creating patient complaints or PR problems? The solution for many hospitals is to sell the bad debt to the right buyer.

Most hospitals charge off their unpaid self-pay patient receivables at 120 days. Traditionally, the patient's balance is then sent to a collection agency. At this point, the hospital no longer carries the bad debt on their books. An advantage of this approach is that it frees in-house staff to focus on the collection of newer accounts. However, a primary disadvantage is that it often takes up to two years for the hospital to recover any funds.

An Injection of Cash from a Third Party Purchaser

Today many hospitals are opting to sell their bad debt to a third party purchaser who will handle the hospital's bad debt professionally and compassionately – without generating patient complaints. When compared to the collection agency approach, this strategy offers immediate cash up front, continued cash flow over time and better community relations.

Many third party purchasers provide upfront cash for delinquent and charged off self pay and balance-after-insurance accounts. In addition to increased and regular cash flow, hospitals receive other benefits that impact the bottom line. Foremost is a reduction in administrative costs. There's no need to manage a collection agency and no need to update account information or continue to try to collect on old accounts.

Hospitals may even reduce risk by selling accounts. In a recent legal case, a Circuit Court of Appeals determined that a creditor cannot be held liable for mistakes or "acts" of a third-party debt purchaser. Translated into the healthcare environment, this means that a hospital that sells its delinquent accounts to a third party vendor may not be liable for errors or transgressions that the buyer might make when trying to collect from a patient.

Accentuate the Positive, Eliminate the Negatives

Fear of patient or community reprisal is a valid concern of hospitals that are considering selling their delinquent patient accounts. But, there are many practical measures a hospital can take in anticipation of this potential stumbling block.

The first thing a hospital can do is to make sure that the contract with the debt-purchasing vendor prohibits the vendor from re-selling the accounts. Another important stipulation of a contract ensures that the hospital can recall the account under specific pre-determined conditions. Both of these contractual conditions help the hospital maintain as much control as possible over their sold accounts.

The Final Diagnosis

Hospitals can get more out of their bad debt portfolio -- and still treat their patients professionally and compassionately. But, careful due diligence is obviously critical to ensure you are partnering with a healthcare-experienced vendor who knows how to answer patients' questions and thus avoid potential disputes. Choosing the "right" debt purchaser should reflect a hospital's mission, vision and strategies. Here are some guidelines that can help with your decision process and end result.

- Establish your requirements. Understand what your goals are.
- Engage other areas of your hospital. Input from risk management, patient admissions and the hospital's PR department can help determine additional needs.
- Establish a vendor pool. As you collect names of vendors, find out:
 - Does the vendor specialize in purchasing and servicing *healthcare* receivables?
 - Does the purchaser resell or outsource accounts to third parties?
- Get a first-hand look at the vendor's processes. An onsite visit to the vendor's Customer Call Center gives insight into how accounts are treated.
- Does the purchaser handle accounts sensitively, minimizing patient complaints?
- Are the purchaser's employees well trained and professional?
- Are collectors monitored to ensure compliance?
- What are the vendor's business practices, collection tools, and procedures?
- Scrutinize the vendor's background. Are collectors FDCPA-trained and knowledgeable about HIPAA privacy rules?

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