

Get the Most From Receivables

For most physicians, one of their largest assets is their accounts receivable. Interestingly, a practice's poor financial performance often stems from a failure to manage this asset so that it provides the best possible return.

For most medical practices, the common thread of poor performance involves weaknesses with respect to appropriate accounts receivable management. Often, receivables are unmanaged, as opposed to mismanaged, many times because of understaffing in this most important area. Although many successful physicians are at maximum capacity with respect to their patient volumes, some physicians have shown that they can improve financial performance by managing receivables more closely, even in an era of increasing governmental regulations and declining reimbursement.

Strategic Priority

The Medical Group Management Association, in Englewood, Colo. (on the web at www.mgma.com), reports in its publication, *Performance and Practices of Successful Medical Groups* that the most important strategic priority of successful medical practices involves appropriate accounts receivable management.

Yet, for the average medical practice, there are many reasons receivables get out of hand. Among them are the following:

- Neglecting critical information from insurers and patients
- Failing to examine claims and claims-edit reports
- Failing to monitor return mail
- Neglecting to closely monitor reasons for claim denials and rejections
- Misinterpreting performance indicators (such as percentage of total accounts receivable more than 120 days old)
- Failing to adopt a disciplined approach to the follow-up needed to manage collection calls and letters to patients and insurers
- Failing to send accounts to collection agencies promptly.

Since most claim rejections and denials are the result of processing errors in the front office, appropriate revenue cycle management must be obtained with respect to the following areas:

- Patient scheduling and registration
- Insurance verification and eligibility
- Over-the-counter collections for co-payments, deductibles, and outstanding balances
- Coding validation
- Charge entry
- Referral management.

When managing accounts receivable, high-performance physicians use the 80-20 approach. In effect, 80% of accounts receivable comes from approximately 20% of all accounts. In particular, this rule holds with respect to insurance accounts in excess of 60 days old.

Getting Prompt Payment

A two-pronged approach to managing accounts receivable is imperative. First, physicians should review separate aged trial balances by insurer each month for appropriate follow-up whenever an account is more

than 30 days old. Second, the practice should be familiar with and use the appropriate state prompt-payment laws in order to ensure that it gets prompt and appropriate payment from all third-party payers.

When dealing with patient accounts, statements should be sent every 30 days. If no payment has been made after 90 days, the patient should be sent one final demand letter, either requesting payment in full or asking the patient to contact the office to make payment arrangements. If the patient does not respond within 10 days, the account should be referred for outside collection.

Indeed, high-performance practices typically have written financial policies and procedures to outline these approaches to accounts receivable. Furthermore, appropriate write-off processes should be defined and followed so that the practice can expedite the accounts receivable process.

One little known strategy that can be useful for practices in this area involves Form 1099-C from the Internal Revenue Service. Under this strategy, a physician may notify the debtor (that is, the nonpaying patient) that the cancellation of debt is being reported as income to the patient unless payment in full is received or appropriate payment arrangements are made.

In order to report income to an individual regarding cancellation of debt, the following conditions must be met:

- The account must be at least \$600
- The account must be canceled and returned from a collection agency
- The physician must have determined the account to be uncollectible during the current year
- The practice must be giving up on trying to collect the account
- The practice must be writing off the account or removing it from the books.

Since most people do not relish the thought of being reported to the IRS, nor do they want to pay taxes on “phantom” income, such as when a debt is canceled, this strategy may be useful in collecting large outstanding balances.

Making Arrangements

Another technique practices use involves making structured patient payment arrangements. Since some patients may have difficulty in satisfying their account balances on a timely basis, the practice can establish structured payment plans and monitor the frequency at which the patient has promised to pay the respective account. Such an account should be suspended from any collection activities as long as the patient makes monthly payments under the prearranged agreement with the practice.

Since there is a wealth of management reports available to most practices with respect to the appropriate monitoring of accounts receivable (such as days in accounts receivable or percentage of accounts receivable in excess of 90 days), the practice should ensure that its respective accounts receivable fall within acceptable parameters. The practice also should use these benchmarks to monitor all management personnel within the practice.

High-performance physicians invest in areas with the greatest opportunity for return on investment, such as the time and talent necessary to maximize one of the greatest assets within the practice.

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