



# How to Succeed in the New World of Self-Pay Collections

By Don Wright

*Senior Vice President, Self-Pay Operations, Parallon Revenue Cycle Services*

Healthcare organizations have made tremendous strides in designing sophisticated and patient friendly collections programs. Driven by a call to increase transparency, improve the patient experience, and minimize IRS scrutiny over community benefits, hospitals now offer everything from easy-to-understand patient statements to front-end help with Medicaid eligibility and charity assistance programs. They use state-of-the-art analytics to examine entire portfolios, and to improve self-pay collections recovery and overall costs. But it's a brand-new day in self-pay collections.

As millions of people gain insurance through the Affordable Care Act (ACA), and more consumers choose high deductible health plans, hospitals are experiencing shifts in patient volumes and in patient financial classes. Newly insured consumers have now been seeking healthcare where prior to gaining exchange coverage, many chose to avoid using those services. As a result, patients are leaving the hospital owing more money than they expected or did just a few years prior. As an example, one large national healthcare system experienced a 20 percent increase in ER visits and a 23 percent increase on the inpatient side between January 2013 and January 2015. Data from the same system also shows a 57 percent increase in ER dollars and a 37 percent increase in inpatient dollars that are now passed onto the patients.

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## Three Critical Changes Are Happening in Self-Pay Collections

As the ACA brings in an influx of new patients, hospitals need to be aware of key changes happening in self-pay collections and develop new strategic plans for how they will address them.

- 1. A New Financial Class Has Been Created.** Hospitals are seeing a new patient financial group. These are patients who are either newly insured, or their insurance has changed under the ACA. A high percentage of these new consumers receive significant subsidies from the healthcare exchanges. Because this is a new financial class, there has been much uncertainty in their ability to pay. Recent data, however, is shedding new light. The majority of these patients who have gone from having no insurance to being insured are experiencing a balance due on their hospital bill after their insurance pays its portion. These same patients are starting to show they are struggling to pay their hospital bills. Data from the aforementioned healthcare system shows that between January 2014 and March 2015 patients with health exchange insurance had a 50 percent higher average balance due compared to traditional residual co-pay balance after insurance accounts.
- 2. True Self-Pay Financial Class Dollars Are Dropping.** Typically, true self-pay financial class dollars equal 3-5 percent of average collection liquidity. As increasing numbers of uninsured patients gain insurance through the new healthcare law, new data show that true self-pay dollars owed to hospitals is going down. The same healthcare system mentioned earlier experienced a 40 percent decline in true self-pay volumes. This trend is being driven from Medicaid expansion, presumptive charity programs and the shifting population from uninsured to the healthcare exchanges. Those that remain in the true self-pay category are even more likely to default on that remaining balance.
- 3. Balance After Insurance Financial Class Dollars Are Increasing.** The number of dollars attributed to patients with a residual balance after insurance (from deductibles and co-pays) is increasing. Hospitals, however, are experiencing recovery rate declines for this category, likely due in part to consumers who have subsidized insurance but can't afford the residual balance left as their responsibility. For example, between October 2014 and March 2015, the same national healthcare system experienced a 16 percent drop in average liquidation for the traditional co-pay financial classes for consumers with subsidized coverage through the health insurance exchanges

### HOSPITALS EXPERIENCE BIG FINANCIAL CHANGES IN JUST ONE YEAR

Between January 2014 and March 2015, co-pay and deductible only data for all financial classes versus the health insurance exchange financial class showed the following for a national healthcare system with 160 hospitals:

**50% higher** gross average balances for health exchange accounts

**55% higher** net average balances due on health exchange accounts

**16% lower** recovery rate for health exchange accounts

**25% higher** percentage of health exchange defaulted accounts

**10% higher** percentage of health exchange consumers getting final notices

## How Will You Identify and Address the Shifting Financial Class?

Be proactive. Hospitals can no longer rely on the key indicators they used over the last decade to help them understand how to designate dollars to the different financial class buckets. Relying on old methodologies will result in false conclusions being made on current collection trends. With a new patient financial class emerging, it's time for hospitals to change how they evaluate and stop comparing new collections statistics to historic statistics and rates.

- **Create a plan to identify new financial classes.** While many organizations excel in Medicaid eligibility and financial assistance screening, they will need new tools, processes and partnerships to help identify patients on the front end who have subsidized insurance and predict their ability to pay as they move from a traditional true self-pay financial class to the newly insured financial class under the ACA.
- **Update your analytics programs.** Analytics programs are more critical now that the financial classes are blending. Hospitals need more data and analytics must be more scientific in order to drive process improvement and continue to improve the patient experience. Review current processes for analyzing, segmenting and scoring collection portfolios. These tools are the chief predictors of a hospital's bottom line and will need to be modified as you begin to understand the new patient financial class. Analytics programs need to provide detailed information about whether or not the same people who had difficulty paying when they were formerly uninsured are able to pay their residual balances with subsidized health exchange insurance.

Also, more consumers are choosing high-deductible accounts, which means higher residual balances. Hospitals must have new analytics that will measure the likelihood of payment for these higher balances. For example, what is a person's ability and likelihood of paying a \$2,500 deductible vs. a bill that is deeply discounted creating a more manageable payment perception? Also, as hospitals make changes to programs and workflow processes, they will need baseline data.

- **Incorporate new workflow processes.** Up until a few years ago, it was easier for hospitals to project which patients were more or less likely to pay their bills. This gave organizations the ability to predict and apply work efforts to different accounts. Now, with traditional co-pay/deductible financial class dollars increasing, and a 16 percent lower recovery rate for health exchange accounts [See: Hospitals Experience Big Financial Changes in Just One Year], workflows must change. For example, as consumers become more educated and savvy about healthcare processes and as they increasingly are required to pay more for healthcare services, they will have higher expectations.

As a result, hospitals must continue to provide even more patient friendly billing practices such as e-statements, online portals, and greater visibility around financial assistance programs. Moreover, they must apply different work efforts based on changes in patient mix and increasing residual balances. For example, what warrants an e-statement vs. a phone call may be a topic that involves not only providing patient ease, but also surround the financial impact of sending one type over the other.

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## How will you address the shifting situation?

- **Create a plan to identify new financial classes**
  - **Update your analytics programs**
  - **Incorporate new workflow processes**
  - **Deploy new self-pay discounts**
  - **Use smart collaboration tactics**
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- **Deploy new self-pay discounts.** As the financial classes blend together, making assumptions on collections strategies on balance after insurance vs. true self-pay has become more challenging. With liquidation rates going down on traditional co-pay/deductible financial classes, hospitals must revisit collection practices for patients who carry higher deductibles. To that end, some hospitals are incorporating aggressive presumptive charity programs and identifying aggressive self-pay discount levels. For example, organizations are increasingly offering deeper discounts on the front end to prompt payment on the high-dollar accounts that traditionally are less likely to be paid and seen in the eyes of a consumer as not achievable.
- **Use smart collaboration tactics.** Hospital performance in this new era of self-pay collections depends on having strong internal and external partners who are skilled at mining specific data and who know the right questions to ask. A savvy partner will know the data and how to update the forecasting plan for recovery rates, create new workforce strategies and how to identify the new financial class and the changes in a consumer's ability to pay compared to the traditional co-pay/deductible financial class. A primary question to ask your vendor is what tactics they will use to identify traditional co-pay/deductible financial class consumers versus people who have shifted from the true self-pay into subsidized insurance provided through the exchanges. Vendors will need this information to change workflows and improve success rates.

The good news is hospitals are gaining more visibility on who is gaining insurance through the health exchanges and how many of those consumers are partially and fully subsidized. As a result, hospitals have more insight on how healthcare trends are impacting self-pay collections. But they shouldn't stall on implementing new plans. Now, hospitals have the ability to capture the data and use it to make quantitative changes to collection workflows and processes that will help offset overall costs, reduce wasted costs, and increase productivity in the right areas.

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#### About the Author



**Don Wright**, a 22-year healthcare veteran, serves as the senior vice president of self-pay operations for Parallon. In this role, Don provides oversight of the daily collection operations for more than 300 hospitals and seven self-pay service centers. Throughout his career, Don has built a proven track record in leadership development, automated process work flow design, dialer integration, strategic business analytics and collection model strategies. Don earned a bachelor's degree in business administration from the University of Missouri.

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