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Medical Revenue Management

Building Revenue.
Preserving Your Patient Relationships.

Second Placement: Does it Really Pay Off?

Managing the balance between recovery and cost

How effective is the common practice of recalling accounts placed with a collection agency after a period of time and then placing those accounts with a second agency for recovery? Although the use of this method has been around for quite some time, the situations where it becomes advantageous (or not) may not always be self-evident. This whitepaper takes a look at the theory behind the practice and then analyzes known metrics to determine how best to implement second placement strategies, and to determine if the cost, monetary or otherwise, is worth the gain.

Why do some providers consider second placement of accounts?

Generally, the rationale for implementing this strategy is to increase the amount of revenue from collections. Specific theories include:

- The "threat" of losing an account creates a greater sense of urgency to perform for the original agency, since there is a limited window of opportunity to recover accounts and therefore earn commissions. This reasoning assumes that the agency is working on a contingent basis and therefore must collect in order to gain revenue.
- Accounts may be liquidated simply by employing a different collection method or company, ensuring that work standards are implemented even when the account has aged. This reason becomes more prevalent when a provider is unsure how much their accounts are being worked downstream of the initial placement.
- Evaluation of additional collection vendors for possible upgrade. Providers may want to "test drive" a new vendor before using them to replace a current agency.

Prior to jumping straight from the above reasoning to implementation, it is useful to evaluate what we know to be true about the recovery of healthcare bad debt and how it affects a provider's decision-making process.

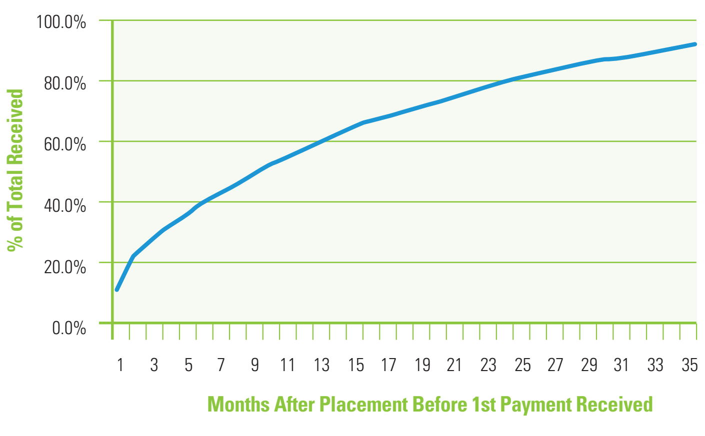
The realities of healthcare bad debt recovery

There are several things to consider about the nature of collecting healthcare bad debt when deciding if and how to implement a new process, such as second placement of accounts.

Reality #1: Guarantors are not always unwilling to pay

Part of the problem with second placement of accounts is that there is an underlying assumption that the more effort you put into the collection process, the greater the return. While this assumption may be true for some accounts, there exists a completely different subsection of guarantors that are *willing* to pay but are simply *unable* to do so. The collection of these accounts requires advanced skills and time to rectify. This situation is exacerbated when a provider selects a date of second placement that is too early in the process for these accounts to effectively cure.

In order to better illustrate this situation, KeyBridge performed the following study on previously placed accounts. A large group of hospital bad debt accounts was selected to determine how soon after placement first contact was made with the guarantor and how long after that the accounts were liquidated. The following graph from the study depicts the number of months from the date of placement until the first payment was received on the account versus the percentage of total collections.



This data verifies that the healthcare bad debt recovery process is time consuming and that the majority of initial payment and recovery occurs several months after first placement. The data suggests, for example, that if a provider recalls all non-producing accounts from an agency after a period of six months from the date of placement, then only 40% of the total possible revenue recovered will occur with the originating agency. A quality collections vendor must employ a consistent, long-term contact strategy in order to liquidate healthcare accounts that require a change in financial well-being before successful payment can occur. This is an important consideration when determining the length of time to place accounts with the first placement agency.

For CFOs there is always the cost factor to consider. Taking into account that most second placement commission rates exceed that of the first placement agency, it doesn't make much sense to pay more for the same results.

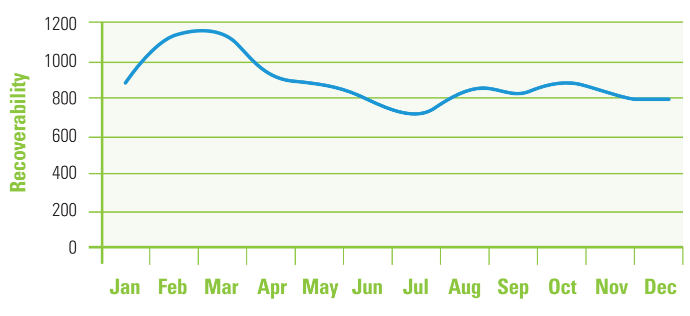
Example of Increased Costs:

	Contingency Fee	Cost of Recovery *	Increased Cost
1st Placements	25%	$ 25,000.00	
2nd Placements	30%	$ 30,000.00	20%

* per $100,000

Reality #2: Recovery can fluctuate seasonally

The ability to recover healthcare accounts can be impacted differently throughout the calendar year. The following graph depicts the changes in ability to recover healthcare bad debt during various times of the year.



This phenomenon occurs for reasons such as seasonal employment, holiday expenses and available cash spent on vacations in the summer, but is most easily illustrated in the first quarter of the year during tax season when available cash from tax refunds creates greater opportunity to recover healthcare bad debt.

As a result of these fluctuations in the ability to recover accounts (which can be substantial), it would seem prudent to not interrupt the collection process before an entire calendar year has elapsed.

Reality #3: Recovery methods can have an impact on patient relationships

Negatively impacting patient relationships can be very costly. In quantifying that cost, the lifetime value of a patient to a hospital averages $1.5 million. (For more info on this subject, see www.keybridgemed.com/LTV.) Therefore, careful consideration must be given to the recovery strategies and vendors used in the collection process.

When devising collection strategies, it is important for the provider to see things from the patient's perspective. The most common complaint about healthcare billing and collections is that it causes a great deal of confusion due to its complexity. Patients receive documents from multiple providers and payers that are in different formats and frequently appear to conflict. They also feel embarrassed and ashamed that their accounts have been turned over for collection. In this case, their financial difficulties are exposed to complete strangers whom they probably believe sit in judgment of them.

Placing their accounts with a second collection agency may only exacerbate their embarrassment, which reflects back on the provider when it comes time to use their services again. Studies have shown that there is also a very strong correlation between dissatisfaction with billing and collection practices and clinical satisfaction scores. With the advent of HCAHPS and the like, poorly designed collection practices will affect reimbursement rates.

Conclusion

While there are good reasons to consider the implementation of second placement, there are plenty of explanations that can easily refute the logic used in justifying its implementation. They include:

- A greater sense of urgency will not necessarily cause greater recovery. Early release of second placements will mostly cause an increase in cost, rather than increase in cash flow for the provider.
- Utilizing a second agency, especially early on in the process, can irreparably damage patient relationships which in turn can produce long-term damage to patient goodwill. This can prove to be very costly for the healthcare provider.
- Ensuring that correct work standards are performed or satisfying the need to evaluate new vendors can be proactively solved by simply utilizing a high quality agency in the first place.
- If a provider believes that their situation warrants the implementation of second placement strategies, data suggests that those processes should be delayed until a sufficient period of time has elapsed, preferably one to three years after initial placement.