Is it Bad Debt or is it Charity?

AAHAM

March 20, 2014
Agenda

• Introductions
• Regulation and Increased Scrutiny
• Jefferson University Hospitals Charity Test Results
• How to design a Presumptive Charity Model
• Questions?
Introductions

Jefferson University Hospitals

• Lori Szymonowicz, CRCE-I
  – Senior Director, Patient Financial Services
About Jefferson University Hospitals

• Headquartered in Philadelphia, PA
• An academic medical center within the Jefferson Health System
• Serves patients in Philadelphia and the surrounding communities in the Delaware Valley
• 4 primary sites with over 1,020 beds
• Named 17th Best Hospital in the country*
• By the numbers:
  – 7,200 employees
  – 1,176 medical staff
  – Admissions: 46,386
  – Outpatient Visits: 475,031
About Jefferson University Hospitals

- **Mission** - Jefferson University Hospitals are dedicated to improving the health of the communities we serve.

- **Vision** - To be a national leader for excellence and innovation in the delivery of health care and patient safety, continually improving the quality of services and the patient care experience.

- **Values**
  - (S) Service Excellence
  - (C) Collaboration
  - (O) Ownership
  - (R) Respect
Bad Debt vs. Charity

• “Bad debts result when a patient who has been determined to have the financial capacity to pay for healthcare services is unwilling to settle the claim,

• Charity care is provided to a patient with demonstrated inability to pay.”
Regulations and Increased Scrutiny

• Proposed regulation: 501(r)
• IRS Form 990 Schedule H requires hospitals to estimate the amount of bad debt expense attributable to patients eligible for charity under the hospital’s charity care policy.
New Proposed Requirements

New Code § 501(r) imposes four requirements on hospitals seeking to qualify for and maintain tax-exempt status under Code § 501(c)(3). Although the community health needs assessment requirement is effective for tax years beginning after March 23, 2012, the remaining three requirements are effective immediately. The four requirements are as follows:

1. Community Health Needs Assessment
2. Financial Assistance and Emergency Medical Care Policies
3. Limitation on Charges
4. Billing and Collection

501(r) - Financial Assistance and Emergency Medical Care Policies

Hospitals must establish a written financial assistance policy that includes:

(i) eligibility criteria, and whether such assistance includes free or discounted care;
(ii) the basis for calculating amounts charged to patients;
(iii) the method for applying for financial assistance;
(iv) if no separate billing and collections policy, the actions the organization may take in the event of non-payment; and
(v) measures to publicize the policy within the community.

Hospitals also must establish a written emergency medical care policy that requires the organization to provide, without discrimination, care for emergency medical conditions regardless of an individual’s eligibility for financial assistance.
501(r) - Limitation on Charges

- Hospitals must limit the amounts charged
- Not more than the amounts generally billed (AGB)
  - Look Back or Prospective method
- Prohibits the use of gross charges, i.e., “chargemaster” rates, when billing individuals who are eligible for financial assistance

- Only applies when billing patients who are known to qualify for financial assistance.

501(r) - Billing and Collection

Hospitals must not engage in extraordinary collection actions before making *reasonable efforts* to determine whether the individual is eligible for assistance under its financial assistance policy.

So what is an ECA...
So, What is an “ECA”

• Extra Credit Allowance
• Educated Consumer Activity
• Elephants Crave Apples

• Extraordinary Collection Actions: “extraordinary collection actions include lawsuits, liens on residences, arrests, body attachments, or other similar collection processes.”

Reasonable Efforts?

• 120 Day notification period
  – From 1st Statement
  – 3 Plain English Summaries of FAP
  – Suspend ECA during process

• 240 Day application period
  – Partner with Agencies
  – Tracking and reporting challenges
Jefferson Policies

• Added Presumptive eligibility to FAP
  – Eligibility to other means and family size tests qualify
  – Adding new language to policy
• Medical Indigence
• FAP Published on Internet
  – Available in 4 Languages: English, Chinese, Spanish, Vietnamese
  – Billing Policies on Patient Financial Services Portal
    • Application available on both
• **Revised Sliding Scale**
• Newly designed workflows for Financial Counseling and MA Vendor
• Bad Debt Fiscal Year Look Back
Jefferson Sliding Scale Charity Discount

<table>
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<tr>
<th>Size of Family</th>
<th>2xFPG** 100% Discount</th>
<th>3xFPG 90% Discount</th>
<th>4xFPG 80% Discount</th>
<th>5x FGP 70% Discount</th>
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<tr>
<td>1</td>
<td>$ 22,980</td>
<td>$ 34,470</td>
<td>$ 45,960</td>
<td>$ 57,450</td>
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<tr>
<td>2</td>
<td>$ 31,020</td>
<td>$ 46,530</td>
<td>$ 62,040</td>
<td>$ 77,550</td>
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<td>3</td>
<td>$ 39,060</td>
<td>$ 58,590</td>
<td>$ 78,120</td>
<td>$ 97,650</td>
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<td>4</td>
<td>$ 47,100</td>
<td>$ 70,650</td>
<td>$ 94,200</td>
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<td>$ 55,140</td>
<td>$ 82,710</td>
<td>$110,280</td>
<td>$137,850</td>
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<td>6</td>
<td>$ 63,180</td>
<td>$ 94,770</td>
<td>$126,360</td>
<td>$157,950</td>
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<td>7</td>
<td>$ 71,220</td>
<td>$106,830</td>
<td>$142,440</td>
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<td>8</td>
<td>$ 79,260</td>
<td>$118,890</td>
<td>$158,520</td>
<td>$198,150</td>
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</table>

ADD $4,020 FOR EACH ADDITIONAL PERSON

* This table shall be adjusted in accordance with annually released changes to Federal Poverty Levels. The extent of Charity Care and Partial Charity Care is also contingent on the levels of assets available to pay for care without becoming medically indigent, as further set forth in Patient Financial Services policies.

** FPG = FEDERAL POVERTY GUIDELINES
Schedule H Form 990 - Part III Section A

• “Hospitals should carefully consider their approaches to answering Part III, Section A, Line 3 of Schedule H.”

Double Edged Sword:

• Too High a value may mean policies are too restrictive, FAP not well publicized, FAP eligible patient subject to collections
• Too Low a value or no value raises the question of how an organization can be sure they have identified all FAP eligible patients

http://www.hfma.org/Templates/Print.aspx?id=19351
### Introducing Experian – a snapshot

<table>
<thead>
<tr>
<th>Business</th>
<th>Offices</th>
<th>Healthcare</th>
<th>Sales</th>
<th>Employees</th>
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<tbody>
<tr>
<td>Largest data &amp; analytics company in the world</td>
<td>Largest markets: US, UK, Brazil&lt;br&gt; Main offices: London, California (US), Nottingham (UK), Sao Paulo (Brazil)</td>
<td>Servicing 2,800 Hospitals and over 90,000 physicians in the U.S. including over half of all academic practices</td>
<td>&gt; $4.5 billion</td>
<td>c. 15,000 world wide</td>
</tr>
</tbody>
</table>
Collections Optimization
A complete prescription for managing collections

Screen
Segment
Route
Manage Performance
Monitor

Analytics and Consulting Services
Screening
Sample Client Screening Results – Active AR

Non Compliant

Bankruptcy, 1.70%
Charity, 27.00%
Medicaid, 3.20%
Deceased, 0.30%
Cleansed A/R, 67.80%
Attributes used in Experian Healthcare’s Estimates

- **Federal Poverty Level (FPL%)**
  - Credit File Information
  - Demographic Information
  - Past Hospital Actual Incomes
    - *For test purposes, Probable = 200% or less FPL*

- **Propensity to Pay Score**
  - What is the patient/guarantor’s ability to pay their healthcare bills?
  - Experian Healthcare’s Proprietary Healthcare Specific Score of H, M or L
Jefferson’s Presumptive Eligible opportunity in 2012 was $7.7M

77% of bad debt was Charity Probable – less than 200% Federal Poverty Level

Of those, 27% were also Low Propensity to Pay
2012 – 2013 Comparison

- In 2013, presumptive charity represented 25%, compared to 27% of bad debt in 2012
- This equates to a 2% decrease in Charity eligible write-offs
- Indication is front end strategy of charity determination is working
- This equates to a $4M decrease in charity eligible write offs to bad debt
Jefferson University Hospitals – Test Results
Bad Debt Review – Pre and Post Experian Comparison

• High Propensity to Pay accounts in Bad Debt dropped to just 2.2% of overall write offs
  
  ▪ Equating to $750K increase in collections for the High segment alone in the first 6 months of 2013
Presumptive Charity Program

• Are you achieving your charity goals per the 501(r) rules?
  – Yes – Great! But, are you spending too much to run your program?
  – No – Look at taking the following steps:
    • Gain board/leadership support
    • Submit a “test” batch to see what the opportunities are for your system
    • Make necessary changes to your FAP Policies and Procedures
    • Choose your Criteria
    • Maximize Community Benefit Reporting
Questions and Answers