Medical Group Management Association

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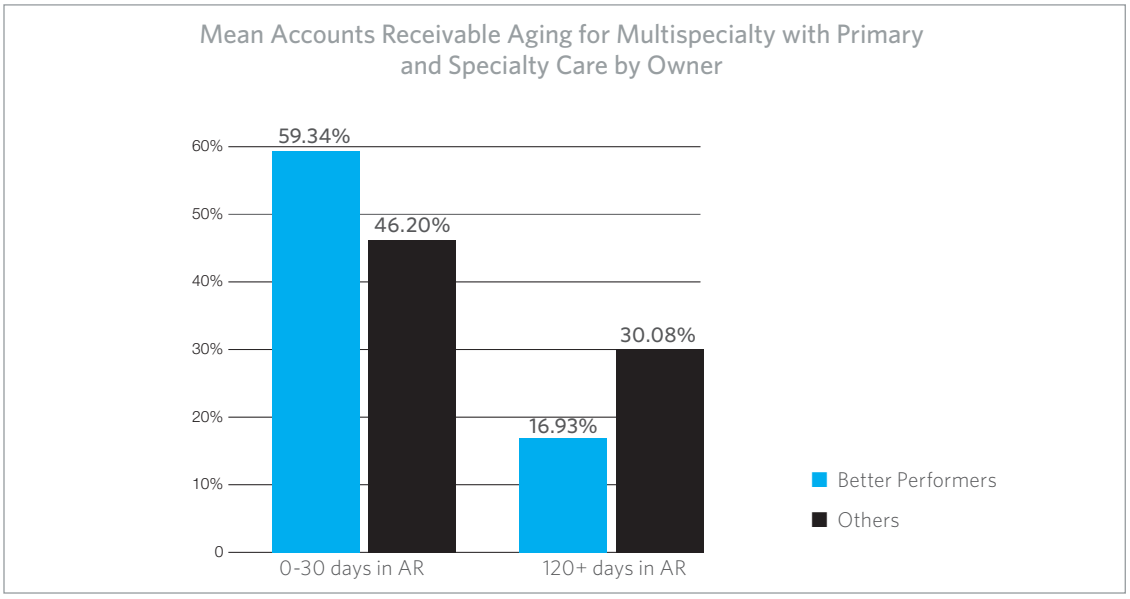
Knowing When to Fold Them: Advice for Maximizing Revenue Cycle Performance

Knowing which accounts to hold for internal collections and which to turn over to a collection agency can be complicated. However, data reveals that most medical practices hold on to their accounts receivable (A/R) much longer than they should, usually for two reasons: 1) they don't want to alienate patients, and 2) they don't want to pay the high percentage fee that is usually associated with collections. A more robust policy of knowing when to "fold" these delinquent accounts can help a practice better optimize its collections and cash flow.

The Medical Group Management Association (MGMA) reports revenue cycle benchmarks in the MGMA DataDiveTM for revenue and expense. Before examining the data, it's important to choose an appropriate comparison that holds practice specialty and ownership constant. Since different specialties have very different procedures and experience different collections issues, you will want to identify a benchmark that reflects similar professional and ancillary services. Also important is noting where administrative staff experience similar issues collecting patient copayments and coinsurance, obtaining preauthorization from insurers, and interacting with commercial and government payers. Additionally, independent practices must rely on their in-house business offices or contractors, whereas practices that are part of larger hospital systems have the benefit of accessing their parent systems' infrastructure and services.

The data shown below in Table 1 indicates that hospital-owned multispecialty groups have almost twice as many A/R over 120 days old and far fewer A/R less than 30 days past the billing date.

Table 1.



It is vital to keep accurate data on aging A/R, as outstanding balances that are not written off as bad debt inflate the A/R numbers without indicating a true estimate of return on those accounts, potentially giving a false sense of the practice's net worth. While different industries have different experiences collecting delinquent accounts, as a universal rule, the older the account the less collectible it becomes. The U.S. Department of Commerce reports that an account 60 days past due has only a 70% chance of recovery. After six months, it has only a 30% probability of being paid.

Evidence shows a direct correlation between medical practices with superior revenue cycles and those utilizing this collectability timeline as a guide for when to declare accounts as bad debt. A/R aging is not the only difference observed in revenue cycle performance of physician-owned and hospital/IDS-owned practices. Table 2 reflects how the metrics used to assess revenue cycle performance differ by ownership. The data shows that hospital/IDS-owned practices reported substantially less total medical revenue per full-time-equivalent (FTE) physician, but virtually the same level of total accounts receivable. This imbalance is reflected in days of gross fee-for-service (FFS) charges, a metric calculated by dividing total A/R by average gross FFS charges per day (total gross FFS charges divided by 365). Even with similar total A/R, hospital/IDS-owned medical groups reported 22% more days of FFS charges in A/R.

Perhaps the two most critical measures of the revenue cycle are the adjusted FFS collection percentage and the amount of bad debt. Again we see information indicating that hospital/IDS-owned practices have less impressive performance than their physician-owned peers, collecting almost 3% less, which directly translates to 3% less revenue for the same level of work. The collection percentage difference is shown in the amount of bad debt that is recorded when accounts are written off the books as either being uncollectable or turned over to agencies for collection.

Table 2.

Median Total Accounts Receivable, Days of A/R, Collection Percent, and Bad Debt for Multispecialty Groups with Primary and Specialty Care by Owner

	Physician-Owned	Hospital-/IDS-Owned
Total medical revenue per FTE physician	$1,008,408	$545,792
Total A/R per FTE physician	$108,159	$109,025
Days gross FFS charges in A/R	31.12	39.71
Adjusted FFS collection percent	99.69%	96.56%
Bad debts due to FFS activity per FTE physician	$23,837	$24,885

Why do hospital/IDS-owned practices have poorer revenue cycle performance? Much of the difference can be attributed to the difference in payer mix, with hospital/IDS-owned practices having more uninsured patients and Medicaid, which typically have long collection cycles. Other factors include the consolidation of inpatient and outpatient business office operations with a focus on larger outstanding inpatient balances; difficulties integrating EHR and practice billing systems, resulting in charge-capture

problems; a difference in entrepreneur attention; and – probably most importantly – a difference in policy for managing older accounts.

Examining data from thousands of medical groups, one factor that is strongly associated with overall revenue cycle performance is having fewer days of A/R in the oldest aging categories. In essence, practices that have superior revenue cycle performance do two things:

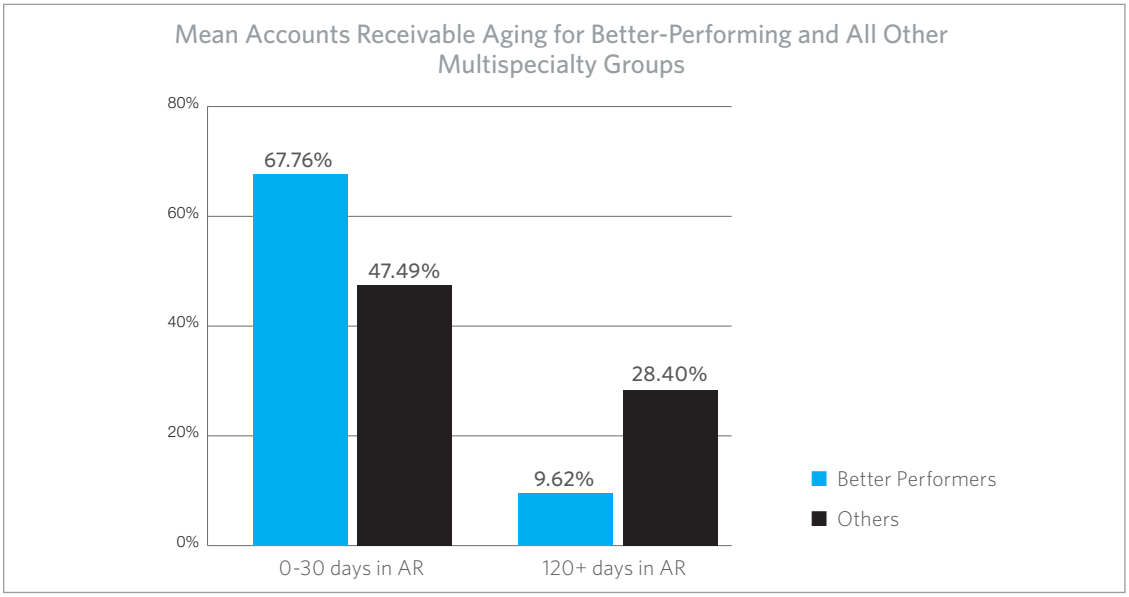
1. Collect more of the billed charge
2. Collect it sooner

Each year, MGMA identifies practices that demonstrate superior performance in revenue cycle management, and publishes the information in the MGMA Performance and Practices of Successful Medical Groups Report. The criteria to selecting the better-performing medical groups among the respondents to the MGMA Cost Survey reflect the strategy to "collect more and collect it sooner." Practices identified as better performers met all three of the following conditions:

1. Less than the median percentage of total A/R aging more than 120 days
2. Greater than the median for adjusted FFS collection percentage
3. Less than the median for days gross FFS charges in A/R

Table 3 displays accounts receivable aging for multispecialty groups of all types and owners, showing how the practices selected as better performers reported that only 9.62% of their total A/R was over 120 days past billing. This compares to all other multispecialty groups, who reported 28.4% of their A/R in this category, indicating the "quick payment" focus of the better-performing practices.

Table 3.



Perhaps most importantly, having very little A/R remaining in collections longer than 120 days has substantial other benefits. Table 4 shows overall performance for better-performing and other multispecialty groups.

Table 4.

Median Total Accounts Receivable, Days of A/R, Collection Percent, and Bad Debt for Better-Performing and All Other Multispecialty Groups

	Better Performers	Others
Total medical revenue per FTE physician	$952,022	$627,916
Total A/R per FTE physician	$123,329	$170,626
Days gross FFS charges in A/R	28.45	42.32
Adjusted FFS collection percent	99.30%	96.39%
Bad debts due to FFS activity per FTE physician	$11,911	$24,403

Where the aging report shows that better-performing practices collect A/R faster, Table 4 shows that better performers meet the goal of collecting more, which is reflected by having much less total A/R, fewer days FFS charges in A/R, and higher-adjusted FFS collection percent. As a bonus, the better performers reported less than half of the overall bad debt of their peers.

Managing the revenue cycle is a complex task that involves multiple human and electronic systems in addition to the policies and procedures that enable the practice to collect patient-due amounts at the time of service and correctly bill the amounts owed by insurance payers. The increased prevalence of high-deductible health plans and plans with higher patient co-payments only adds to the problem. Practices meeting the better-performing revenue cycle standards are more likely to have convenient billing office hours, assist patients with making financial payment arrangements and provide financial counseling.

Another strategy that many practices employ is having their business office staff focus on current collections by outsourcing the collection process for older accounts. Collecting older accounts involves different techniques than what a practice uses for initial billings, and most business offices do not develop the specialized systems that an independent collection agency has.

If two of the keys to improving revenue cycle performance are having very few accounts older than 120 days and appropriately outsourcing collections of older accounts, what collection policies should a practice employ? Different specialties require different policies because certain services such as surgical procedures or chemotherapy have global billing periods. Likewise, some insurance contracts require bundling individual procedures into a single invoice, which affects a practice's policies and procedures.

Maximizing collections is hard work that requires specialized expertise. Practices that are successful in managing their revenue cycle have systems in place to maximize payment. They train their staff and have procedures in place to process normal patient bills. These organizations also recognize that there is an appropriate time to "fold" a delinquent account in order to let outside experts proceed on collections.

About MGMA

The Medical Group Management Association (MGMA) equips practice administrators and executives with the knowledge and tools to lead high-performance physician group practices in a complex and evolving healthcare environment. As the leading association for practice administrators for nearly 90 years, MGMA provides the education, advocacy, data and resources that healthcare organizations need to deliver the highest-quality patient care. MGMA also produces the most credible medical practice economic data in the industry and provides industry-leading board certification and Fellowship programs through the American College of Medical Practice Executives (ACMPE).

MGMA and its 50 state affiliates comprise more than 33,000 administrators and executives in 18,000 healthcare organizations in which 385,000 physicians practice. MGMA represents physician groups of all sizes, types, structures and specialties, and has members in every major healthcare system in the nation. MGMA is headquartered in Englewood, Colo., with a Government Affairs office in Washington, D.C.

About TSI

Let TSI be your partner in cash flow and A/R management. TSI's diplomatic approach to collections recovers more of your revenue while maintaining your patient relationships. With an industry-leading focus on compliance, TSI ensures you, your patients, and your data are protected. Combined with TSI's low flat-fee pricing, you'll save more while recovering more. For more information please visit **www.tsico.com**.

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MGMA's Executive Partnership program is limited to industry-leading companies that align with our vision, mission and values. Through collaboration within each partner's area of expertise, MGMA will offer thought leadership, insights, guidance and resources to elevate the MGMA member experience.