

Getting Off the Collections Treadmill

After repeatedly sending the same accounts to collection, this practice created a new policy to resolve the problem of patients who don't pay.



Kristen Dillon, MD

Not too long ago, our practice was suffering from the behavior of a small but noticeable group of patients: the collection regulars. Each month, our staff referred dozens of past-due accounts to the collection agency because no number of phone calls or letters had produced payments from these patients. With the low rate of collections and hefty collection agency fees, we were left with little to take to the bank. Our employees felt powerless to motivate patients to meet the financial obligations they had accepted when they sought medical care from our practice.

Previously, our practice had undertaken a thorough investigation of our outstanding patient balances and corrected some of the underlying causes of our old accounts receivable. (To find out how we did this, see “Patient Balances: Getting to the Root of the Problem,” *FPM*, March 2006.) However, we discovered that tackling the numerous accounts we were sending to collection required its own process. Ten percent to 20 percent of the accounts were

■ The author's practice created a new collection policy after sending dozens of accounts to collection each month.

■ Before referring accounts to the collection agency, the practice sends patients several polite reminders, followed by two firm warning letters.

repeat offenders – people who had been sent to collection more than twice and in some cases as many as seven times. These patients continued to present to our clinic for care, we continued to see them, and they continued not to pay. It was a cycle we had to break.

Setting the rules

Getting tough with our patients was necessary, but it wasn't easy. Because our practice consists of four physicians serving a town of 6,000, we inevitably encounter our patients in our daily life outside of work. It can be difficult to speak frankly with patients who don't pay because we worry about the awkward interactions that might occur later, for example, at the grocery store or at our children's school. Nevertheless, since we have invested time, money and effort into the quality of care we provide, it's only reasonable to expect

our patients to recognize and meet their financial obligations to us.

Our policy toward patients who don't pay their bills has evolved over the years. Before we hired our first practice manager seven years ago, we rarely, if ever, referred patient accounts to a collection agency. Patients with bad debts were carried on the books for months – long after all hope of collecting payment had evaporated. Our new manager helped us clean the books of the oldest debts by sending those accounts to the collection agency, but we still found ourselves with a small group of accounts that we were sending to the collection agency several times a year. We were losing revenue, and our staff felt demoralized trying to enforce a collection policy that had no "teeth." The worst offenders had been known to taunt the staff with comments such as "What are you going to do, send me to collection?" We knew our policy needed revising.

SAMPLE WARNING LETTER

You can download this letter from the online version of this article at <http://www.aafp.org/fpm/20060600/51gett.html> and modify it for use in your own practice.

Dear Patient,

We are disappointed to be sending you this letter. You have not cooperated with the efforts of our billing staff to abide by our clinic's financial policies. We are preparing to send your account to our collection agency. If your account is sent to collection or if you declare bankruptcy, here is what to expect:

At future appointments, you will be expected to pay your portion of charges in full. We will refund to you any money later paid by insurance in excess of what you owe us or forward the money to pay any collection agency balance. If you are on Medicaid and you do not bring us a current copy of your card at the time of service, you will be expected to pay for the service in full. This payment status is in effect for one year from the date of this letter or until collection balances are paid, whichever is longer.

If we must send your account to our collection agency again, you will be dismissed from our practice. We will no longer provide your medical care.

This policy applies to you and all members of your immediate family.

If you have questions or information that may help us manage your account, please call our billing department as soon as possible.

Sincerely,
Billing Department

The second time an account is sent to collection, all members of the family are discharged from the practice.

In 2003, our practice manager met with the four physicians to solidify our billing and collection process. From these meetings, we created our current policy, which is firm but fair. Here is how it works: It takes more than a single delay in payment for us to refer an account to the collection agency. Generally it requires three to four months of consistently ignoring clear and polite communication from our staff before we take action. Before we refer an account to the collection agency, our office will contact the patient with three or four statements plus two warning letters and a phone call requesting that the patient either pay the bill or contact us to make arrangements. (See a sample of our practice's warning letter on page 52.) Our payment arrangements are generous; in cases of financial hardship, patients can agree to pay as little as \$25 a month.

The first time an account is sent to collection, we flag all of the immediate family members as "cash only," meaning we require them to pay up front for any future visits. The second time an account is sent to collection, we discharge all immediate members of the family from the practice. When this happens, patients receive a notification letter from our office with a copy of their statement. (See a sample of our practice's dismissal letter on page 54.) The patient then has 10 days to respond before discharge. Though this policy seemed harsh when we first implemented it, we realized it was fair. We were willing to go to great lengths for our patients, and if they were not even willing to return a phone call from our hard-working business staff, dismissal was justified.

About the Author

Dr. Dillon is a practicing family physician and managing partner at Columbia Gorge Family Medicine, a four-physician private practice in Hood River, Ore. Author disclosure: nothing to disclose.

As a companion to our collection policy, we also implemented a policy for extending "compassionate care" to families truly in need. At the request of the treating physician, and with the approval of the practice's board of directors, a family may be diverted out of the collection process for six months, during which time we reduce or eliminate their debt based on temporary hardship or extraordinary medical needs.

When we changed our collection policy, we also changed our collection agency. Previously, we had been using a local agency that handled collection activities for a long list of local businesses. When the agency did collect, we typically got a very small share once it was split among the many creditors. With our new agency, although the returns still are not great, the agency is doing better than the national average, collecting 32 percent of the amount we refer to them. By the time the agency takes 35 percent to 50 percent for commission, that leaves just 19 percent of the original charges in our revenue stream. It's better than nothing, but it's certainly a last-resort collection strategy.

Everyone wins

Our new approach to collection has had positive effects on our staff, our revenue and even our patients.

The biggest payoff has been in staff morale. Our office employees no longer feel as if they're being exploited and wasting their time on phone calls and letters to patients who don't respond. They now have more time to devote to productive and rewarding work.

In addition, the number of accounts sent to collection has decreased considerably. In 2003, before we implemented our collection policy, we referred 216 accounts to our collection agency. By 2005, this number had fallen to 76 accounts – a 65-percent decrease. The total

■ If an account is sent to collection once, all immediate family members must pay for subsequent care up front and in cash; if the account is sent twice, the family is dismissed from the practice.

■ Now that the practice has a strict policy, employees are more productive, fewer accounts are sent to collection and patients are more cooperative.

■ From 2003 to 2005, the number of accounts sent to collection fell by 65 percent, while the total amount sent to collection fell by 40 percent.

We implemented a policy for extending "compassionate care" to families truly in need.

amount we sent to the agency fell by more than 40 percent, from \$35,000 to \$21,000. This is especially significant considering that our percentage of revenue coming directly from patients rose by 15 percent from 2003 to 2005. It now accounts for one-fourth of our total receipts.

Finally, the policy has given patients an incentive to work with us on payment terms. Families we assumed would have trouble with our new rules rose to the occasion when faced with losing access to our practice. We were truly surprised by some of the patients who met our expectations once we had a

firm and clear policy in place. After our first year with the new policy, we discharged about 20 families from the practice. Since then, we've only had to dismiss one or two families a year.

Overall, our patients now take the business side of our practice more seriously. We have always done our part to create the optimal doctor-patient relationship. With the introduction of our collection policy, more of our patients are doing their part to make the relationship successful. **FPM**

Send comments to fpmedit@aafp.org.

Dear Patient,

As you know, we have been unsuccessful in our attempts to resolve the outstanding balance on your account. We previously informed you that our practice would withdraw as your provider of medical care unless you made an effort to cooperate with our financial policies. We now have been forced to send your account to our collection agency for yet another time. As a result, we have decided to stop providing medical care to you and members of your immediate family.

We recommend that you find another provider of medical care. You may call your local hospital for assistance. Our office will transfer your records to another medical office upon receipt of your written request. Meanwhile, our clinic will be available to treat you for emergencies only for the next 30 days. Please call our billing department if you have any questions regarding this action.

Respectfully,
Your Physician

SAMPLE DISMISSAL LETTER

You can download this letter from the online version of this article at <http://www.aafp.org/fpm/20060600/51gett.html> and modify it for use in your own practice.