KernMedical	Department: Patient Accounting			
	Policy No.	Effective Date:	Review Date:	Page
	PAT-IM-925	November 2022	November 2028	1 of 7
Title: Patient Accounting - Bad Debt Policy				

I. PURPOSE:

The purpose of this policy is to ensure that debts owed by patients for medical care delivered by Kern Medical are collected in a timely manner and pursued according to uniform criteria and procedures applicable to all facilities. In addition, the policy outlines the process for determining when unpaid claims should be classified as bad debt and transferred to bad debt when the item is deemed uncollectible. These efforts are documented in the Accounts Receivable (AR) / Electronic Medical Record (EMR) system.

II. DEFINITIONS:

A. Guarantor: The person who is financially responsible for the patient's bill. In the case of an adult, the patient is his/her own guarantor. Children under the age of 18 cannot be listed as their own guarantor, unless identified as an adult by state or federal regulation, pregnancy, or emancipated minor.

B. Patient Responsibility: Any balance due where the financially responsible party is the patient or the patient's guarantor (not a third-party payer). Also, known as "Self-Pay".

C. Bad Debts: Bad debts are claims arising from rendering healthcare services to a patient that the hospital/clinic, using sound credit and collection policies, determined to be uncollectible from patients who have the ability to pay.

D. Uncollectible: Patient encounters that cannot be collected because the guarantor is unable or unwilling to pay. CMS definition: the encounter is deemed uncollectible when all collection efforts (including the ECA) stop.

E. Charity Care: Results from services provided to individual who have demonstrated the inability to pay. Charity Care is determined by standard guidelines set forth in the financial assistance policy.

F. Internal Collections: Internal efforts in accordance with reasonable collection efforts and collection periods including patient statements, follow-up letters, follow-up calls, payment plans, and final notices before classifying the encounter as Bad Debt and transferring the encounter to an external collection agency.

G. External Collection Agency: External collection agencies are used to collect encounters in Bad Debt Status. When an encounter is in Bad Debt Status, it has not been deemed totally worthless and uncollectible.

H. Bad Debt Write-Off: Amount subtracted from an encounter when the debt has been transferred to external collection agency.

I. Lucidoc – Internal company documentation collaboration site consisting of policies, procedures, and reference documents.

J. Internal Bad Debt – Aged collectible self-pay and insurance balances removed from active AR by applying a bad debt write-off but are not assigned to a collection agency. When internal bad debt balances are reclassified as uncollectible, they are returned to active AR and reassigned to a collection agency within the same day.

III. POLICY STATEMENT:

Requirements are applied to specific procedures and services according to State and Federal law. It is the intent of this policy to comply with all existing State and Federal regulations. If any future conflict arises, State and Federal regulations supersede this policy.

IV. EQUIPMENT: N/A

V. PROCEDURE: A self-pay encounter that has been billed and all reasonable collection efforts have been exhausted without full payment will be deemed as internally uncollectible. Internal uncollectible encounters will be assigned to bad debt and transferred to a collection agency.

A. Reasonable Collection Efforts

1. Payment on encounters will be pursued consistently, regardless of: race, language, gender, age, religion, education, employment status, disposition, relationship, insurance coverage or any other discriminatory differentiating factor. Every Guarantor will be given reasonable time and communication to be aware and understand their financial responsibility.

2. Collection efforts will abide by all legal patient rights. Relevant patient information may only be disclosed to those directly involved in the care of the patient, for the payment of services as authorized by the patient, for the protection of the public health as provided by law, or for any other purposes authorized by the patient or required by law. Information obtained from income tax returns, paystubs, or the monetary asset documentation obtained from the patient to determine discount payment or charity care eligibility cannot be used for collection activities.
3. A provider's effort to collect non-Medicare deductible and coinsurance amounts must be similar to the effort the provider puts forth to collect comparable amounts from Medicare patients.
    a. To be considered a reasonable collection effort as stipulated in the Centers for Medicare & Medicaid Services' (CMS') Provider Reimbursement Manual (PRM) 15-1, Section 310 requires that a provider's effort to collect must involve the issuance of a bill on or shortly after discharge or death of the beneficiary to the party responsible for the patient's personal financial obligations.
    b. The collection effort should include other actions such as subsequent billings, collection letters and telephone calls or personal contacts with this party which constitute a genuine collection effort before an encounter may be assigned to bad debt and transferred to an outside collection agency. Self-pay patients must always receive a bill prior to being referred to a collection agency.
    c. After exhausting the internal collection efforts, encounters for which no collection has been achieved and it is determined that additional follow-up is not likely to result in collection of an encounter, the encounter will qualify for placement with a contracted external collection agency. All collection efforts are to be recorded in the Accounts Receivable system and in the patient notes for the encounter.

B. Collection Period

1. Internal collection efforts stop at 180 days from date of first patient/guarantor statement billing for self-pay patients and the encounter is then turned over to an external collection agency (ECA).
2. Collection efforts stop when the encounter is returned from the external collection agency. The collection period is separated into two groups 1) small balance and 2) large balance.
3. Small balance encounters will be worked no longer than 270 days from placement date with the external collection agency if the collection amount is less than or equal to $2,000 with no active payment plan, no received payment in the last 120 days and not in a legal status.
4. Large balance encounters will be worked no longer than 365 days from placement date with the external collection agency if the collection amounts greater than $2,000 with no active payment plan, no received payment in the last 120 days and not in a legal status.

5. The encounter is deemed uncollectable when all collection efforts (including the ECA) stop. The collection effort ends when the collection agency returns the encounter indicating that it is not collectible.
6. Outside collection agencies will provide a detailed log documenting ceased efforts on these encounters, including close date, close amount and close reason. Additionally, outside collection agencies will retain encounter collection detail for seven years from close date. Purged and archived encounters must be available for restore and viewing of past collection activity.

C. Early Transfer To Collection Agency

1. During the course of reasonable collection efforts, special circumstances may require an encounter to be transferred to bad debt earlier or held longer on active encounters receivables. Patient Accounting management will determine if an encounter is a true bad debt prior to normal timeframe and document the reason for the special circumstances in the Accounts Receivable/EHR system. If all collection efforts have been exhausted, even though the standard timeframe has not yet been met, and it's determined that there is no likelihood of receiving payment in the reasonable future, an encounter may be transferred to bad debt.

2. Examples of common Special Circumstances:

a. A deceased patient documented as having no surviving spouse and leaving no estate. These encounters must be clearly documented in the system encounter notes and should be sent to the facility collection agency to substantiate assets, or lack thereof.

b. Return mail encounters (skips) with no forwarding address or no available phone number for contact, should be forwarded to the collection agency immediately as per standard hospital collection guidelines.

c. Where indigence is established, please refer to Indigent or medically indigent section of this document.

d. Conversely, if there is reasonable assurance that the encounter will be satisfied within a defined period of time, even though the normal timeframe has been met, an encounter may be held on in active AR instead of being transferred to bad debt with approval from regional manager level.

D. Pre-Bad Debt Payment Arrangements

1. The patient is expected to make payment in full when presented with the first bill. In those situations where partial payments are made by the patient, the following guidelines will apply:

2. Payment Plans: Plan that sets a series of payments over a period of time to satisfy the patient-owed amounts of hospital billed charges. Monthly payments are not more than 10% of the patient's family income per month, excluding deductions for Essential Living Expenses. Payment agreement encounters will be handled as time-pay contracts, as opposed to regular bad debt. Payment Plans will be honored with no adverse credit bureau reporting, nor fees or interest accrued.
    a. < 6 months – "Short Term Payment Plans" - Balances remain in active AR
    b. > 6 months - "Long Term Payment Plans" – Balances will be removed from Active AR.
        i. Patient Accounting will assign the encounter balance to the "HRMG LT PMT Plan" vendor ID in bad debt,
        ii. Patient Accounting will assign the encounter balance to the "HRMG LT PMT Plan" vendor ID in bad debt, which will remove the balance from active A/R.
        iii. Normal collection efforts will continue for encounters written-off to bad debt until balances are paid in full or the balances are referred to a collection agency.
    c. Payment Plan Defaults - If the patient misses two scheduled payments and the encounter has been aged to 120 days, the balance will be deemed "uncollectible", and will be referred to the appropriate collection agency.
    d. Pre-Bad Debt – If after 12-months no formal payment arrangement has been established and no payments have been received, the standard internal collection efforts and timelines apply. Collection notices should clearly state that payment in full is required.

E. Financial Assistance

1. Before a patient is determined to be eligible for the Financial Assistance Program a financial evaluation is performed to determine the patient's financial status. This evaluation is necessary to make a determination of whether or not an individual lacks the resources to pay for the services rendered. According to 42 CFR 413.89(b) (2) charity allowances are reductions in charges made by the provider because of the indigence or medical indigence of the patient. In cases where the patient or the patient's guarantor is approved for either full or partial Charity Care under the Financial Assistance program, then all collection efforts will cease and reasonable efforts must be made to reverse any extraordinary collection actions taken against the patient or the patient's guarantor. Please see PAC-IM 960 Charity Care and Discount Program Policy for the financial guidelines that have been established to assist in determining whether or not an individual is eligible.

a. Charity Care: Charity care covers medical care services that are rendered to individuals who are financially unable to pay for those services. Please see PAC-IM-960 Charity Care and Discount Program Policy for details and application.

b. Indigent or Medically Indigent**:** Centers for Medicare & Medicaid Services' (CMS') guidance does allow a hospital to write-off a bad debt without collection efforts, but only if the hospital first determines the patient to be indigent or medically indigent prior to admission or shortly before discharge.

F. Assignment of Collection Agencies:

1. Section 310(A) of PRM 15-1 permits the provider's collection effort to include the use of a collection agency in addition to or in lieu of subsequent billings, follow-up letters, telephone and personal contacts.

   a. After approval by the Chief Financial Officer (CFO), all bad debt encounters will be assigned to an approved collection agency. See Approved Vendor list as shown in Appendix A for approved collection agencies. The CFO and revenue cycle management have the authority to update the approved vendor list without going through the formal policy approval process.

   b. The outside collection entities may report the encounter to the credit reporting bureau. Patient Accounting and the outside collection entities will follow the Fair Debt Collection Act during collection activities.

G. Account Adjustments as Uncollectible

1. After the defined collection period with the outside collection agency, if the encounter remains unpaid, it will be returned to the hospital as "No Longer Pursuing Collection" (**NPC**) status.
2. When notification is received from the collection agency the likelihood of recovery is none, the billing system will automatically reverse the bad debt write-off for the balance and return the balance to bad debt AR.
3. Uncollectable encounters will be processed for potential sale to a third party. The third party will review the list of uncollectable encounters and determine which encounters to purchase based on their own purchase criteria.
4. Upon purchase, an encounter will be removed from active AR and transferred to the third party

H. Documentation

1. Bad Debt Collection Effort Documentation: All collection efforts are to be recorded in the AR/EHR system.

   a. Bad Debt Collection Effort Documentation: All records of collection efforts showing date and type of follow-up, response, and subsequent action should be captured in the AR/EHR system.

I. Bad Debt Recoveries

1. Recoveries on encounters written-off as bad debt will be credited back to the Allowance for Uncollectible Accounts in the period collected.

J. Uncollectible Accounts

1. Uncollectible encounters will be written-off when they are determined to be uncollectible and when encounter balances are:
    a. Initially returned from pre-collection agency as all efforts have been exhausted and are ready for bad debt write-off and collection agency placement.
    b. Returned from collection agency as uncollectible when all collection efforts have been exhausted and the patient is unable to pay the balance. These encounter balances DO NOT qualify for an uncollectible write-off until they have been placed and returned from a collection agency.
    c. The Allowance for Uncollectible Accounts will be charged for the amounts to be written-off.

VI. SPECIAL CONSIDERATIONS: N/A

VII. EDUCATION:

A. Kern Medical Staff: Will be trained at the time of General Orientation

VIII. DOCUMENTATION: N/A

IX. ADDENDUMS: N/A

X. REFERENCES: N/A

XI. KEY WORDS: Bad Debt, Collections, Collections Agency

OWNERSHIP (Committee/Department/Team).....Patient Accounting ORIGINAL.....November 2022 REVIEWED, NO REVISIONS..... REVISED..... APPROVED BY COMPLIANCE COMMITTEE.....Draft APPROVED BY BUSINESS OFFICE.....November 2022 DISTRIBUTION.....Patient Accounting REQUIRES REVIEW.....November 2028	
Administrative Signature of Approval Date	Department Manager Signature of Approval Date