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healthcare financial management association [www.hfma.org](http://www.hfma.org)

## innovative strategies for self-pay segmentation

Conducting a risk assessment of self-pay patients not only can help hospitals optimize collections, but also can ensure that low-income patients receive appropriate financial assistance.

### AT A GLANCE

- > Risk segmentation of self-pay accounts can help healthcare financial managers determine where to use collection resources.
- > Assessment of self-pay patients should consider each patient's estimated financial condition and potential eligibility for charity care of public assistance patients.
- > Segmenting patients on the basis of demographic variances and potential fraud can help hospitals increase self-pay collections and reduce A/R days.

Do you understand your self-pay patients well enough to assess their ability and willingness to pay their bill? Or do you hope for the best? There is a better way to manage self-pay collections.

The number of uninsured patients in the United States has been increasing steadily for the past decade and now represents more than 15 percent of the population. Meanwhile, patient responsibility after insurance, including copayments and deductibles, has grown significantly as employers shift financial burdens to their workers. These trends have converged in recent years to make the self-pay segment the fastest growing payer class in the accounts receivable portfolio. This situation is particularly troubling to healthcare financial managers, as self-pay patients are responsible for the majority of uncompensated care, yet most hospitals lack the necessary tools to optimize self-pay collections, ensure that charity care and public assistance patients don't fall through the cracks, and reserve for self-pay bad debt.

An effective methodology for self-pay collection accounts for different risk variables and requires third-party consumer credit and demographic data to accurately predict the behavior of self-pay patients. Developing a segmentation model that includes factors such as credit history, financial condition, eligibility, and demographic variance is an effective way for financial managers to understand financial risk and project the collectible value of self-pay receivables. By automatically segmenting accounts based on these new dimensions, healthcare providers can also increase self-pay collections, decrease cost to collect, and improve self-pay A/R days. In addition, hospitals can ensure that low-income patients receive appropriate financial assistance.

Receivables segmentation requires a hospital to identify groups of accounts that behave differently. For example, certain insurance payers have different historical payment rates than other payers, and these two “segments” are therefore weighted differently in the overall portfolio valuation. In fact, segmentation is inherent in the revenue method of valuation at most hospitals. However, this methodology is rarely applied in a comprehensive manner to the self-pay segment for collection purposes. To develop an effective strategy for self-pay segmentation, hospitals need data that provide additional insight into the expected behavior of self-pay accounts as well as an analytics application to empower the optimal segmentation approach, which is different for each hospital. Fortunately, these consumer data are available from multiple third-party data vendors and can be seamlessly integrated into the self-pay revenue cycle.

### Risk Segmentation

Although “self-pay” is sometimes referred to as “no-pay,” it is important to acknowledge that not all self-pay patients are the same. Each individual has a different willingness and ability to pay healthcare bills. Self-pay patients therefore can be segmented into various levels of “collectibility.” An uninsured patient with a low credit score and high initial balance, for example, is much less likely to pay his or her bill than a patient with good credit, high income, and a \$500 deductible. Rather than lump these accounts together and send them to a collection agency, an effective segmentation strategy will trigger a different workflow process and a different valuation for each self-pay account.

To accomplish risk segmentation, healthcare financial managers should leverage both publicly available consumer credit data and hospital financial data. Using 12 to 36 months of historical self-pay data, a hospital can run a basic regression

analysis to understand the correlation between collection performance and variables such as credit score, the patient’s historical payment activity, income, initial balance, co-pay/uninsured, marital status, and inpatient/outpatient status. The result of this analysis is a customized algorithm that automatically estimates the likelihood of payment and segments patients into risk

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categories with different projected collection rates. Low-risk patients, for example, might have an expected collection rate of 45 percent while collection rates for high-risk patients might be closer to 10 percent. Analytic applications that provide insight into the mix of high-risk and low-risk patients, for each aging bucket of the self-pay portfolio, are essential tools for accurate self-pay valuation and highly effective collection strategies.

### The Risk Matrix Approach

One solution is to display risk segmentation as a multidimensional matrix that charts balance on one axis and risk rank on the other, categorizing all self-pay patients into one of four quadrants. Self-pay receivables that fall into the Low Risk/High Balance quadrant represent priority accounts that are worth extra collection resources. The opposite is true of the High Risk/Low Balance quadrant, which includes patients who are least likely to pay their bill and often represent wasted collection efforts. Each quadrant of the risk matrix has a different collectible value and bad-debt provision, calculated on the basis of the risk profile of accounts in that segment. Once each segment has been appropriately discounted for risk, the accounts can be aggregated into a weighted valuation of the entire self-pay portfolio.

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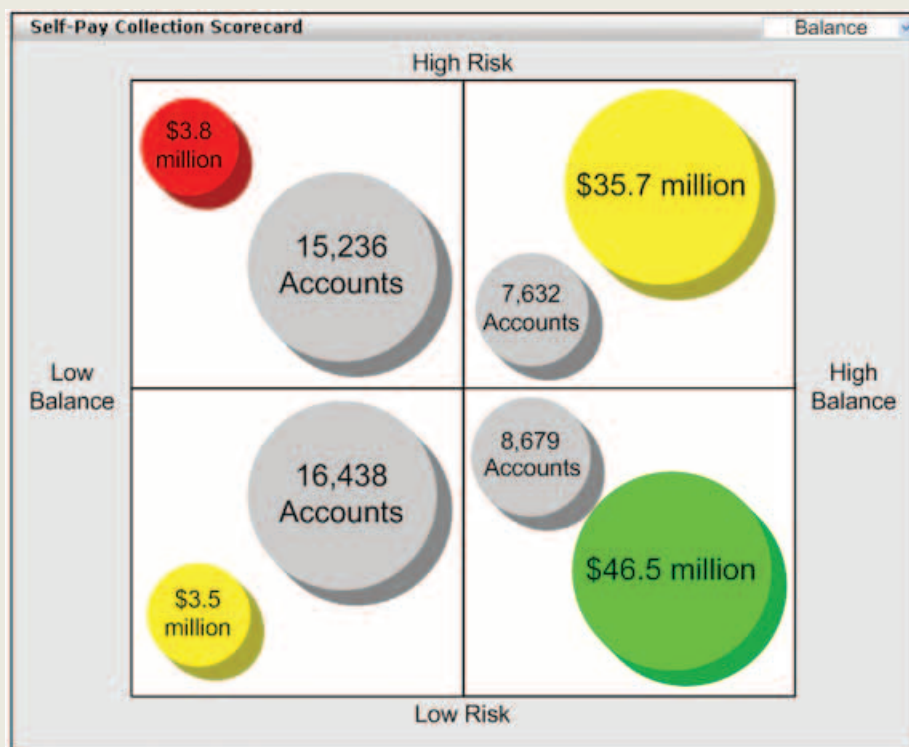
For additional insight on payment strategies, read "How to Create a Payment Review Process," by Steven Orvis, in the December 2005 issue of *Revenue Cycle Strategist*. To subscribe to this monthly newsletter, call (800) 252-HFMA, ext. 2, or visit [www.hfma.org/rcs](http://www.hfma.org/rcs).

Automated segmentation tools such as the risk matrix allow hospitals to improve operational efficiency and increase self-pay revenue by enabling a collection strategy that focuses on collectible accounts to speed the collections process and focus efforts on patients with some propensity to pay. A simple archive analysis typically shows that approximately 70 percent of self-pay dollars collected come from about 30 percent of self-pay accounts, the majority of which fall into the low-risk segment. Conducting this segmentation before collections, therefore, enables healthcare providers to devise a strategy that minimizes wasted effort on high-risk accounts

and maximizes revenue from patients who are willing and able to pay.

Furthermore, healthcare providers can adjust their collections workflow for each segment, changing the mix of phone calls, letters, and agency follow-up based on the average collectible balance for accounts in each segment. Low-risk accounts with a high balance and average collectible value of \$640 are well worth the extra follow-up. On the other hand, high-risk accounts with the same face value might have an average collectible value of only \$73, significantly decreasing the return on extensive collection efforts.

### RISK SEGMENTATION MATRIX



#### Segment A: High Risk/Low Balance

- > Lowest value accounts
- > Typically not worth the cost to collect
- > Outsource to agency early in collection cycle

#### Segment B: High Risk/High Balance

#### Segment C: Low Risk/Low Balance

- > Very low collection rates due to initial balance
  - > Offer payment plan or discount program
  - > Weigh balance/cost to collect for each account
- > Highest collection rates
  - > Primarily smaller copay accounts
  - > Improve efficiency with lower cost, automated collection processes

#### Segment D: Low Risk/High Balance

- > Priority accounts with highest collectible value
- > Majority of collections in this segment
- > Justifies a higher cost collection workflow

## Eligibility Assessment

An effective methodology for self-pay collections should also consider each patient's estimated financial condition and potential eligibility for charity care or public assistance. Recent studies have shown that hospitals can reclassify up to 20 percent of bad debt as charity care, while another 10 percent of accounts in collections are eligible for Medicaid payment. Registration challenges, especially in the emergency department, make it difficult to identify eligible patients at the point of service, and the majority of these low-income patients are eventually written off as uncollectible.

In addition, patients may not be eligible for public assistance at one point in time but may be eligible at a later point. Hospitals can, however, implement technology and data solutions that calculate financial condition and eligibility status before collections. This calculation enables both the registration desk and the business office to automatically identify eligible accounts and initiate a different workflow that includes financial counseling and pre-populated applications rather than wasted collection efforts. By segmenting patients on the basis of estimated financial condition, hospitals can better predict the mix of payment, collections, charity care, and bad debt from low-income patients. This strategy enables hospitals to automatically reclassify eligible accounts, remove them from the self-pay financial class, and improve the overall valuation model.

The same consumer credit data used for risk segmentation can also be applied to charity eligibility assessment. By integrating third-party data sources into the registration system, hospitals can automatically receive an estimate of monthly income and household size for each patient.

Because most charity care programs are based on standard federal poverty guidelines, these data can be used to automatically calculate financial condition and predict which patients are most likely to qualify. By implementing business intelligence tools that provide this calculation for each patient before collections, hospitals can establish a safety net for missed eligibility and develop a much more efficient workflow for

By using a combination of front-end screening and back-end segmentation, a hospital can develop more efficient work flows for each patient type and organize self-pay receivables into different behavioral categories.

financial counseling. While risk segmentation focuses on patients' willingness to pay, an automated eligibility solution essentially segments patients based on their ability to pay. An effective self-pay strategy should recognize that receivables for low-income patients behave differently than other segments do; in fact, many of these patients should be removed from the self-pay collection cycle.

As a result of overburdened registration staff as well as the fluid nature of public assistance eligibility, a percentage of patients with private insurance, Medicaid, or Medicare coverage are typically misclassified as self-pay accounts. This segment can represent millions of dollars in potential payment to the hospital, the majority of which goes uncollected. To minimize bad debt due to unfiled claims, hospitals should take advantage of data vendors who offer coverage details for the majority of public and private insurance programs. Much like consumer credit data, enrollment data can be integrated with hospital systems to identify insurance coverage before collections.

The ROI for this solution is measured by an immediate lift in payment. Case studies have shown that the average hospital finds more than 10 percent of self-pay accounts eligible for Medicaid or some other form of payer payment. In fact, most collection agencies typically run this type of query against bad-debt accounts and take a significant commission on the payment lift.

## FIVE SELF-PAY CONTROL POINTS

Using the five control points described in the HFMA online resource *Five Self-Pay Control Points* will help hospitals improve their self-pay processes. To view the document, visit [www.hfma.org/resource/focus\\_areas/patient\\_financial\\_svcs/tools/4\\_29\\_2002\\_control\\_points.htm](http://www.hfma.org/resource/focus_areas/patient_financial_svcs/tools/4_29_2002_control_points.htm). (Member registration required.)

Using the same enrollment databases, a hospital can identify this segment before collections, and initiate a different workflow process that includes claim submission and follow-up with the appropriate payer.

### Identity Verification

Hospitals also have the opportunity to segment patients based on demographic variances and potential fraud. More than 30 percent of self-pay accounts contain some type of demographic discrepancy, the majority of which are simple address errors. The resulting return mail cycle leads to extended A/R days and significantly reduced collection rates. The importance of registration errors is clear; self-pay patients must receive a bill in order to pay it. As a whole, receivables with potential registration errors or fraud perform differently than clean accounts with correct billing addresses. An effective self-pay valuation model should account for this difference by segmenting these accounts into a different workflow and discounting the expected collection rate accordingly. By establishing a workflow to correct these accounts before billing,

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a hospital can increase self-pay collections and reduce A/R days significantly.

Healthcare providers can leverage a number of third-party demographic databases to identify registration errors and access updated patient information. By comparing the name, address, telephone number, and Social Security number

### THE TENET HEALTHCARE EXPERIENCE

In 2004, Tenet Healthcare implemented major changes to its self-pay collections strategy by leveraging a novel risk segmentation methodology. The primary goal of these revisions was to improve cash collections and collection speed, while reducing the cost to collect from self-pay patients. After 12 months, Tenet realized dramatic improvements. Cash collections increased by more than \$3 million in self-pay revenue per month, or \$36 million annually. Furthermore, these collections shifted forward in the collection cycle, as Tenet was better able to identify patients more likely to pay and focus early-out resources on these "collectible" dollars.

Tenet's new self-pay strategy was based on a segmentation model that automatically calculated the probability of payment for each self-pay account. By integrating patient payment scores into self-pay analysis, hospitals were able to divide accounts into several unique behavioral categories. Tenet successfully implemented the process changes required to align collections workflow with the segmentation model. Therefore, accounts with a higher expected value received greater work intensity, while the lower value accounts were assigned a more automated process and sent to the collection agency sooner. By developing a different mix of phone calls, letters, and follow-up for each segment, Tenet was able to standardize the work processes that would maximize self-pay collections.

This redesign resulted in improved recovery rates as well as a much more efficient in-house collections process. In fact, while cash collections were increasing significantly, the total cost to collect decreased by more than \$5 million in the first 12 months. By shifting internal resources, Tenet was able to eliminate much of the costly collection effort being wasted on high-risk accounts. These process changes, driven by the segmentation model, ultimately enabled Tenet to reach its objective of recovering more cash faster and at a lower cost to collect.

fields in the patient accounting system with public consumer records, these solutions are designed to automatically flag accounts with significant variance or signs of fraud. For example, a digit may have been left off of the street address, the patient's last name may be spelled incorrectly, or the zip code may be inaccurate. These small errors can result in undelivered mail and unpaid bills.

More significant and sometimes fraudulent discrepancies include nonexistent addresses, invalid social security numbers, and deceased patient names. Depending on the nature of the error, some of these accounts can be easily fixed before collections, while others should be considered highly uncollectible. By automatically segmenting accounts based on demographic variance, hospitals can forecast the impact of lower collection rates, and more accurately project bad debt based on the balance of accounts in error.

### Implementation

Multiple data sources are available to enhance self-pay segmentation strategies. Some vendors specialize in consumer credit data, while others offer insurance enrollment data or demographic validation. An effective self-pay strategy should take advantage of all data types mentioned above, aggregating best-of-breed sources into one software platform that segments patients based on multiple dimensions. A business intelligence application is required to understand how these data impact the behavior of various self-pay segments and empower an effective strategy that is customized to the patient population and business rules of each hospital. Ultimately, self-pay data solutions are only as good as the analytic tools and revised workflow processes that accompany them.

Self-pay data solutions can be implemented both at the point of service and on the back end before collections. At registration, patients should be profiled in real time, enabling hospital staff to correct address errors and print charity applications while the patient is present. On the back end, hospitals have the opportunity to profile all self-pay patients before collections. This profiling enables the collections team to automatically segment accounts based on risk, eligibility, and demographic errors. By using a combination of front-end screening and back-end segmentation, a hospital can develop more efficient workflows for each patient type and organize self-pay receivables into different behavioral categories. The resulting ROI is significant and measurable in the form of increased self-pay collections, improved A/R days, and reduced cost to collect. ●

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