patterns in bad debt expense

Numerous recent news reports indicate an increase in the number of people selecting health insurance plans with high copayments and deductibles. This shift in cost sharing will require hospitals and other healthcare providers to collect higher sums to cover patients' increased responsibility. Not surprisingly, providers are finding it more difficult to collect growing amounts from multiple sources than to simply deal with a handful of insurers. This trend is likely to become more pronounced.

Managing accounts receivable will become increasingly difficult as more patients enroll in insurance plans that require them to pay more out of pocket for care. Many interested parties, including credit-rating agencies, are keenly aware of these coming challenges and will be monitoring how hospitals fare with more complex collection duties. As a result, bad debt write-offs will become a progressively more important financial indicator.

To offer comparative figures for different groups of hospitals, we analyzed the most recent available Medicare cost report for each short-term acute care facility nationwide and evaluated bad debt expense as a percentage of net patient revenue (gross charges less contractual allowances and discounts). Hospitals were grouped according to operational criteria as well as participation in two Medicare payment programs, disproportionate share hospital payments and value-based purchasing, which were chosen, respectively, to identify hospitals treating greater numbers of indigent patients and to gauge the quality of the services provided.

Hospitals operators and industry analysts should find these figures useful for evaluating the performance of specific categories of hospitals. ■

HOSPITAL BAD DEBT EXPENSE TRENDS BASED ON OPERATING CRITERIA

For Profit/ Not for Profit	Member of a Multihospital System	Number of Hospitals	Percentage Bad Debt Expense to Net Patient Revenue
For Profit	No	181	9.60%
For Profit	Yes	593	13.23%
Not for Profit	No	862	10.39%
Not for Profit	Yes	1,547	7.23%

HOSPITAL BAD DEBT EXPENSE TRENDS BASED ON MEDICARE DISPROPORTIONATE SHARE HOSPITAL (DSH) PARTICIPATION

Hospital Receives Medicare DSH Payment	Number of Hospitals	Percentage Bad Debt Expense to Net Patient Revenue
Yes	2,615	8.90%
No	568	5.36%

HOSPITAL BAD DEBT EXPENSE TRENDS BASED ON PERFORMANCE IN VALUE-BASED PURCHASING

Medicare Value-Based Purchasing Payment Change	Number of Hospitals	Percentage Bad Debt Expense to Net Patient Revenue
Bonus	1,298	7.92%
No Change	575	7.44%
Penalty	1,310	9.43%

This analysis was performed by American Hospital Directory, Inc., Louisville, Ky. For more information, contact William Shoemaker at wshoemaker@ahd.com.