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Beware the Hospital RCM Red Herring: **PRICE VS. VALUE**

Hospitals and health systems strive to resolve accounts, but staffing shortages often mean that those accounts go untouched for too long. Over time, aged accounts become less collectible and eventually will be written off to bad debt.

While it may seem logical to outsource to vendors charging the lowest fees for resolving aged accounts, this strategy fails to drive higher recoveries and associated revenues when compared alongside the cost of outsourcing.

THE CHALLENGE

When one hospital group in the Midwest sought to reduce their expenses by working with a low-cost vendor to collect on bad debt accounts, they issued a Request for Proposal (RFP) seeking pricing that would be applicable to the hospitals in the group. One hospital's leadership selected a low-price collection agency that offered a contingency rate below 11% and took away 50% in order to install a champion challenger model.

After six months, the hospital canceled the contract with the low-cost vendor, citing lack of customer service and lower collections. Hospital leadership reached out to Meduit to give back 100% of the work, even though Meduit quoted a slightly higher contingency fee to work their bad debt. Hospital leadership noted that paying the lowest price for a service did not equate to better returns.

REGARDING THEIR EXPERIENCE WITH THE LOW-COST VENDOR, HOSPITAL LEADERSHIP STATED:

> "They had horrible customer service, and we were not happy with the recoveries. 10% fee of no collections doesn't gain us anything."

WHAT TO LOOK FOR WHEN SELECTING THE BEST OUTSOURCING PARTNER

What should healthcare leaders look for when seeking a revenue cycle outsourcing partner that will drive higher collections for a better return on investment (ROI) and customer service?

THE KEY DRIVER TO HIGHER ROI: NETBACK

Hospitals and health systems need to identify a partner that focuses on netback, because netback reflects the true dollars secured for the hospital. Netback ensures that the hospital will gain the most cash from accounts and a higher percentage of resolved accounts, achieving the highest ROI.

Healthcare facilities need to realize that an outsourcing partner's collection efforts are directly related to the contingency fee they charge: the lower the fee, the less collection efforts an agency will employ and in turn, your recoveries will suffer. The key to selecting a partner is to find one that is willing to maintain their level of collection efforts to ensure your netback goals are met, while sacrificing their own margins by offering a lower fee.

The chart below illustrates one of the Midwest health facilities' relationship between the contingency fee, total bad debt recoveries and netback (total dollars going into the hospital's bottom line). The lowest contingency fee of 10% resulted in the lowest netback of 7.81% and the lowest recovery netback of $819,597 because the outsourcing partner cannot afford to put forth the needed techniques and resources to meet the healthcare facility's netback requirements.

NETBACK ANALYSIS

Contingency Fee	19% (Original)	16%	14%	12%	10% (Awarded Rate)
Placement $	$10,495,906	$10,495,906	$10,495,906	$10,495,906	$10,495,906
Bad Debt Recoveries	$1,274,929	$1,274,929	$1,274,929	$1,092,796	$910,664
Recovery %	12.15%	12.15%	12.15%	10.41%	8.68%
Fees	$242,237	$203,989	$178,490	$131,136	$91,066
Reduction in Fees*		**$(38,248)**	**$(63,746)**	**$(111,101)**	**$(151,170)**
Netback	$1,032,692	$1,070,940	$1,096,439	$961,660	$819,598
Impact on Netback*		$38,248	$63,746	**$(134,778)**	**$(213,095)**
Netback %	9.84%	10.20%	10.45%	9.16%	7.81%

Impact of fee reduction from 19% to 10% **$(213,095)**

*Based on original 19% fee

CONCLUSION: Beware of seeking the lowest bid and "too good to be true" collection fees. As rates go down, there is a point where the vendor will have to find ways to reduce their costs in order to remain profitable on margins. Cause and effect will result in lower recoveries and negatively impact quality customer service.

Recoveries impact netback far more than fees. For best results, identify an outsourcing partner that can show a higher netback in order to hit the sweet spot that delivers the highest ROI, while still providing great service to both your patients and your facility.

For more information about how Meduit can help your healthcare organization resolve your organization's bad debt accounts, visit: **meduitrcm.com**

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Driving Revenue Cycle Performance

ABOUT MEDUIT Meduit is one of the nation's leading revenue cycle solutions companies with decades of experience in the RCM arena, serving more than 850 hospitals and physician practices in 47 states. Meduit combines a state-of-the-art accounts receivable management model with advanced technologies and an experienced people-focused team that takes a compassionate and supportive approach to working with patients. Meduit significantly improves financial, operational and clinical performance, ensuring that healthcare organizations can dedicate their resources to providing more quality healthcare services to more patients. For more information, please visit **www.meduitrcm.com**.