The State of Medical Debt

Addressing New Challenges in the Patient Collection Process

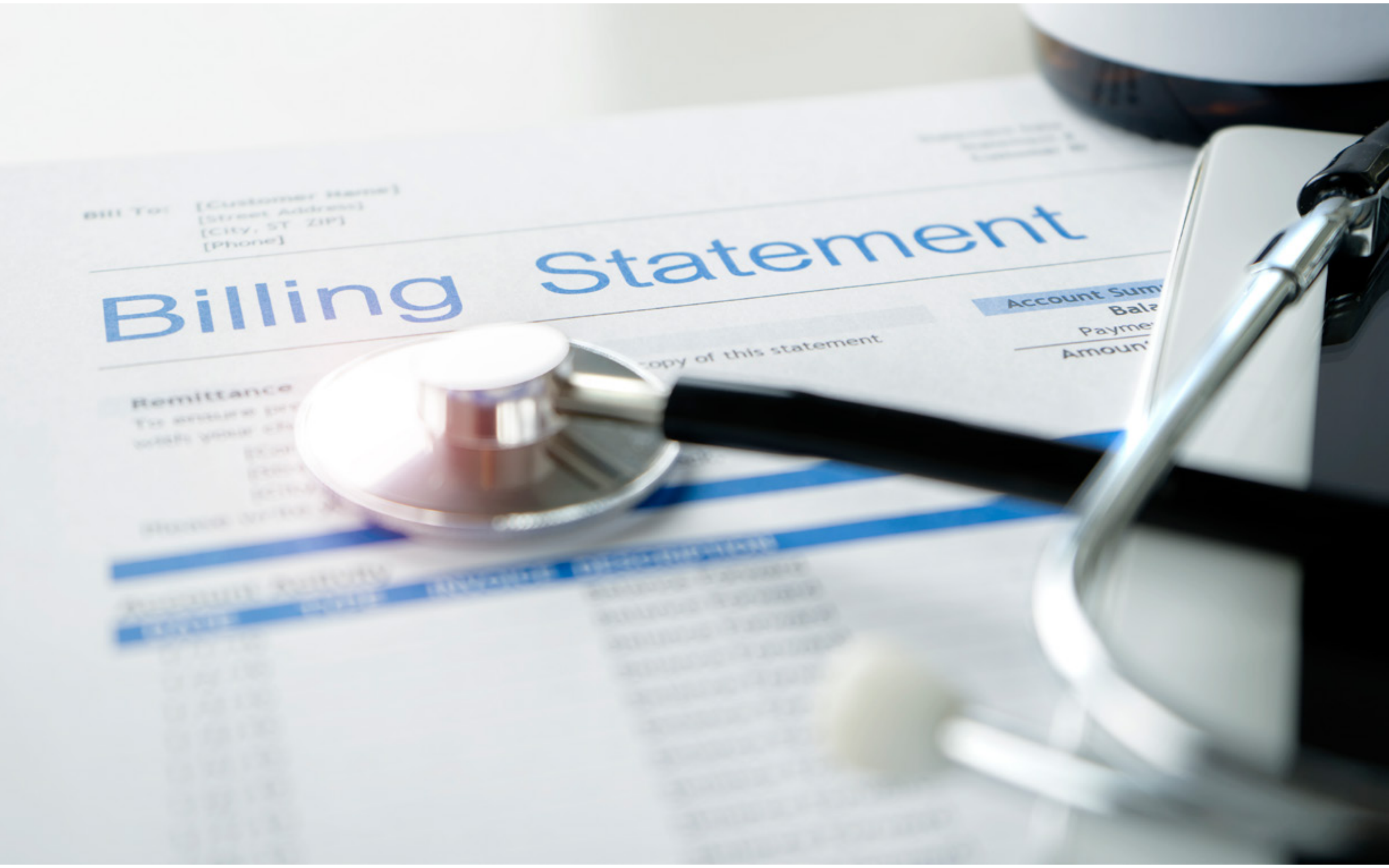
RECTANGLE HEALTH EXECUTIVE REPORT

By Andrew Deichler, Senior Content Manager

Collecting patients' medical debt has always been an exceptionally challenging process for healthcare providers.

While the bulk of medical charges are covered by insurance companies, providers—particularly smaller practices—rely on payments from patients to keep the revenue cycle management (RCM) process going. But a new development may make that process even more difficult.

In this Rectangle Health Executive Report, we will explore the recent actions of the three major credit reporting agencies and how they could impact medical debt. We'll also explain how providers can turn this action into an opportunity to optimize the payment process, making it more cost-effective for them and more convenient for patients.

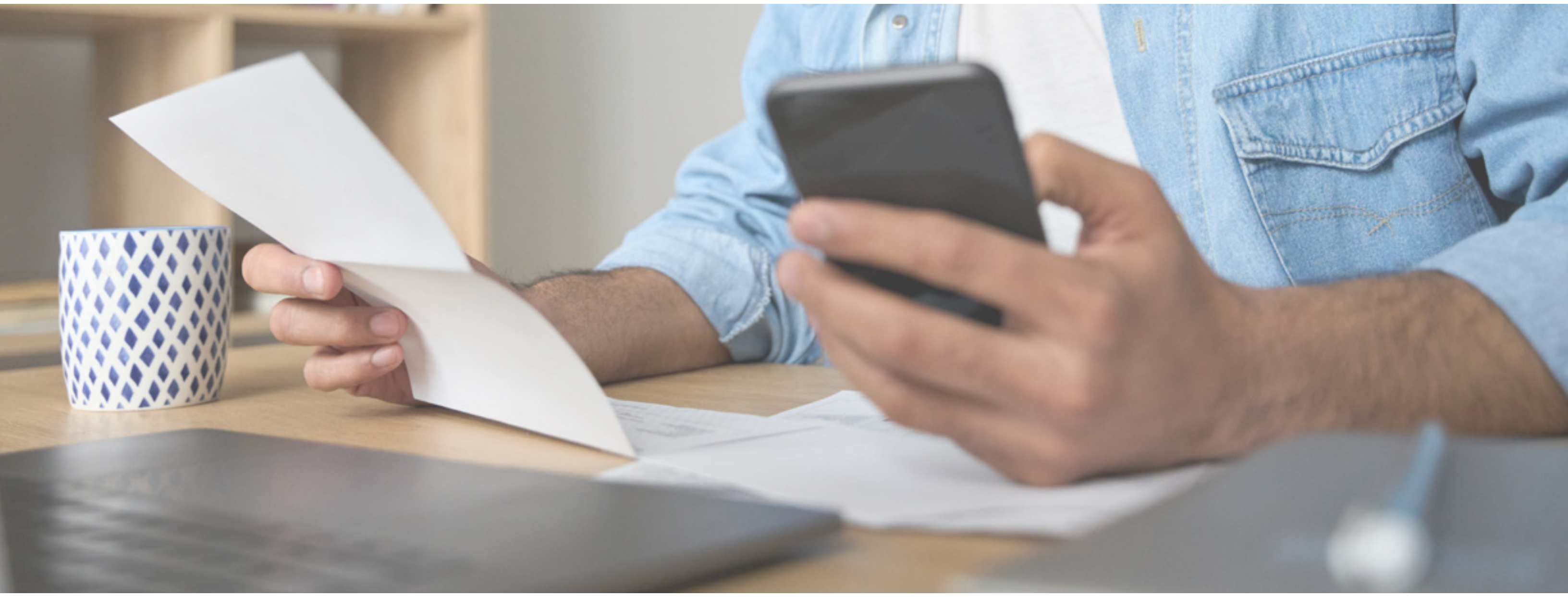


Medical Debt Is About to Change

In 2022, the Biden-Harris Administration put pressure on the Nationwide Credit Reporting Agencies (NCRAs) and medical providers to reduce the burden of medical debt[1] for the American public. The White House said that medical debt is the largest source of collections—more than credit cards, utilities and auto loans combined. And medical debt impacts communities disproportionately; Black and Hispanic households are more likely to hold debt than white households, according to data from the U.S. Census Bureau.[2]

As a result, Equifax, Experian and TransUnion have agreed to remove medical debt under $500 from Americans' credit reports. While this helps patients who are facing financial hardships, it creates a business conundrum for providers. Patients, potentially, now have less incentive to pay their medical bills, given that failure to do so won't have any immediate impact on their credit worthiness.

According to the credit bureaus, nearly 70% of medical collection debt[3] is expected to be removed from consumers' credit reports following this development. In a joint statement, the CEOs of all three agencies said that they are "committed to continuously evolving credit reporting to support greater and responsible access to credit and mainstream financial services."



> **Nearly 70% of medical collection debt is expected to be removed from consumers' credit reports.**
>
> – Equifax, Experian and TransUnion

The change is the latest in a series of actions by the NCRAs to support consumers. The NCRAs said last year that paid medical collection[4] would no longer be included in credit reports. Additionally, the agencies said that they would increase the time that debt appears on credit reports from six months to a year. These moves undoubtedly help millions of people with unpaid debt, particularly low-income individuals who are relying on good credit scores to receive approvals for loans or apartments.[5]

Sid Singh, CEO of Rectangle Health, was instrumental in furthering the initiative in his previous role as president of U.S. Information Solutions at Equifax. The agency regularly supplied data to the White House throughout the COVID-19 pandemic and saw an opportunity to provide relief to people who were struggling through an unprecedented situation. "In that partnership, this idea emerged," he said. "Why would we penalize people already going through a health care crisis with medical debt that precludes them from having a better financial life?"

The three-bureau consortium ultimately determined that, over the past decade, fewer companies were using medical debt as a reason to deny individuals auto loans, mortgages, credit cards, etc. Overall, 80% of companies don't use that data element, so the agencies agreed they should stop using it.

> **Why would we penalize people already going through a health care crisis with medical debt that precludes them from having a better financial life?**
>
> — Sid Singh, CEO of Rectangle Health and former President of U.S. Information Solutions for Equifax.

The Consumer Financial Protection Bureau (CFPB) noted in a recent report that third-party debt collectors seeking to collect unpaid medical bills often rely on outdated information. They're typically unable to verify whether the debt they are attempting to collect matches providers' records, and also are unaware of insurance adjustments, financial assistance or error corrections that can drastically reduce the amount that patients owe.[6]

Singh believes that in a few more years, medical debt of any amount could be expunged from credit reports. Therefore, with patients having less incentive to pay, providers will have to reevaluate how they are doing collections. Implementing more efficient collection methods like automatically charging cards on file, enabling text payments and putting QR codes on billing statements can make the process more convenient for patients, making them more likely to pay.

Adding to Medical Providers' Struggles

Providers have already been struggling to collect on patient payments. High deductible insurance plans that place more of the financial burden on patients have made it difficult for Americans to keep up with their medical bills. In 2021, the average deductible for covered workers at small firms was $2,379, according to research by the Peterson Center on Healthcare and KFF.[7] At larger firms, covered workers paid about $1,397. And deductibles for plans offered on the Federal Marketplace can be even higher.

Moreover, medical practices and hospitals alike are still reeling from the worst days of the pandemic. Health system executives polled by the CWH Advisors 2022 Patient Pay Study said that normal collections protocol was disrupted for nearly two years.[8] Workplace shortages and turnover continue to negatively impact collections.

> **In 2021, the average deductible for covered workers at small firms was $2,379. At larger firms, covered workers paid about $1,397.**
>
> – A 2022 study by the Peterson Center on Healthcare and KFF

Providers also have outdated, costly methods that impact accounts receivable. About 78% rely on paper and manual processes to collect from patients.

Further complicating matters is an overall lack of understanding of the cost of healthcare. Patients often don't know their health benefits, especially if their employer has recently switched to a new plan. And then when they call the doctor's office for an explanation, often they speak to someone who can't understand the bill.[9]

Now, with substantial medical debt being dropped from credit reports, it could be even harder for providers to collect outstanding balances. Fortunately for providers, many patients are still unaware of the change. For example, Suzanne E. Jones, office manager for the dental office of Dr. J. Russell Danner in Oklahoma City, doesn't believe any of her practice's patients know about it yet.

Finding the Opportunity

While consumers at large are not aware of the change to medical debt yet, providers should take this opportunity to modernize their patient payment experience. Many practices, particularly smaller ones, are relying on antiquated methods for collecting patient payments, which is often why RCM can take upwards of 90 days.

Providers should consider several key solutions.

Online Payments

Your practice may already offer online payments to your patients. Consider if the majority of your patients are using it and ask questions such as, is it easy to navigate and quickly pay balances, or do they have to click link after link just to make their payment?

The more convenient your online payment portal is for the patient, the more likely your practice is to receive timely payments. Rectangle Health's platform works with your existing practice management system (PMS) or electronic health record (EHR), making payments more accessible to patients and easier for your practice to manage.

Card on File

Securely storing a patient's credit card information for future payments may not be a panacea for solving medical debt, but it comes close. Saving card information in a secure solution like Card on File in Practice Management Bridge® allows a practice to make convenient collections as needed while keeping patients' data completely confidential.

While some practices might be concerned that patients would be afraid to allow them to store their card information, many of Rectangle Health's clients have found the opposite to be true. Consumers have become accustomed to storing card information with retailers like Amazon and Uber, so storing information with a medical provider isn't cause for concern. Providers just need to take the first step.

“If you don’t ask, they never will,” said Dr. Stephanie Wilson, co-owner of Wilson Chiropractic and Wellness in Fort Atkinson, Wis. “They can’t save [card information] if you don’t offer it as an option. I would say, of all the people we ask, maybe 10% will decline because they want to pay by cash or check. It’s not because they are worried about saving their card.”

Ironically, while consumers may not have reservations about providers storing their cards on file, some practices are hesitant to do so. Esperanza Ordorica, Certified Compliance Advisor for PCIHIPPA and Rectangle Health, explained that in many conversations she’s had with prospective clients, providers refuse to store card information out of fear that their systems won’t protect it. “There’s a lot of fear in the smaller and medium size practices,” she said. “And that puts all of their payments at 90 days or more past the date of treatment.”

Ordorica added that most of the fear stems from storing credit card and debit card information in the office. “They do not understand that the information can be kept encrypted so all bills can be charged on a regular basis until all bills are paid in full,” she said.

> **If you don’t ask, they never will. They can’t save [card information] if you don’t offer it as an option. I would say, of all the people we ask, maybe 10% will decline because they want to pay by cash or check. It’s not because they are worried about saving their card.**
>
> — Dr. Stephanie Wilson, Co-owner of Wilson Chiropractic and Wellness

In fact, modern solutions like Card on File hide specific card details even from the practice itself. Denae Simpson, office manager at Life Family Chiropractic in Connecticut, noted that the program only allows staff members to see the last four digits of the card number. “I don’t even know what type of card it is, or what their three-digit code is on the back,” she said.

Keeping card information enables payment efficiencies at different steps in the RCM Process:

Payment at the Time of Service

Asking for or requiring payment from patients at the time of service is not new. However, having a card on file allows for a quick and simple transaction that saves time for the patient and speeds up the revenue cycle for the provider.

Jen Chao, COO of Cynergy, a physical and occupational therapy provider with five locations in New York, noted that using Card on File makes the collection process easier and faster. “I think our collection rate for patient payments now is over 90%, and it's at time of service,” she said. “It's awesome. It cuts down on a lot of potential errors or missed payments.”

According to Sophie Zlatarich, a chiropractic assistant at Back to Wellness Chiropractic in St, Louis, Mo., using Card on File helps the entire checkout process. Many of the practice’s patients schedule their appointments months in advance and are used to coming in for a session and leaving without stopping to set up a follow-up appointment. By automatically charging their cards on file, they also don’t have to stop to pay their copays on the way out. The result is an efficient, in-and-out experience for patients.

> **I think our collection rate for patient payments now is over 90%, and it’s at time of service,” she said. “It’s awesome. It cuts down on a lot of potential errors or missed payments.**
>
> – Jen Chao, COO of Cynergy

Practices may also benefit from an approach similar to booking a hotel room. Jackie, Office Manager at Reveal Vitality, a nutrition and wellness center in Sarasota, Fla., explained that her practice requires a deposit when a patient makes an appointment.

“We take the credit card and put it in Practice Management Bridge and notify the patient that we’re doing that and that the remaining balance will be charged when they come in for their appointment,” she said. “And then we just verify at each appointment that they do want to use the card on file; we really don’t give an option.”

Lastly, keeping card data on hand allows a practice to enforce no-call/no-show policies. Last-minute appointment cancellations result in substantial revenue loss for a provider. And if the patient never reschedules, the practice is left trying to reach them to collect payment. Card on File eliminates that issue. If the card is on file and the patient has been informed of the policy, then the patient can be charged.

Collection After Service

Often, payment at the time of service isn't feasible because patients will have a deductible and their responsibility can't be determined until after the provider has billed the insurance company. Having a card on file is also incredibly convenient for medical practices that need to collect outstanding balances.

"If we run their insurance to see what their deductible pays for and they end up having a balance on their account, then we'll just call them and let them know," said Marcy Castle, co-owner of Champion Performance Physical Therapy in Cedar Park, Texas. "If they have a card on file, then we can just run that for them, so they don't have to worry about paying it in the future. It can just be taken care of."

Cindy Love, office manager for Nittany Valley Chiropractic and Wellness Center in State College, Pa., has also found Card on File to be a convenient solution for balance billing. "We will just text the patient and say, 'We heard from your insurance company you owe $400. Can we use your card on file?' And they say yes. So that, financially, as far as setting up statements, has been great," she said.

Having a card on file also allows practices to automatically charge patients for balances whenever they are due; patients just need to be made aware that they should expect this and may need to sign consent forms to allow it. Dr. Dina Strachan with Aglow Dermatology in New York explained that her practice's intake process requires patients to provide a credit card number that that will be used for any additional charges that the patient is responsible for. Aglow emphasizes to patients that not having to chase payments is all a part of being able to focus on their care.

> **We will just text the patient and say, 'We heard from your insurance company you owe $400. Can we use your card on file?' And they say yes. So that, financially, as far as setting up statements, has been great.**
>
> – Cindy Love, Office Manager for Nittany Valley Chiropractic and Wellness Center

Text to Pay

Text payments are a quick and convenient way for medical practices to collect outstanding balances. Text message communication reduces the burden on staff, allowing the practice to reach patients in a fraction of the time it would take to call each one on the phone.

Furthermore, texting has a higher success rate than calling and leaving voicemails. Fully 85% of consumers prefer receiving text messages over a phone call or email.[10] A 2021 survey by PYMNTS and Rectangle Health found that 22% of self-described "loyal patients" would change providers if a competitor offered better digital communications tools.[11]

Text to Pay in Practice Management Bridge® enables providers to either send individual messages or bulk messages to collect outstanding balances. Patients immediately see balances due and can quickly pay online via a link. Not only do solutions like Text to Pay reduce accounts receivable, but they also reduce overheard costs associated with mailing statements. Providers simply log into the platform, upload a list of patients, and send. They can then track payments via Text to Pay Reporting.

> **22% of self-described "loyal patients" would change providers if a competitor offered better digital communications tools.**
>
> – A 2022 survey by PYMNTS and Rectangle Health

QR Codes

Another way to speed up the payment process is by including QR codes on billing statements. When a patient receives a bill, they can scan the code and quickly go to their provider's payment portal. This is a quick, simple solution for patients that might not want to keep a card on file but don't have a problem paying via a mobile device.

Patient Financing

For patients who would struggle to pay large balances, providers can offer services that enable a gradual payoff, like Rectangle Health's patient financing solution. Financing is handled entirely by Rectangle Health's partner HFD, and practices receive payment immediately after patients sign up for the service. Nearly 100% of patients are approved for financing, and they receive multiple payment plan offers just 30 seconds after applying.

Change Is Long Overdue

Many consumers and even medical practices aren't yet aware of this change to credit reporting. However, providers shouldn't allow ignorance to be a cause for inaction. Consumers, particularly those who are struggling to pay off debt, will eventually catch on and may deprioritize paying their medical bills until they have the means to do so. Therefore, the onus is on the provider to ensure that they are still receiving those payments.

There are many solutions that providers can implement now to ensure that they will not be affected by this recent easing of medical debt repercussions. The revenue cycle is already an issue and needs an overhaul at many medical practices. Taking the time to modernize your payment processes will only help your practice in the long run—regardless of the impact of this latest development.

References

1. (2022, April 12). FACT SHEET: The Biden Administration Announces New Actions to Lessen the Burden of Medical Debt and Increase Consumer Protection. The White House. https://www.whitehouse.gov/briefing-room/statements-releases/2022/04/11/fact-sheet-the-biden-administration-announces-new-actions-to-lessen-the-burden-of-medical-debt-and-increase-consumer-protection/

2. (2021, April 7). 19% of U.S. Households Could Not Afford to Pay for Medical Care Right Away. U.S. Census Bureau. https://www.census.gov/library/stories/2021/04/who-had-medical-debt-in-united-states.html

3. (2023, April 11). Equifax, Experian and TransUnion Remove Medical Collections Debt Under $500 From U.S. Credit Reports. Equifax, Experian and TransUnion. https://www.prnewswire.com/news-releases/equifax-experian-and-transunion-remove-medical-collections-debt-under-500-from-us-credit-reports-301793769.html

4. (2023, March 18). Equifax, Experian, and TransUnion Support U.S. Consumers With Changes to Medical Collection Debt Reporting. Equifax, Experian and TransUnion. https://www.businesswire.com/news/home/20220318005244/en/Equifax-Experian-and-TransUnion-Support-U.S.-Consumers-With-Changes-to-Medical-Collection-Debt-Reporting
5. Singletary, Michelle. “Finally, medical debt under $500 has been removed from credit reports.” The Washington Post. (2023, April 12). https://www.washingtonpost.com/business/2023/04/12/medical-debt-credit-reports/

6. McNamara, John. (2023, February 14). Debt collectors re-evaluate medical debt furnishing in light of data integrity issues. Consumer Financial Protection Bureau. https://www.consumerfinance.gov/about-us/blog/debt-collectors-re-evaluate-medical-debt-furnishing-in-light-of-data-integrity-issues/

7. Young, Gregory; Rae, Matthew; Claxton, Gary; Wager, Emma; Amin, Krutika. (2022, March 10). How many people have enough money to afford private insurance cost sharing? Peterson-KFF Health System Tracker. https://www.healthsystemtracker.org/brief/many-households-do-not-have-enough-money-to-pay-cost-sharing-in-typical-private-health-plans/

8. (2023, March 23). PatientPay 2022 Study. CWH Advisors. https://www.cwhadvisors.com/research/2022-patientpay-study

9. Eramo, Lisa A. (2022, November 29). Seven ways to ease patient collections in your medical practice. Medical Economics Journal. https://www.medicaleconomics.com/view/seven-ways-to-ease-patient-collections-in-your-medical-practice

10. (2023, January 23). 44 Mind-Blowing SMS Marketing and Texting Statistics. SlickText. https://www.slicktext.com/blog/2018/11/44-mind-blowing-sms-marketing-and-texting-statistics/

11. (2021, January). The Healthcare Payment Experience. PYMNTS.com and Rectangle Health. https://www.pymnts.com/study/healthcare-payment-experience-rectangle-health-digital-medical/?cache=skip#wpcf7-f986067-o1?download=true

To learn more about how our technology solutions can work for you, please visit us online.

RectangleHealth.com