

BoardBrief

Prepared for Colorado Hospital Association Trustees

Hospital Billing and Collections: The Scrutiny Isn't Going Away

Hospital billing and collections practices, inextricably tied with charitable care missions, have and will continue to receive close scrutiny from the media, lawmakers, regulators, the public and many others. Media scrutiny surrounding confusing medical bills, high medical costs and hospital billing and collections practices has heightened again with the publication of the 2013 *TIME* magazine article entitled "Bitter Pill: Why Medical Bills Are Killing Us."

The *TIME* article did not paint a positive picture about hospital billing and collections practices. While some of the situations highlighted in the article may be all or partially-true, there are hundreds of thousands of stories of hospitals providing compassionate, top-notch, free or discounted care to uninsured and underinsured patients. There are stories of hospitals helping patients apply for free medical assistance programs, free prescription assistance programs, offering financing options for hospital bills, and deeply discounting hospital bills. In some organizations, financial advisors are employed to offer a wide range of community services at no charge, simply dedicated to helping patients access the care they need at prices they can afford.

But these stories aren't well told in the media. Hospitals are responsible for not only communicating the good work they are doing, but also for evaluating their existing billing and collections practices. Are there issues raised in recent media scrutiny that are true at your hospital? This is particularly critical for trustees, who are responsible for organizational oversight and ensuring that the organization abides by its community-centered mission.

Trustees should embrace this challenge. In order to build a strong, trusting bond with their community, hospital trustees should take time now to evaluate their billing and collections policies and practices. They must ensure that every possible step is taken to make hospital bills understandable, to bill patients appropriately, to clearly communicate the availability of charity care and financial assistance, and to widely communicate the good work that the hospital does in the community.

A History of Billing and Collections Scrutiny

Hospital billing and collections practices began to come under close public scrutiny and criticism several years ago. Criticism has been focused on the rates charged to self-pay patients in comparison to charges for care paid by third-parties, unclear financial aid and charity care policies, and perceptions of aggressive collection practices by some.

In response to the scrutiny, hospitals, hospital associations and others have worked to address government and public concerns about hospital billing and collections. Regardless of efforts nationwide to improve billing and collections practices and communicate more effectively with patients about coverage and payment options, the issues, concerns, and scrutiny around hospital billing and collections practices continue to draw attention, and the scrutiny is not likely to let up anytime soon. Boards of trustees need to be aware of the issues, understand the implications, and be actively engaged in responding on behalf of their organizations.

Are there issues raised in recent media scrutiny that are true at your hospital?

Congressional Attention, and the IRS' Revised Schedule H Highlights Billing and Collections

In September 2008, the Government Accountability Office (GAO) issued a report that examined: 1) the IRS' community benefit standard and states' requirements; 2) guidelines not-for-profit hospitals use to define the components of community

benefit; and 3) guidelines not-for-profit hospitals use to measure and report the components of community benefits.² The report found that while there was general consensus on the definition of charity care and many other programs benefiting the community, there was no consensus on the definition of bad debt nor was there consensus on the measurement and reporting of community benefits.

That same year, the IRS issued its revised Form 990, with 16 new schedules, including Schedule H, a new schedule for completion by tax-exempt hospitals. The Schedule H promised to bring further attention to the issues of billing and collections practices, and provide increased transparency surrounding information and data about tax-exempt hospital policies and practices to lawmakers, regulators, the public and other interested parties. It creates an opportunity to report and demonstrate the magnitude and value of the community programs, service and care they provide.

Schedule H: Charity Care. While Schedule H of the Form 990 requires a broad scope of information regarding hospital community benefit practices, there are several key sections that specifically focus on billing and collections practices. Part I asks questions about Charity Care and Certain Other Community Benefits at Cost, including information about the content and application of the hospital's charity care policies, as well as eligibility requirements.

The charity care questions focus on the financial threshold a hospital uses to determine eligibility for free or discounted care. Questions are also included about how charity care policies are applied, how federal poverty guidelines are used to determine eligibility for providing free and discounted care, whether the hospital's charity care expenses exceed the budgeted amount, and whether the organization prepares an annual community benefit report available to the public.

This part of the Schedule also provides a standard reporting format for many of the benefits that hospitals provide to the communities they serve. According to the AHA, the Schedule can help communities throughout the nation better understand the range of programs, services and activities that hospitals provide. Schedule H also gives the IRS a means of gauging the objectivity and commitment of an organization's charitable commitments.

Schedule H: Community Building Activities. When hospital bills are placed in the negative spotlight, hospitals have an opportunity to not only communicate the free and discounted care they provide, but to communicate the wide variety of

AHA Guidelines for Billing and Collections and Price Transparency

The American Hospital Association recommends that hospital boards find the best ways to share meaningful price information with consumers, and has challenged hospitals to present billing and price information in a way that:⁶

- ✓ Is easy to access, understand and use
- ✓ Creates common definitions and language describing hospital price information for consumers
- ✓ Explains how and why the price of patient care can vary
- ✓ Encourages patients to include price information as just one factor, along with quality and safety, when making decisions about hospitals and health plans
- ✓ Directs patients to more information about financial assistance with their hospital care

For additional background materials, visit www.aha.org/billing.

community benefit activities and programs they offer. Hospitals have already itemized these services in Part II of the Schedule H, which asks hospitals to explain how their community building activities promote the health of the communities they serve.

The Community Building Activities section asks for a broad range of detailed information, including the number of activities, programs, or people served, financial information on community building activities, such as physical improvements and housing; economic development; community support; environmental improvements, leadership development and training for community members; coalition building; community health improvement advocacy; workforce development; and a general "other" category.

Responding to Recent Scrutiny

Before the *TIME* article was published, the American Hospital Association (AHA) issued a statement "Setting the Record Straight" on several key statements included in the article.⁵ Immediately following the article's publication, the AHA also issued a *Member Advisory* on hospital pricing transparency, which included key actions hospitals should take in response.⁶

Setting the Record Straight. It is important to remember the big picture impact that hospitals have on America's

communities. According to the AHA, hospitals provide emergency care to 2.4 million Americans every week, and serve as the health care safety net for 50 million Americans. At the same time, hospitals face extreme burdens related to government regulation, insurance requirements, and continual uncertainty surrounding reimbursement—all while continually striving for improved quality and patient safety and a greater impact on the community as a whole. The AHA response to the *TIME* article addresses several inaccurate statements, including, but not limited to:⁵

- The assumption that Medicare is an adequate benchmark for hospital payment, when the overall Medicare margin is a negative 5.8 percent in hospitals. For outpatient services, the underpayment is below negative 10 percent.
- The belief that hospital profits are boosted by payments from patients who are uninsured or underinsured, when in fact hospitals provided more than \$41 billion in care for which no payment was received in 2011.
- Arguments that not-for-profit hospitals should not have a “profit,” while in reality a positive margin is necessary to finance facility and equipment upgrades necessary to keep pace with advances in medical care and rising demands for America’s aging population.

Actions Hospitals Can Take. The attention being given to hospital charity care and billing and collections practices is not

going to go away. Continuing media attention, increased governmental scrutiny, a renewed focus on the Form 990 and Schedule H, and changes surrounding the Patient Protection and Affordable Care Act (ACA) will only increase the scrutiny around these issues. Boards of trustees need to understand the broader issues and implications, be familiar with Form 990 requirements, review and set policy, and continually communicate and advocate on behalf of the hospital.

In response to recent media scrutiny, the AHA recommends that hospitals proactively review their current policies and take corrective action when necessary. While trustees are not responsible for the “nuts and bolts” of implementation, trustees should review these recommendations and ask probing questions about their organization’s policies and procedures in each area. Key components of the recommendations include:³

- Ensure the board understands the hospital’s policies and procedures;
- Review the AHA’s updated billing and collections guidelines, and its price transparency toolkit, and discuss your organization’s policies and practices with senior leaders (www.aha.org/billing and www.aha.org/advocacy-issues/transparency);
- Ensure that critical issues are discussed with relevant departments, such as admissions, finance, and billing/collections as well as patient advocates in the community;

Common Price and Billing Definitions

According to the American Hospital Association (AHA) and the Healthcare Financial Management Association (HFMA), common definitions for hospital pricing and billing includes:⁶

- **Charge.** The dollar amount a provider sets for services rendered before negotiating any discounts. The charge can be different from the amount paid.
- **Cost.** The definition of cost varies by the party incurring the expense:
 - To the patient, cost is the amount payable out of pocket for health care services.
 - To the provider, cost is the expense (direct and indirect) incurred to deliver health care services to patients.
 - To the insurer, cost is the amount payable to the provider (or reimbursable to the patient) for services rendered.
 - To the employer, cost is the expense related to providing health benefits (premiums or claims paid).
- **Price.** The total amount a provider expects to be paid by payers and patients for health care services.
- **Out-of-pocket payment.** The portion of total payment for medical services and treatment for which the patient is responsible, including copayments, coinsurance and deductibles.

- Identify a hospital spokesperson to take media requests;
- Be prepared to share concrete examples of how your organization helps uninsured patients;
- Know if your organization uses a third party to collect debts, and if so, require them to follow your organization's financial assistance policies and collections practices; be aware of any complaints about your policies or your collection agency;
- Ensure your financial assistance policies and practices are well-known by senior staff, and shared and discussed with relevant departments across the organization; and
- Assess whether your financial assistance information is reaching those in need of assistance in the community.

American Hospital Association Price Transparency Action Items

The American Hospital Association's toolkit on "Achieving Price Transparency for Consumers" suggests five steps to move toward price transparency. For more information, including a detailed price transparency self-assessment, case examples, and resources for hospitals and consumers, go to www.aha.org/advocacy-issues/transparency.

1. **Put yourself in the shoes of the consumer.** If patients need price information from your hospital today, where do they go for it? What will they find? The AHA recommends conducting a "secret shopper" experiment to view the process from the consumer's perspective.
2. **Train your staff.** Ensure a process is in place for how phone calls and price requests are handled. In addition, ensure that all those who interact with patients have a general understanding of the hospital's pricing policies and where to direct patients with questions.
3. **Make information meaningful.** The AHA recommends that price information be tailored to individual customers, that customers know how much they will pay out-of-pocket, and, if possible, hospitals should link to insurance company information on discounts and share consumer-specific information on coinsurance and deductibles.
4. **Know how your information compares to others in its accessibility and usefulness.** As consumer expectations for meaningful price information grows, providers, hospitals, and others are increasingly providing information in a variety of ways. Hospitals must be aware of how others are making price information accessible, and how that information compares to what they offer.
5. **Tap into your community for help.** If you have a working or advisory group with patient advocates and past patients or family members, engage them in price transparency efforts and consider enlisting them as secret shoppers. Ask for feedback, listen to suggestions, and use feedback to refine your approach.

Sources and Additional Information

1. Brill, Steven. Bitter Pill: Why Medical Bills Are Killing Us. *TIME* Magazine. March 4, 2013.
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5. American Hospital Association. Setting the Record Straight on *TIME*'s Article "Bitter Pill." February 28, 2013.
6. Achieving Price Transparency for Consumers: A Toolkit for Hospitals. American Hospital Association. July 2014. www.aha.org/advocacy-issues/transparency.