Healthcare Business Insights

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# Enhancing the Bottom Line Through Probate and Non-Probate Recovery Strategies

Hospitals and health systems across the country are faced with an unprecedented number of issues, threatening their financial health. As a result, healthcare organizations are focusing on robust strategies to succeed in even traditionally challenging areas. One of these areas is collection of patient responsibilities on decedent accounts—accounts where the patient has passed away since the service was originally rendered. As the population of the U.S. ages, the number of individuals who pass away each year is also increasing. Better performing organizations have zeroed in on this trend and have identified the creation of an estate recovery strategy as a timely way to address the twin dynamics of an aging America and a dramatic increase in patient self-pay responsibilities. Decedent accounts have been perennially overlooked by many healthcare organizations due to a lack of expertise, but forward thinking hospital and health system leaders are now resolving to understand the estate sphere, in conjunction with the right partner, to capture a previously missed opportunity that continues to grow.

## Impact of Shifting Demographics

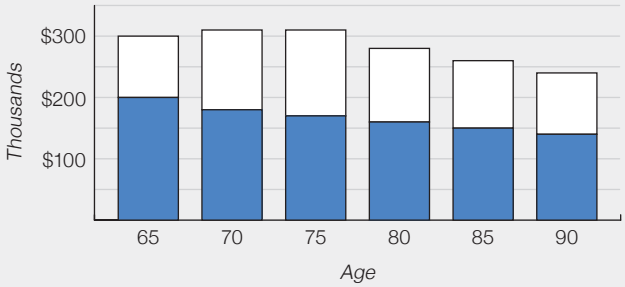
Based on the most recent census data collected, the United States Census Bureau projects that the number of individuals in the country aged 65 and older will grow by 20 million in the next ten years, to more than 65 million Americans. It follows, then, that deaths in the U.S. will also increase during that span, since close to 75% of deaths in the U.S. typically come from that age cohort[1]. One recent study has demonstrated that fewer individuals are dying at a hospital or other institution, but an increasing number of those patients receive care in an Intensive Care Unit (ICU) in their last month of life[2]. While the cost of end of life care varies dramatically by region and by type of illness, for many patients (both elderly and non-elderly) the cost of care in the last six months of life can total tens of thousands of dollars[3].

## Healthcare-Specific Challenges

For hospitals and health systems, these trends are troublesome when coupled with patient out-of-pocket responsibilities. There are still many patients who have no insurance coverage and owe the full cost for their care. At the same time, the percentage of individuals with substantial co-pay, deductible, and co-insurance obligations has continued to rise as more health insurance plans require higher patient contributions.

**Mean and the 95th Percentile of Remaining Lifetime Health Care Costs Excluding Nursing Home Care, at Selected Ages**

*Source: Webb, Anthony and Natilia Zhivan. 2010. "How Much is Enough? The Distribution of Lifetime Health-Care Costs." Working Paper 10-4. Chestnut Hill, MA: Center for Retirement Research at Boston College.*




This is true of marketplace plans (with the Department of Health and Human Services reporting 65% of enrollees selected Silver plans, which typically have deductibles of $2,500–3,000 for individual coverage) and employer-sponsored health plans (with the Kaiser Family Foundation and Health Research & Educational Trust stating 38% of individuals with employer plans had a deductible of $1,000 or more for single coverage in 2013). Studies suggest that in the current challenging economy, patients with out-of-pocket costs over $500 are less likely to pay, making it crucial for providers to have strategies for helping patients with high residual balances.

## Unique Handling of Decedent Accounts

Many healthcare organizations have implemented strategies for residual balance collections over the last decade, but there is a segment of their Accounts Receivable (A/R) that a substantial number of organizations have not put a process in place for—accounts where the patient has passed away. These accounts have historically been very challenging for hospitals and health systems to handle for a number of reasons. If a patient did not pass away in the

[1] Murphy SL, Xu JQ, Kochanek KD. Deaths: Final data for 2010. National vital statistics reports; vol 61 no 4. Hyattsville, MD: National Center for Health Statistics. 2013.

[2] Teno JM, Gozalo PL, Bynum JW, et al. Change in End-of-Life Care for Medicare Beneficiaries: Site of Death, Place of Care, and Health Care Transitions in 2000, 2005, and 2009. JAMA. 2013;309(5):470-477.

[3] Medicare Spending and Care Intensity at the End of Life Increases, While Time in the Hospital Declines. The Dartmouth Institute for Health Policy and Clinical Practice. http://www.dartmouthatlas.org/downloads/press/EOL_release_061213.pdf Accessed May 2014.

healthcare provider's own facility, it can be hard to determine that the death occurred. Hospital and health system business offices have traditionally received the information through newspapers, relatives, or attorneys, and often only after an outstanding balance is significantly overdue. Even when a patient's last care was with the healthcare provider, it can be tricky to navigate resolution of his or her outstanding responsibilities. Most hospitals and health systems have not had the staff member capacity or expertise to handle the complexity of decedent accounts, even when they are identified.

However, the financial implications of not having a successful strategy to handle decedent accounts can be substantial. The dollar value of decedent A/R can reach into the millions at larger organizations. Given the population projections of the rapidly increasing number of older Americans and the likely proportional growth in debts, decedent A/R is likely to be a significant component of A/R for any size hospital or health system. In addition, decedent accounts can pose risks that are not directly tied to A/R, but that can have major financial implications—customer service and compliance. From a customer service perspective, a negative experience for surviving family members can cause damage to the healthcare organization's relationship with those individuals and the community overall.

## Promoting Compliance

From a compliance perspective, the Centers for Medicare and Medicaid Services (CMS) requires that a hospital or health system make a good faith effort in attempting to collect all of its receivables before writing accounts off to bad debt, and that collection efforts be consistent whether the patient is covered by Medicare or a different payer. Since a portion of Medicare bad debt can be recouped by the healthcare organization from the Medicare program, non-compliance with the collection rules can cost a hospital or health system a significant amount of money. Compliance is put at risk when a healthcare organization does not have a defined strategy to handle decedent accounts. Such a strategy needs to include a documented process for searching for estates, filing claims, and maintaining evidence of these activities. Whereas follow-up on decedent accounts once attracted little scrutiny from Medicare auditors, those accounts have been closely examined in recent years and healthcare organizations have been denied bad debt recoupment when they could not present a documented estate collection methodology.

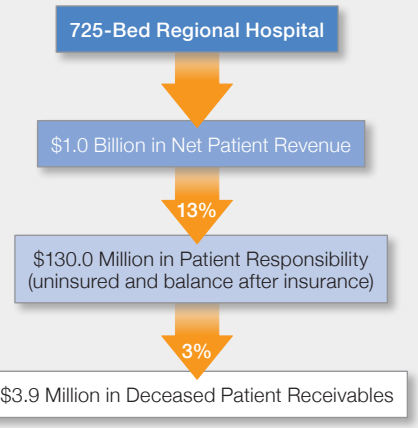
**Key Issues that Make Managing Decedent Accounts Challenging**


## Understanding Strategies for Decedent Account Follow-Up

There are two primary ways that the estate of a patient who has passed away is handled—probate and non-probate—and these methods inform the strategies that healthcare organizations can craft to effectively segment these accounts.

**Potential Financial Value of Decedent Accounts**

*Source: DCM Services*




### *Non-Probate Estates*

Research shows as much as 90–95% of a healthcare organization's decedent account inventory may be non-probate, meaning the account must be resolved through the person who has the authority to pay the outstanding debts of the decedent, without court supervision. This can leave hospitals and health systems to follow up directly with the patient's surviving family members—frequently a bereaved spouse who himself or herself may have received or may in the future need medical care at the same facility. As a result, it is important for healthcare organizations to maintain a positive relationship with the family. This can be difficult to achieve when following typical collection strategies, like sending bills and making calls at given intervals before sending the account to a third-party account representative. Typical third-party account representatives are particularly risky, since they are unlikely to have expertise in handling decedent accounts and could cause a negative perception of the hospital or health system in the community.

While the rate of payment for estates outside of probate may be lower than with formal estates, the sheer numbers mean they can represent 60% of annual decedent account revenue. It is therefore critical that healthcare organizations have a clearly defined and documented process for handling non-probate accounts. This process should include leveraging account representatives who are trained in grief and bereavement, and who treat the decedent's representatives with dignity and respect.

The non-probate strategy is also more likely to be successful if it leverages technology to achieve economies of scale in identifying and following up on decedent accounts. Similar to probate accounts, time is also of the essence in pursuing resolution of non-probate accounts. As a result, using technologies that can segment accounts based on predictive pay models that are specific to the estate context can be extremely valuable.

### *Probate Estates*

Probate offers the most effective way to collect on estate accounts and has been utilized for more than 200 years. It is a process designed specifically to help settle a person's final debts and distribute the remaining assets. Probate allows distribution to flow through a legal channel that is both sensitive to the person's surviving relatives and effective in ensuring that creditors are

fairly treated in attempting to collect any outstanding balances the decedent owed. It also gives priority to certain decedent obligations, one of which is expense of last illness. As a result, healthcare providers often have priority legal status over other creditors. Filing a probate claim preserves this status.

However, although probate is the best method for estate resolution, it can present many challenges to healthcare organizations attempting to navigate that channel. The biggest challenge is that there are more than 3,450 probate courts at the county or municipality level across the U.S., and every state has its own rules related to when a probate estate is open for claims from creditors. This results in more than 20,000 variables (numbers of copies, paper color, fees, etc.) for which a hospital or health system might need to account. In addition, a probate estate may be opened up in association with an address that is different than the last known address for that individual, could be opened in a different state, and may not be opened for up to three years after the individual's death. These scenarios mean it is not feasible for most organizations to pursue probate estates unless they have dedicated resources and technology to support the effort.

Having those dedicated resources can completely change the picture, though, and help to manage the costs of the process to maximize recoveries. Time is of the essence in identifying decedent accounts and their estates, with research showing that recovery potential decreases substantially just 30–60 days after the death. This is because when someone passes away, contact information rapidly becomes inaccurate and the opening and closing windows of estate proceedings can be very narrow. Successful probate recovery requires organizations to proactively identify decedent accounts, match them to open estates, and then file legitimate claims in a timely manner. This process can sometimes take up to 24 months. Leveraging a combination of experts in conjunction with a technology solution can greatly reduce the complexity of the follow-up, since inventory can be identified, managed, and compared to probate court listings and requirements across the country. **While only 5–10% of accounts have a probated estate, these accounts produce 40% of total estate recoveries.**

Without a cohesive plan, hospitals and health systems will continue to struggle to resolve decedent accounts without writing them off to bad debt. The plan needs to account for the different approaches required for non-probate versus probate estates. Even though probate estates account for only a small percentage of the volume of decedent accounts, they represent close to half of total estate recoveries. As a result, utilizing technology solutions that can provide the information and management tools needed to properly follow-up on these accounts can be critical, and can open up a cash flow stream for healthcare organizations that has historically been overlooked. ✚

**Example Key Performance Indicators for Estate Accounts**

- ☑ Estate find rate
- ☑ Speed of deceased identification
- ☑ Percent of self-pay recovery for probate estate
- ☑ Percent of self-pay recovery for non-probate estate
- ☑ Number of days since date of death when account enters estate workflow