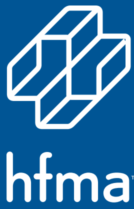


# Today's Charity Care Challenges: What Should You Be Doing?

This project is a collaborative effort by McKesson Corporation, SearchAmerica, and the Healthcare Financial Management Association.

As part of their mission, hospitals typically provide a significant amount of free or discounted care. On average, it is estimated that they devote approximately 5 percent of net operating income to charity care. And depending on the organizations' patient mix, some offer a substantially higher amount.

Yet despite these efforts, U.S. hospitals may be expected to provide even more charity care in the coming years. Approximately 45 million Americans currently lack health insurance, and this number is only expected to grow. Rising insurance premiums are forcing many small businesses to reduce or stop offering coverage. Because of these increased premiums, other employers are asking workers to pay a greater portion of the cost, meaning more employees are likely to opt out of coverage even when it is available. In addition, the latest economic downturn and ensuing job reductions have resulted in loss of insurance for those laid-off employees.

Identifying patients who need some level of charity care is no small challenge. Many facilities still conduct the process almost entirely on paper. Patients identified as potentially qualifying for assistance are asked to complete and return forms, submit proof of income, and provide a variety of other documentation. This process can be long and cumbersome, and patients often forget, give up, or get lost in the shuffle.

In the end, some of what could have been classified as charity care is categorized as bad debt when the hospital receives no payment. Yet it is critically important for hospitals to appropriately classify charity care, particularly as Congress turns its attention toward tax-exempt organizations and whether they provide enough services to the community to justify their exempt status.

To prepare for the influx of charity care patients that is likely to occur, hospitals should review their charity care processes. "Lately, we're seeing hospitals really focusing on helping the uninsured gain coverage—walking people through the Medicaid application process and helping those who would qualify for other assistance," says Terry Allison Rappuhn, CPA, project leader for the PATIENT FRIENDLY BILLING® project, a nationwide initiative that supports clear, concise, correct, and patient friendly healthcare financial communications.

## Key Strategies

Following are several key strategies to ensure that hospitals effectively and efficiently handle the provision of charity care.

**Update financial assistance policies.** All hospitals should have a clear and precise policy regarding charity care and other patient financial assistance so employees can apply it appropriately and equitably. This policy also should be reviewed at least once per year and updated when necessary.

Many organizations offer discounts using a sliding scale that is based on patients' income as a percentage of the federal poverty level. According to the PricewaterhouseCoopers Health Research Institute, nearly three-fourths of hospitals offer full charity care to patients that fall in ranges varying between 101 percent and 300 percent of the federal poverty level. One-third offer a partial discount to those above 300 percent of the federal poverty level. An annual review helps ensure that the policy is appropriate for the latest set of federal poverty guidelines as well as any other economic changes.

In addition, an annual review can be useful for determining that the policy continues to meet the needs of the patient population as well as the organization's goals. Because charity care is linked so closely with a hospital's overall financial strategy, chief decision makers should be involved early in the review process.

Providence Health System-Washington in Seattle recently undertook a major rewrite of its charity care policy and learned much from the experience. "In hindsight, we should have talked to key people first," says Lori O'Malley, regional director, revenue cycle, at Providence. "Providence's mission statement says we care for the poor and vulnerable, but those of us working on the written policy and other leaders in the organization had different visions of what that was supposed to mean. We should have gotten together to agree on the answers to some important questions first: Why are we doing this? How should this policy support our mission?

"Instead," she says, "We did a lot of writing and rewriting. In the end, it was worth the time and effort, but we could have saved ourselves some of both if we had discussed those issues earlier."

Any review of a hospital's financial assistance policy should include an evaluation of recent charity care cases and the degree to which those accounts were resolved. A recent review at Sisters of Mercy in St. Louis found that although the sliding scale discounts worked for many patients, the system still needed some enhancements.

"One change we made that has really helped patients was determining an out-of-pocket maximum for each discount level," says Sheri Beekman, vice president, revenue cycle, at Sisters of Mercy. "For example, a patient's income might indicate that he is eligible for a 40 percent discount, which at first sounds great. But if he has a catastrophic illness, the remaining 60 percent can still add up to a huge amount of money. Even with discounts, some patients just can't pay. By discussing a cap on out-of-pocket expenses, we

are more likely to receive at least some payment, and the patient understands up front that his charges will not go over a certain amount."

**Publicize availability of financial assistance.** Once a solid charity care policy is in place, it should be discussed with patients so that those who qualify know that help is available. First, registration staff and other front-line employees should communicate the policy to potentially qualifying patients when collecting insurance and payment information. Although some providers worry that doing so may result in charity care being given to those who don't really need it, establishing a precise policy and equitably applying it can help minimize this likelihood.

Kara Jo Carson, CHFP, CPA, CFO, Pinckneyville Community Hospital, Pinkneyville, Ill., says her organization supports such proactive communication.

"Upon registration on the date of service, we ask all of our uninsured patients and those with existing bad debts to speak with our financial counselor, who explains their payment arrangement options," she says. "This way, we can get the issue of payment settled ahead of time for many patients, and if they qualify, help them apply for Medicaid or other assistance."

Emergency services must be handled differently, of course, but many hospitals make an effort to secure payment arrangements while the patient is still in the facility. If the patient has been admitted, a financial counselor might visit the individual to discuss options after he or she has been stabilized. If the patient does not require admission, staff can discuss payment arrangements during the discharge process.

Once a patient has been discharged, it can be harder to maintain communication regarding payment. Some hospitals include financial assistance policy inserts with billing statements to improve patient awareness.

## Did You Know?

Hospitals provide patients with more than $25 billion each year in uncompensated care, according to the American Hospital Association's most recent annual survey (this estimate includes care for which payment is never collected as well as charity care provided to uninsured patients who do not qualify for other financial assistance). However, some studies suggest this may be a low estimate because of the complex process required to classify the services received as charity care.

Many hospitals publicize their charity care policies in a variety of additional ways. A 2005 study by PricewaterhouseCoopers, "Acts of Charity: Charity Care Strategies for Hospitals in a Changing Landscape," found that more than half of hospitals have their policies on their web sites, and nearly two-thirds have them posted in public places. Others use vehicles such as messages on the billing department voicemail system and paid advertisements in local newspapers.

"Because charity care is so central to our mission, we take an aggressive approach to identifying qualified patients," says Michael S. Johns, FHFMA, CPA, vice president, finance, Baptist Hospital Inc., Nashville. "We post signs in our registration areas advertising our financial assistance policy so that patients are aware of the policy and will ask about it."

**Streamline processes and procedures.** After adopting a new or revised charity care policy, health-care providers should examine financial assistance processes and procedures to assess whether they still work well and determine whether opportunities exist to conduct them more efficiently.

"We continually look at the process and implement improvements," says Pinckneyville's Carson. "Our improvements over the past year have included increasing communication on the availability of financial need assistance and changing the application form to make it more accessible and less intimidating."

Other organizations are using technology to simplify the charity care process for staff and patients. "Once we put the new policy in place, we changed all of our workflows based on what we learned while developing the policy," Providence's O'Malley says. "One of the changes was the creation of an electronic worksheet that requires registrars and other staff to enter key pieces of data. It prompts them to ask for any necessary documentation from the patient.

"Before the worksheet, each patient had a packet of paper that was handed off three to five times," she says, recounting how the process often resulted in inaccuracies. "With our worksheet, we have an error rate of just 2 percent. The worksheet has been wonderful because we don't have to worry about calculation errors or something being overlooked. Now we know we're appropriately considering each patient and making more accurate decisions."

The worksheet wasn't the only answer. "Another change we made was moving away from the W-2 as standard documentation," says O'Malley. "We now use the last three months of paystubs as proof of income because our policy is based on current financial need, and a W-2 from the past year may not reflect that."

At Baptist, leadership has developed templates to ensure that important calculations are made correctly. "We use Excel templates to key in the data from the applications and calculate the amount of charity the patient is eligible for," says Johns. "If eligibility is not determined until after the patient charges are incurred, such as in an emergency care situation, our billing system will calculate a remaining balance after that deduction percentage is entered."

> More than half of hospitals have their charity policies on their web sites, and nearly two-thirds have them posted in public places.

**Consider automation.** Depending on their volume of uninsured and underinsured patients, some hospitals may benefit from using an automated charity care system. It is estimated that about 40 percent of hospitals currently use some type of automation to determine charity care eligibility. Technology is now available that can run credit checks as well as verify a patient's address and other demographic information—which is particularly important when submitting claims to Medicaid and other payers. These systems can be tied to patient registration software and/or billing and collections software and can reduce errors by ensuring that staff are complying with policies.

"Given the volume of charity care that some facilities have, it's not possible or practical to conduct that process manually," says Rappuhn of the Patient Friendly Billing project. "It's an overwhelming task to manage that amount of paperwork—it's hard for patients to gather and submit the documents and hard for staff to process. I've seen hospitals with compliance rates as low as 20 percent, which means that many people who would qualify for assistance just can't handle

the paperwork. Hospitals with these volumes should automate if they can, and simplify the type and amount of information they request of patients."

Sisters of Mercy uses an automated system that provides credit information and other data that can help determine patients' ability to pay as well as the likelihood that they will pay. "We don't use the system to deny care if a patient has bad credit," Beekman explains. "But having that sort of information helps us make choices regarding a person's payment arrangements. Financial counselors still do the necessary calculations, so we haven't removed the human element. This system helps ensure that we apply a consistent methodology to all of our patients and helps validate that we are identifying the people who truly need the charity care instead of people who are just unwilling to pay. It's been a much more efficient way to handle our volume of charity care cases."

**Focus on customer service.** Financial need can be a sensitive issue for many patients. Hospitals often have difficulty identifying which patients qualify for charity care, Medicaid, or other assistance simply because patients may not want to make known their need for help. This is why caring, respectful customer service can be one of a hospital's most valuable tools in managing charity care.

"Of course, all patients should be treated with respect," says Rappuhn of the Patient Friendly Billing project. "But it's especially important with charity care patients. They're often embarrassed about their financial situation and don't want to discuss it, so it's crucial that staff are trained to provide good customer service."

Glens Falls (N.Y.) Hospital changed the name of its charity care program in an effort to remove the stigma some might associate with the word "charity." "Some people refused to complete the application because of the moniker 'charity care assistance program,'" says Christopher L. Hickey, FHFMA, vice president, strategic business development and support services at Glens Falls. "They didn't want to be seen as a 'charity case,' even though they really needed the help. We've had some very proud people who don't even want to apply for Medicaid because they can't accept help. So we changed the name to 'patient financial assistance program,' which really is more accurate because it includes other assistance in addition to charity.

"People in these situations should be engaged as early as possible in the process," Hickey adds. "Following up with them later can be a challenge because they don't want to admit that they can't pay. But if you can get them to work with you to come up with a payment arrangement they can follow, it's beneficial for everyone involved."

Providence also keeps patients and staff engaged in the financial assistance process. "We don't want people to feel bad about needing assistance," O'Malley says, "We try to let them know that there are a variety of financial assistance programs available to them, and we can help. When we identify an uninsured patient, we can assist them with the application and approval process. We can help with whatever aid they might be eligible for. It's all in the approach: Rather than taking a 'How are you going to pay?' tactic, where a patient might feel defensive, we say, 'How can we help you pay this bill?'"

Ultimately, people are the most important factor in the effectiveness of a charity care policy. To identify and assist people who need help, healthcare organizations should educate staff on the organization's charity care policy, develop written policies and procedures, use tools to support these policies and procedures, and remain committed to treating all patients with dignity.

## Questions to Ask When Revising Charity Care Policies

The PATIENT FRIENDLY BILLING® project, an effort led by HFMA in partnership with the American Hospital Association, recently released the report, *Hospitals Share Insights to Improve Financial Policies for Uninsured and Underinsured Patients.* The report was the result of conversations with hospital leaders from across the field that focused on their advice and ideas. Based on these conversations, a worksheet was created that includes a series of questions that hospitals leaders should ask when revising their organizations' policies regarding the uninsured and underinsured. The questions include:

### Who qualifies for discounted or free care?

- Does the policy comply with federal, state, and local regulations regarding who qualifies for free or discounted care?
- Does the policy appropriately reflect local economic conditions?
- Does the policy support the hospital's mission statement while protecting its fiscal viability?
- Does the policy specify the income guidelines (federal poverty, HUD level, or other) to be used for free or discounted care, and state why the guidelines were selected?
- Does the policy clearly specify the other criteria that are used to determine the patient's eligibility for free or discounted care?
- Does the policy require an appropriate level of documentation that balances the hospital's information needs with the patient's ability to conveniently provide accurate information?

### What services are discounted?

- Does the policy specify and clearly define what types of services are eligible for discounting?
- Does the financial assistance policy comply with state rules regarding whether policies must apply equally to all or specified hospital services?
- Does the financial assistance policy provide for communication with medical staff and external medical services regarding charity care eligibility decisions?

### What discount levels are offered?

- Does the policy consider discounting in light of how the hospital charge description master compares to levels prevailing in the local area?
- In developing the policy, has the policy team assessed possible implications for private payer contracts or Medicaid payments?
- In developing the policy, has the policy team assessed and accounted for the possibility that local employers might decrease insurance coverage for employees who could otherwise qualify for hospital discounts or free care?
- Does the policy provide for periodic evaluations of discount levels to ensure that they are appropriate to current community and financial conditions?
- Does the discount policy provide for regular estimating and monitoring of the financial implications of policy changes?

### How are policies communicated?

- Does the policy specify a plan, using multiple vehicles, for communicating the policy with patients?
- Do the policy's communication provisions comply with federal regulations prohibiting business inducements?

- Do the policy's communication provisions comply with state or local legal requirements regarding the method for communications with patients, such as posting requirements?
- Do the policy's communication provisions incorporate Patient Friendly Billing guidelines to make patient communications easy to understand and act upon?
- Do the policy's communication provisions address special needs of the community, such as providing information in foreign languages or for visually or hearing-impaired patients?

### How are patient accounts resolved?

- Does the financial assistance policy address when and how staff are to apply various payment options?
- Does the policy specify processes to discuss financial expectations with patients at the earliest appropriate time?
- For patients who are unable to pay, does the policy specify when and how staff are to ask the patients to complete financial assistance and Medicaid applications?
- Does the policy specify what actions staff are to take when working with patients with previous bad debt or outstanding balances?
- Do financial assistance and collection policies allow for changes in a patient's circumstances throughout the period of the patient's financial obligations?
- Does the collection policy comply with state laws and regulations regarding collection activities?
- Does the collection policy comply with the Federal Fair Debt Collection Act (if applicable)?
- Does the collection policy comply with all collection activities required for Medicare patients in order to be reimbursed for Medicare bad debts?

### What structures and systems are in place to implement and administer policies effectively?

- Has the policy team assessed whether current hospital systems can handle the implementation of the discount policy?
- Does the policy specify who should be trained—including front-line staff—regarding the policy, related procedures, and customer service?
- Does the policy specify what type of training or reference materials should be readily available for all affected staff?
- Does the policy specify who decides to offer discounts or free care?
- Does the financial assistance policy establish measurable, meaningful performance standards that can be regularly monitored?
- Does the financial assistance policy provide for periodic review by business partners and outside vendors to provide input for sound policies, and ensure consistent and efficient implementation?

### What is the relevant legal and regulatory context?

- Does the policy establish requirements for timely monitoring of changes in federal, state, and local regulations that affect the hospital's financial assistance policies, and for implementing updated compliance measures in response to those changes?
- Does the financial assistance policy designate a clear and timely process for monitoring changes in third-party payer contracts that affect the hospital's financial assistance policies, and for implementing updated compliance measures in response to those changes?

For a complete copy of the worksheet and the report, go to www.patientfriendlybilling.org.

Source: PATIENT FRIENDLY BILLING® project.

*This educational publication sponsored by*

MCKESSON
Empowering Healthcare

SearchAmerica

hfma

## About McKesson Corporation

McKesson Corporation is a Fortune 15 healthcare services and information technology company dedicated to helping its customers deliver high-quality health care by reducing costs, streamlining processes, and improving the quality and safety of patient care. Over the course of its 170-year history, McKesson has grown by providing pharmaceutical and medical-surgical supply management across the spectrum of care; healthcare information technology for hospitals, physicians, homecare, and payers; hospital and retail pharmacy automation; and services for manufacturers and payers designed to improve outcomes for patients. For more information, call 800-981-8601 or visit http://mpt.mckesson.com.

## About SearchAmerica

The industry leader in demographic validation, prediction of payment, and automated charity/Medicaid processing, SearchAmerica provides a complete range of real-time, integrated products that are used by more than 300 healthcare customers. SearchAmerica's quality and accuracy is "best in class" and providers rely on our smarter data to aid them in assessing patients' financial health, creating better public relations and a healthier bottom line for the hospital system. For more information, visit www.searchamerica.com.