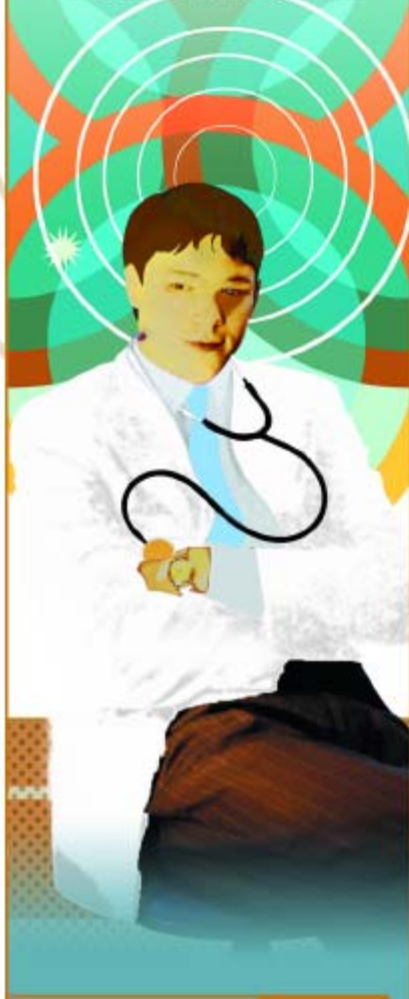




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Collection Percentage is an Inferior Measure of Billing Performance

A physician told me today that the net collection percentage of 86% that he sustains is "pretty ugly, huh?" Still another said that he would change billing companies if they could assure him a net collection percentage of 92%. Both of these practices put far too much emphasis on a single benchmark and you need to assure that you don't make the same mistake.

The net collection % is simple. It measures what you did collect out of what you could have collected in percentage terms. While there are very elaborate steps in calculating the figure that some use, it all boils down to payments divided by the sum of payments plus bad debt. The credible theory behind it and assumption made is that once you assure you have billed properly for every service there are only three ways that a billed dollar can exit the a/r: payment, bad debt, or adjustment. A net collection percentage presumes that what are characterized as adjustments are uncollectible and not to be held against the performance of the billing operation.

The collection percentage was a more valid measuring tool back at a time when a practice's total adjustments were closer to 10%. Today, its very common for a hospital based practice to have > 50% of its billing written off as adjustments. As the difference between the billed amount and the adjustment has drawn closer, even if the bad debt remained the same in computing the net collection percentage, we have traded yesterday's payments for today's adjustments. It doesn't take a math major to see that in $x/(x+y)$ if you lower x (the payments), the result will be lower. Is the billing operation performing sub optimally as the lower collection percentage would suggest? Of course they are not.

Complicating this further is the fact that no group charges the same prices as several years ago. If they did, they probably wouldn't be collecting much less, but would certainly have less bad debt. With hospital based practices charging 3.5 to 4 times the Medicare allowances, it defies logic to not expect bad debt to increase proportionately (will a dead beat be just as unlikely to not pay a \$100 bill versus a \$125 bill?). So a higher fee schedule drives a lower net collection percentage while creating the same volume of income.

If you aren't looking at the collection percentage, what can you look at to measure performance? I like three key indicators; a/r days, income per procedure, and the relationship between payments, bad debt, and adjustments (the reconciliation pie). If your days and income per procedure are stable as well as the ratio of payments to bad debt to adjustments you are in a period of stable billing performance. Now "stable" may not be good-that can only be assured through an audit process. And, if these figures fall out of line, the cause may have nothing to do with billing. But whatever the cause, it is important that you know.

In summary, there was a time when using a net collection percentage created a uniform measuring tool which afforded one practice to be compared to another. But if one places too much credibility on this inferior measure when more informative data elements are just as easily accessible, they are making a mistake.

William C. Herald
WHerald@mbs-net.com

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