



# How to collect Medicare Bad Debt on the Cost Report

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## Medicare Bad Debts

- What should and should NOT be included on the Medicare bad debt log
- When to write off a Medicare bad debt
- Collection Policy
- Audit Documentation
- Negative Remittance Advices

# Medicare Bad Debt

- Medicare Bad Debt IS:
  - Deductibles and Coinsurance amounts uncollectible from Medicare beneficiaries after reasonable collection efforts

# Medicare Bad Debt

- Medicare Bad Debt IS NOT:
  - Uncollected deductibles and coinsurance from:
    - private pay patients, or any other non-Medicare beneficiary
    - Medicare Advantage or Medicare Part B
  - Charity, Courtesy, and Third-Party Payer Allowances
  - Uncollected amounts due from other payers
  - Disputed Medicare claims

# Criteria for Allowable Bad Debts

- Debt must be related to covered services and derived from deductible and coinsurance amounts.
- Provider must establish that reasonable collection efforts were made.
- Debt was actually uncollectible when claimed as worthless.
- Sound business judgment established that there was no likelihood of recovery at any time in the future.

# When to write off a Medicare Bad Debt

- The CFR at 42 CFR 413.89(f) requires that the uncollectible Medicare deductible and coinsurance be charged off as bad debts **in the accounting period when the bad debt is determined to be worthless.**

## When to write off a Medicare Bad Debt

- Bad debt log is for Medicare deductibles and coinsurance deemed uncollectible and **written off clinic's books** during the cost reporting period.
- It can, and most often does, contain **dates of service** prior to the current cost reporting period.
- Based on write off date, not date of service!

# When to write off a Medicare Bad Debt

Two types of Medicare bad debts:

- Indigent or Medically Indigent Patients
  - No collection efforts required for Medicaid beneficiaries. Must bill Medicaid and retain remittance advice as documentation
- Patients not deemed to be indigent:
  - Collection efforts required



# Indigent Patients

- Automatic indigence determination for Medicare/Medicaid dual-eligible beneficiaries
- **Must bill** Medicaid for proof of eligibility and apply any Medicaid payments, if applicable.
- Must have a processed State Medicaid remittance advice before allowing dual eligible bad debts

# Indigent Patients

Indigent patients not eligible for Medicaid:

- Indigence must be **determined by the provider**, not by the patient (i.e., a patient's signed declaration of his inability to pay his medical bills cannot be considered proof of indigence)
- Take into account a patient's **total resources** which would include, but are not limited to, an analysis of assets (only those convertible to cash, and unnecessary for the patient's daily living), liabilities, and income and expenses

# Indigent Patients

Indigent patients not eligible for Medicaid:

- Determine that no source other than the patient would be legally responsible for the patient's medical bill; e.g., title XIX, local welfare agency and guardian and
- Patient's file should contain documentation of the method by which indigence was determined in addition to all backup information to substantiate the determination.

# Reasonable Collection Efforts

- **SAME EFFORT** applied to any bill:
  - Collection letters
  - Phone calls
  - Collection agency (if used for non-Medicare patients)

## Presumption of Noncollectibility (120 Day Rule)

- If after reasonable and customary attempts to collect a bill, the debt remains unpaid more than **120 days** from the date the first bill is mailed to the beneficiary, the debt may be deemed uncollectible.
- Any payments received from the beneficiary re-starts the 120 uncollectability timeframe

# Collection Policy

- Must be consistent among all payer types
- Must involve the issuance of a bill on or shortly after the date of service
- Should include other actions such as:
  - Subsequent billings
  - Collection Letters
  - Telephone Calls or personal contacts with this party
- Must constitute a **GENUINE**, rather than a token, collection effort.

## Collection Policy

- May involve the use of a Collection Agency in addition to or in lieu of subsequent billing by the clinic. If used:
  - Refer all uncollected patient charges of **like amount** regardless of class of patient
  - If the collection agency collects from the beneficiary, the **FULL AMOUNT** collected must be applied to the Medicare bad debt
  - Collection agency fees applicable to the collection of the debt can be recorded as an administrative expense on the clinic's financial statements

## Collection Policy

Do **NOT** include a “**MEDICARE COLLECTION POLICY**” section within your collection policy. (This will indicate different treatment/procedures for the collection of Medicare bad debts and cause your bad debts to be disallowed at audit)



## Collection Policy

Within the section of the collection policy that outlines the procedure for bad debt write off (consistent among all patient classes), include a section that explains how to complete the Medicare bad debt log:

- How to fill out the log
- Documentation maintenance
- Referral to the cost report

# Audit Documentation

## Indigent Patients

- Medicaid dual-eligible beneficiary: Medicaid remittance advice indicating payment or denial of payment.
- Indigent, not Medicaid eligible: Documentation of the method by which indigence was determined in addition to all backup information to substantiate the determination

# Audit Documentation

## Non-Indigent Patients

- Collection efforts must be documented in the patient's file
  - Copies of bills
  - Documentation of phone calls/personal contact
  - Follow up letters

## Bad Debt Log

- Patient Name
- HIC number
- Date of service
- Whether the patient has been deemed indigent and their Medicaid number if this was the method utilized to determine indigence
- Date the first bill was sent to the beneficiary
- Date the bad debt was written off
- Remittance advice date
- Deductible and coinsurance amount
- Total Medicare bad debt (reduced by recoveries)

# Bad Debt Log

04-06 EXHIBIT 5 1102.3 (Cont.)

LISTING OF MEDICARE BAD DEBTS AND APPROPRIATE SUPPORTING DATA

PROVIDER \_\_\_\_\_ PREPARED BY \_\_\_\_\_  
 NUMBER \_\_\_\_\_ DATE PREPARED \_\_\_\_\_  
 FYE \_\_\_\_\_ INPATIENT \_\_\_\_\_ OUTPATIENT \_\_\_\_\_

(1) Patient Name	(2) HIC. NO.	(3) DATES OF SERVICE		(4) INDIGENCY & WEL. RECIP. (CK IF APPL)		(5) DATE FIRST BILL SENT TO BENEFICIARY	(6) WRITE-OFF DATE	(7) REMITTANCE ADVICE DATES	(8)* DEDUCT	(9)* CO-INS	(10) TOTAL
		FROM	TO	YES	MEDICAID NUMBER						

\* THESE AMOUNTS MUST NOT BE CLAIMED UNLESS THE PROVIDER BILLS FOR THESE SERVICES WITH THE INTENTION OF PAYMENT.  
 SEE INSTRUCTIONS FOR COLUMN 4 - INDIGENCY/WELFARE RECIPIENT, FOR POSSIBLE EXCEPTION  
 Rev. 6 11-37

# Why do I get negative remittance advices?

- Medicare expects payment for the visit's deductible to come from the patient.
- If the patient is unable to pay their deductible, after valid collection efforts, that same deductible is written off to the Medicare Bad Debt Log and is paid to the clinic through the bad debt line on the cost report.

# Why do I get negative remittance advices?

- Unlike coinsurance, Medicare does not allow the clinic to collect a deductible amount over and above its RHC Cap Rate
- If the patient does not pay, the clinic must wait until cost report settlement to get that money back.

# Why do I get negative remittance advices?

This is also how the cost report works. Allowable cost is calculated as:

Total Medicare Cost (Medicare Rate \* #Visits)

Less Deductible

=Net Medicare Cost

X 80%

=Reimbursable Cost

If the deductible is not recouped on the remittance advice, it will be recouped on the cost report.



# Bad Debt Reduction Schedule

- Beginning in 2013, RHCs are subject to a reduction in the amount of allowable bad debt reimbursement. These reductions, mandated by section 3201 of the Middle Class Tax Extension and Job Creation Act of 2012, will take effect in cost reporting periods beginning in FY 2013 under the following schedule:

# Bad Debt Reduction Schedule

- 2013: RHCs will be reimbursed at 88% of allowable bad debts
- 2014: RHCs will be reimbursed at 76% of allowable bad debts
- 2015 and forward: RHCs will be reimbursed at 65% of allowable bad debts

# Questions?

