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Hospitals mine data to identify those likely to pay

By [ANDY MILLER](#)

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As an Equifax executive, Arvind Krishnaswami saw the chronic gap between what hospitals billed patients and what they received. Hospitals, collecting an average of 10 cents on a dollar, wrote off “a staggering amount of bad debt,” he said.

That disparity gave Krishnaswami the impetus to form Roswell-based Medlytix in 2006, joining a wave of companies that use data to help hospitals improve their back-office accounts.

These services — including credit scoring — help nonprofit hospitals identify patients who qualify for charity or free care, those eligible for discounts and those who should pay the whole bill.

“It’s a sign of the times in health care,” said Kevin Bloye, a Georgia Hospital Association vice president. “Hospitals can use this as a tool to determine who can pay and who can’t.”

But the use of credit scores in analyzing patients’ finances has triggered criticism at a dicey time for nonprofit hospitals. Many are trying to tamp down a reputation as aggressive bill collectors while their tax-exempt status gets heightened scrutiny from lawmakers and regulators.

The recession, though, has added pressure to hospital revenue streams. That’s because more patients seeking care have no health insurance. And more people with insurance have huge deductibles — \$1,000 or more — and may not pay their medical bills. Many consumers have shifted from more comprehensive insurance coverage to a larger out-of-pocket burden.

The medical debt that patients incur is different than other consumer bills in that it’s for unplanned events, Krishnaswami said. “With medical debt, half the people don’t pay their bills.”

Historically, hospitals have asked for payment after the medical care has been rendered. But except for emergency care, they’re now increasingly reaching out to patients before procedures, looking for a deposit and setting up payment plans. Some data firms have helped identify addresses and insurance coverages.

Medical providers “are having to ask for and collect more money upfront,” said Dave Chaney of Passport Health Communications, which works with Grady Health System in Atlanta in improving its revenue streams. Tennessee-

based Passport, by identifying Medicaid and Medicare coverage for patients, netted the Grady system more than \$500,000 over a six-month period last year.

But Community Catalyst, a Boston-based consumer group, said it has major concerns about credit scoring of patients.

“Credit scores vary a lot — it’s really easy to get it wrong,” said Susan Sherry, deputy director of Community Catalyst. A better method for hospitals is to have a clear, sensitive financial assistance policy, she said.

Meanwhile, collection practices, including garnishing wages, have created negative PR at a time when nonprofit hospitals face more requirements to justify their tax-exempt status.

A February IRS report showed nonprofit hospitals — the large majority of hospitals nationwide — spent an average of 9 percent of their total revenues on community benefits (the standard for the federal tax exemption). But about half of the surveyed hospitals spent less than 5 percent on community benefits, which include charity care.

With the 2009 tax year, nonprofit hospitals will be required to give a detailed assessment and value of their charity care and community benefits on a revised IRS form 990.

The new IRS form has driven growth in the hiring of data-mining companies to calculate who deserves free care, said Bruce Nelson of Minnesota-based SearchAmerica.

“We take into account a whole lot of financial circumstances — credit may or may not be a part of it,” he said.

Krishnaswami said there’s a danger in pulling a patient’s financial data before a procedure because it could lead to a hospital denying elective services for the uninsured and underinsured.

Medlytix comes up with a data-driven score that rates consumers’ willingness and ability to pay their medical bills — but only after the service is rendered, he said.

Instead of hospitals sending a large number of patients to collections, Krishnaswami said, “we are using technology to help hospitals to become more efficient.” Among Medlytix’s 50 hospitals is Northeast Georgia Health System in Gainesville.

As Medlytix helps identify patients who should get free or discounted care, the hospital can then focus on people who have the ability and responsibility to pay the cost of their procedure, said Tony Herdener, chief financial officer of the hospital system.

As a result, the hospital’s bad debt has declined and its charity care has increased, as a percentage of revenues, Herdener said.

“We’re saving a half-million dollars on collection fees,” he added.

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