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Future Healthcare's Managing Editor, **DIVYA SOOD** interviews Premium Asset Recovery's **JOE BUFANO** to find out the best, the latest and also some of the worst practices healthcare can utilize in entering and maintaining the debt sale enterprise

Whereas collection and debt sales were businesses for sectors far removed from healthcare, now is the time that the healthcare industry is not only becoming more aware of but rapidly entering into the debt sales business.

But what should we lookout for? What are the best practices that we should employ? »



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Providers are faced with shrinking reimbursements and growing amounts of bad debt. **What recommendations do you have for increasing revenue cycle returns?**

There is no one answer to solve a provider's cash flow concerns, as the revenue cycle needs to be worked from every angle. More and more providers are looking at alternative solutions to improve cash flow. Scoring models, the variety of available outsource vendors, etc. are all pieces to the overall puzzle. Debt selling is one piece that provides several benefits, including instant cash for a non-performing asset (in the case of closed agency accounts), continuing inbound cash that can be budgeted for (in the case of a forward flow sale), and increased incentive for a provider's agencies to collect if they know the accounts are going to be pulled at a predetermined time. These are only a few of the benefits that providers would see.

Healthcare debt selling seems to be growing in acceptance. **What are some of the reasons why?**

Debt selling has been an accepted practice in other industries for quite some time. In some areas, they've been doing it since the 1960s. Industries that have already embraced the debt selling concept include banks, credit card issuers, utilities, telecom and others. Healthcare debt sales started up a little over a decade ago and are now becoming more main stream. Activity over the last couple of years has picked up considerably, both in the number of interested providers and in the number of deals going through. Because there've been more successful transactions and satisfied providers, more organizations are now deciding to test the waters. We've literally seen providers go from saying "We'd never sell our debt" to becoming sellers in a matter of months.

The big concern from providers has always been the perceived lack of control after the sale. However, more and more are coming to find that if they create the right terms going in and find a solid partner, they can reap the financial benefits while ensuring that their patients' and community's concerns can be met as well.

What type of debt should be sold (and what types shouldn't)?

Any self pay balance, whether it is day one or balance after insurance, is a candidate for a debt sale. However, there are certain accounts that may fall into the self pay bucket that should be excluded. These accounts include:

- Governmental accounts. Since most providers will include the Medicare bad debt on their cost report, we advise against selling these accounts. CMS issued an opinion a couple of years ago stating that if Medicare bad

debt were to be sold, that the proceeds must be applied to the cost report. Therefore, since there is no value and the opportunity to create an image of "double-dipping" exists, it is a best practice to scrub these accounts prior to sale.

- Most purchasers will not buy bankrupt or deceased accounts. There is generally a scrub process, performed by the buyer either just before or just after funding, to remove these accounts. If they are identified prior to funding, they are simply removed from the sale file. If the scrub is done after funding, then they would normally fall under a buy-back provision, whereby the seller would purchase them back for the sales price or replace it with an equal valued account.
- Another major consideration, especially for a first time seller, is the age of the accounts to be sold. The older the accounts, the less value they have. The other side to the coin is that the older the accounts are, the higher the propensity for inquiry/dispute calls. Every provider has a separate tolerance for how many calls they can handle, as well as potential for any negative community feedback they might receive. The key is to find the right balance between sale profit and patient, physician and community relations. I normally recommend that a first time seller go back no more than four years or so for their first portfolio. In some cases, even less.

The key is to make the first sale experience a good sale experience. If the initial sale goes smoothly, a provider may decide to sell some of its older debt in a subsequent sale. They now move forward with the benefit of what they learned in the first transaction. Also, as older accounts don't generally have a high value, they wouldn't lose much of the value by selling them six months later.

What is involved in determining the value of a debt portfolio?

The valuation process needs to provide the buyer with the best possible read on future collections. Once the overall collection number is determined, each prospective buyer will determine a purchase price by backing out all related costs including acquisition costs, collection costs, sales/marketing efforts, overhead, and repayment to their funding source. Most buyers will all be looking for similar information to complete their valuation. This information includes background info on the facility, patient population and collection practices. Also needed are historical recovery rates from in-house and vendor efforts and a data file of the accounts for sale. By the way, a business associate agreement would need to be entered into before sending out the data file.

The more detailed the seller can be with their information, the more

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accurate the buyer can anticipate future collections and, subsequently, submit the best offer. I've seen some providers try to withhold certain information in hopes of increasing their sales price. Actually, the opposite is true. If an experienced buyer does not have all of the information needed to create an accurate assessment, they are forced to utilize a “worst case scenario option” for the missing information. This will always bring down the valuation.

What advice would you give to a provider that is selling their bad debt for the first time?

Arm yourself with as much knowledge as possible. Speak with prospective purchasers and providers that have sold previously and draw from their experiences. Discuss presale concerns, as well as implementation and post sale processes. Most importantly, choose the right portfolio of accounts to sell. Again, you need to find the right balance between sale proceeds and community relations, so start with accounts that make sense for your circumstances.

Once you've decided to move forward, be certain to have full organizational support. This does not only mean support from your board, but also the buy-in of your physicians, as well as business office and customer service staffs. Across the board buy-in enhances understanding, creates a unified message to the community and helps to ensure a smooth rollout.

Find a partner that is the right fit for your goals. In certain cases, a provider may accept the offer from the highest bidder, but highest bid does not always equal best partner. If you are in a position where a few extra basis points is a must have, then obviously highest bidder wins. However, if customer service and your community image are major factors for you, you may find that having assurances for a more patient friendly approach with the right purchaser is a fair trade for one quarter of a penny on the dollar less in purchase price. Also, when it comes to finding the right partner, there are a number of fine healthcare purchasers in the market. With that said, focus your attention on buyers with demonstrated healthcare experience. There have been a number of companies from other sectors (i.e. credit card) that have attempted to make

their way into healthcare. Due to lack of understanding of healthcare specific dynamics, many of them are no longer in the space. By focusing on healthcare experience and references, you can quickly narrow down the field to include only those purchasers that are best suited to meet your needs.

Are there any pitfalls to be cautious of?

If one puts in his or her due diligence ahead of time, a debt sale should be a very positive and fairly smooth experience. As with anything, you need to look before you leap. In terms of what to be cautious of, there are a lot of consultants and auction-type organizations that have been popping up. Some of them can bring value by walking you through the process, but be sure to understand that their service comes at a price. Some of these organizations charge a fee to the seller, some to the buyer and some to both. Even if only the buyer is being charged, the seller needs to understand that once a valuation is completed, the costs for paying this third party are backed out of the offer made to the provider, so there is no free lunch. In addition, be sure to understand that the purchaser you choose will be an integral vendor/partner for years to come. So, take the same time and consideration to get to know their people and organization, as you would for any other collection agency or outsource vendor. Also in cases where a consultant is being paid a fee based on purchase price, they have a self interest in pushing for the highest offer. Again, this may not be a bad thing, but needs to be understood and considered at decision time.

As I mentioned, there are a number of fine healthcare debt buyers to work with. However, as with all industries, there are good and bad vendors and a host that fall in between. Be sure to do your due diligence and find a vendor you can trust and build a relationship with. If handled properly, a debt sale will reap rewards by converting a one time portfolio to cash, while can also be implemented as an ongoing part of the revenue cycle to increase overall collections, speed up cash flow and add the ability to budget for bottom line increases throughout the year and beyond. **FH**



JOE BUFANO is the Director of Marketing and Acquisitions for Premium Asset Recovery Corp. (PARC), the healthcare division of Asset Acceptance Capital Corp. Joe is responsible for strategic leadership in all areas of marketing, sales and acquisitions for PARC, based in Deerfield Beach, Fla. Joe began his career in the accounts receivable management industry in 1991 with a major emphasis in healthcare revenue cycle operations. He joined PARC in 2006, bringing experience including sales and marketing, call center management, customer service management and in-house training. Joe was promoted to his current position in January 2008.