

KarenZupko & Associates, Inc.

Does Your Practice Use a Collection Agency? Orthopaedics Survey

Summary of Results

April 2006

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Letter from the President

Dear Friend:

This summary of the March 2006 results from the KZA “Does Your Practice Use a Collection Agency?” Alert survey covers several aspects of important business issues facing surgical practices.

- What does your practice do about past-due accounts?
- Can you trust a collection agency to help you?
- What process should your practice have in place to turn accounts over to a collection agency?
- How much can you expect a collection agency to collect for your practice?

I hope you find the results informative as you look at your accounts receivable and consider your options. I know we are already using the results in our consultative work with clients across the country who are committed to making positive improvements in the way they handle their collection issues. I look forward to hearing how some of you utilize this data—be sure to send me an e-mail at karenzupko@aol.com with your comments.

While you are on the Internet, be sure and bookmark the KZA homepage—www.karenzupko.com. Many of you continue to benefit from the training and expertise of the KZA/AAOS Coding and Reimbursement Workshops—visit www.karenzupko.com/Workshops/main.htm for information on the 2006 course dates and locations for orthopaedics.

We welcome your feedback on the survey—it is only with your feedback that we can continue to improve this important information source.

Karen A. Zupko
President

Methodology

In March 2006, KZA sent an e-mail “Alert” with a link to our online survey “Does Your Practice Use a Collection Agency?” to a combined 2,752 subscribers in our Orthopaedics community.

The survey was made available online by clicking the web link provided in the notification e-mail. Respondents to the survey were a combination of physicians, office managers, administrators, and billers. About 17% of respondents completing the survey were orthopaedic surgeons.

Respondents completed the survey by reviewing questions and selecting answer from a pre-set menu of responses. In addition, respondents entered practice demographic information in free form entry fields.

KZA received 168 survey returns during the month of March 2006 for a return rate of 6.1%. Results were entered into a database and checked for data entry accuracy.

KZA Observations About Responses

Many physicians' reluctance in using a collection agency has waned as patient debts have dramatically increased.

Using a law firm or reputable agency, one endorsed by medical societies and organizations ensures that the collection techniques used are appropriate. This reduces anxiety about having a third party collect.

Among the respondents, it is significant to note that a majority—some 63%—report turning over accounts when they are either 90 days or 120 days past due. Beyond this point, accounts become more difficult to collect.

Along the same lines, we see that 67% of practices say that they turn over accounts monthly. This means that the third party has a better chance of successfully collecting for you. Not surprising, we note that 12% of the respondents frankly report that “getting a doctor to sit down and do the review” is a challenge.

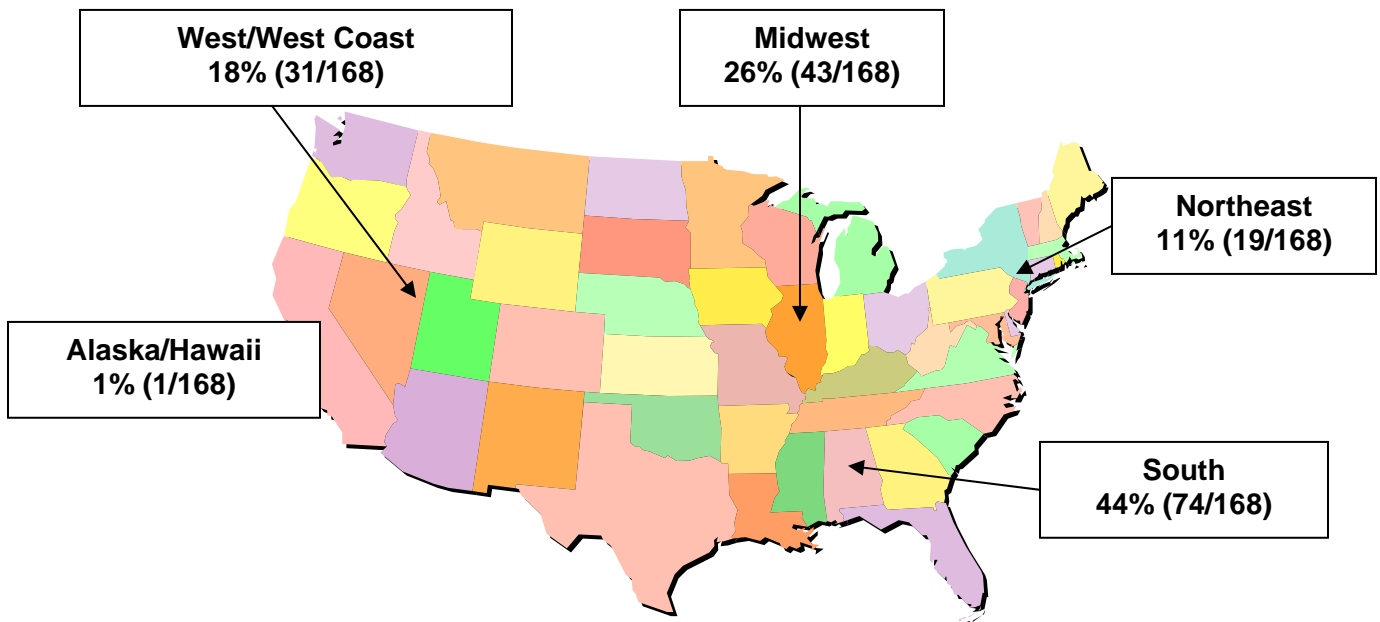
The hour spent reviewing accounts may be the most profitable the doctor spends on business issues. There are patients who simply won't pay until an outside party becomes involved.

Survey Respondent Demographics

The basic demographics of our survey respondents show that the largest group of them—**29%** (49/168)—are from **solo practices**.

How many physicians are in your practice?		
Solo	29%	49/168
2-4	28%	47/168
5-8	26%	43/168
9-12	8%	13/168
Over 20	4%	6/168
13-20	6%	10/168

Respondents live all over the United States. Forty-four percent (74/168) are in the South, and over 25% in the Midwest. Texas is the state with the most respondents (19), followed by Florida (15), California (14), and Michigan (13).



Your Collection Agency: The Basics

Ninety-three percent of the respondents (157/168) say **their practice uses a collection agency**. Some of those who do not currently use an agency plan to use a collection agency in the future but do not know how to choose one. Others believe that they can achieve better results on their own, and say that collection agencies are too expensive and ineffective. A majority—**71%** (120/168)—of respondents **use only one collection agency**, while **20%** (33/168) **use two** and **3%** (5/168) **use three collection agencies**. The remainder do not use an agency. **Thirty-eight percent** (64/168) of respondents said their **collection agency is affiliated with a law firm that handles liens**. Slightly more—**39%** (65/168) said their agency has **no such affiliation** while **17%** (29/168) had no idea.

It is important to turn over late accounts to your collection agency in a timely manner; otherwise, you risk not collecting on the debts at all. Most practices turn a patient's accounts over within the first 120 days, and on a monthly basis.

Over 120 days is **too late** to turn over delinquent accounts!

Do you turn accounts over if the patient has not responded to statements/letters after:		
120 days	35%	58/168
90 days	28%	47/168
150 days	10%	17/168
180 days	8%	14/168
181-365 days	6%	10/168
60 days	5%	8/168
Over 365 days	1%	2/168
I have no idea	1%	2/168
Do not use a collection agency	6%	10/168

Do you turn accounts over:		
Monthly	67%	113/168
Quarterly	13%	22/168
When we can get a doctor to sit down and review accounts	12%	20/168
Semi-Annually	1%	1/168
Annually	1%	1/168
I have no idea	1%	2/168
Do not use a collection agency	5%	9/168

Whether physicians approve the accounts that are turned over is not necessarily a factor in how quickly accounts are given to the collection agency. A far larger percentage of respondents—**51% (85/168)**—indicated that **physicians approve all accounts** than the **12% (20/168)** who had responded to an earlier question that **accounts are turned over when we can get a doctor to approve them**. The latter response seems to imply that the responsible physicians are at times too busy with other duties. **Twenty percent (34/168)** of respondents said that **some physicians approve accounts** in their practice, while **24% (40/168)** indicated **no physician involvement**, placing the responsibility with the managerial staff. Regardless of who approves accounts to be turned over, it is important to have a plan that everyone is prepared to follow.

Your Collection Agency: Let's Talk Money

We were surprised that in surgical practices, the largest group of respondents indicated that their practices turned over **less than \$10,000** in 2005, and a majority—**52%** (87/168)—turned over **\$75,000 or less**. We would have expected larger dollar amounts, since \$10,000 can be only two unpaid surgeries. At the same time, most of our respondents indicated that their collection agencies collected **\$25,000 or less—66%** (111/168)—on their behalf, the largest group of respondents collecting only **\$1,000 to \$5,000**. Details are in the tables below.

How much did you turn over to the collection agency in 2005?		
Less than \$10,000	18%	30/168
\$25,001-\$75,000	17%	29/168
\$10,001-\$25,000	17%	28/168
\$75,001-\$125,000	13%	22/168
\$125,001-\$250,000	9%	15/168
\$250,001-\$500,000	4%	6/168
Over \$500,000	2%	4/168
I have no idea	14%	23/168
Do not use a collection agency	7%	11/168

The amounts collected by agencies hired by the respondents were surprisingly poor, which may be due to practices turning over accounts after they are more than 120 days past due, or due to poor patient demographics. However, the most alarming response to this question is the **17%** of respondents who **have no idea how much their collection agency actually collected!**

How much did the collection agency collect on your behalf?		
\$1,000-\$5,000	31%	52/168
\$5,001-\$25,000	23%	39/168
Less than \$1,000	12%	20/168
\$25,001-\$50,000	5%	8/168
\$50,001-\$75,000	3%	5/168
\$75,001-\$100,000	2%	3/168
More than \$100,000	1%	1/168
I have no idea	17%	29/168
Do not use a collection agency	7%	11/168

Not surprisingly, **36%** of the respondents (60/168) are **not satisfied with these results**. A few more respondents—**39%** (66/168)—**are satisfied**,

while the remaining **25%** (42/168) indicated they **did not have enough information to evaluate** the situation. However, of the respondents to the next question, **55%** (78/142) said that **these results are consistent with the collection ratio their agency has achieved in previous years**. Only **7%** (10/142) said the **results were not consistent**, while **38%** (54/142) **had no idea**. (These numbers do not include the 26 respondents who replied that the question was “not applicable.”) Obviously, some changes are due for a number of practices getting consistently unsatisfying results from their collection agencies.

Unrealistic expectations lead to nothing but frustration.

One problem may be that the collection agency is underperforming. Another problem may be unrealistic expectations. In selecting a collection agency, it helps to have a clear and realistic picture of what you expect from one. While the typical collection ratio for our respondents is roughly 15% (approximately \$1,000 collected for every \$6,000 turned over), the largest group of respondents—**19%** (32/168)—**expected a collection ratio of 31% to 40%**, significantly above what most are getting. Obviously, there is a disconnect here.

What collection percentage do you expect from the agency?		
31%-40%	19%	32/168
21%-30%	17%	29/168
11%-20%	13%	22/168
41%-50%	10%	17/168
51%-60%	8%	14/168
0%-10%	7%	12/168
Over 60%	7%	12/168
I have no idea	13%	21/168
Do not use a collection agency	5%	9/168

As for the cost of using a collection agency, **96%** (151/157) of respondents who use a collection agency were **charged a percentage of the collection**, while only **3%** (4/157) were **charged a flat rate**. Well over half of those who are charged a percentage—**70%** (107/153)—said they are **charged between 21% and 40% of the amount collected**.

Rates should be negotiable!

What percentage does your collection agency charge?		
21%-30%	39%	60/153
31%-40%	31%	47/153
11%-20%	10%	15/153
41%-50%	8%	13/153
0%-10%	5%	7/153
Over 50%	1%	2/153
I have no idea	6%	9/153

All things considered, most respondents—**66%** (110/168)—**would recommend their collection agency** to others, while **20%** (33/168) **would not**.

Are you looking for another option? Look into **Intelligent Collections at I.C. System**. This agency is national, and they are endorsed by over 250 medical associations. Their ethics and varying types of services make them an excellent choice. Rates will vary depending on the level of service you request and the age of your accounts. I.C. System also has a useful list of questions to ask any collection company before you sign up.

Check them out at www.icsystem.com/kza.htm.