KODIAK

Kodiak RCA benchmarking analysis

The healthcare waiting games

Hospitals, health systems, and medical practices continue to battle with payors, but they are waiting longer to get paid for reimbursable services, which leaves patients wondering, “Where is my bill?”

December 2023

The healthcare waiting games

Payors and patients are taking longer to pay providers, putting cash flow and balance sheets at greater risk at a time when many hospitals, health systems, and medical practices can least afford it.

No one likes to wait – whether it's for a movie to start, a pizza to be delivered, or a doctor to see you when you're sick. People especially don't like to wait to get paid for services rendered.

That's the unfortunate financial situation many hospitals, health systems, and medical practices find themselves in as they wait longer for payors and patients to pay their claims and bills, respectively, for reimbursable medical care provided to patients. The dynamic is wreaking havoc on providers' revenue cycle performance with cash flow and accounts receivable metrics heading in the wrong direction.

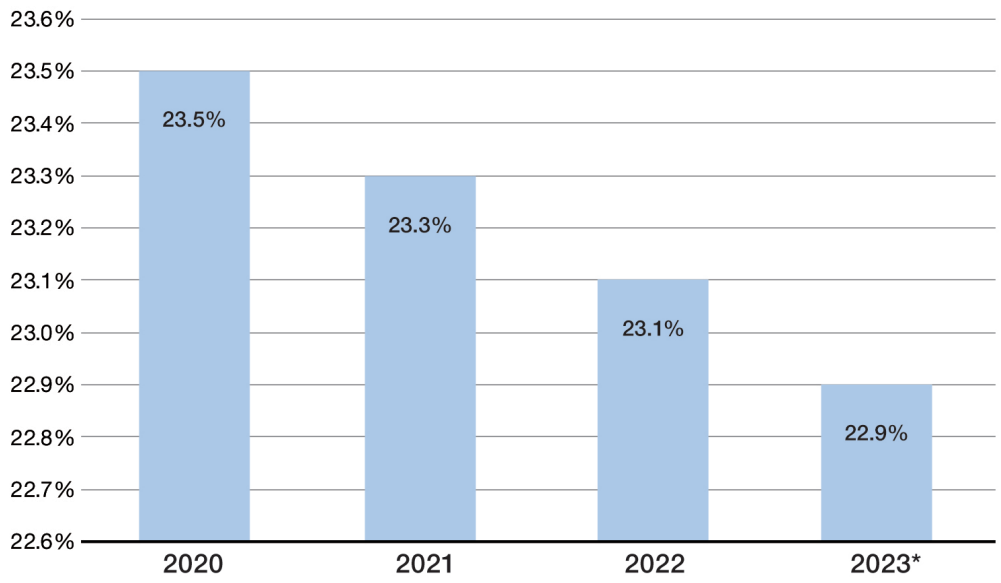
This quarterly key performance indicator (KPI) revenue cycle benchmarking report from Kodiak Solutions (formerly Crowe healthcare consulting) digs into the numbers and the numbers behind the numbers to tell a worrisome story about waiting to be paid and how hospitals, health systems, and medical practices can reverse the situation before these waiting games devolve into the Hunger Games. No provider wants to compete in a dystopian revenue cycle hellscape, though it might feel like that sometimes.

The data to generate the revenue cycle KPIs used in this analysis comes from the Kodiak Revenue Cycle (Kodiak RCA) Analytics platform that more than 1,800 hospitals and 200,000 physicians use to manage their net revenue and monitor their revenue cycle performance. Averages are weighted and have been calculated using raw benchmarking data.

Patients are now responsible for nearly 25% of their medical bills

Through the third quarter of 2023, commercially insured patients were responsible for about 23% of their medical bills, a percentage that includes both inpatient and outpatient care. The growth in high-deductible health plans, which place a greater financial responsibility on patients, is the largest driver of the growth in patient financial responsibility over the years. That growth has settled at about 23% over the past three years, with this year shaping up to be about the same.

Patient responsibility — commercial
(percentage of allowed amount)



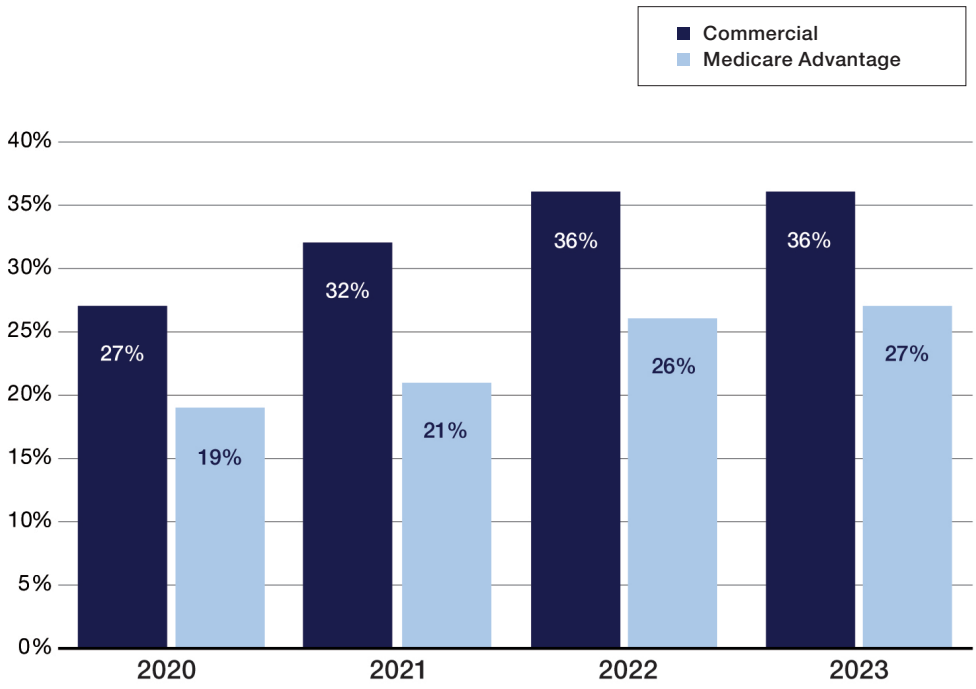
*Through third quarter
Source: Kodiak RCA

Aged accounts receivable are growing at an alarming rate

In and of itself, the fact that patients are responsible for paying nearly 25% of their medical bills is not a problem, assuming patients can afford to pay 25% of their medical bills. But a look at other data in the Kodiak RCA database indicates that something else is going on. The Kodiak RCA data shows that aged accounts receivable (AR) greater than 90 days (or medical bills that haven't been paid for more than 90 days) are growing both for commercially insured patients and for patients enrolled in Medicare Advantage (MA) plans.

Aged AR greater than 90 days as a percentage of claim value for patients with commercial insurance rose to 36% in the third quarter of 2023 compared with 27% in the third quarter of 2020 – a 33% increase. Aged AR greater than 90 days as a percentage of claim value for MA-insured patients rose to 27% in the third quarter of 2023 compared with 19% in the third quarter of 2020 – a 42% increase.

Accounts receivable aged greater than 90 days*
(as a percentage of payor claim value)



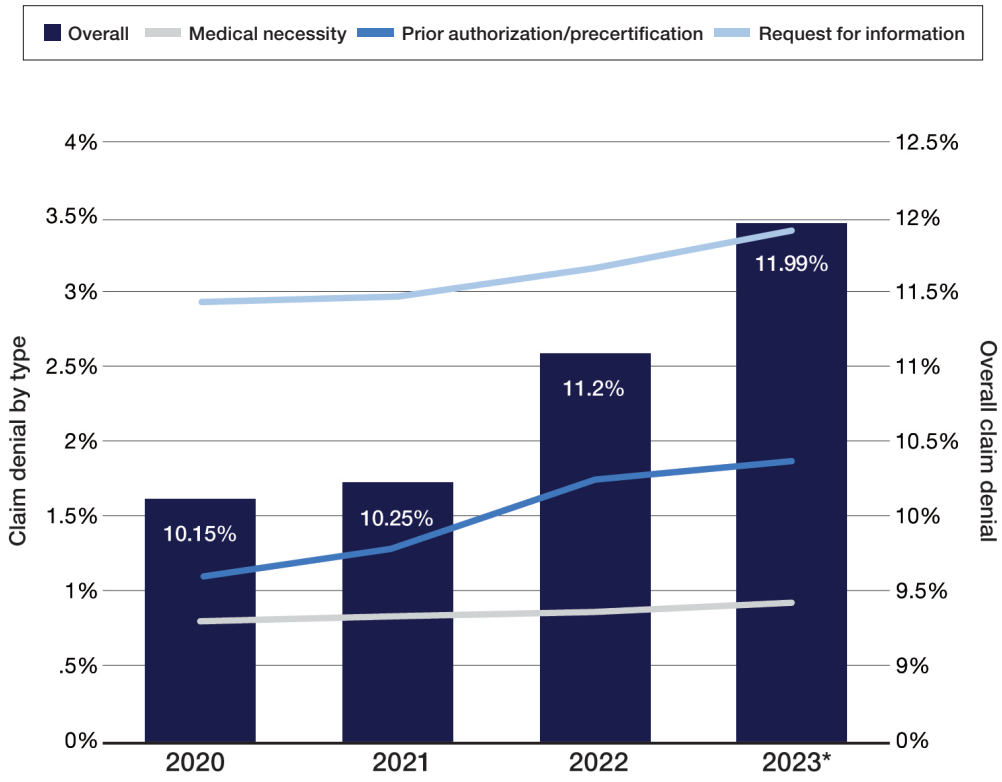
*Through third quarter
Source: Kodiak RCA

Payors are initially denying a larger volume of claim dollars

If patients aren't responsible for a greater percentage of their medical bills than they were in the past (at least the past three years), yet unpaid claims are getting old inside the patient accounting systems of hospitals, health systems, and medical practices, what's going on? Data from the Kodiak RCA database suggests that the leading suspect is initial claim denials by payors across the board.

Not only is the overall initial denial rate up for all payors, but each type of initial claim denial – request for information, prior authorization/precertification, and medical necessity – is up, too.

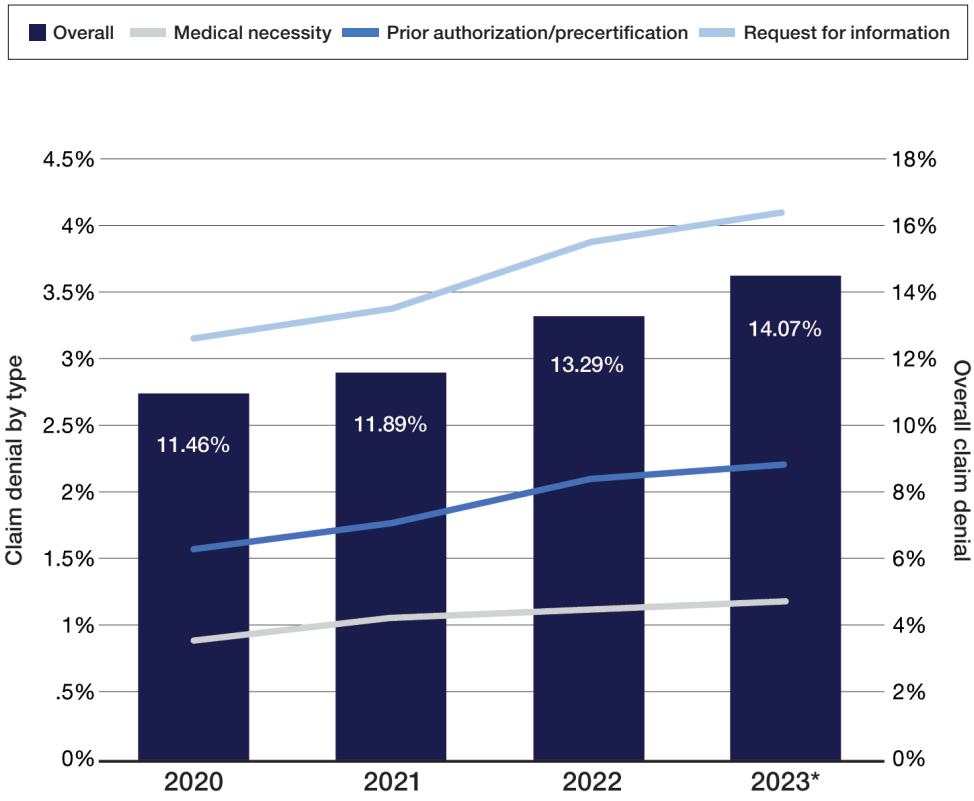
Initial denial rate by claim denial type (percentage of claim value)



*Through third quarter
Source: Kodiak RCA

The rise in the overall initial denial rate as well as the three types of initial claim denials is even more stark for inpatient-only claims.

Inpatient-only initial denial rate (percentage of claim value)



*Through third quarter
Source: Kodiak RCA

Clearly, the leading driver of aged AR more than 90 days is related to increases in initially denied claims, which require additional time and resources from hospitals, health systems, and medical practices to resolve. The longer it takes to adjudicate an initial claim denial, the longer it will take payors to send accurate explanation of benefits statements to patients. In turn, it will take providers longer to bill patients for their share of medical expenses and longer for patients to pay those bills.

Providers are collecting less from patients after payors resolve their claims

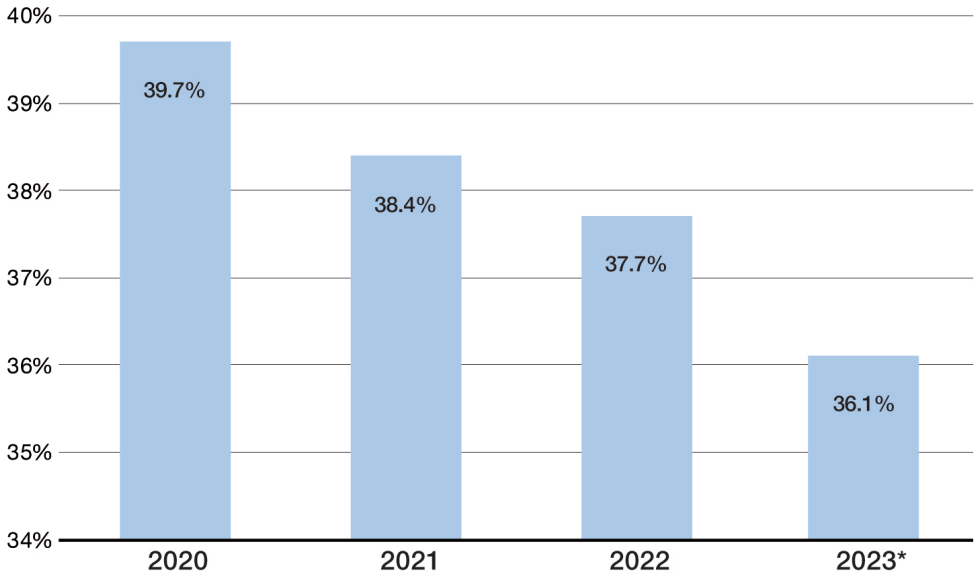
Providers are waiting longer to be paid because patients are paying their bills later because hospitals, health systems, and medical practices are billing them later because payors are paying claims later because payors are initially denying more claims. Got it?

Not convinced yet? Let's look at one more piece of evidence. In the retail world, the more time that elapses between making a purchase and getting billed for that purchase, the less likely it is that the purchaser will pay the bill. If you pick up dinner from a drive-thru at a fast-food restaurant, and the restaurant doesn't bill you for your food for more than three months, what are the odds that you'll pay? What are the odds that you'll even remember what you ordered? You might pay, and you might remember. But most people won't.

The out-of-sight-out-of-mind dynamic is as true in healthcare as it is in retail. The more time that elapses between the date of service and the date the bill is delivered, the less likely it is that a hospital, health system, or medical practice will collect on that bill, especially from a patient.

Kodiak RCA data reveals that providers are collecting less from commercially insured patients.

Self-pay after insurance collection rate for commercially insured patients (percentage of claim value)



*Through third quarter
Source: Kodiak RCA

It's challenging enough from a revenue cycle and net revenue standpoint to have patients pay only about 40% of what they owe. It's another thing to have the percentage dropping artificially because they're not getting their bills on time for all the reasons already described. This can have a significant negative impact on a provider's bottom line.

Stop waiting and start collecting

What can providers do to reverse the situation? It will take a proactive approach on both ends of the scenario detailed in this KPI benchmarking report.

On the front end, providers should do everything they can to drive their initial claim denial rates down and resolve initial claim denials as quickly as possible. If things slow down on the front end, they'll get even slower on the back end with cash flow and balance sheets taking a hit. It's no different from the first surgery scheduled at a hospital. Once that's late, all other surgeries scheduled for that day are likely to be late, too.

On the back end, providers must improve the communication with their patients between the date of service and the date they deliver bills to their patients. Many patients receive similar communications from their insurance plans, informing them that their claims are pending. But this is also an opportunity for a provider to clarify the current state of a patient's claim and possibly provide an updated estimate of the patient's financial responsibility. This way, the patient can appropriately budget and prepare for the incoming expense.

Patients who receive communications from providers are less likely to forget they have a medical bill to pay, and they'll be more likely to pay it when it arrives.

Don't play the healthcare waiting games when it comes to your revenue cycle. Talk to the revenue cycle performance specialists at Kodiak Solutions to help you speed things along.

KODIAK

Learn more

For more information on the Kodiak RCA benchmarking program, please visit crowe.com/benchmarking or contact:

Ken Ruiz
Chief Revenue Officer
+1 317 706 2765
ken.ruiz@crowe.com

Colleen Hall
Senior Vice President, Revenue Cycle
+1 615 515 3813
colleen.hall@crowe.com

Matt Szaflarski
Director, Revenue Cycle
+1 630 586 5229
matt.szaflarski@crowe.com

Follow Kodiak on LinkedIn

The Kodiak Revenue Cycle Analytics (Kodiak RCA) solution was invented by Derek Bang of Kodiak.

The Kodiak RCA solution is covered by U.S. Patent number 8,301,519.

Kodiak Solutions

CHC2403-002H