

# Are You Asking for Enough at Point-of-Service?

## A Growing Requirement for Upfront Collections

### Highlights

- **There is a substantial opportunity to improve POS performance.** Our analysis of over 600,000 patient encounters reveals that most patients—84%—do not make a point-of-service (POS) payment. It is imperative that hospitals increase their POS collection rates, as patients who make an upfront payment are, on average, twice as likely to eventually pay their full obligation amounts.
- **Target a percentage rather than a fixed dollar amount.** Prior Financial Leadership Council research indicated that collecting \$20 at POS could significantly increase the likelihood of eventually collecting the full patient obligation. More recent data reflects changes in the payer landscape and favors an updated approach: focus on a percentage of the patient obligation to be collected upfront.
- **Aim to collect at least 60% of the total patient obligation upfront.** A significant collection at POS is required to increase patient financial engagement. For patient obligations under \$2,000, try to collect at least 60% of the total amount at POS to meaningfully improve the chances that patients will eventually cover their full obligations.

### Background

With the growth of high-deductible health plans, financial responsibility is shifting from insurers to patients. This trend has significant implications for the health of hospital finances; as patient obligations grow as a percentage of net patient revenue, hospitals are at risk for higher levels of bad debt. Point-of-service collections represent an important strategy for engaging patients in their financial obligations early and improving the likelihood that they will eventually pay the full amount that they owe.

### Key insights

#### **A strong relationship exists between POS collections and propensity to pay.**

Our analysis shows that patients who make a payment at point-of-service are, on average, two times more likely to eventually pay their full obligations, regardless of the obligation size and their insurance status.

#### **A higher proportion of POS collections appears to increase patient financial engagement.**

As patients pay a higher proportion of their obligations up-front, they are increasingly likely to cover the remaining amount. Our analysis reveals specific thresholds for how much to receive at point-of-service to have a better than 50/50 chance of eventually collecting full payment from patients. For example, patients with obligations of \$2,000 or less require at least 60% of the amount to be collected at POS.

#### **Despite the importance of POS collections, back-end collections remain essential.**

Our analysis finds no statistically significant relationship between front- and back-end collection rates. Strength in one area does not imply strength in the other. Even hospitals collecting a high proportion of patient obligations up-front may not capture outstanding payments without robust back-end performance.

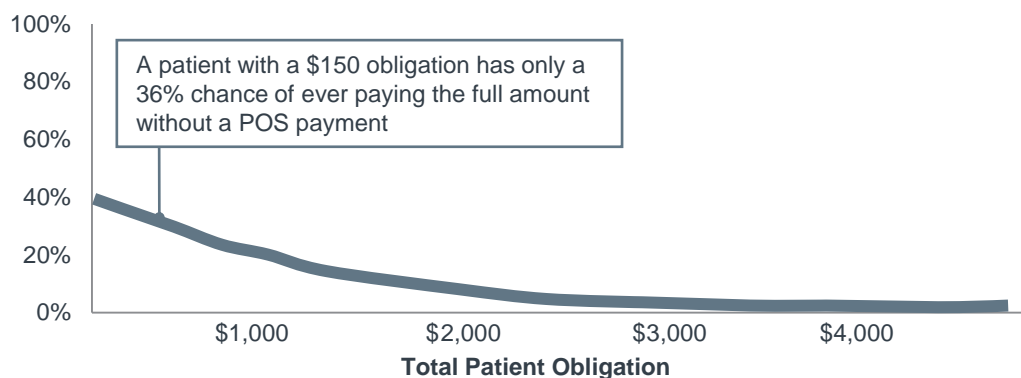
## It is unlikely that you'll collect the full amount from patients who do not make a POS payment

Point-of-service collections are a strong indicator of whether or not patients will eventually pay their full obligations. Our analysis of over 600,000 patient interactions shows that patients who make a payment at point-of service are, on average, twice as likely to eventually pay their total obligations than patients who make no POS payment whatsoever.

Still, hospitals in our sample are frequently unable to collect any POS payments (ranging from 49% to 99% of their patients per hospital). In such situations, the likelihood of the obligations eventually being collected diminishes significantly; for obligations greater than \$4,000, the likelihood decreases to 0%.

### Probability of Collecting Total Patient Obligation Without a POS Payment<sup>1</sup>

*n=382,288 claims, 18 facilities*



<sup>1</sup>) Analysis for a median performing facility, defined as collecting 26.5%- 71.7% of total patient obligations when no POS payment is made.

## How much should you ask for at POS?

While the point-of-service imperative is clear, hospitals often struggle with identifying the right amount to collect at POS to maximize the likelihood that patients will cover their full obligation.

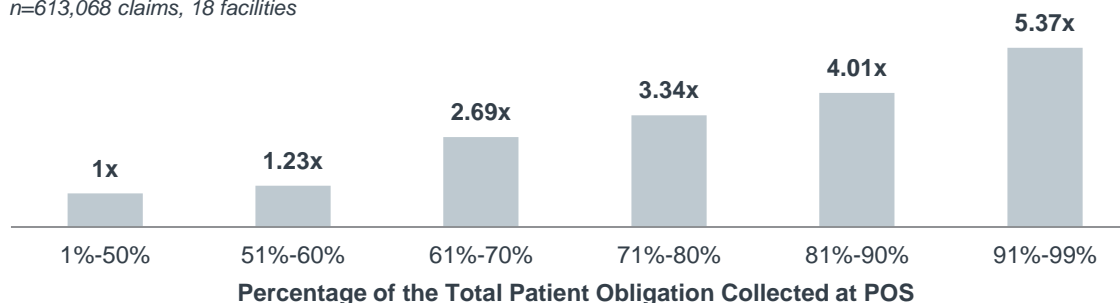
Financial Leadership Council research in 2013 indicated that asking for \$20 at POS could significantly improve the chances of patients eventually paying their total obligation. However, the payer landscape has changed since then and patients' financial responsibilities have increased. Our most recent analysis reveals that targeting a percentage of the total obligation to collect at POS, rather than a fixed dollar amount, is more effective for increasing the chances of eventually receiving full payment.

As patients pay a higher percentage of their total obligation at POS, they are more likely to pay the remaining amount in the future. To illustrate, if a commercially insured patient with a \$1,000 patient obligation does not make a POS payment, there is only a 22% chance of the hospital eventually collecting the full amount. However, if that patient pays 51% to 60% of the patient obligation up-front, the chance of eventually receiving the rest is effectively doubled. If the POS payment is 71% to 80% of the total obligation, the likelihood of full payment increases to 67%.

Obviously, it might not always be possible to receive such high up-front payments from patients. In such cases, collecting any dollar amount at POS is still valuable and decreases bad debt.

### Average Increase in Likelihood of Collecting Total Patient Obligation by POS Payment, Compared to When No POS Payment Is Made (Times)<sup>1</sup>

*n=613,068 claims, 18 facilities*



<sup>1</sup>) Analysis controlling for patient obligation size, payer class, and back-end collections performance.

## Remember one number in POS collections: 60%

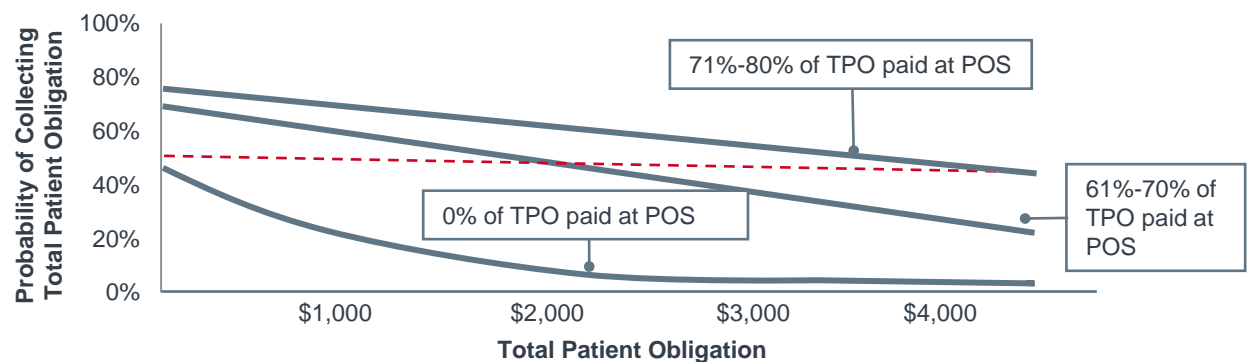
For patient obligations under \$2,000, 60% represents an important collection threshold—patients that cover this amount at point-of-service have a better than even chance of eventually covering their full obligation. However, beware: as the patient obligation rises, so does the collection requirement at the point-of-service. Patient obligations greater than \$2,000 require 70% of the total obligation to be paid up-front to have the same 50/50 chance.

Nevertheless, our research also highlights the vital role of back-end collections. Hospitals with high collection rates on the back end (>70% of total patient obligations collected) might be able to get away with lower up-front collections, while hospitals with poor post-service collections (<25% of total patient obligations collected) must try to collect as much as possible at POS.

Despite the impact of POS collections, it is important to recognize the role of back-end collections in receiving full payments. Even hospitals collecting the vast majority of their patient obligations up-front likely won't receive the remainder without robust post-service performance.

### Probability of Eventually Collecting Total Patient Obligation (TPO) by POS Payment<sup>1</sup>

*n=335,314 claims, 18 facilities*



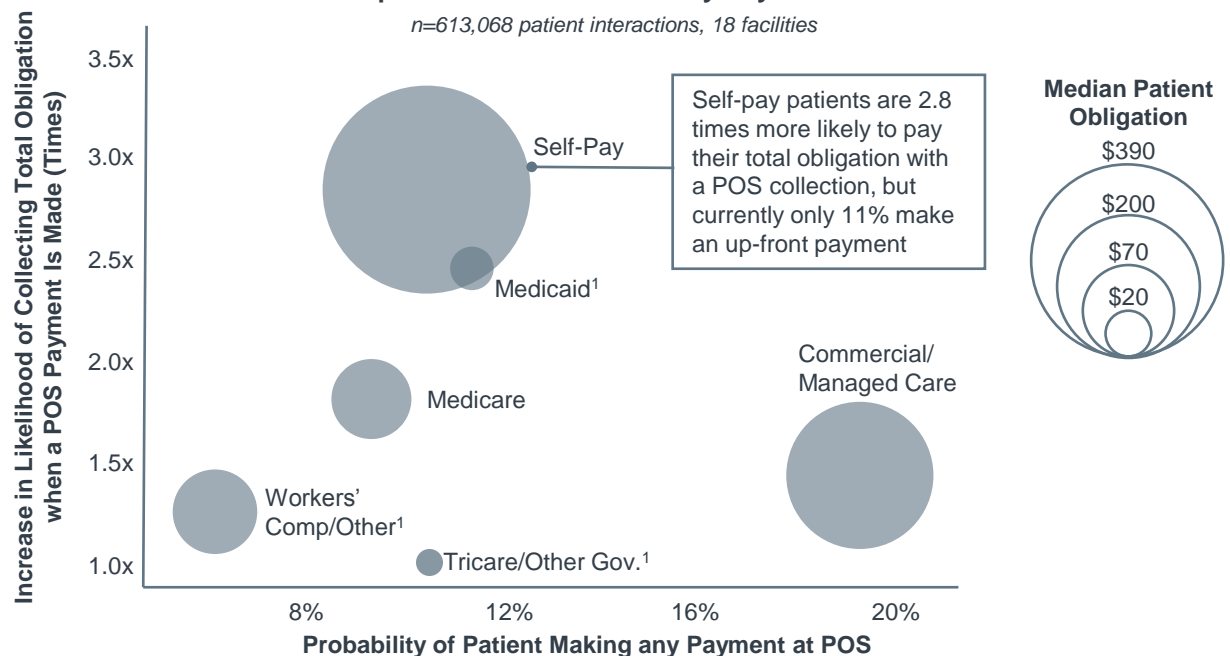
<sup>1</sup>) Analysis for commercial payers in a median back-end performing facility (collecting between 26.5 and 71.7% of total patient obligations when no POS payment is made).

## Be aware of the impact of POS collections by payer class

Self-pay patients tend to have the highest total patient obligations and are the most sensitive to the effect of point-of-service collections; however, they are also unlikely to make an up-front payment. On the other hand, patients with commercial insurance have the highest chance of making a payment at POS. Keep in mind payer differences when creating scripts and training your staff to ask for payments at POS.

### Impact of POS Collections by Payer Class

*n=613,068 patient interactions, 18 facilities*



<sup>1</sup>) Payer class with fewer than 15,000 patient interactions.

## Ensure that your staff is adequately prepared to ask for a POS payment

Make sure that your front-end staff always asks for a point-of-service payment and recognizes the relationship between higher POS payments and the likelihood to collect the total patient obligation. Also, provide your staff with the technology, training, and scripting necessary to be able to verify insurance eligibility, authorization, and medical necessity and estimate the patients' financial responsibility at POS.

## Recognize the limitations of POS collections

Prior Financial Leadership Council research indicated that providers are unlikely to collect any portion of patient obligations at any income level as total obligations approach 5% of the patient's income. Likewise, this analysis shows that for most organizations it might be very difficult to collect the full amount from patients with obligations greater than \$4,000, even when a significant POS payment is made.

## Methodology

This analysis was based on over 600,000 patient claims from 18 facilities between October 1, 2014, and September 30, 2015. The data was obtained from organizations using the Advisory Board's Revenue Cycle Compass performance technology. The objective of the analysis was to compare the likelihood of collecting the total patient obligation amount when various payments were made at point-of-service to when no payment was made at POS. The Total Patient Obligation was defined as the sum of Total Patient Payments and Current Patient Balance. To isolate the effect of POS collections and control for the variation in back-end collections performance between organizations, the facilities in our sample were divided into three groups based on their collection rates when no payment was made at POS (Low performers: 0%-26.4%, Median performers: 26.5%-71.7%, and High performers: 71.8%-100.0%). Multiple logistic regression analyses were performed separately for each group. When not specified, most claims in this research note refer to the median performing group. The analysis also controlled for different payer classes (Commercial/Managed Care, Medicaid, Medicare, Self-Pay, Tricare/Other Government, and Workers' Compensation/Other) and for patients' decrease in likelihood to pay their full obligations as the obligation amount rises. The findings presented have a statistical significance of 95% confidence. However, we do not expect our conclusions to apply to all organizations, as our data was obtained from a reduced number of facilities and Total Patient Obligation might reflect patient discounts in some facilities but not in others. We were also unable to differentiate between claims in the inpatient and the outpatient settings and to break up Total Patient Obligation into deductibles and copays. We intend to address these limitations in the future as more data becomes available.

**!** The information in this note is accurate as of its publishing date but is subject to change. If a change should occur, an updated note will be published.

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