

# PULSE



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## Recession's Impact on Health Care Collections

By Emily Grace, Communications Specialist

The economic effects of the recession have been widespread. According to a 2010 working paper by the National Bureau of Economic Research, between November 2008 and April 2010 approximately 39 percent of households had either been unemployed, had negative equity in their house or had been behind in their house payments.

At ACA International's 2011 Spring Forum event held this past March, a credit and collection industry representative discussed the state of the credit and collections industry during the recession and what changes the recession has had on consumer health care utilization and payment behavior.

"During the recession there have been consumers that were barely able to pay their debts and were one

emergency away from financial hardship," said Al Zezulinski, executive vice president for NCO Financial Systems, Inc. in Horsham, Pa.

According to a 2009 survey by the National Foundation for Credit Counseling, 26 percent of households admitted to not paying their bills on time. Of those surveyed, six percent had debts in collection and 32 percent admitted not having savings.

### Recession's Economic Impact

In the article, "How the Recession Changed Us," published in the 2011 January/February issue of *the Atlantic* magazine, author Timothy Lavin compiled economic factors to illustrate the significant impact the recession has had on consumers. He found:

- Daily consumer spending decreased from \$91 in October 2008 to \$55 in January 2011.
- The median sale price of existing homes decreased from \$206,700 in October 2007 to \$176,500 in October 2010.

- The unemployment rate more than doubled, increasing from 4.7 percent in November 2007 to 9.8 percent in November 2010.
- The percentage of unemployed who have been unemployed for 27 weeks or more grew from 18.8 percent in November 2007 to 41.9 percent in November 2010.

### Health Care Industry Perspective

During the recession many consumers chose to forego care due to economic pressures. According to data from a March 2010 American Hospital Association survey, 70 percent of hospitals reported lower overall patient volumes and 87 percent reported increased bad debt and charity care.

"The cost of health care has risen dramatically in the last two years, especially when measured in terms of premium costs," Zezulinski said. "As a result, employers have shrunk the amount of their contribution for health care premiums, so employees are paying more out of pocket with each paycheck."

To avoid paying higher out-of-pocket expenses, some consumers are choosing to forego primary care and are turning to emergency departments when necessary.

"The number of ED visits is growing and insurers are covering less of the cost," Zezulinski said. "People who don't have insurance

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## Health Care Reform: 1099 Reporting Requirement Repealed

President Obama signed into law legislation that repeals the expansion of 1099 reporting requirements. Under the Patient Protection and Affordable Care Act, enacted in March 2010, businesses (including health care practices) would have been required to file a Form 1099 with the Internal Revenue Service for purchases of goods or services from any business or individual that exceeded \$600 per year.

While existing federal law has long required a Form 1099 when businesses pay \$600 or more to an individual for services, the new provision would have extended the reporting requirements to include payments to corporations and also to include purchases of goods, in addition to services. The expanded requirements were scheduled to take effect for payments made after Dec. 31, 2011.

The new reporting requirements would have forced businesses to issue hundreds or even thousands of forms each year, track cumulative payments to vendors, and obtain tax identification information from each vendor.

The repeal provision, H.R. 4, "Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011," passed the House in early March and was approved by the Senate in April with strong support in an 87-12 vote.

The cost of the repeal has been estimated to be as much as \$22 billion. The repeal bill offsets the loss in revenue by allowing the government to require individuals who receive federal health care subsidies to repay more of the money to the government.

### Recession's Impact

*continued from page 1*

or people who don't have the ability to write a check, typically go to the ED. That becomes their source of primary care."

The recession has also impacted states, with many facing budget shortfalls.

"Programs such as Medicaid, which comprise nearly a quarter of state spending, could be targeted for budget cuts," Zezulinski said. "We could see shrinking coverage in the Medicaid programs, which covers a growing segment of the population."

### Predictions

With economic recovery still underway, Zezulinski believes some people are being left behind.

"There is a large percentage of our population that has been left out of the recovery," he said. "They are the ones we are calling on for money. These individuals are still unemployed or underemployed as a result of the recession. This trend will continue for awhile."

To combat the changing health care collection landscape, providers and their collection agency partners will have to adapt their business practices to fit consumer trends and demands.

"There needs to be a stronger focus on technology to help target



collections efforts," Zezulinski said. "We're looking to do things better, faster and cheaper. We have to test new strategies on how to reach the right parties and determine who we should invest in and focus on. It's an evolving strategy and we're learning as we go."

Zezulinski says getting to know consumer preferences should be part of developing strategies.

"My son won't return a phone call. If I call, he texts back," Zezulinski said. "Different communication styles and preferences can be found for different age groups. Young adults and the elderly are almost living in two separate worlds. It will be important to tailor your business structure to accommodate consumer preferences."

Some organizations are adopting expanded views of consumer communications that combine consumer-stated preferences with observed consumer behavior.

"Knowledge and use of this data results in more targeted, relevant, cost-effective communications," Zezulinski said. "Response rates are increased and stronger consumer relationships are developed."

While the full impact of the recession has yet to be determined, many hospitals will be looking for their collection agency partners to help them combat increasing bad debt and decreased reimbursement.

"I believe we're going to see the health care industry grow in demand and volume, but see the amount providers get paid shrink," Zezulinski said. "It's a real vice that's going to

compress the industry and change the way care is delivered."

## HHS Report Looks at Ability of Uninsured to Pay Hospital Bills

**A** new report released by the U.S. Department of Health and Human Services (HHS) shows few families without health insurance have the financial assets to pay potential hospital bills. On average, uninsured families can only afford to pay in full for approximately 12 percent of hospital stays they may experience – and even higher income uninsured families are unable to pay for most potential hospital stays.

Hospital stays for which the uninsured cannot pay in full account for 95 percent of the total amount hospitals bill the uninsured, according to the HHS report. Other studies have estimated the bills for all types of health



care the uninsured cannot pay – the uncompensated cost of care – is up to \$73 billion a year, a significant portion of which is shifted into higher costs for Americans with insurance and their employers.

The report states approximately 50 million Americans are uninsured and found most uninsured people have virtually no savings. In fact, the median financial assets for all uninsured families are just \$20. Even among higher income families, assets are low. Half of families with income at 400 percent of the Federal Poverty Level (FPL), or \$89,400 a year for a family of four in 2011, have financial assets below \$4,100. Even the top 10 percent of uninsured families with the most assets are estimated to be able to pay the full bill for only half of potential hospital stays.

The report can be found on the HHS website at [aspe.hhs.gov/health/reports/2011/ValueofInsurance/rb.shtml](http://aspe.hhs.gov/health/reports/2011/ValueofInsurance/rb.shtml).

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## US Health Care Costs Continue to Rise, But At Declining Rates

**T**he average per capita cost of health care services covered by commercial insurance and Medicare programs increased by 5.77 percent over the 12-months ending March 2011, according to data released in May by Standard & Poor's *Healthcare Economic Composite Index*.

After a temporary increase reported with January's data, health care costs have resumed their deceleration in annual growth rates. For the 12-months ending in January and February 2011, this index posted increases of 6.30 percent and 6.17 percent, respectively.

According to S&P, health care costs continue to rise, but at a declining rate. The Composite Index, at +5.77 percent, is virtually back to the lowest annual growth rate in its six-year history, which was +5.76 percent in June 2007. The highest annual growth rate for the Composite Index was

during the 12-months ending May 2010, when it posted +8.74 percent. In the 10 months measured from this peak, this index has gone through a sharp deceleration, down 2.97 percentage points.

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**The Composite Index, at +5.77 percent, is virtually back to the lowest annual growth rate in its six-year history.**

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Over the year ending March 2011, health care costs covered by commercial insurance rose by 7.57 percent while Medicare claim costs rose at an annual rate of 2.78 percent. This is the lowest annual rate of growth posted for the Medicare Index in its six-year history.

“It is apparent that the rates of increase in health care costs continue to slow down,” said David M. Blitzer, chairman of the Index Committee at S&P. “While there was some volatility within months, the general trend has been a slowdown across all nine of the indices we publish. Most of the annual growth rates peaked in the late winter/early spring of 2010. Since then, most of these rates have fallen by two percentage points or more.”

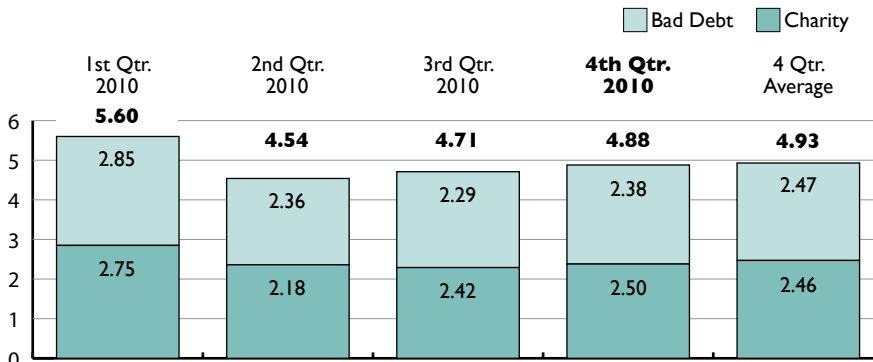
For more information, visit the S&P website at: <http://www.standardandpoors.com/indices/sp-healthcare-economic-indices/en/us/?indexId=sp-healthcare-economic-indices>.



# DATA WATCH

## Uncollectibles as a Percentage of Revenue

The percent of gross revenue written off as uncollectible bad debt or charity was on the rise in the fourth quarter of 2010, but has remained within the benchmark range of five percent or less for the last three consecutive quarters.



Source: HARA Report on Fourth Quarter 2010, vol.25, no.1, 2011, with permission from Aspen Publishers, Inc., [www.aspenpublishers.com](http://www.aspenpublishers.com).

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