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The VisitPay Blog | BUILDING BETTER FINANCIAL RELATIONSHIPS

Myth: Days-in-AR Is the Health System CFO's Primary Focus in Measuring Revenue Cycle Performance

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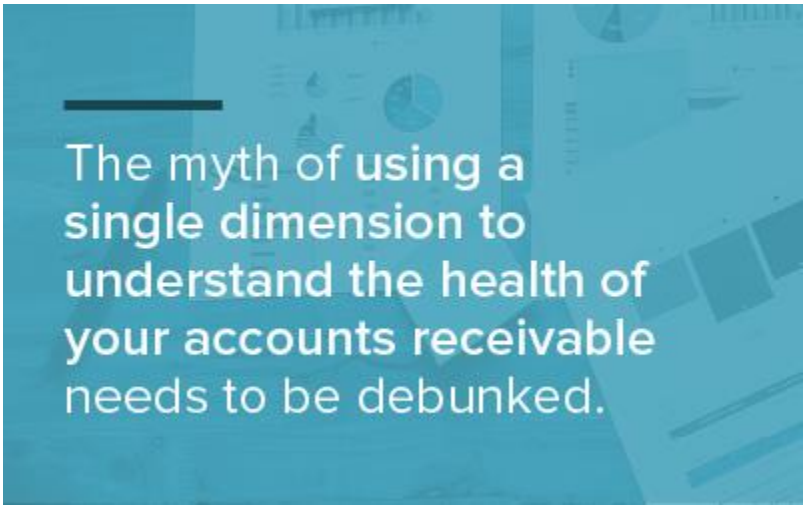
The Mythbuster Series From VisitPay

Abstract: Myth buster David Kirshner, MBA, CPA takes a closer look at accounts receivable performance indicators or KPIs, suggesting there isn't a single metric

that measures overall performance. Instead, Kirshner advocates the sum of several key dimensions provides a more accurate view.

Is “days in accounts receivable” the best and only metric to use when measuring revenue cycle performance in the health system? In the current financial healthcare environment, the myth of using a single dimension to understand the health of your accounts receivable needs to be debunked.



Embedded in this myth is the idea that a comprehensive view can be achieved by looking at one or two ratios. The reality is that as the nature of the revenue stream has changed, and as more and more patient payment responsibilities and obligations get billed, it has become much more important to advance and expand the number of things that CFOs are trying to measure.

Days in A/R

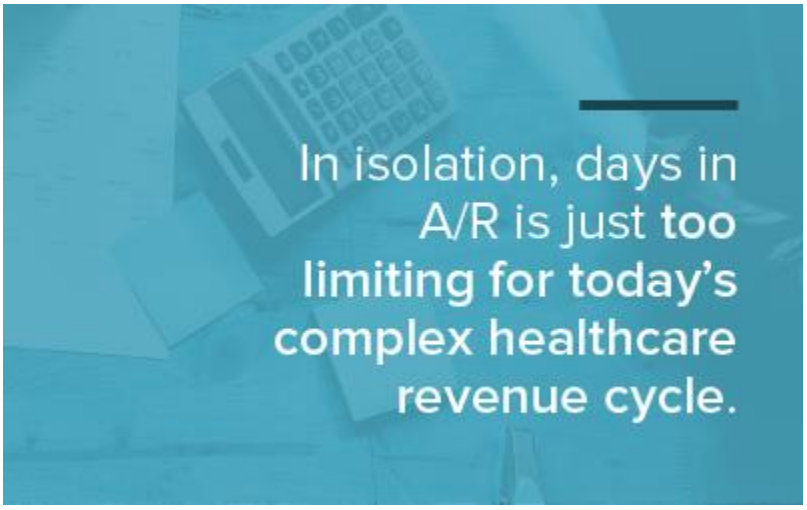
CFOs and accountants are trained to measure the speed of the collection process as the primary indicator of performance. In other words, the faster the A/R is collected, the lower the days in A/R. CFOs measure the A/R days in both “gross” terms and “net” terms. And when you boil it down, the best revenue cycles are the ones that perform their tasks appropriately, quickly, analytically and efficiently – to a point where the days in accounts receivable are very low.

Many CFOs still regard days in A/R (DAR) or collection period as the number one ratio. But while DAR is an important metric to measure – it can literally be calculated right down to each payer and each insurance type – there are other dimensions that should also be examined. In isolation, days in A/R is just too limiting for today’s complex healthcare revenue cycle.

Here are five additional ratios and metrics that I believe, when combined with days in AR, offer CFOs a more comprehensive way to measure their health system’s accounts receivable status.

Cost to Collect

Since economic and cost pressures on healthcare are a constant, the “cost to collect” metric has become critical. Cost to collect helps a CFO to understand and measure how well the revenue cycle is performing from the perspective of efficiency. CFOs look at the cost to collect as a question of how efficient the health system is while turning over the accounts receivable during its target collection period.



Yield

Yield is one of the most important KPIs or metrics. Think about yield as a farmer would regard a field of corn. After planting 100 seeds, the real question is how many of those seeds produce exactly the kind of result the farmer wants.

Using this analogy in accounts receivable or revenue cycle, you want to measure the operating statement relationship between the amount of cash collected, or net revenue that you generate, on the average charges that you billed.

It’s not that health systems get paid as a percentage of charge, but that the overall question is how much can be yielded from each bill and charge that is generated. The relationship between your net revenue and your gross patient service revenue is the one that you want to focus on as a result of several important changes in the revenue stream for the healthcare enterprise.

Yield, as CFOs currently think about it, is the composite of not only third-party insurance contracts and how those are performing in the revenue cycle but also increasingly patient-pay and patient-pay management. I advocate that CFOs separate these two things because they’re very different revenue cycles. Here’s why:

If you only measure the third-party insurance, it’s pretty much a function of how effective you are at processing claims: getting information on the front end and working your way through the entire cycle to the point where you have resolved and adjudicated the claim and payment has been received by the healthcare enterprise.

However, the patient-pay cycle is distinct. It is a hard one to measure if you don't use the yield statistics because the days in A/R may be quite long. It's here that CFOs need to focus and consider how different the patient-pay cycle is from the third-party insurance cycle stream versus the self-pay revenue cycle and stream.

Improving yield in the patient-pay revenue cycle is VisitPay's specialty.

Aging of Accounts Receivable

Aging of the accounts receivable refers to the time it takes to completely resolve a claim. The aging statistics are tried and true. For the revenue cycle, the typical trend is to view any claim over 180 days old as one that is in serious danger of not being collected. As a standard, the collectability concern with anything greater than 180 days is real – indicating that this ratio is very important to address.

Aging of accounts is usually viewed in 30-day buckets. If you start to see the aging of a hospital's accounts receivable go out to 210 days, that's a red flag – the older the account gets, the worse it is. For third-party insurance, it's a highly accepted trend. However, on the patient-pay side, with the introduction of high-deductible health plans and other patient payment responsibilities, it's not unusual to see more aged, valid accounts receivable exist in our healthcare systems.

Applying a broad-brush to all aged receivables in the same way – using the typical aging statistics – is not a real measure of what's going on. A better way is to bifurcate between the third-party insurance and the patient-pay receivable, including patient payment obligation after insurance.

Monthly Cash Trend

One of my all-time favorite ratios is monthly cash trend. It's a great one to use with Wall Street rating agency presentations when going out for bond issues. Monthly cash trend is a vivid measure because it's just an absolute dollar value to look at historically month-by-month.

Over the years, monthly cash trend has proven to be a wonderful ratio because it provides CFOs with three things: (1) the revenue cycle's operating improvement; (2) the contracting improvements that are being achieved; (3) the way in which the institution is capturing its charges.

That's why patient-pay cash collections are absolutely a big part of this discussion now – for both third-party insurance and patient-pay. Patient care cash receipts are relatively easy to measure from most healthcare systems.

At the end of the day, CFOs care about the cash that's coming in every month – no matter what the source. CFOs will want to make sure that monthly cash trend is the fifth dimension in their best practice analysis.

Write-offs

Write-offs come in three primary forms: insurance denials, charity care, and bad debt.

1. Insurance Denials: Most health systems today track denials by "reason code." This enables revenue cycle leadership to remediate the causes of the denial including claims and coding edits used by third-party payers.
2. Charity Care: Most systems use a credit scoring solution to classify patients who are truly indigent and unable to pay their obligations. CFOs record these write-offs in tax returns as evidence that they provide free care in accordance with our credit and collection policies and charitable mission.
3. Bad Debt: For patients scored with a propensity to pay their bills, this write off typically reflects the unwillingness of the patient to resolve their obligation. I advocate that CFOs need to look at bad debt write-offs as a proportion of patient balances due, rather than the

entire accounts receivable, to help them more accurately zero in on strategies to move the needle on this metric.

Key Takeaways

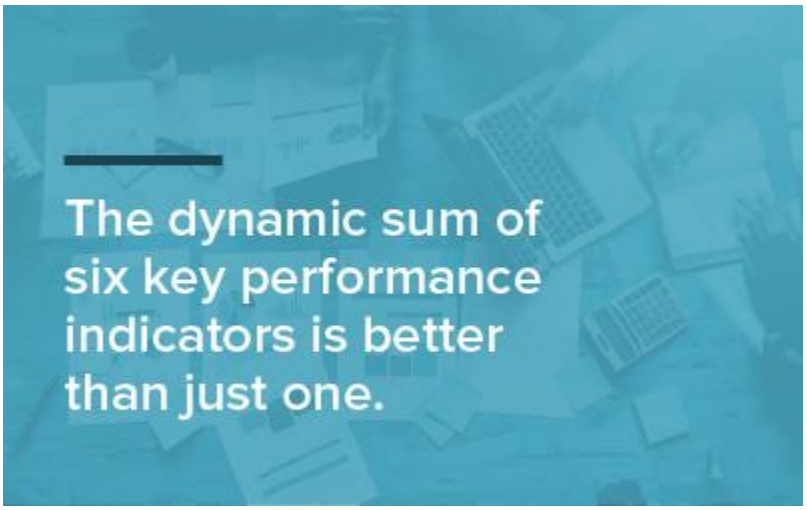
When CFOs consider other metrics to really understand how well they are doing when it comes to improving operating margins, there is a lot of focus on denials or write-offs that occur unnecessarily, perhaps due to administrative defects from the payer or one's own revenue cycle – things that make it impossible to know whether speed or costs was really a question. As a best practice, none of these metrics should stand alone.

Mentioned in this article is a comprehensive group of ratios:

- days in A/R
- cost to collect
- yield
- write-offs
- aging
- monthly cash trend

Include all six of these major revenue cycle performance metrics or key performance indicators in your dashboards – rather than rely on the one-dimensional view of days in A/R.

The VisitPay platform can help CFOs broaden this perspective using a combination of the six suggested ratios discussed today.



Thoughtfully consider how different the patient-pay cycle is from the third-party insurance cycle stream versus the self-pay revenue cycle and stream. CFOs should segregate the patient-pay revenue cycle from the third-party one.

The VisitPay system enables CFOs to accurately segregate the insurance versus the patient obligation. The underlying data to move from a primary insurance source like Blue Cross Blue Shield, which will carry a deductible or coinsurance with it, will ultimately need to get calculated as a hybrid patient receivable.

The same segregation requirement also applies to the patient obligation. On this point, the VisitPay system offers a robust set of tools and capability that can deliver a more intimate understanding of the patient obligation, and how to segregate and measure obligations with precision.

After working with the underlying revenue cycle systems like Epic, McKesson, Allscripts, and others around the country, my analysis is this is exactly what the VisitPay platform is geared to do across all the dimensions of the six main KPIs discussed.

The rating agencies were first to define credit ratios. When Moody's and Standard and Poor's scrutinized health care credit, they organized ratios into three buckets: liquidity, operating performance (that's your operating or operating cash flow margin) and capital structure. What I'm advocating in today's myth-busting blog is very similar. In the same vein, the dynamic sum of six key performance indicators is better than just one.

Interested in learning more how VisitPay can help your health system?

David Kirshner

David, MBA, CPA serves as Executive Advisor at VisitPay and is responsible for the continual development of quantitative value drivers specific to the ROI potential of the self-pay revenue cycle. Prior to joining VisitPay, David served three decades in public accounting, hospital and physician financial management, and Chief Financial Officer positions in academic medicine including the University of Rochester Medical Center and Boston Children's Hospital.