

The Impact of Predictive Analytics on the Liquidation Rates of Self-Pay AR

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Connance®

Intelligence for the Business Office



Working Smarter Changes Self-Pay Performance

- Majority of self-pay collection effort is on non-performing accounts
 - Dismal ROI as incremental cash collected is less than incremental cost
- Predictive models can be vehicles to breakout performance
 - Collection: improving cash yields 10-30% typical, with instances >100%
 - Charity: identify 10-30% of bad-debt that could be charity
- Models
 - Improve patient experience by reducing the number of negative events
 - Reduce risk of inappropriate collection situations



Agenda

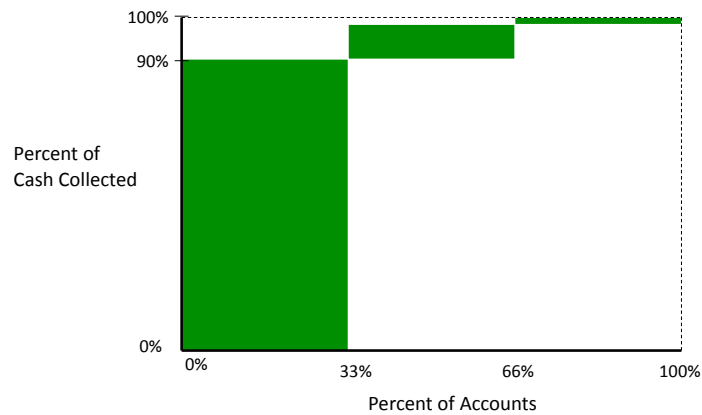
- Self-Pay Revenue
- Predictive Analytics
- Charity Analytics
- Collection Analytics
- Piloting a Model

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Self-Pay Portfolios Very Concentrated

- A third of self-pay accounts generate 90+% of the cash
 - The last third of accounts generate <2% of cash



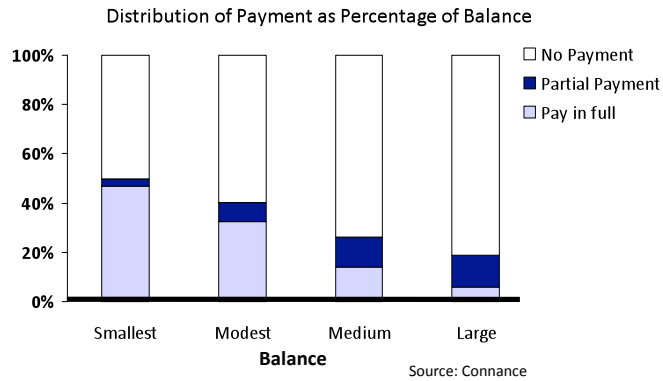
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Large Self-Pay Accounts Key To Cash Recovery

- Medium and large balance accounts pay ~60% of all cash
 - More than 70% of medium and large balance accounts pay zero
- Most medium and large accounts only pay a portion

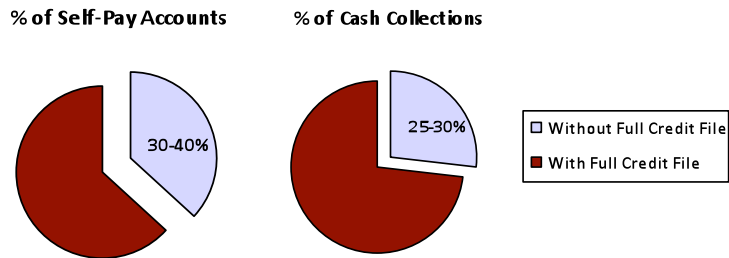


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Accounts Lacking Credit Significant Share of Self-Pay

- Households without full credit file can be sizable share of accounts and cash
 - Households without credit files includes indigents plus divorcees, widows, new graduates, foreign nationals and many others
 - Exact share of portfolio depends on facility catchment area



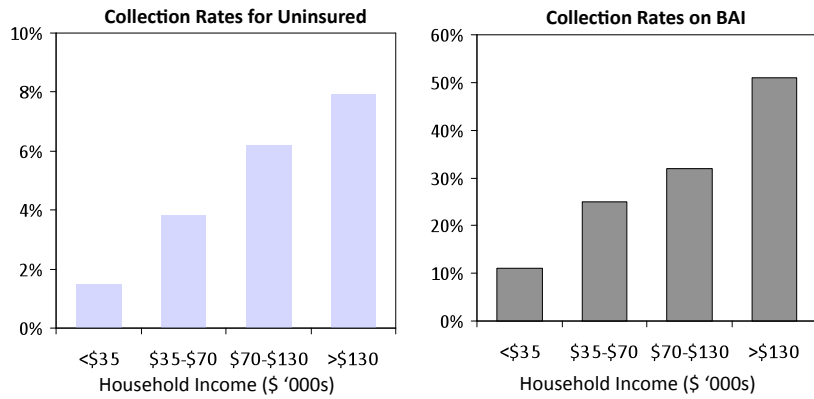
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Income is Imperfect Predictor of Self-Pay Recovery

- Even high income households fail to pay in full



Source: Connance



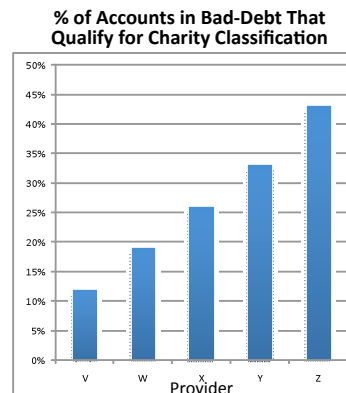
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Missed Charity Significant Issue

- A significant volume of charity is ending up in collections
 - Generate little/no cash and dilute agency efforts, raise costs and create compliance risks

1 in 5 consumers are functionally illiterate and cannot complete an application process

US Department of Education



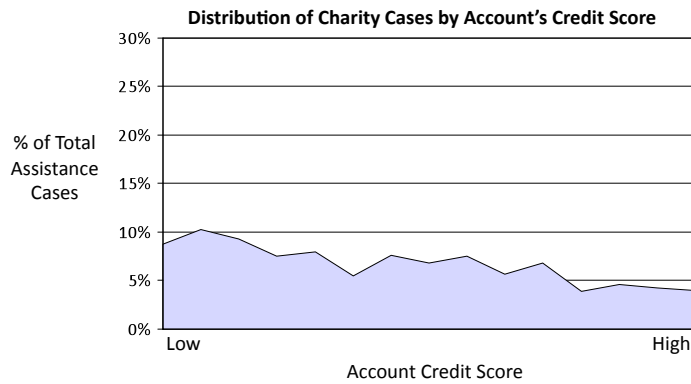
Source: PARO Decision Support



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Credit Scores Measure Spending, Not Poverty

- Bad credit scores do not equate to poverty
 - Good credit scores do not indicate affluence



Source: CHW ANI 2009 Presentation

Risks Increasing For Weak Self-Pay Processes

- Federal, state and consumer group momentum building around patient collection treatment

Form 990 Filing

- Schedule H - Section III C:
"Does the organization have a written debt collection policy?... And does it contain provisions for collection practices for patients who are known to qualify for charity care?" (also in proposed health reform bill)
 - Schedule H - Section III A:
"Estimate the amount of bad-debt attributable to charity care"
- Responses subject to audit by the IRS

State Regulations

- Maryland
 - State review of hospital collection policy
 - Provider oversight of vendor adherence to policy
- Illinois
 - Minimum response times for patient inquiries
 - Two business days to return call or 10 days written request
- Massachusetts
 - No collection action without offering financial assistance and/or reasonable payment plan
 - Must allow patient payments to hospitals at all times

Frustrating Reality of Self-Pay Revenue

- Much of a business office's self-pay effort has negative ROI, incremental cash collected is less than incremental cost

The Facts of Self-Pay Collection

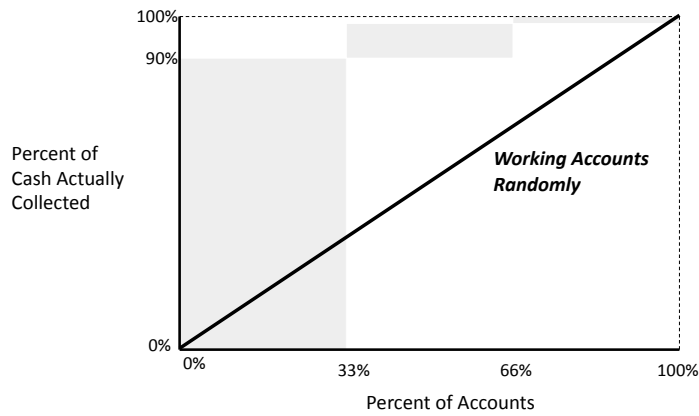
- Success is about finding the minority of accounts that pay
 - 66% of self-pay accounts generate less than 10% of all cash
 - Of 33% that pay, large and medium balances are key, but ~75% of large and medium balance accounts pay nothing
- Partial payment policies critical
 - Prepayment, payment plans, prompt pay, etc.
- Simple logic, e.g. income or credit scores, incomplete
- Current charity processes missing significant portion
- Risk from process breakdowns rising

Agenda

- Self-Pay Revenue
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- Charity Analytics
- Collection Analytics
- Piloting a Model

Need To Work Smarter

- Working all accounts the same wastes money against accounts with limited cash value or more suited for charity

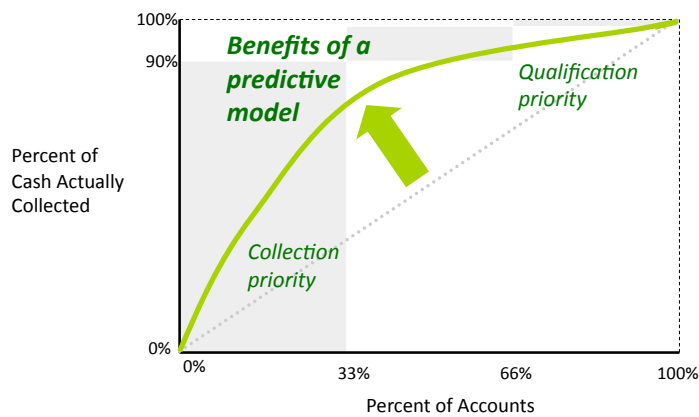


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Predictive Models Can Help Avoid Wasted Effort

- Predictive models enable you to prioritize accounts and select the right effort for each



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Predictive Modeling Opportunities

- Two primary predictive challenges in self-pay revenue cycle
 - Applications occur front, middle, and back in the self-pay timeline

Charity Qualification

- Is this account qualified for charity?

Collection Efforts

- How valuable is this accounts?
- What is the net cash maximizing collection process

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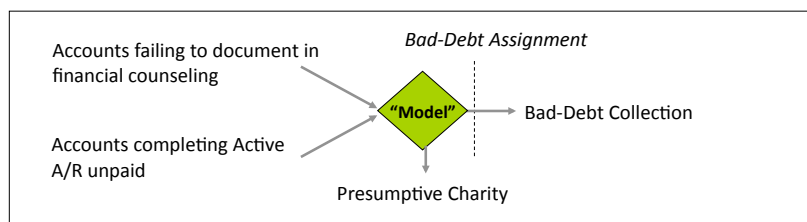
Charity Qualification

- Three primary inputs for charity classification often lacking despite financial counseling
 - Household income
 - Dependents
 - Assets
- Certain data elements have proven predictive of poverty and therefore indicative of presumptive charity qualification
 - Household size/structure
 - Education background
 - Geographic location
 - Age/sex
- Models using these data elements proven to match known populations
 - Better than alternative scores

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Charity Analytics at End of Cycle

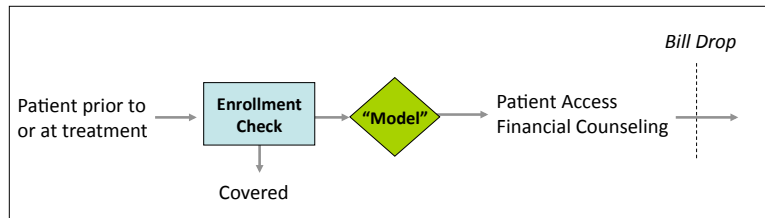


- Utilized at the end of collection effort prior to bad-debt
 - After accounts in financial counseling process time out
 - After Active A/R efforts on other uninsured or BAI complete
- “Passing” written off to presumptive charity
 - No patient notification
- Remaining go to bad-debt for recovery
 - Simplify and focus late stage resource efforts

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Charity Analytics Up Front



- Utilized after checking program enrollments
 - Focus on truly “unknowns”
- Input to financial counseling
 - Immediate patient attestation
 - Focus of subsequent documentation efforts
- If unresolved by time of bad-debt assignment, some models capable of allowing presumptive charity declaration

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Picking A Charity Analytic

Elements to consider in selecting a charity model

- What kind of calibration occurs?
 - Your market
 - Your policies
- How does it handle non-traditional financial profiles?
 - What percent are not able to be evaluated?
 - When not evaluated, what does the service do?
- What patient data is needed?
 - SSN, name, address, other
- What 3rd party data is utilized?
 - Credit files, public records, etc.
- What additional services come from the model?
 - Address confirmation
 - Contact details
 - Bankruptcy scrubs
- Acceptance by the IRS, your Auditor and other groups?
- Do your policies allow presumptive charity declaration?

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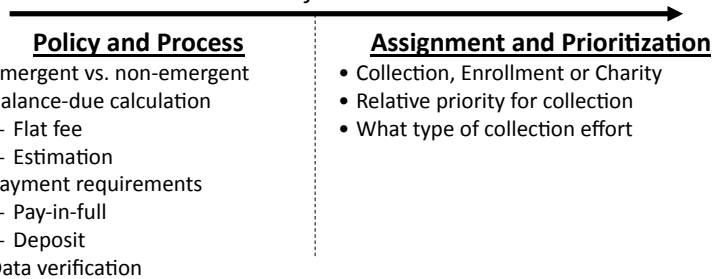
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Collection Effort

- Pre- / Post-treatment are very different challenges
 - Pre-treatment: **loan origination**
 - Post-treatment: **loan recovery**

Point of Service



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Collection Effort in the Business Office

- A lot to identify and properly work the high-value portion

Patient Context

- Who is the payor?
- How much cash at risk?
- Do they understand the repayment process?
- Are they repeat visitors?
- How accessible is the patient?
- What is their income?
- ...and so on

Collection Context

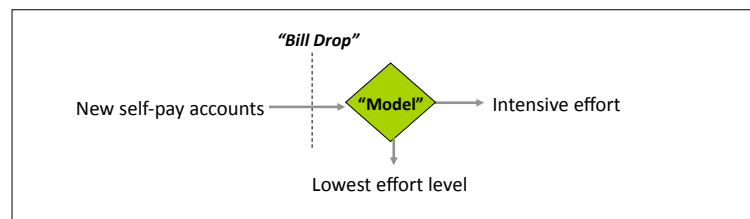
- Calling capacity
- Letter cost / call cost
- Letter sequence and messages
- Phone messages
- Settlement options
- Role of CSR
- Integrating on-line
- ...and so on

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Models to Prioritize Business Office Collection Effort

- Predictive models prioritize collection effort
 - “2 segment” solution

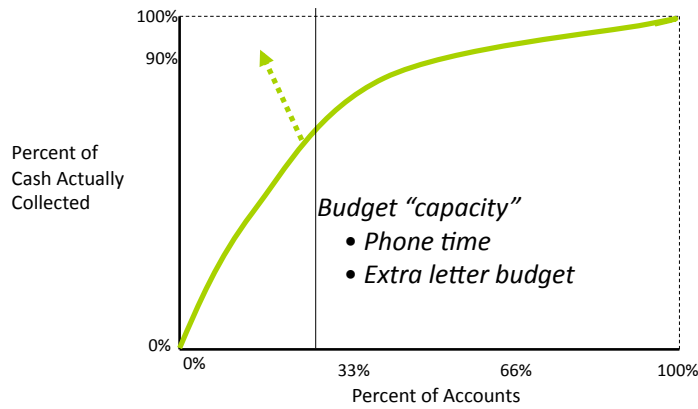


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Models to Prioritize Business Office Collection Effort

- Enable business office team to touch the most cash
 - Predict account value so that green line bends “high and left”

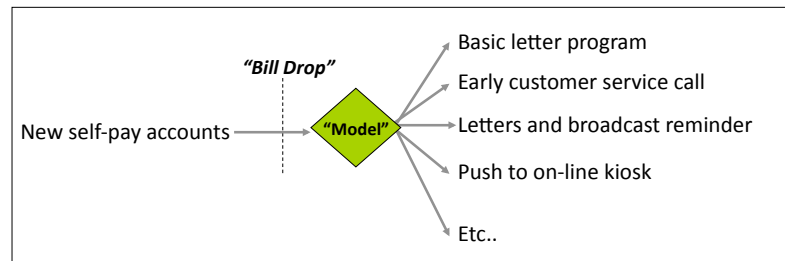


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Models for Segmented Workflow Collections

- Add segments and targeted follow-up processes
 - Just because two accounts have the same expected cash value does not mean they require the same follow-up routine
 - Operations can have from three to 6+ different follow-up processes

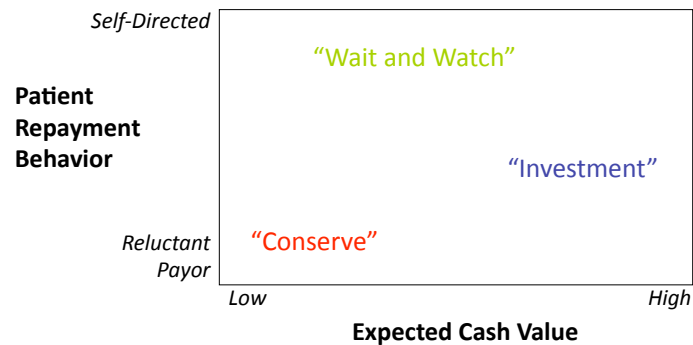


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Segmentation Strategies

- Segmentation strategies should drive “Collection ROI”
 - Invest discretionary budget where it creates largest upside recovery



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Picking a Collection Analytic

Elements to consider in selecting a collection analytic model

- What question is the score built to answer?
 - Credit Score, e.g. FICO score
 - Probability of payment
 - Propensity to pay
 - Expected Cash Value
 - Probability of realizing more than \$50
- How does it handle non-traditional financial profiles?
 - What percent are not able to be evaluated?
 - When not evaluated, what does the service do?
- What patient data is needed?
 - SSN, name, address, other
- What 3rd party data is utilized?
 - Credit files, public records, etc.
- How does it support segmented work flow?
 - “High / medium / low”
 - Probability vs. Balance Due
 - Cash Value vs. Payment Pattern

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Piloting A Model

- Piloting common approach to testing impact
 - “champion-challenger”
- Need a control group
 - Random split
 - Facility A vs. Facility B is not random
- Be clear on how to measure efficacy
 - What measures matter
 - To whom
 - How long to see impact

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Piloting A Model

- Monitor “randomness” as pilot unfolds

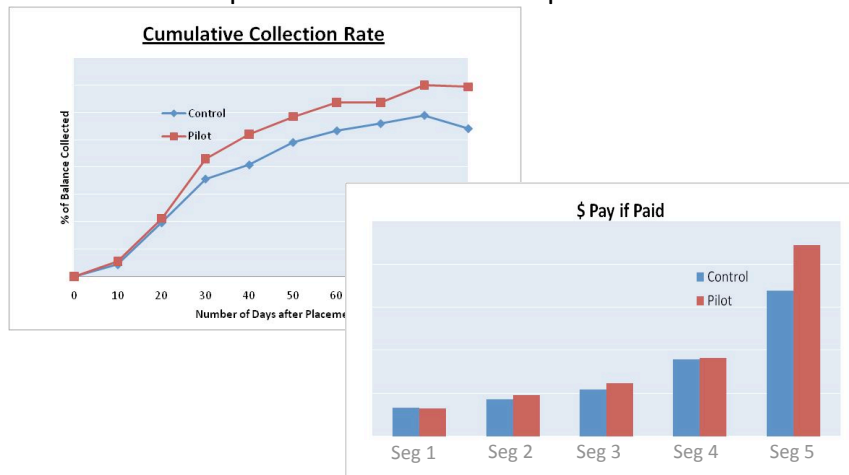
	# of Accounts	Balance at Scoring, Total	Avg Days From Discharge	Mix of Accounts			Mix of Accounts	
				% BAI	% PSP	% ER	% IP	% OP
Control	10,000	14,000,000	55.0	73%	27%	24%	17%	82%
Pilot	9,750	13,893,750	54.3	73%	27%	24%	17%	82%

	Balance-After Mix by Balance				PSP Mix by Balance			
	0-100	100-500	500-1000	1000+	0-1k	1k-5k	5k-25k	25k+
Control	29%	42%	13%	15%	42%	42%	14%	2%
Pilot	29%	43%	14%	15%	43%	42%	13%	2%



Piloting A Model

- Measure performance from multiple lenses



Summary

- There is a “science” to driving self-pay performance
 - Simply working harder won’t help
 - Majority of effort is “cash destroying”
 - Traditional approaches accept significant compliance risk
- Predictive models are vehicle to reverse the negative cycle
 - Significant upside possible
 - Charity and cash
- Implementation requires clear forethought
 - Where models can help
 - What kinds of models
 - What process changes need to occur
 - How to measure success

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Follow-up Questions

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