

# MONOGRAPH: 12

## Managing Accounts Receivables



By Mark Wright, OD,  
FCOVD

### ABSTRACT

#### Background:

The financial strength of an optometric practice can be undermined when insufficient attention is paid to managing collections from patients and third-party sources.

#### Recommendation:

Optometric practices should assign accountability for collections to keep accounts receivables to less than one month of average gross revenue and to keep receivables aged 60 days or more to less than 30 percent of total receivables.

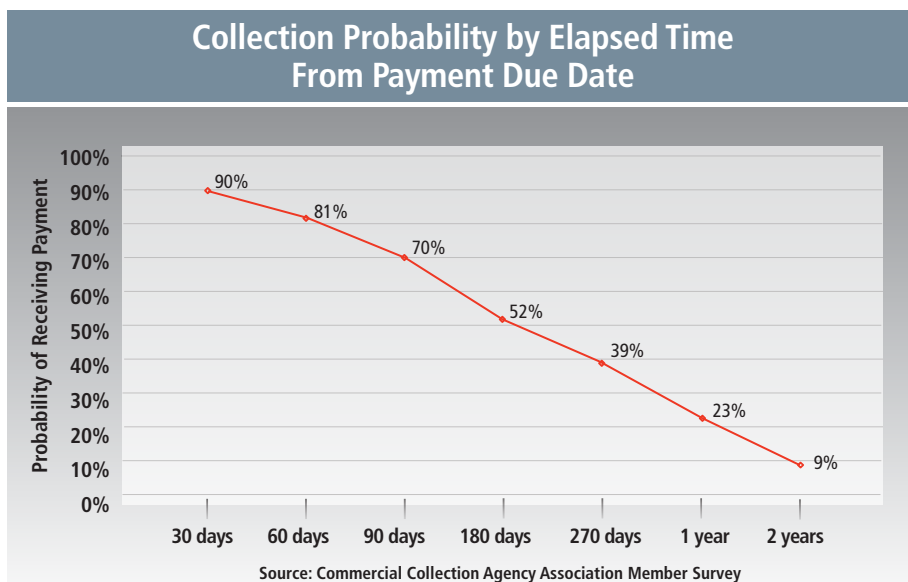
#### Conclusion:

Effective management of accounts receivables has potential to increase practice net income by reducing the charges that become uncollectable, which can reach 20 percent or more in unmanaged situations.

## Background

Collection is a fundamental task of any business. After all, it's only what a business collects that goes into a bank account, not the amounts that appear on statements for payment that a business issues. Keeping uncollected payments to a minimum is critical to maintaining adequate cash flow, reducing bank interest costs and achieving optimal net income.

The iron law of collection is that with every minute that a dollar owed to you is in a debtor's pocket, it declines in value. The Commercial Collection Agency Association (CCAA) has measured the probability of collection by elapsed time in repeated surveys of its members in many industries. CCAA data confirms the iron law. A statement that is 60 days past due has an 81 percent chance of being paid. At 180 days, the probability drops to 52 percent. After a year it is just 23 percent. Allowing receivables to age is a guaranteed recipe for lost income.



Accounts receivable is simply the difference between the aggregate amount a practice invoices for goods and services (deducting for discounts, allowances, and returns) and the net receipts from patients and third-party sources. The balance due a practice is sometimes expressed as “days outstanding” – calculated by dividing total accounts receivable at any point in time by the average daily net sales of the practice (annual gross revenue divided by 365). For example, a practice with annual gross revenue of \$650,000 would have average daily revenue of \$1,781 ( $\$650,000 \div 365$ ). If accounts receivable totals \$35,000, then days outstanding equals 19.7 ( $\$35,000 \div \$1,781$ ).

The tables below illustrate what's at stake in managing accounts receivable for a practice with annual gross revenue of \$650,000. The first table shows numbers for a well managed optometric practice with a low accounts receivable ratio and most receivables aged less than 60 days. The second table shows a practice with higher receivables ratio and greater average days aging. The well managed practice is likely to collect 89 percent of its receivables, sustaining a loss of \$3,090. The less well managed practice is likely to collect 82 percent of receivables and sustain a loss of \$14,385. It's clear that reducing the absolute amount and aging of receivables puts money in your pocket.

## Well Managed Accounts Receivable (15 days outstanding)

	Total	Under 30 days	30-59 days	60-89 days	90-119 days	120 days or more
Accounts Receivable	\$27,000	\$17,550	\$4,860	\$2,430	\$1,350	\$810
Percent of Total AR	100%	65%	18%	9%	5%	3%
Collection probability	89%	95%	85%	75%	65%	50%
Probable collections	\$23,910	\$16,673	\$4,131	\$1,823	\$878	\$405
Probable loss	(\$3,090)	(\$877)	(\$729)	(\$607)	(\$472)	(\$405)

## Improvement Needed Accounts Receivable (45 days outstanding)

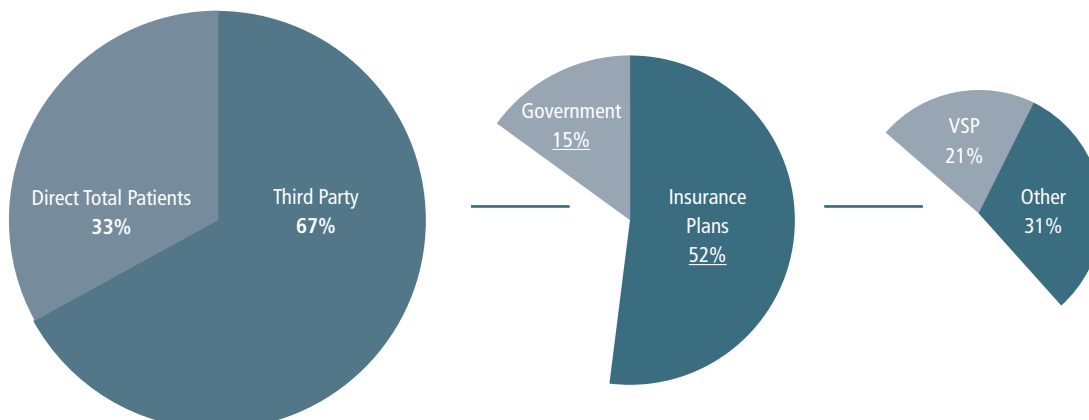
	Total	Under 30 days	30-59 days	60-89 days	90-119 days	120 days or more
Accounts Receivable	\$80,145	\$40,073	\$12,022	\$10,419	\$5,610	\$12,022
Percent of Total AR	100%	50%	15%	13%	7%	15%
Collection probability	82%	95%	85%	75%	65%	50%
Probable collections	\$65,760	\$38,069	\$10,219	\$7,814	\$3,647	\$6,011
Probable loss	(\$14,385)	(\$2,004)	(\$1,803)	(\$2,605)	(\$1,963)	(\$6,011)

Managing accounts receivable is not a difficult process, but requires disciplined collection methods, continuous attention by an accountable staff member and monthly monitoring by the practice owner. This monograph discusses how optometric practices should track accounts receivables, normative receivables ratios and techniques to keep receivables low.

## Optometric Practice Benchmarks

Sources of payment vary widely across optometric practices, with some collecting nearly all revenue from third parties and others mainly collecting directly from patients. However, in typical practices about two-thirds of revenue comes from third parties and one-third from patients. Typical offices are accredited by 6-8 vision insurance plans and by 8-10 medical insurance plans, in addition to Medicare/Medicaid. The accounts receivable days outstanding varies by the ratio of third-party payments a practice has.

## Sources of Payment in Independent Optometric Practice

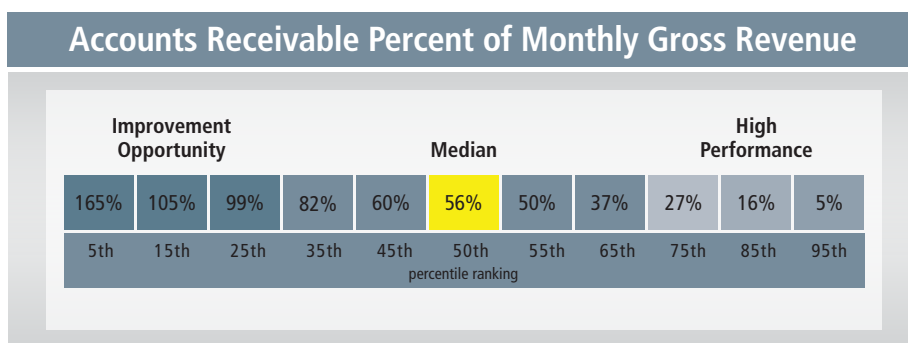
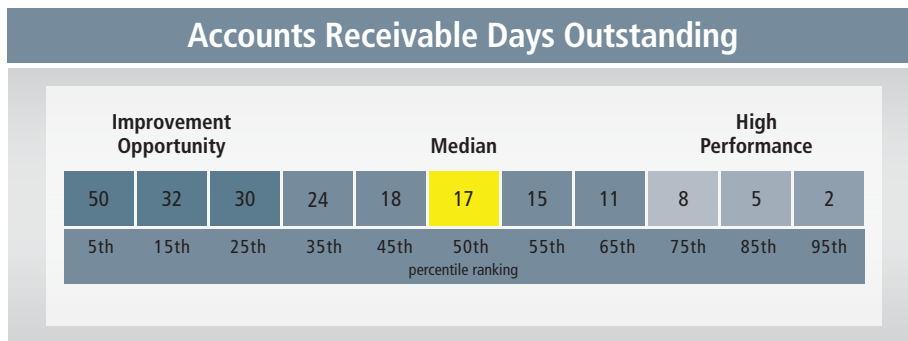


MBA surveys exploring the financials of private optometric practices suggest that managing receivables is not a major deficiency area in typical practices, but it is for some.

One key metric that reveals receivables management effectiveness is the percentage that current receivables represent of monthly gross collected revenue. This is calculated by dividing current accounts receivables by the average monthly gross revenue for the latest 12 months. For all private optometric practices in the U.S. in 2010, account receivables were a median of 56 percent of monthly gross revenue, or about one half month’s revenue.

Although the source of payments varies widely across practices, in typical offices two-thirds of payments come from insurance companies or the federal government and one third from direct patient payments.

With a high proportion of payments coming from third-party sources which require processing, one half month’s receivables is not excessive. Ranking U.S. practices in receivables performance deciles reveals that worst performing 25 percent of practices have receivables totaling one month or more of revenue, while the best performing offices have receivables amounting to one third month or less of revenue – 10 days or less of revenue.



Another key metric related to receivables is the aging of the uncollected amounts due. A universally true rule is that there is an inverse correlation between the probability of collection and the number of days a bill remains unpaid. So a goal of any business is to keep the number of days that elapse between issuing statements and collections to a minimum.

Uncollected amounts from third parties that are less than 60 days beyond statement issuance are not problematic. These amounts usually represent most of the receivables due a practice. In typical optometric practices during 2010, some 80 percent of receivables were aged less than 60 days, and 20 percent were 60 days or longer. MBA data suggest that having one- third or more of receivables aged 60 days or longer indicates a deficient process.

## Accounts Receivables Percent under 60 days

Improvement Opportunity				Median			High Performance			
41%	55%	65%	70%	80%	80%	84%	85%	90%	95%	100%
5th	15th	25th	35th	45th	50th	55th	65th	75th	85th	95th
percentile ranking										

## Accounts Receivables Percent 60 days or more

Improvement Opportunity				Median			High Performance			
60%	47%	36%	30%	22%	20%	17%	15%	10%	6%	2%
5th	15th	25th	35th	45th	50th	55th	65th	75th	85th	95th
percentile ranking										

## Best Practices of Accounts Receivables Management

1. **Continuously monitor receivables.** Determine the receivables balances for direct-pay patients and by third party sources. At the end of each month calculate current accounts receivable days outstanding. This is the single best indicator of the efficiency of your billing operation. Also examine the proportion of receivables in aging buckets in 30 day increments up to 180 days or more. Practice management systems usually can provide the information necessary to track receivables. Plot days outstanding on a graph each month. If either total receivables or the ratio aged 60 days or more spikes in any month, investigate the causes and take remedial action. Also look for a long-term trend showing a slow but steady increase in days outstanding, signaling a deteriorating situation.
2. **Verify each patient's insurance coverage immediately after appointments are booked.** If it is determined that a patient is not covered by insurance, who thinks he or she is, notify the patient immediately and explain the fees that will be due at their visit. Before service begins, notify each patient of their specific insurance allowances. This will reduce misunderstandings and will enable the office to invoice patients for co-pays and other non-covered goods and services as service concludes. Explain product costs and insurance allowances as materials are ordered.
3. **Designate a person (or persons) responsible for submitting insurance claims and monitoring collections from third-party sources.** Aging of receivables from third-party sources will increase to the extent there are improperly filed claims. By assigning a person to be responsible for insurance and government claims, accountability and expertise will be developed. Use any functionality built into the practice management software to process claims.
4. **Require immediate payment for services from direct-pay patients, and require a minimum payment of 50 percent of the total cost of any undelivered contact lenses or eyewear purchased.** Immediate payment is standard in most medical offices and is accepted by patients. Some 94 percent of adults have either a credit card or debit card. If a patient cannot qualify for either type of card, he or she is probably not a credit-worthy risk for the practice to assume. There should be no exceptions to an immediate payment policy. Despite a no exceptions policy,

there will be a few patients who simply cannot pay on the day of service, but this should be less than 5 percent of patients.

5. **Process all insurance claims the same day services are provided using online filing to expedite claims and reduce errors.** Delays in claim filing will increase the receivables percentage of monthly revenue, will delay the receipt of payments and may produce cash flow problems. No backlog of unfiled claims should be allowed to accumulate. It may be useful to track the lag between the day service is rendered and the day insurance claims are filed, as an indicator of the performance of your billing supervisor.
6. **Track the number and value of insurance claim denials.** It's estimated that 10-15 percent of all healthcare claims are delayed or denied due to errors and that 90 percent of denials are preventable. The status of all claims should be constantly monitored, and as soon as a denial is received the error should be identified and the claim resubmitted.
7. **Follow-up with patients with unpaid balances.** Have a staff member telephone patients with account balances 30 days past due. A personal call is more likely to trigger action than a form letter. Repeated calls may be needed because debtors sometimes avoid answering calls and do not return messages left by companies seeking to collect. Repeated attempts over a short time span to contact a patient with an unpaid balance will signal determination to collect and will increase the odds of payment.

The initial call to patients with unpaid balances should be friendly in tone and assume a patient's good intentions. This tone is appropriate because some patients refuse to pay because they are dissatisfied with the service or product purchased and sometimes errors are made in statements. Accusatory, badgering statements will damage a patient's relationship with the practice.

Once the legitimacy of the amount due is established and after gaining the patient's agreement on the amount, immediate payment should be requested using a credit or debit card. If this is not possible, agreement should be reached on a firm date for payment. If a patient claims inability to pay-in-full, suggest a payment schedule. Before you create a policy regarding payment schedules, familiarize yourself with guidelines under the Truth in Lending Act. This federal law requires that a standard format be followed in presenting consumers with clear information on annual percentage rate, finance charge, amount financed, and the total of payments.

For more information about the Truth in Lending Act: <http://www.in.gov/dfi/2582.htm>

To download a Federal Truth in Lending Disclosure Statement:  
[http://www.entitledirect.com/static/entitle/sampledocs/fed\\_truth\\_in\\_lending.pdf](http://www.entitledirect.com/static/entitle/sampledocs/fed_truth_in_lending.pdf)

A safer, simpler route to collecting late payments may be to use PayPal or leading credit card collection services.

8. **Follow-up with unpaid third-party claims aged 60 days or more.**
9. **Eliminate persistently slow-paying insurance plans or plans with inconsistent allowance rules.**
10. **If requests for payment are not acknowledged after 90 days, as a last resort, unpaid accounts can be referred to a collection agency or local attorney.**

## **Reference**

*Excellence with an Edge: Practicing Medicine in a Competitive Environment* by Michael T.Harris, MD; 2010; pages 15-37.