

## Selling bad debt can help providers raise cash

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Editor

CHICAGO – More hospitals are selling uncollectible bad debt to companies that specialize in those efforts.

Such debt sales, while only for a small percentage of the value of the original amount owed, bring a large check to a facility and clear long-standing debt off an organization's ledgers.

Other industries have a long history of selling debt to companies that specialize in collecting on old bills. While healthcare is new to the game, organizations need to ensure that debt purchasers' methods don't bring negative publicity for providers and are sensitive to privacy issues.

There are hundreds of companies that purchase bad debt, and the amount of bad debt purchased rose to about \$80 billion in 2006, fueled primarily by the increase in consumer credit, said Chris Graves, vice president of portfolio acquisitions for Portfolio Recovery Associates Inc. , an investor-owned company based in Norfolk, Va.

The healthcare segment of that bad debt is relatively small, Graves said at the recent Leadership Summit on Revenue Cycle Innovations in Chicago.

Tenet Healthcare Corp., a Dallas-based chain of hospitals and healthcare organizations, has sold one portfolio of old debt and is considering another such sale, said Jeffrey Nieman, senior director of patient financial services.

Tenet discounted the portfolio it compiled to a net present value and wanted a risk premium of 10 percent to 20 percent in addition to the NPV "because there was an element of risk in doing this," Nieman said. Tenet invested money in legal counsel to develop a solid contract with the debt-purchasing company, which Nieman feels was money well spent.

When Gary Zmrhal was at MacNeal Hospital in Berwyn, Ill. in 1999, he sold a portfolio of \$50 million in bad debt.

“There was no one working on it, and I thought why not sell it? ” he said. “We got a lump-sum check and it falls right to your bottom line.”

Now at Holy Cross Hospital in Chicago, Zmrhal pulled out the idea of selling the facility’s debt this year, selling some 43,000 accounts in May.

“I would do this again; this is a no-brainer,” he said. “There will be some bumps in the road, but get over it – it’s going to happen anyway. You’re probably not getting anything on these accounts anyway.”

“Bad debt is the byproduct of a failed revenue system,” he added. “It’s a natural function of the revenue cycle – it’s the next step of recovering something for a service that you provided several years ago.”