

Alleviating Patient Refunds Doesn't Have to be Painful



By Maureen Turo, Vice President & Healthcare Market Specialist, The Bank of New York Mellon Treasury Services

How Automation Provides Relief to the Slow Bleed Inherent in Issuing Checks

As medical providers continue the now-standard practice of collecting payments directly from patients at the time services are rendered, healthcare organizations are encountering a new and unprecedented roadblock to back office productivity and profitability. It's the highly manual and time-consuming process involved in issuing refund checks. And it stems from today's convoluted healthcare insurance environment — where varying co-pays, eligibility requirements, primary/secondary and even tertiary insurance coverage — combine to make it very difficult to accurately estimate patient liability upfront. As a result, duplicate payments and overpayments have become increasingly common — and healthcare organizations are paying a hefty price for collecting funds upfront.

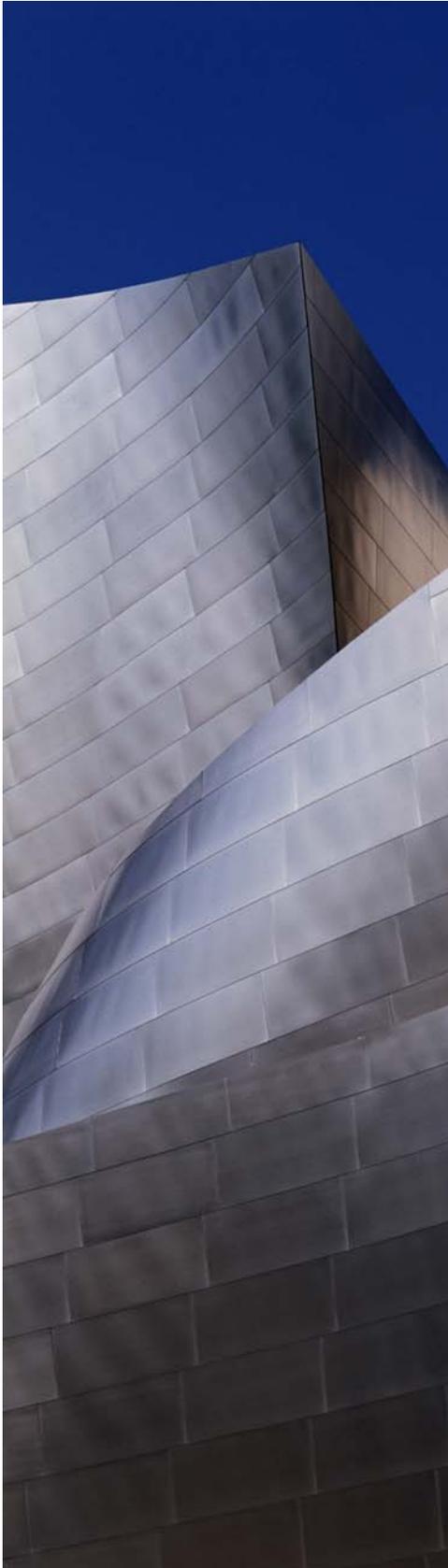
How big is the problem? Statistics from the Healthcare Financial Management Association show that the typical "small- to medium-size hospital with annual revenues of \$100 million, may generate \$2 million in credit balances each year. With nearly 6,000 hospitals nationwide, more than \$8 billion in new credit balances could be created annually."*

Yet, despite these staggering figures, many healthcare organizations have been slow to diagnose the continual slow bleed to profitability and productivity. And many others consider the situation an unfortunate fact of doing business today.

What's so difficult about issuing refunds?

In addition to consuming valuable and often scarce back office resources, the process for issuing patient refunds causes healthcare organizations numerous problems. These include:

A process ripe for fraud. In most healthcare organizations, the need to issue patient refunds is initially identified in the Accounts Receivable (AR) or patient accounting departments where the credit balance originates. Subsequently, the refund process crosses over into the Accounts Payable (AP) area where payments must be disbursed, tracked and reconciled. Without an invoice, how does AP know that a refund request is valid? How does AR know when a refund is issued? In many cases, the lack of an integrated system of checks and balances that enables these areas to share information makes the process uncertain. And the manual steps needed to take the process from identification of the need for a refund to the actual mailing of a check adds to the potential for unauthorized payments or misuse of patient information.



Exception processing. Once the AP department receives a refund request, staff must create a one-time vendor record in the payables system in order to issue the refund check. Since establishing new vendor records can be a time-consuming process, this function may only be performed once a week or even monthly. The AR area also can become laden with additional related responsibilities, including updating its system with the details about a refund check that was issued and then clearing out the credit balance for a particular patient account. If the check is never cashed, then both AR and AP must work to clear the transaction and prepare it for escheatment. As the steps in the process add up, so do the hours needed to complete the process.

Customer confusion. Since patient refunds don't produce revenues or reduce expenses, most hospitals fail to designate an owner for the process. It's simply not a priority. And, as noted previously, one-time payments without an accompanying invoice are out of the norm — and require a special process. As a result, requests may sit in an "inbox" for an extended period of time, causing a significant delay between the overpayment and refund.

When at last the refund is issued, the provider's challenge is far from over. Many patients have no idea why they are receiving a check from their provider. As a result, the AP and AR departments frequently receive numerous patient inquiries. Many times, those receiving the calls don't have access to the details associated with a refund, which can frustrate patients and erode staff productivity.

The boomerang effect. Another challenge inherent in the refund process stems from the prevalence of invalid addresses, which prevent refunds from reaching their intended recipients. The returned mail is sent to the AP area where it remains until someone can research hospital systems for new or correct addresses. If a new address is located, AP must then void the old check and reissue a new one — starting the process all over again. In cases where no address is found, AP will forward the payment details to the appropriate area where funds will be held until escheatment is required.

What's the Cure?

While there is no way to completely eradicate the need to issue patient refunds, the good news is that many of these "pain points" can be greatly reduced by outsourcing the process to a supplier who understands back office procedures and has experience in creating solutions for many of these same challenges. The best solutions replace as many manual steps from the process as possible with more efficient, repeatable and systemic electronic methods.

Once an effective electronic workflow for the refund process is implemented, internal resources can be put to work on other more critical business tasks. In fact, a hospital that implements an effective refund process may significantly cut associated operating costs. In fact, according to the Aberdeen Group, the average cost to process an invoice manually with no purchase order number is \$20.39 versus \$11.92 (40 percent savings) if that invoice is processed electronically.**

Implementing the Rx

To attain the benefits of electronifying the patient refund process, healthcare organizations are pursuing many of the following initiatives in the form of a "lift out" solution.

Pursue process automation. By engaging a supplier who can receive an electronic file listing approved refunds, you can alleviate the need for the AP department to set up vendor records for each patient refund. Once the supplier receives the transaction information, each one can be imported into a database to facilitate tracking, followed by secure check printing and mailing of the refund to the appropriate patient or insurance company.

As an additional benefit associated with outsourcing the process, checks can be customized with information about the facility where the patient received care. This measure may decrease patient confusion because there is more information about the refund contained on the check itself. The customer service number applicable to the facility can also be included so that patients will know whom to contact if they have questions.

The process is also faster since refund checks can be printed and mailed on the same or next day after the data is received; or on whatever schedule the healthcare provider requires. A check register file can be delivered to the AP or AR department if updates to the patient or payables systems are necessary.

Facilitate data accessibility with Web tools. Using a Web interface to track each step of the automated payment process can enable AP, AR or customer service

to quickly assess the status of a refund check, making it easier to address patient inquiries. If desired, the provider's payables system can be fed a daily paid check file to facilitate reconciliation or to clear the credit balances that are sitting on the provider's books.

Institute audit-friendly controls. The "lift-out" solution can incorporate the latest fraud detection products, such as positive pay and payee name validation, on all checks. This means that each check that is presented for payment is verified for accuracy of the payee name, check serial number, amount and issue date.

The healthcare provider can then review and make more educated decisions about any items flagged as potentially fraudulent. They can also improve their ability to keep data confidential and secure by eliminating the manual process of passing data between areas.

In addition, all returned mail can be directed to the supplier's processing site, thus alleviating the AP staff's need to spend time researching correct addresses. If a forwarding address is indicated, the check is repackaged and sent to the new address. A file of updated addresses can be provided to the patient accounting system to facilitate updates. All other undeliverable checks, or any checks that are still outstanding according to a provider's stale-date parameters, would be automatically voided and associated information sent to a supplier's escheatment area for tracking and distribution of the funds. Alternatively, if a provider has its own internal escheatment process, a transmission of the voided information could be delivered to assist in the activity.

The bottom line: It makes good business sense for healthcare providers to pay attention to an inefficient patient refund process. Although the issues associated with issuing refund checks often go undetected due to a lack of process ownership, they can combine to create some significant financial and reputation-related risks to healthcare organizations. While patient refunds are a fact of life — and will likely continue to be as the healthcare insurance system continues to evolve — business risks can be reduced with an automated solution.

BNY Mellon's Patient Refund Check Outsourcing Solution is designed to easily lift-out the check issuance, refund management, and escheat activities from a healthcare provider's normal operations. Learn how you may benefit from more streamlined processing, effective reporting and more effective data for updating internal systems with patient refund outsourcing solutions. For more information on how to better manage your patient refunds, contact BNY Mellon Working Capital Solutions at 1 800 424-3004 (Option 2) or visit www.bnymellon.com/treasury.

ADDITIONAL BENEFITS OF OUTSOURCING PATIENT REFUNDS:

- AR and AP staff can focus on core processes
- Reduced net credit balances
- No extensive capital investment
- Improved customer satisfaction
- Easily accessible Web reports and information
- Achieve reduction in operating costs
- Streamline the pay-to-escheat process





THE BANK OF NEW YORK MELLON

The Bank of New York Mellon
One Wall Street
New York, NY 10286
1 800 424-3004
www.bnymellon.com/treasury

**Healthcare Financial Management Association, www.hfma.org, 2006.*

***AP Strategies for Success, Aberdeen Group, December 2006.*

The material presented herein is intended to provide a general overview of our services and is not an offer or commitment to provide credit facilities or services. The Bank of New York Mellon Treasury Services. Services may be provided by one or more legal entities of The Bank of New York Mellon Corporation. Not all services are offered at all locations.

© 2008 The Bank of New York Mellon Corporation. All rights reserved.

10/2008
