



# Spinning straw into gold: How Meridian made bad debt pay off

success story:  
collections and recovery



<b>Client</b>	Meridian Health, a large New Jersey-based healthcare system
<b>Challenge</b>	Increase recoveries and lower bad debt through improved efficiencies and better agency management, ensure recovery efforts are fully HIPAA compliant
<b>Solution</b>	FICO™ Recovery Management System™ solution (RMS™) and Debt Placement Services through FICO® Network
<b>Results</b>	ROI in less than six months, reduced bad debt by \$1.1 million in first year, averaged \$1 million+ in secondary recoveries per year since implementation



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— Marilyn Koczan,  
Meridian Health

With razor-thin profit margins, healthcare providers like Meridian Health are beginning to tap a once-overlooked area of profit potential: bad debt management.

Bad debt for this New Jersey-based healthcare system totaled \$46 million and was cumulative over many years. Much of the debt was uncollectible, but the company wasn’t able to delete accounts or determine when collections efforts were exhausted. In addition, a recent merger left Meridian Health with 10 different collection agency relationships.

“Without monitoring tools, we couldn’t determine which agencies were delivering the best return,” explains Marilyn Koczan, vice president, Patient Financial Services, Meridian Health. “Only a handful of agencies send us performance reports, and even these didn’t allow us to do an apples-to-apples comparison.”

To make matters worse, Meridian Health was unable to track the accuracy of agency invoices. Vouchers for payment were often an inch high with thousands of accounts. Realistically, the company could only check payments of \$1000 or more.

At one point, Meridian Health identified that a \$1000 “payment” sent from an agency was in reality an allowance. It led the company to conduct an audit of the agency.

“We found that in one year alone, we had overpaid them \$97,000 in fees,” says Koczan. “While we didn’t believe the mistakes were fraudulent, we realized errors like these were being allowed to happen within our accounting system.”

## » The bottom-line impact of lack of management

“These errors were just the tip of the iceberg,” adds Koczan. “It wasn’t until after implementation of a FICO bad debt solution that we fully understood how significant the bottom-line impact was.”

For instance, collection agencies weren’t reconciling cash on a daily basis, recognizing allowances or closing out accounts when their collection efforts ended. For some accounts, Meridian Health was being charged fees by both primary and secondary agencies.

To overcome these challenges, Meridian Health uses FICO Recovery Management System (RMS) solution and FICO Network. RMS software is the leading solution for bad debt recovery in the US. Using Debt Placement Services through FICO Network, the company can securely communicate and exchange data with its agencies in real time. The combined solution provides strong rules-based workflow, agency management and monitoring features, and the ability to integrate analytics.

## Meridian Health Realizes Quantifiable Benefits

Benefits	Results
Reduced bad debt	By \$1.1 million within the first year
Increased secondary recoveries	By \$.3 million within first 6 months
	By \$1.3 million in year 2
	By \$1.6 million in year 3
	By \$1.3 million in year 4
Reduced collection fees	By \$1 million within two years
Lowered bad debt as % of NPSR*	By 1% within the first year
Realized 5-day window savings	\$285,000 within the first year

\*Net patient service revenue

Meridian Health saw a return on its FICO technology investment in less than six months, and realized many immediate and ongoing benefits.

### Bad debt reduced by more than \$1 million

Within a year of implementation, the company reduced bad debt by \$1.1 million, and its bad debt as a percentage of NPSR (net patient service revenue) decreased by 1%.

"I was surprised at how extensive the financial results were and the relatively short time it took to achieve them," says Koczan.

"We saw an ROI in less than six months, which without a doubt was much sooner than expected. A key reason for our success was choosing a proven solution with the right functionality to get the job done."

### Policy and regulatory control

The strong results were due in large part to the rules-based workflow management of the FICO solution. These capabilities allowed Meridian Health to automate policies and procedures, including agency communication, tracking and reporting. For instance, previously many agencies would hold accounts after they stopped working them—some for up to three years.

Meridian Health automated its policy to give primary collection agencies 180 days to collect, then forward accounts to a secondary agency.

As a result, the company not only eliminated double charges, but increased recoveries by ensuring accounts were sent to secondary agencies. In the first year, it recovered \$1.3 million in secondary revenues.

"The ongoing revenue stream is phenomenal," says Koczan. "We've averaged more than \$1 million in secondary recoveries per year since implementation."

Another newly enforceable policy was to not accept charges for payments received within five days of agency referral. The agencies wouldn't have had a chance to work the account yet, so any payments would be a result of the hospital's activities.

The company realized \$285,000 on this "five-day window savings" in the first year. Using the

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FICO solution, the company could control the delivery of only HIPAA compliant patient information to agencies.

Also, agencies could no longer use unauthorized attorneys to collect on accounts. Meridian Health could assign contracted attorneys and automatically transfer accounts to an attorney if needed.

### » Ensure accurate payment of fees

For the first time, Meridian Health could accurately determine agency fees. Instead of invoices, agencies recorded all activities through the recoveries system. Meridian Health then applied its agreed-upon collection percentage and paid the agency. Collection fees once totaled close to \$3 million annually, but within two years, this decreased by \$1 million and fees continue to decrease. With a system that ensures accuracy, agencies are paid in a more timely manner.

### » Monitor agency performance

The new solution also provided consistent tracking and reporting of agency performance, so Meridian Health could measure each agency's net back. Using this data, Meridian Health narrowed down its ten collection agencies to four primary agencies, and renegotiated contracts with a lower fee structure. In addition, the recovery system allowed Meridian Health to track the delivery of files. Before, when it appeared that an agency was doing a poor job collecting on accounts, the agency could claim certain files were never received. Now, Meridian Health sends accounts through FICO® Network's Debt Placement Services, which requires agencies to confirm receipt.



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