

# Frequently Asked Questions about Medicare Bad Debt

Nearly 70 million Americans receive some kind of healthcare coverage from Medicare. Rural healthcare facilities also rely heavily on the federal health insurance program, with more than 55% of their revenue coming from Medicare and Medicaid.

Healthcare organizations nationwide are navigating tighter margins and shrinking reimbursement rates. That's why considering opportunities from Medicare bad debt is one way to find additional reimbursements.

## **Q. What is Medicare bad debt?**

**A.** Medicare bad debt happens when a Medicare beneficiary doesn't or can't pay their deductibles and co-insure amounts.

Typically, Medicare pays 65 cents of every allowable dollar of Medicare bad debt for fee-for-service beneficiaries. The uncollectible cost-sharing amounts that Medicare beneficiaries receive are called "allowable bad debt."

For dual-eligible beneficiaries—those enrolled in both Medicare and Medicaid—any out-of-pocket obligations unpaid by Medicaid also count towards Medicare's allowable bad debt. Medicare reimburses a percentage of that bad debt to eligible healthcare facilities. These include hospitals, skilled nursing facilities, and facilities that treat end-stage renal disease.

## **Q. What types of bad debt are allowable under Medicare rules?**

**A.** The criteria to be considered bad debt include:

- ▶ The debt has to be for covered services and for deductible and coinsurance amounts.
- ▶ The provider must establish that they made reasonable collection efforts.
- ▶ The debt was uncollectible when claimed as worthless.
- ▶ The provider used sound business judgment to determine they wouldn't recover any of the debt at any time in the future.

## Q. What types of bad debt aren't allowable under Medicare rules?

A. Debt that doesn't qualify as bad debt includes:



- ▶ Any debt from a Medicare Advantage Plan. Bad debt amounts can only relate to Medicare Part A and Medicare Part B.
- ▶ Debt from non-Medicare recipients. Bad debt amounts are only allowable when Medicare is the primary insurer on the account.
- ▶ Any physician or professional fees.
- ▶ Presumptive charity usually if there isn't income and asset testing.
- ▶ Amounts that result if a patient is responsible for the Medicaid share of the cost or has to meet a Medicaid spend-down amount.

## Q. What is the Medicare 120-day rule?

A. According to Centers for Medicare & Medicaid Services, if a bill is still unpaid for more than 120 days from the date the first bill was mailed — and the provider made “reasonable and customary attempts” to collect a bill — the debt may be deemed uncollectible.

However, if the patient makes any payment, the clock resets to 120 days from the payment date.

## Q. What are the challenges of collecting Medicare bad debt?

A. Hospitals claim more than \$3 billion in bad debt on their cost reports each year. Still, the process can be complicated and cumbersome. First, you have to identify potential coinsurance and deductible amounts. Then, you must eliminate non-eligible amounts. Lastly, you have to match the remainder against your facility's own bad debt write-off information.

This process requires the collaboration of multiple departments plus your third-party debt collection agency. That leaves a lot of room for errors, including:



- ▶ Not claiming accounts in the right year.
- ▶ Incorrectly writing debt off.
- ▶ Not capturing or identifying the right insurance.
- ▶ Not properly processing 835 claims information.
- ▶ Not following your facility's collections or charity policy.
- ▶ Amounts that result if a patient is responsible for the Medicaid share of the cost or has to meet a Medicaid spend-down amount.

## **Q. How can a healthcare facility minimize the challenges of collecting Medicare bad debt reimbursements?**

**A.** Because there is so much revenue at stake from Medicare bad debt, it's important that healthcare facilities examine their process and procedures carefully so they can be proactive when it comes to filing for reimbursements. Medicaid spend-down amount.

### **WORK WITH A THIRD PARTY**



If staffing is a challenge, it can be easier and more cost-effective to work with a third party that has the knowledge and technology to help with your cost report. Casey Peterson, LTD offers cost report services and can help when it comes to Medicare bad debt reimbursement.

### **AUTOMATE**



Consider investigating AI or other automated systems that can help you manage the process when it comes to Medicare bad debt. You can look into outsourcing or implementing in-house software.

### **IMPROVE QUALITY CONTROL**



Data errors can severely impact your potential reimbursement amounts. Make sure you're examining your data collection processes and doing regular audits of those processes. Again, this is where a third party can prove invaluable, whether that's helping you set up solid processes or setting up software that can increase your reporting accuracy.

## **Resources**

[Moss Adams in-depth Medicare Reporting for Hospitals FAQ](#)

[Casey Peterson, LTD General Accepted Accounting Podcast about Medicare bad debt CMS Electronic Cost Report Exhibit Templates](#)