

# KODIAK

Kodiak RCA benchmarking analysis

## Drawing the line on patient responsibility collection rates

Hospitals, health systems, and medical practices are collecting only about half of what patients owe them, and those relatively small dollar amounts are adding up to millions of dollars in lost revenue.

February 2024



## Draw the line on patient responsibility collection rates

Johnny Cash walked the line. The Pretenders sang there's a thin line between love and hate. There are dividing lines, receiving lines, and long lines. And there are some lines you don't cross.

There's also a line in the healthcare revenue cycle: the line between the cash dollar amounts that most patients are likely to pay and amounts they are likely to not pay. How hospitals, health systems, and medical practices manage that line is the difference between net revenue and bad debt.

This quarterly key performance indicator (KPI) revenue cycle benchmarking report from Kodiak Solutions (formerly Crowe healthcare consulting) is based on exclusive analysis of nearly 3 million fully resolved claims from commercially insured patients who received services from providers in 2022 and 2023.

The claims data used in this exclusive analysis comes from the Kodiak Revenue Cycle Analytics (Kodiak RCA) platform that more than 1,850 hospitals and 250,000 physicians use to manage their net revenue and monitor their revenue cycle performance. Averages are weighted and have been calculated using raw benchmarking data.





## The patient and healthcare system perspective

The affordability of healthcare services and consumers' increasing medical debt have risen to the top of the national conversation on rising healthcare costs. Several credible national organizations and federal agencies have quantified the situation primarily from a consumer and healthcare system perspective.

- **In June 2022**, KFF released details of a [report](#) based on a survey of 2,375 U.S. adults. Of those, 41% said they had healthcare debt. Of those with unpaid healthcare bills, 21% said they owed money directly to a healthcare provider, with 34% owing less than \$1,000. Further, about 50% of the respondents said they would not be able to pay an unexpected \$500 medical bill in full or at all after receiving care.
- **In March 2023**, the Urban Institute and the Robert Wood Johnson Foundation released a report based on a survey of 9,494 U.S. adults ages 18-64. According to the [report](#), 15.4% of the respondents said they live in families with past-due medical bills. Of those with late medical bills, 72.9% said they owe some or all of it to hospitals, with 28.5% owing less than \$1,000.
- **In May 2023**, the U.S. Consumer Financial Protection Bureau (CFPB) detailed the results of a [report](#) based on data from the U.S. Census Bureau's 2021 and 2022 "Survey of Income and Program Participation." According to the report, 7% of adults ages 65 and older had unpaid medical bills in 2020. The median unpaid medical bill in 2020 was \$1,500.
- **In October 2023**, the Commonwealth Fund [reported](#) that, in a survey of 6,121 U.S. adults ages 19-64, 32% of the respondents said they had medical or dental debt that they were paying off over time with 67% saying they were making payments directly to a provider. Fifty-one percent said the amount they owed was less than \$2,000 with 54% saying hospital care was a source of their unpaid medical bills.

Taken together, these reports describe a healthcare system in which tens of thousands of patients have relatively small unpaid medical bills that they owe to hospitals, health systems, and medical practices.

**But what does this healthcare system dynamic look like from a provider perspective?**



The patient's paper trail ends ...

41%

Of patients had healthcare debt in 2022.

*Source: KFF*

67%

Of patients with overdue medical bills in 2023 were making payments directly to providers.

*Source: The Commonwealth Fund*

73%

Of patients with overdue medical bills in 2023 owed some or all the amount to hospitals.

*Source: Urban Institute and Robert Wood Johnson Foundation*

\$1,500

Was the median unpaid medical bill of seniors in 2020.

*Source: U.S. Census Bureau*



## The hospital, health system, and medical practice perspective

Why more patients are carrying relatively small amounts of medical debt owed primarily to healthcare providers is a complex question with an equally complex socioeconomic answer. The situation has a detrimental financial effect on hospitals, health systems, and medical practices that depend on that revenue to provide accessible, high-quality care in their communities.

This quarterly KPI revenue cycle benchmarking report begins where those other reports and surveys left off as a lot of small unpaid medical bills add up to hundreds of millions of dollars in lost potential revenue.

The trail picks up with unpaid medical bills, also known as bad debt. Bad debt occurs when providers fail to collect from patients. One revenue cycle KPI that captures that transaction is bad debt write-off expressed as a percentage of total claim charges. Overall, that percentage was 1.54% in 2023, according to the data in Kodiak RCA from hospital and medical practice users. Though that percentage might seem small, it added up to more than \$17.4 billion in total bad debt write-offs last year.

... and the provider's trail begins

**1.54%**

Bad debt write-offs as a percentage of total claim charges in 2023.

**\$17.4 B**

Dollar value of total bad debt write-offs in 2023.

**53%**

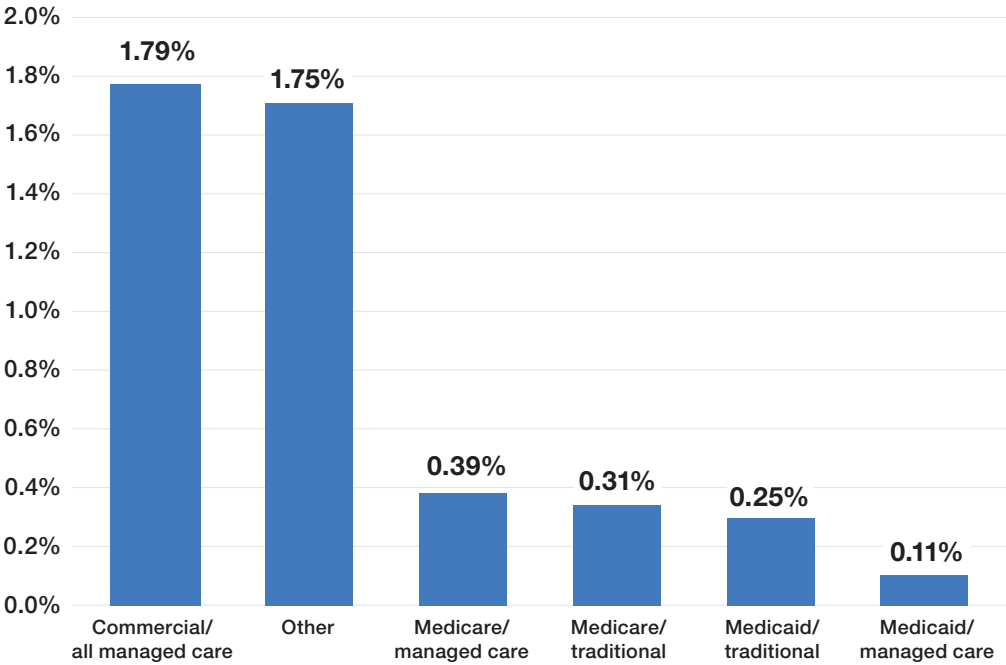
Percentage of bad debt write-offs in 2023 from patients with some form of health insurance.

**47.6%**

Patient responsibility collection rate in 2022 and 2023.

The percentage and total charge amounts varied by payor classification of the patient. Self-pay patients – those with no health insurance of any kind – had the highest percentage of bad debt write-offs, making up nearly half of the bad debt total charge dollars in 2023.

### Bad debt percentage by payor classification



Source: Kodiak RCA

Still, 53% of the \$17.4 billion in total bad debt write-offs in 2023 came from patients with some form of health insurance. This statistic shows having health insurance doesn't guarantee patients will pay their share of medical bills.

## Total charges, total payments, and patient responsibility

Kodiak analysts took a deep dive into nearly 3 million fully resolved medical claims from commercially insured patients who received services from providers in 2022 and 2023.

The total charges of those claims were about \$21 billion. As healthcare finance and revenue cycle leaders likely are aware, total charges are not the same as total payments made for services rendered. In fact, total payments made are a fraction of total charges. The analysis of Kodiak RCA data found that total payments made during the two-year study period were about \$5.2 billion, or about 24.5% of total charges.

Of that \$5.2 billion paid to providers over the two-year study period, about \$1.1 billion, or about 20.4%, were patients' responsibility.

Kodiak's analysis of the collection rate on the patient responsibility portion of payments owed showed that providers collected less than half – 47.6% – of what patients owed them for care in 2022 and 2023.

## Turning billions into millions

# \$21B

Total charges from nearly 3 million full resolved medical claims from commercially insured patients in 2022 and 2023.

# \$5.2B

Total payments made on that \$21 billion in gross charges.

# \$1.1B

Dollar amount of patients' responsibility on that \$21 billion in total charges.

# \$500.5M

How much providers collected of that \$1.1 billion with a 47.6% patient collection rate.

Source: Kodiak RCA



# The line between net revenue and bad debt

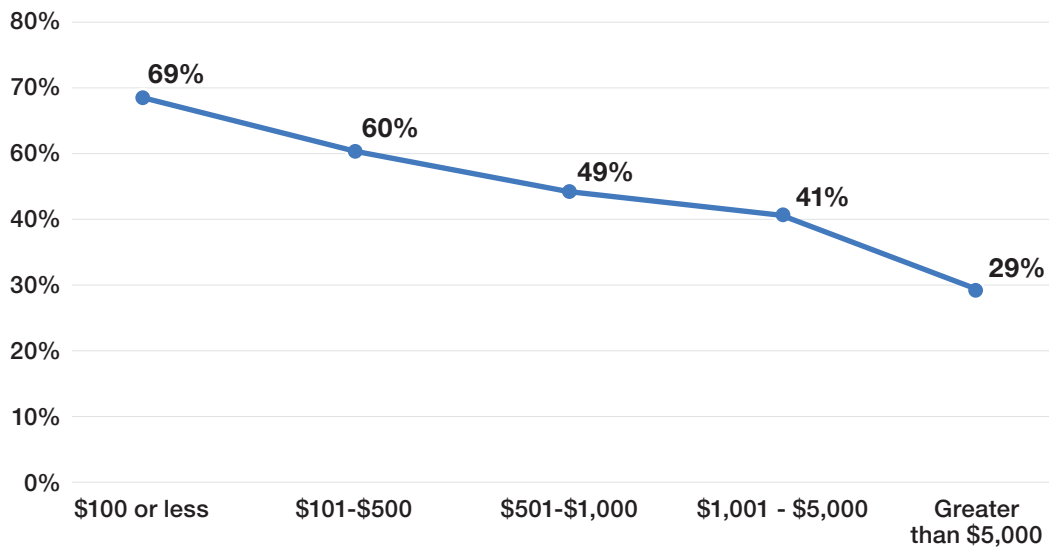
To determine the line between when patients pay their medical bills and when most patients avoid paying, Kodiak made a finer cut of the overall patient responsibility claim dollar collection rate.

That line is \$500.

Most patients paid their outstanding medical bills when the amount they owed was \$500 or less. Most patients didn't pay their outstanding medical bills when the amount they owed was more than \$500.

Kodiak analysis also revealed the patient responsibility claim dollar collection rates fell as the claim dollar amount owed rose.

**Patient collection rate by dollar amount owed**



Source: Kodiak RCA

Applying the overall patient responsibility claim dollar collection rate of 47.6% to the approximately \$1.1 billion owed by patients on their claims, providers collected about \$500 million but left about \$500 million uncollected. Many of the missed payments from patients likely became bad debt during a period in which every dollar counted, especially as many hospitals, health systems, and medical practices struggled to recover financially from the pandemic.

In addition, the three consumer credit rating agencies – Equifax, Experian, and TransUnion – in April 2023 decided to remove unpaid medical debt of \$500 or less from their consumer credit reports, according to the CFBP. That decision likely eliminated an incentive – a lower credit score – for patients to pay their small-dollar unpaid medical bills.

## Looking back, looking ahead

In a quarterly KPI revenue cycle benchmarking report released in August 2022, an analysis of Kodiak RCA data found that the patient responsibility claim dollar collection rate was 54.8% in 2021, and the rate dropped off significantly when the amount owed was more than \$7,500. The report referred to that dollar amount as the net revenue “vanishing point.”

Given the dollar amounts owed as reported in the four industry consumer surveys and the findings of this new Kodiak analysis, hospitals, health systems, and medical practices apparently are collecting lower percentages from patients on even smaller medical bills.

What can healthcare providers do to effectively manage that line between most patients paying and most not paying? Kodiak net revenue and revenue cycle specialists provide the following recommendations:

- Solidify point-of-service collection practices at all scheduled patient encounters.
- Implement policies to collect deposits on accounts where patients will have a higher-dollar financial responsibility on an episode of care.
- Provide patients with financing options for higher-dollar balances, as 50% of all patients' financial responsibilities are between \$1,001 and \$5,000.

Those steps should help providers redraw the line between net revenue and bad debt.





AGENDA



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## Learn more

For more information on the Kodiak RCA benchmarking program, please visit [crowe.com/benchmarking](https://crowe.com/benchmarking) or contact:

Ken Ruiz  
Chief Revenue Officer  
+1 317 706 2765  
[ken.ruiz@crowe.com](mailto:ken.ruiz@crowe.com)

Colleen Hall  
Senior Vice President, Revenue Cycle  
+1 615 515 3813  
[colleen.hall@crowe.com](mailto:colleen.hall@crowe.com)

Matt Szaflarski  
Director, Revenue Cycle  
+1 630 586 5229  
[matt.szaflarski@crowe.com](mailto:matt.szaflarski@crowe.com)

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The Kodiak Revenue Cycle Analytics (Kodiak RCA) solution was invented by Derek Bang of Kodiak.

The Kodiak RCA solution is covered by U.S. Patent number 8,301,519.

## Kodiak Solutions

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