

Bad Debt Syndrome

Prevention is better than debt collection

The Bad Debt Problem

Bad debts and slow debt collection can be terminal for many businesses. Although the problem may not be so fatal for medical practices, high bad debt pressure can lead to blocked creditors and lifestyle arrest. Like most diseases, bad debt syndrome is easier to prevent than cure.

Although most of your patients will pay on the way out, the presence of non-paying patients and slow payers can cause cash flow problems. The bad debt problem can be surprisingly complex, with a difficulty being that often those who most need your help are the people who can least afford to pay for it. The problem then becomes a balancing act between social responsibility and running as an effective business.

To ensure you respond to this issue ethically it is extremely advisable to set up a fair and standard process that outlines the steps for the collection of fees. This is discussed in further detail towards the end of this NZMA member resource. Tips on how you could prevent bad debt are discussed below.

Prevention - The Best Action

An added complexity is the Medical Practitioner in lower socio-economic areas will have a far larger number of patients who are not able to easily pay the cost of treatment. But remember it is possible to significantly reduce the incidence of bad debt by taking early preventative action. Here are key ways to prevent the build-up of debt:

1. Community Service Cards

Medical Practitioners should be actively ensuring that all eligible patients have obtained a Community Services Card. Practitioners should hold a stock of card application forms at their reception desk and assistance should be provided in correctly filling out the application. The effect of subsidised fees in reducing debt levels is obvious.

2. Drip Feed Payment Of Fees

For those patients who have built up large debt levels or have difficulty paying for regular visits, the answer may be to arrange a consistent drip feed of payments. For regular patients, this may involve setting up an automatic payment system with a regular weekly payment based on previous fees. The automatic payment should be paid on the same day that the patient receives their wages or the benefit.

3. Shortening Consultation Times (if applicable)

Many factors contribute to the length of patient consultations. However, if you have a number of patients who are unable to pay the cost of consultations you may have to look at reducing consultation times and the standard fee. This will reduce the amount of fees they have to pay whilst allowing you to see more patients and collect the same value of fees.

4. The Health Insurance Approach

For patients who have the ability to pay for health insurance or have a possible health risk, it would be beneficial for them to gain some health insurance cover. For large practices, you may negotiate with the health insurance companies to pay the consultation fee directly to you.

Debt Collection

There are situations where despite your efforts, patient debt will build up. It is important to remember that in the vast majority of cases, the debt is not intentional. Your patient will be willing to pay the debt if they have the funds available. There are many methods of collecting this debt, with varying degrees of severity. It is advisable that you set up a process to follow which ensures that you are consistently dealing with all situations. This process would then help address your ethical or social obligations, particularly where some patients feel unable to get the medical service they require for reasons of cost.

The collection of bad debts will not be regarded as harassment provided this is undertaken in an acceptable manner. If consumers are likely to be charged interest on outstanding accounts or fees in connection with the collection of debts, then patients must be informed of these costs in advance. Failure to do so could result in a breach of Right 6 (to be fully informed) of the Health and Disability Consumers Rights. We suggest that practices display a suitable sign in their waiting area outlining all potential costs to consumers.

Some of the more effective methods that you could incorporate into a standard process are outlined below:

1. Personal Approach

By far the most effective method is the personal approach. A phone call from you or your staff will give your debt better priority for payment. You may wish to collect post-dated cheques, or recommend they seek assistance in budgeting. The Citizens Advice Bureau (Inc.) are able to help them design a simple budget. (In poor families, teaching budget skills may be one of the best cures for patient stress).

2. Disputes Tribunal

If your patient has the ability to pay, but disputes the fee, the Disputes Tribunal is an effective means of fixing the problem. Disputes Tribunals are not like formal courts. There are no lawyers or judges. Disputes are heard by a referee who has been carefully selected and trained. A referee is someone who will either help you to come to your own solution or

will determine your dispute. Any ruling they make is binding and will, if necessary, be enforced by the Courts.

You will have to pay a small fee. However, as no lawyers are involved you will not be faced with a lawyer's bill unless, of course, you choose to seek legal advice before the hearing. Lawyers are not entitled to attend a hearing with you or appear on your behalf.

Contact the Disputes Tribunal at your nearest District Court. The staff there will help you. You will be given a form called a "Notice of Claim".

It is important to note that the Disputes Tribunal is only available for claims that are in dispute. They will not debt collect for fees that are not disputed. You should provide the other party's reason for not paying to show that the claim is disputed.

3. Debt Collection Agencies

Arranging for an agency to recover the debt for you is a last resort option. These agencies will follow an appropriate process given the size and significance of the debt.

There are numerous debt collecting agencies operating. Some charge on a performance basis, collecting 20% of recovered debts and a \$10 load fee for debts beneath \$50. Other agencies charge an upfront fee that guarantees a certain level of action. Obviously, to be effective, the debt would need to be relatively large.

Medical Practitioners should be assured you are entitled to use a debt collection agency to recover outstanding debt from your patients. As long as you are simply providing the standard contact information that such an agency requires, this does not breach the privacy of the patient.

This method of debt collection should be used as the last resort in your process, and ethically you should alert your patient to the possibility of their credit rating being affected where payment is not forthcoming. A final letter could address this, and a timeframe should be included. This gives patients a further chance to meet their financial obligation, and you can feel assured that you have been totally reasonable, which helps meet your ethical/social obligations.

You are also within your right to cease providing non-urgent services to a patient where, for example, outstanding fees becomes an ongoing concern. You should suggest the patient seek an alternative provider if you want to remove them from your books completely. Your ethical obligation in this instance is to provide adequate notice, and to ensure alternative care is reasonably available. It would of course pay to advise the patient both verbally and in writing to avoid any confusion, and this should stress that you are declining to treat them for non-urgent services. You can not withhold your services in emergency situations.

Where you are advised who the new provider is, your second obligation is to transfer your ex-patients records to that provider (or patient) regardless of any fees owing. You can not contract out of your statutory obligations, as outlined in the Health and Privacy Code 1994, because of outstanding fees.

You may also be interested to know that some Medical Practitioners need to liaise with the Police on such matters and this may become a last resort for you. Particularly, if the patient becomes abusive and things get unnecessarily difficult. The Police can assist with issuing trespassing notices etc. and it is advisable to have a chat with them to ensure you are fully informed if this becomes an issue.

In summary, where you have such a fair and standard process in place, it makes it easier to manage the balancing act (social responsibility and running as an effective business).

Tax Treatment

For those of you who do not end up charging patients or incurring bad debts, it is important to use the right accounting treatment to enable you to claim these costs. If you have not charged a patient it is important not to record any income. No fee is shown in your system.

For income you have charged to a patient then not been paid for, you can claim a bad debt expense. For tax purposes this acts as a negative income cost which you can claim GST and income tax deductions on. The rationale behind a bad debt expense is to negate the income and GST you were required to pay on fees which you never received. If you wish to claim a bad debt expense for the year it is important to claim the bad debt and remove the patient fees from your accounts receivable list before the financial year end (normally 31 March).

Need more help?

Contact the NZMA:

Phone | 0800 65 61 61

Email | Robyn Fell: robyn@nzma.org.nz