Receivables at risk

By Keith D. Drayer

Does your practice extend open credits to your patients?

This is an important question as veteran dental practice owners know that their practice’s fiscal health, profitability and success requires balancing a prudent patient financing policy.

Balance allows the flexibility to accommodate your patients, and it needs to be firm enough to avoid cash flow/collection problems that may have material consequences for both the doctors and staff. Even a temporary cash flow problem is stressful for a practice owner, creating the potential for uncertainty in making the payroll.

What is a dental practice’s uncollectible percentage? While this number will vary substantially (due to many factors ranging from service mix, use of practice management software, aggressive or lax payment policy compliance), when averaged, it shows the nationwide number of approximately 2.5 percent. Many practice owners think they can live with 2.5 percent. However, further inspection reveals a more in-depth appreciation of collection effectiveness on a practice.

Let’s suppose a practice grosses $1 million annually. If the practice has bad debt or “uncollectible receivables” of $25,000, that is 2.5 percent, then that write-off number would be correct (See Table 1).

Accounts receivable trends for any business, from a FORTUNE 500® company to a dental practice, are almost identical. Receivables are like gravity. You can’t resist gravity and you can’t resist receivables’ falling value over time. Table 2 shows the effects of time on receivables. Each $1 of accounts receivable at 90 days is statistically only worth $0.72.

Thus, the case can be made for dental practices to devote more focus to their “payment is due upon service” policy so the practice is not acting as a bank to patients. Offering patients (monthly, more affordable) financing options makes optimal treatment acceptance more likely, as well as removes a practice that offers selective financing from appearing as credit officers and lenders to patients.

Today, a good patient financing plan will accept from 50 to 60 percent of the patients who apply. There are patient financing companies that indicate an approval rate of 90 percent based on the total patient base being considered. That may be a misleading number as not every patient wants to be approved. Your patient-financing candidates can automatically be any who might remark:

► “I forgot my checkbook.”
► “Just bill me.”
► “I can pay you $100 a month until we’re done.”
► “I want to have the treatment, but can’t afford it now.”
► “Let me know the balance after the insurance pay-in.”

It is prudent to offer patient financing when you examine what consumers are advised to pay on a graded scale. Data reveals the recommended consumer order of payments is as follows:

1) Child Support. By law, credit bureaus must report any information received about overdue child support, as long as it’s verified by the proper agency and is not more than seven years old. Consumers are told this should be the No. 1 payment priority. Penalties, considered quite serious, include garnished wages, liens on property and a suspended driver’s license. Dentists should be aware that finance companies might consider an open child support lien on a credit bureau report as very negative.

2) Mortgage. After more than 90 days, late mortgage payments can end up on a credit record. Mortgages also tend to have hefty late payment fees, and if a mortgage holder misses two or more, a lender may start foreclosure proceedings.

3) Car loans. Repossession laws vary — in some states repossession happens after only one missed payment. Mass transit isn’t applicable everywhere and the risk of not having a vehicle probably impedes a person’s ability to work.

4) Taxes. The Internal Revenue Service (IRS) is tough when tax payers don’t pay on time. Penalties accrue with the clock and the clock keeps going from the time of the infraction.

5) Bank credit cards. Credit cards are important. Paying them on time is more important than ever as late payments give all credit card issuers the right to reprice a cardholder because of economic risk status. Recent legislation was passed about sudden rate increases from credit card companies, though the effective date isn’t until 2010.

6) Department store cards. Many will negotiate and/or accept lower payments for various periods of time.

7) Utilities (electric, gas, water). Utility companies may work out payment schedules for consumers (though security deposits for future services will be a factor). Nation-wide, rules vary as regional regulators have rules protecting homeowners from losing vital services and keeping consumers safe.

8) Student loans. Federal student loans may be deferred during times of financial challenge. When loans are deferred, payments aren’t required, but you can’t qualify for deferment once the loan is in default, so don’t wait until you are behind in payments to apply. Continue making payments until your request is approved.

9) Health-care bills. Most medical bills aren’t reported to credit bureaus until they are sent to collection agencies. Doctors will rarely initiate a patient credit check before starting a major treatment case.

With health care bills ranked in order at No. 9 and a new era with a tough economy, can your practice benefit from a proactive approach to patient financing? [2]

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Practice Annual Revenue</th>
<th>Eligible Receivables</th>
<th>Bad Debt</th>
<th>Bad Debt as a % of eligible receivables</th>
<th>Practice Annual Revenue</th>
<th>Eligible Receivables</th>
<th>Bad Debt</th>
<th>Bad Debt as a % of eligible receivables</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000,000</td>
<td>$850,000</td>
<td>$25,000</td>
<td>2.5%</td>
<td>$1,000,000</td>
<td>$850,000</td>
<td>$25,000</td>
<td>2.5%</td>
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<tr>
<td>Table 2: Value of aged accounts receivable</td>
<td>$1.00 is worth the following amounts over time</td>
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<td></td>
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<tr>
<td>31 Days</td>
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<td>61 Days</td>
<td>0.7312</td>
<td>91 Days</td>
<td>0.5790</td>
<td>181 Days</td>
<td>0.2296</td>
<td>365 Days</td>
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About the author

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