

# Managing Cash Flow

## Surviving the Slow Payers

by Phil Cohen

**H**ave you ever wondered why the hospitals you work for take so long to pay their invoices? What if I were to tell you that there is an enormous financial paradox involving our country's healthcare system, and that it may affect the way your transcription service operates? Allow me to elaborate.

The U.S. spends a larger portion of its gross domestic product (GDP) on healthcare than any other country. For example, in 2003, 15.3 percent of the United States' GDP was spent on healthcare, totaling approximately \$1.6 trillion, and it's projected to reach \$3.4 trillion by 2011. (See Figure 1.) Budgeting trillions of dollars for our healthcare system seems like a great way to benefit so many Americans. Yet there's an underlying irony—two-thirds of America's 5,000-plus hospitals are either operating in the red or are barely breaking even. It doesn't take a rocket scientist to realize that the numbers aren't adding up, but who's to blame for this financial crisis?

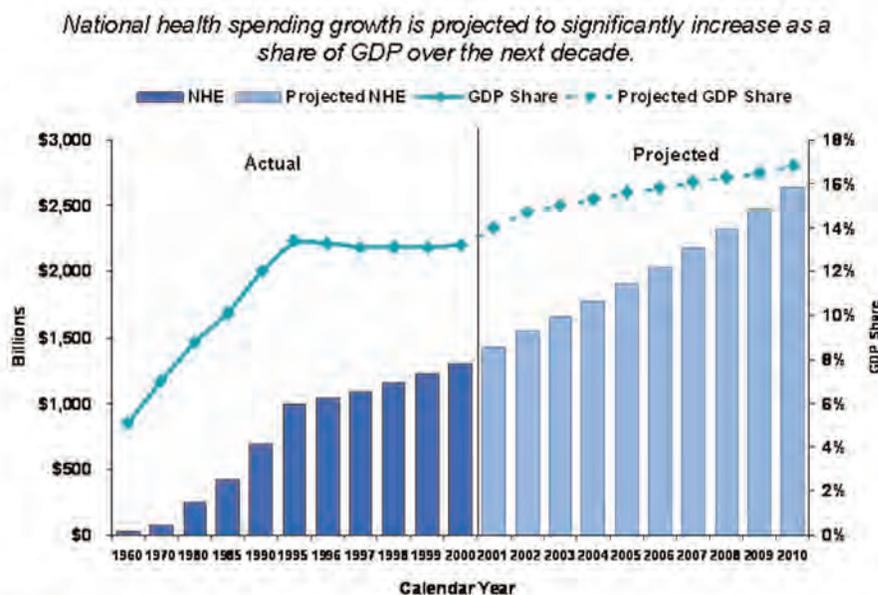
Most point the finger at hospitals, claiming that they are not using their allotted funds appropriately. In reality, there are a number of culprits involved. An aging population, an increasing number of uninsured Americans, and slow-paying government aid programs all play a role in cramping the budget of the American healthcare system.

Our nation's population has aged significantly over the past 50 years. The Baby Boomers are on the verge of beginning to celebrate their 65th birthdays, creating a massive surge in the elderly adult population and placing pressure on our nation's healthcare system. (See Figure 2.) During the 21st century, elderly Americans will need additional health-related services to treat and manage their medical conditions. Not to mention, there will be over 40 million retired elderly adults depending solely on Medicare to cover their medical bills next year, which is a problem that I will delve into later within the article.

On the other hand, a large portion of our younger generations are not insured at all. The *2003 Chartbook on Trends in the Health of Americans* reported that in 2001, adults aged 18-24 were most likely to lack health insurance coverage (over 16 percent of the American population under the age of 65 went without for the year). In addition, the *Denver Post* reported that the number of uninsured young adults aged 25-34 jumped dramatically in 2003, from 9.8 million to 10.3 million. Rising health insurance premiums and overall poverty rates are both contributing to this problem.

Expensive healthcare premiums make it hard for employers to afford coverage for their employees, which creates an uninsured working class. According to the *Washington Post*, the proportion of the working class who received health insurance through their employers reached the lowest level in a decade in 2003 at 60.4 percent. To make matters

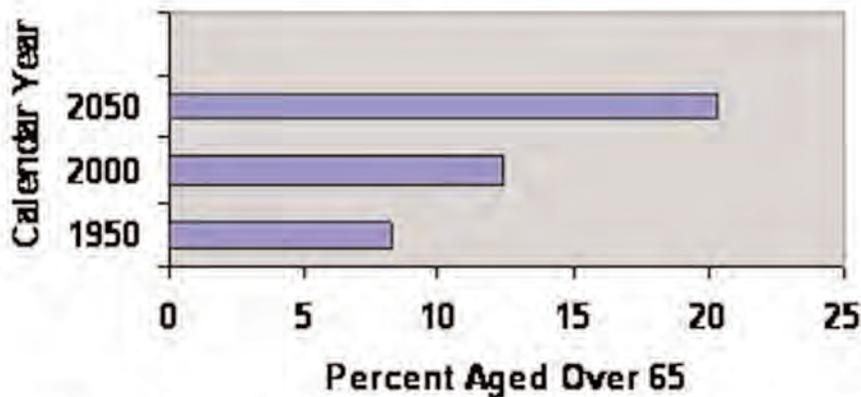
**Figure 1**  
**National Health Expenditures and Their Share of Gross Domestic Product (GDP), 1960-2010**



Source: CMS, Office of the Actuary, National Health Statistics Group.

Figure 2

## Percent of U.S. Population Aged 65 and Above



Source: *Chartbook on Trends in the Health of Americans, 2003*

Medicaid and Medicare are notorious for paying medical institutions slowly, oftentimes taking months to deliver funds. Keep in mind that these government-mandated reimbursements are also capped, and in many cases, they don't cover the actual cost of providing care. As a direct result of their inadequate financial resources, hospitals and clinics are forced to make cuts in staffing and decrease technological advances to help defray costs, all of which can be harmful to their patients and place stress on the remaining staff.

With all that said, it's easy to see how the healthcare facilities are affected by this cash crunch, but you may be asking: **How does this affect my medical transcription service?**

worse, 20.6 million of those working uninsured people were full-time employees.

Add in the fact that emergency rooms are obligated to care for any patients that come through their doors, regardless of whether they have insurance or not, and what do you get? Answer: Millions of uninsured people who visit the emergency room to receive medical attention and who are also relying on the hospital to foot the bill.

In addition, the U.S. Census Bureau reported that there were 34.6 million less fortunate people living in America in 2002, and the number is still growing. Members of this underprivileged class are forced to either go uninsured or rely on Medicaid for their medical bills, and neither option is a promising solution to the healthcare financial crisis.

Title XIX of the Social Security Act, commonly known as the Medicaid program, is the largest source of funding for medical services for America's poorest people. Since its launch in 1965, Medicaid's reimbursements have rapidly increased, with cumulative spending reaching \$250 billion in 2002, 11.7 percent higher than reimbursement payments during the previous year.

Likewise, the Medicare program was created in 1965 under title XVIII of the Social Security Act, and it currently covers 41 million Americans. Designed to provide basic medical coverage for adults aged 65 and above who are no longer working and are unable to pay for healthcare, Medicare's reimbursements have also continued to increase over the years. Collective spending reached \$267 billion in 2002, reflecting an 8.4 percent increase since 2001.

Although Medicaid and Medicare can be beneficial for less fortunate and elderly Americans in need of healthcare, American medical institutions don't fare quite as well in the healthcare cash flow crisis because they have to wait so long before they can be paid.

Simply put, another good way to cut down on costs is for medical institutions to pay their own invoices in order of perceived importance. For example, hospitals will provide their vendors with terms of net-30 or net-60, to make sure that their most urgent invoices (utilities, payroll, insurance, etc.) are paid first. Inevitably, here is where your business enters the equation. As is the case with other vendors serving healthcare institutions, your medical transcription service may be suffering from this slow payment structure.

Starting up or expanding your own business can be a difficult task, especially if your clients are taking months to pay for your services. You may find it difficult to bridge the gap between the time it takes for your clients to pay you and the time when you have to pay your transcriptionists. Or perhaps your entrepreneurial dreams of expanding your transcription service and hiring additional transcriptionists are overshadowed by the fact that you do not have enough present working capital to help your business grow.

As bleak as all this may sound, there is hope for succeeding in the medical industry, and it revolves around **preparation**. Now that you have a thorough explanation of the healthcare cash flow crisis and you understand how it could affect your medical transcription service, you have the knowledge to structure your business in such a way that it can sustain a system of slow payers.

There are a couple of ways to arrange your transcription service to help combat lethargic payers. First and foremost, do your homework. Run a credit check on your potential clients before you even think about doing any business with them. This will give you a better idea of how long it takes for hospitals to pay their bills. A credit report shows you what percentage of a hospital's bills are current, what percentage is

---

*Run a credit check on your potential clients . . . A credit report shows you what percentage of a hospital's bills are current, what percentage is 30, 60, 90, or even 120 days out, and if accounts have been written off due to default.*

---

30, 60, 90, or even 120 days out, and if accounts have been written off due to default.

Never hesitate to go directly to the source. Another way to check up on how a potential client pays is to establish contact with someone in the hospital's account payables department. Oftentimes, a hospital will provide you terms of net-30 in a contract, but that does not necessarily mean that you won't be paid on day 31 or day 63 or day 92. The A/P department might tell you that checks are usually cut 30 days after they are due, which means that the net-30 contract you just signed is actually a net-60 contract.

Also, it never hurts to ask around town. Don't be afraid to call up other vendors serving hospitals in your area. Personal experiences can mean so much in this industry, so if you know someone who works for ABC Hospital, and you're thinking about doing business with them, ask the other vendor what it's like working for ABC.

Even after you start transcribing for ABC Hospital, don't let up. Make sure to send out your invoices in a timely manner. If you wait weeks to send out your invoices, the clock keeps ticking, which means that you will end up waiting even longer to be paid. Follow up on your invoices. Make sure that the health information department has received them and that they have been signed and forwarded to accounts payable. Confirm with accounts payable that your invoices are in their system and establish when they are scheduled to be paid. Make note of when you should expect payment. Follow up if you do not receive payment within the expected time period. It is important to monitor your accounts receivable carefully so that you know when a client's aging is going out further than you would like. Take the time now to make collections calls on a regular basis to prevent a potential problem in the future.

Just remember that you *can* run a successful transcription service because hospitals are great payers—they just take longer to pay than a lot of businesses are prepared to handle. Like any other industry, it's important to understand your clients so that you can better serve them. Knowing that your clients are paid slowly and that they will most likely be forced to pay you slowly presents a way for you to adapt your business to your clients' needs. Operating your business with your clients in mind allows for greater overall productivity, which then leads to superior customer satisfaction and the ability to land additional contracts.



Philip Cohen is the President of PRN Funding, LLC, an accounts receivable factoring company that provides growth capital to small and mid-sized businesses that service the healthcare industry. Prior to founding PRN Funding, Cohen served as the Senior Vice President/General Manager of The MRC Group, where he was responsible for corporate development initiatives as well as the company's speech recognition product line. Web site: [www.prnfunding.com](http://www.prnfunding.com) E-mail: [pcohen@prnfunding.com](mailto:pcohen@prnfunding.com)