Medicare
Provider Reimbursement Manual - Part 1, Chapter 3

Department of Health and Human Services (DHHS)
Centers for Medicare and Medicaid Services (CMS)

Transmittal 435 **Date: MARCH 2008**

HEADER SECTION NUMBERS	PAGES TO INSERT	PAGES TO DELETE
TOC	3-1 (1 p.)	3-1 – 3-2 (2 pp.)
0306 - 0310	3-5 - 3-6 (2 pp.)	3-5 – 3-6 (2 pp.)
0334 - 0334.2 (Cont.)	3-11 – 3-14 (4 pp.)	3-11 – 3-14 (4 pp.)

NEW/REVISED MATERIAL--EFFECTIVE DATE:

This transmittal updates Chapter 3, Bad Debts, Charity, and Courtesy Allowances to reflect updated references from HCFA to CMS, correction of typos, and replace Fiscal Intermediary with Contractor. Also, the Table of Contents has been revised to reflect deleted page numbers.

EFFECTIVE DATE: N/A

DISCLAIMER: The revision date and transmittal number apply to the red italicized material only. Any other material was previously published and remains unchanged.

CHAPTER III

BAD DEBTS, CHARITY, AND COURTESY ALLOWANCES

amounts are not collected, however, they cannot be reimbursed under the Medicare bad debt provision since they apply to services held to be not covered. (See §306 below.)

306. BAD DEBTS RELATING TO NONCOVERED SERVICES OR TO NONBENEFICIARIES

If a beneficiary does not pay for services which are not covered by Medicare, the bad debts attributable to these services are not reimbursable under the Medicare program. Likewise, bad debts arising from services to non-Medicare patients are not reimbursable under the program.

Services which are not covered are defined generally in the following Health Insurance Manuals:

CMS-Pub. 10	Hospital Manual - §260
CMS-Pub. 11	Home Health Agency Manual - §§230 and 232
CMS-Pub. 12	Skilled Nursing Facility Manual - §240

308. CRITERIA FOR ALLOWABLE BAD DEBT

A debt must meet these criteria to be an allowable bad debt:

1. The debt must be related to covered services and derived from deductible and coinsurance amounts. (See §305 for exception.)

2. The provider must be able to establish that reasonable collection efforts were made.

3. The debt was actually uncollectible when claimed as worthless.

4. Sound business judgment established that there was no likelihood of recovery at any time in the future.

310. REASONABLE COLLECTION EFFORT

To be considered a reasonable collection effort, a provider's effort to collect Medicare deductible and coinsurance amounts must be similar to the effort the provider puts forth to collect comparable amounts from non-Medicare patients. It must involve the issuance of a bill on or shortly after discharge or death of the beneficiary to the party responsible for the patient's personal financial obligations. It also includes other actions such as subsequent billings, collection letters and telephone calls or personal contacts with this party which constitute a genuine, rather than a token, collection effort. The provider's collection effort may include using or threatening to use court action to obtain payment. (See §312 for indigent or medically indigent patients.)

A. Collection Agencies.--A provider's collection effort may include the use of a collection agency in addition to or in lieu of subsequent billings, follow-up letters,

telephone and personal contacts. Where a collection agency is used, Medicare expects the provider to refer all uncollected patient charges of like amount to the agency without regard to class of patient. The "like amount" requirement may include uncollected charges above a specified minimum amount. Therefore, if a provider refers to a collection agency its uncollected non-Medicare patient charges which in amount are comparable to the individual Medicare deductible and coinsurance amounts due the provider from its Medicare patient, Medicare requires the provider to also refer its uncollected Medicare deductible and coinsurance amounts to the collection agency. Where a collection agency is used, the agency's practices may include using or threatening to use court action to obtain payment.

B. Documentation Required.--The provider's collection effort should be documented in the patient's file by copies of the bill(s), follow-up letters, reports of telephone and personal contact, etc.

310.1 Collection Fees.--Where a provider utilizes the services of a collection agency and the reasonable collection effort described in §310 is applied, the fees the collection agency charges the provider are recognized as an allowable administrative cost of the provider.

When a collection agency obtains payment of an account receivable, the full amount collected must be credited to the patient's account and the collection fee charged to administrative costs. For example, where an agency collects $40 from the beneficiary, and its fee is 50 percent, the agency keeps $20 as its fee for the collection services and remits $20 (the balance) to the provider. The provider records the full amount collected from the patient by the agency ($40) in the patient's account receivable and records the collection fee ($20) in administrative costs. The fee charged by the collection agency is merely a charge for providing the collection service, and, therefore, is not treated as a bad debt.

310.2 Presumption of Noncollectibility.--If after reasonable and customary attempts to collect a bill, the debt remains unpaid more than 120 days from the date the first bill is mailed to the beneficiary, the debt may be deemed uncollectible.

312. INDIGENT OR MEDICALLY INDIGENT PATIENTS

In some cases, the provider may have established before discharge, or within a reasonable time before the current admission, that the beneficiary is either indigent or medically indigent. Providers can deem Medicare beneficiaries indigent or medically indigent when such individuals have also been determined eligible for Medicaid as either categorically needy individuals or medically needy individuals, respectively. Otherwise, the provider should apply its customary methods for determining the indigence of patients to the case of the Medicare beneficiary under the following guidelines:

The unrecovered cost of $60 remains in the departmental costs and is apportioned among the users of the department other than employees.

B. Example (Where Departmental Costs are Equivalent to 50% of Charges).--

	Gross Charges	Costs
Other than Employees		
Medicare----------	$ 900	
Non-Medicare----------	1,800	
	$2,700	
Employees----------	300	
Total----------	$3,000	$1 500
Computation of employee fringe benefit (30% discount):		
To be collected--70% of $300		($2l0)
Cost applicable to service provided (50% x $300)		l50
Excess of amount charged to employees over cost		$ 60
Unrecovered Cost----------		None
Payment by Medicare (900/3,000 x $l,500)--		$ 450

334. EXAMPLES: COMPUTATION OF BAD DEBTS REIMBURSABLE UNDER THE PROGRAM

334.1 Computation under Part A.-- Under Part A, deductible and coinsurance amounts are subtracted from the program's share of allowable costs in determining the amount reimbursable. Therefore, any uncollectible deductible and coinsurance amounts under Part A represent unrecovered costs to the provider. Bad debts reimbursable under the program are included in Medicare reimbursement under part A as follows:

Cost of covered services for Medicare patients----------		$160,000
Deductible and coinsurance billed to Medicare patients (from provider's records)----------	$8,500	
Less: Allowable bad debts for deductible and coinsurance less amount recovered in excess of costs under Part B----------	1,500	7,000
Balance due provider for covered services----------		$153,000

(See § 334.2, Example C, for offset to allowable bad debts.)

334.2 Computation Under Part B.-- Under Part B, the amount reimbursable by the program (exclusive of bad debts) is determined by applying 80% to the reasonable cost of covered services furnished to beneficiaries, after application of the deductible provisions. The remaining 20% of the reasonable cost should be recovered from the beneficiary through the coinsurance amount of 20% of the charges. Where the provider's charges exceed costs, coinsurance amounts contain an amount in excess of costs. Where charges are lower than costs, coinsurance amounts are less than the equivalent percentage of costs. Since the program reimburses the provider for the unrecovered costs resulting from beneficiaries' allowable bad debts, a calculation must be made to determine whether or not there are any such unrecovered provider costs and whether and to what extent the provider may be reimbursed for bad debts in order to offset any such unrecovered costs.

Where the provider recovers an amount in excess of the total Part B costs of the Medicare program reimbursement by the program, together with deductibles and coinsurance amounts collectible from beneficiaries, allowable bad debts under Part A are reduced by the amount of this excess.

The cost reports provide a special schedule for making this calculation.

The following examples illustrate the method to be used and the results that could be obtained under the different conditions.

A. Example: Provider Charges Higher Than Costs--Part B Services.--

1.	Total gross charges, all patients	$180,000
2.	Total program charges	45,000
3.	Percent of program charges	25%
4.	Total cost of covered services	$150,000
5.	25% of cost applicable to beneficiaries	$ 37,500
6.	Less: Deductibles billed to beneficiaries	2,000
7.	Net Cost	$ 35,500
8.	80% of net cost applicable to program	$ 28,400
9.	Less: Amount received or receivable from *contractor* or SSA	25,560
10.	Balance due provider or program	$ 2,840
11.	Add: Reimbursable bad debts (line 20 below)	2,500
12.	Balance due provider or program (line 20 plus 11)	$ 5,340

Computation of Reimbursable Bad Debts

13.	Total costs applicable to Part B	$ 37,500
14.	Less: 80% of net costs applicable to Part B	28,400
15.	Balance of costs to be recovered from beneficiaries	$ 9,100

16.	Deductible and coinsurance to beneficiaries ($2,000 plus $8,600)	$ 10,600
17.	Less: Uncollectible deductible and coinsurance	4,000
18.	Net deductible and coinsurance billed to beneficiaries (if line 18 is equal to or greater than line 15, do not complete lines 19 and 20)	$ 6,600
19.	Unrecovered costs from program ($9,100 minus $6,600) (line 15 less line 18)	$ 2,500
20.	Reimbursable bad debts (lesser of line 17 or line 19	$ 2,500

B. Example: Provider Charges Lower Than Costs--Part B Services.--

1.	Total gross charges, all patients	$180,000
2.	Total program charges	45,000
3.	Percent of program charges	25%
4.	Total cost of covered services	$200,000
5.	25% of cost applicable to beneficiaries	$ 50,000
6.	Less: Deductibles billed to beneficiaries	$ 2,000
7.	Net Cost	$ 48,000
8.	80% of net cost applicable to program	$ 38,400
9.	Less: Amount received or receivable from *contractor* of SSA	34,560
10.	Balance due provider or program	$ 3,840
11.	Add: Reimbursable bad debts (line 20 below)	4,000
12.	Balance due provider or program (lines 10 plus 11)	$ 7,840

Computation of Reimbursable Bad Debts

13.	Total costs applicable to Part B	$ 50,000
14.	Less: 80% of net costs applicable to Part B	38,400
15.	Balance of costs to be recovered from beneficiaries	$ 11,600
16.	Deductible and coinsurance billed to program ($2,000 plus $8,600)	$ 10,600
17.	Less: Uncollectible deductible and coinsurance	4,000
18.	Net deductible and coinsurance billed to beneficiaries (if line 18 is equal to or greater than line 15 do not complete lines 19 and 20)	$ 6,600
19.	Unrecovered costs from program ($11,600 minus $6,600) (line 15 less line 18)	$ 5,000
20.	Reimbursable bad debts (lesser of line 17 or line 19)	$ 4,000

C. Example: Provider Charges Higher than Costs--Part B Services Collections by Provider Exceed Costs).--

1.	Total gross charges all patients	$180,000
2.	Total program charges	45,500
3.	Percent of program charges	25%
4.	Total cost of covered services	$150,000
5.	25% of cost applicable to beneficiaries	$ 37,500
6.	Less: Deductible billed to beneficiaries	2,000
7.	Net Cost	$ 35,500
8.	80% of net cost applicable to program	$ 28,400
9.	Less: Amount received or receivable from intermediary or SSA	**25,560**
10.	Balance due provider or program	$ 2,840
11.	Add: Reimbursable bad debts (line 20 below)	-0---
12.	Balance due provider or program (lines 10 plus 11)	$ 2,840

Computation of Reimbursable Bad Debts

13.	Total costs applicable to Part B	$ 37,500
14.	Less: 80% of net costs applicable to Part B	28,400
15.	Balance of costs to be recovered from beneficiaries	$ 9,100
16.	Deductibles and coinsurance billed to beneficiaries ($2,000 plus $8,600)	$ 10,600
17.	Less: Uncollectible deductible and coinsurance	1,000
18.	Net deductible and coinsurance billed to beneficiaries	$ 9,000
19.	Unrecovered costs from program (line 15 less line 18)	$ (500)
20.	Reimbursable bad debts (less of line 17 or line 19)	-0---

* Amount collected in excess of costs in transferred to computation of reimbursable and bad debts under part A and reduces allowable bad debts under Part A. (See § 334.1.)