



MEDICARE BAD DEBTS ON THE COST REPORT

Each year we send out a Medicare bad debt policy with our management letter in hopes to remind and better prepare providers for next year's bad debt collections. However, it is still one of the largest areas that we see could use some improvement.

How it affects you

Medicare bad debts are directly reimbursable by Medicare on the annual cost report. They are netted against any Periodic Interim Payments (PIP) received from Medicare throughout the year and can create either a receivable or payback. It is important to accurately record and report Medicare bad debts so that you will be fully reimbursed by Medicare for them.

What is a Medicare Bad Debt?

A Medicare bad debt arises when a resident is unable or unwilling to pay their Medicare Part A co-insurance. Only after the account is determined to be uncollectable is it allowed as a Medicare bad debt. There are two types of Medicare bad debts: dually eligible bad debts and private bad debts.

What is a Dually Eligible Bad Debt?

When a resident participates in both the Medicare and the state funded Medicaid programs, they are known as a dually eligible resident. Depending on your state's policy, either Medicaid or Medicare will reimburse you for 100% of the Medicare Part A co-insurance for a dually eligible resident. Medicare requires the facility to be able to show proof that you billed both Medicare and Medicaid in order to write off dually eligible bad debts on the cost report.

What is a Private Bad Debt?

When a resident participates in Medicare but does not participate in the state funded Medicaid program, Medicare Part A co-insurance is collectable privately from the resident. If the resident is unable or unwilling to pay this co-insurance, then it is considered a private Medicare bad debt. It can be written off for cost reporting purposes only after a reasonable collection effort is made and the debts is deemed uncollectable using sound business judgment. Medicare will reimburse you for 70% of your private Medicare bad debts.

When to write if off

Dually eligible bad debts can only be written off after all remittance advices have been issued for the dates of services. This includes both the Medicare remit(s) showing the co-insurance amount for the dates of service and Medicaid remit(s) showing this co-insurance will not be paid by the state.

Private bad debts can be written off after a reasonable collection effort has been made. A reasonable collection effort has been determined to be at least 3 collection attempts and *only* after 120 days after the date of first bill. Collection attempts are any actions outside the normal



course of business to collect the account. They can be collection letters, telephone calls, verbal contact, and the use of a collection agency. Collection efforts must be well documented; copies of the letters and/or returned envelopes used to send these letters, record of verbal exchanges documenting when they took place and what was said, and contracts from the collection agency must be kept on record or Medicare can disallow the bad debt.

We recommend a written in-house bad debt policy consistent with Medicare's bad debt policy to avoid any discrepancies when writing off Medicare bad debts.

What to have ready for the cost report

Throughout the year, keep monthly logs detailing your Medicare bad debts. This log should include the resident's name, HIC number, dates of service (listed by month), Medicare RA dates, date of first bill, and date of write off. If they are dually eligible, include their Medicaid number and the Medicaid RA date.

If you have a dually eligible bad debt, your fiscal intermediary can require you to submit both the Medicare and Medicaid RAs. If the bad debt is written off before any of the RAs were issued or before the date of first bill, Medicare can disallow the bad debt.

If you have a private bad debt, your fiscal intermediary will want to see proof of your three collection attempts and the Medicare RA for the dates of services. If the debt is written off prior to 120 days after the date of first bill, Medicare can disallow the bad debt.

Other things to keep in mind

If a bad debt that has been written off gets paid in full or in part, this paid amount must be deducted from the current year's allowable bad debts.

If either the Medicare or Medicaid remit is dated in a period after the cost report period, that bad debt cannot be included on that cost report; it can, however, be written off on the next cost report.

Angela Bodey
Director of Accounting & Reimbursement