

# The Right Way to Do Write-offs

✘ A write-off is an amount that a practice deducts from a charge and does not expect to collect, thereby “writing it off” the accounts receivable or list of monies owed them by payers or patients.

There are lots of reasons why write-offs are taken, and it is common practice to divide write-offs into two major categories.

## Necessary or Approved Write-offs

These are write-offs that you have agreed to, either in the context of a contract, or in terms of your practice philosophy.

**Contractual write-offs** are the difference between the practice fee schedule and the allowable fee schedule you’ve agreed to accept.

**Charity write-offs** are the difference between the practice fee schedule and anything collected. Charity write-offs may be in accordance with a community indigent care effort, a policy adhered to in a faith-led healthcare system, or a financial assistance program.

**Small balance write-offs** are amounts left on the patient’s account that may not warrant the cost of sending a bill, which has been estimated to cost about \$12.00 each, taking into account the statement process, as well as the cost to receive the check, post it, and deposit it. Many practices write off the small balance (usually \$15 or less) and collect it when the patient returns. Others run a special small balance statement run once a quarter.

**Prompt payment discounts** and **self-pay (no insurance) discounts** are write-offs for patients paying in full at time of service, and/or patients who receive a discount off the retail price because they do not have insurance coverage.

## **Unnecessary Write-offs**

These are write-offs that you have not agreed to and you reluctantly reduce the charge based on billing mistakes or situations that you should have been able to control, but were not.

**Timely filing write-offs** are caused by filing the claim past the date required by the payer. Medicare requires that claims be filed no later than 12 months after the date of service to be paid. Medicaid varies from state-to-state. Commercial payers usually have very tight timely filing limits and most average three months. (Make sure you know your timely filing limits for each payer.)

**Uncredentialed provider write-offs** are those caused by filing a claim for a provider before they are credentialed with the payer.

**Administrative write-offs** are those approved by the manager based on service issues. For instance, if the practice assures the patient that they are participating with the patient's insurance, then it turns out that the practice is not in-network, the manager may approve a write-off based on the practice's error. If the patient has a very bad experience in the practice, the manager may want to discount the service or to write-off the charge completely. If you do discount the service, remember to submit the claim for the altered fee, as you cannot discount the fee to patient and charge the payer the full fee.

**Bad debt write-offs** are balances that you have decided to write-off and not pursue further. These are balances that for whatever reason, you are forgiving forever.

**Collection agency write-offs** are those that are written off the main A/R (accounts receivable) and transferred to a third-party collection agency to collect on your behalf. These balances are not forgiven. Some PM (practice management) systems maintain a separate collection bucket or A/R and others do not maintain collection accounts in the system. Most practices do not schedule appointments with patients that have a collection balance until that balance is satisfied or the patient is committed to a reasonable payment plan.

## **Some guidelines for managing write-offs**

1. Start with the basic write-offs but add write-off categories as the need arises.
2. Decide which write-offs require managerial approval. Do not make staff get approval for routine write-offs, but do not completely relinquish approval for all write-offs as this is one place where staff could abuse their authority. Make sure write-offs are addressed in your compliance plan so staff understand their responsibilities.
3. Review all write-off categories monthly and pay attention to unusual spikes as well as creeping trends. Keep in mind that if you raise your fees and don't renegotiate your contracts, your contractual write-offs are going to escalate, and you'll need to account for that difference in your evaluation.
4. Audit write-offs periodically to make sure that they are being done correctly. Staff will know that their work is being checked and you can be sure the numbers you are

making business decisions on are sound.

5. Best practices for unnecessary write-offs are no more than 5% of your total expected collections. The formula for expected collections is gross charges minus necessary/approved write-offs.