New Accounting Guidance Limits Bad Debt Reporting f Health Systems

When it comes to assessing the vitality of a health system, measuring the debt it carries can be as crucial an indicator of heal revenue itself. However, a change to hospital accounting standards has markedly adjusted how facilities will be permitted to r "bad debt" (uncompensated service), and that new standard is likely to significantly alter the way community benefits are repo

"Revenue from Contracts with Customers" (also known as "Topic 606") is the new reporting standard. It is intended to bring American accounting guidelines in line with those of other nations, and it's also intended to allow investors to compare compa not only in the healthcare field, but in the business world at large.

When it comes to bad debt in the healthcare industry, however, many hospitals have historically included the amount of uncompensated care in their community benefits reports, even though the Internal Revenue Service does not categorize it in manner.

"Revenue from Contracts with Customers": major chan to community benefit reporting

Topic 606 will change how hospitals report bad debt. Prior to the new standard, health systems would usually report bad debt the shortfall between what was billed the patient and what was actually received from the patient. Notably, even if hospitals di expect to receive the full amount from the patient, the uncompensated portion was still reported as bad debt.

The new accounting guidance (which is already in use by many health systems; the rest will need to begin applying it next January), uncompensated care can only be classified as bad debt if the expected amount went unpaid due to an "adverse eve the patient's life. Only then can it be reported as a reduction in the amount that the health system expected to receive.

The new standard relies heavily on that expected payment amount. Prior to Revenue from Contracts with Customers taking e if a hospital had not anticipated receiving full payment from a patient, it was still permitted to categorize the uncompensated p as bad debt. Now, however, health systems can only classify the shortfall as bad debt if they had not anticipated it at the time care, *and* if the non-payment was attributed to a negative event in the patient's life, such as job loss, illness/injury, or bankrup

Say goodbye to "bad debt" and hello to "implicit price

concession”

What makes accounting for bad debt important in the first place is that certain hospitals often rely on those figures when it comes to making a case for their status as tax-exempt organizations. Rick Kes, audit senior manager at RSM US, told Modern Healthcare that hospitals will likely stop using the term bad debt and start using the term “implicit price concession,” which essentially describes the same scenario.

“It isn’t a required disclosure, however, but we believe not-for-profit health systems will want to disclose that number in their footnotes of financial statements so that they could then use that number for their community benefit reporting,” Kes said. He also noted that although many health systems do not anticipate the new reporting standard as having much of an impact (if any) on their bottom line, they are changing their practices to meet compliance requirements (such as working closely with electronic health record [EHR] vendors).

Kes explained that the new standard will permit hospitals to report implicit price concessions when one of two stipulations is satisfied: the health system offers care to patients for whom the likelihood of payment is low (based on historical analysis); or pre-care credit assessments are not undertaken.