



**NORTHERN INYO HEALTHCARE DISTRICT  
NON-CLINICAL POLICY AND PROCEDURE**

Title: Bad Debt		
Owner: Revenue Cycle Director	Department: Fiscal Services	
Scope: District Wide		
Date Last Modified: 03/25/2025	Last Review Date: 1/27/2025	Version: 3
Final Approval by: NIHD Board of Directors	Original Approval Date: 10/2002	

**PURPOSE:**

This policy ensures Northern Inyo Healthcare District’s billing and collection practices comply with California and federal law, promote financial transparency, and protect patients, particularly those eligible for financial assistance.

**DEFINITIONS:**

**Accounts receivable and notes receivable:** These are designations for claims arising from rendering services and are collectible in money in the relatively near future.

**Agency Placement:** Outside collection agencies are used to collect accounts in Bad Debt Collection Status. When an account is in Bad Debt Collection Status, it has not been deemed totally worthless and uncollectible.

**Allowable Bad Debts:** Allowable bad debts are bad debts of the provider resulting from uncollectible deductibles and coinsurance amounts and meeting the criteria set forth in Section 308 of the CMS Provider Reimbursement Manual. Allowable bad debts must relate to specific deductibles and coinsurance amounts.

**Bad Debts:** Bad debts are amounts considered to be uncollectible from accounts and notes receivable which are created or acquired in providing services. Bad debt is an uncollectible account resulting from the extension of credit.

**Contractual Allowances or Discounts:** Contractual allowances or discounts are the excess of the hospital's normal charge for healthcare services over the payment received from third party payors under contractual agreements.

**Charity Allowances:** Charity allowances are reductions in charges made by the provider of services because of the indigence or medical indigence of the patient.

**Deductible and Coinsurance Amounts:** Deductible and coinsurance amounts are amounts payable by beneficiaries for covered services received from providers of services, excluding medical and surgical services rendered by physicians and surgeons.

**Extraordinary Collection Action (ECA):** Under IRC Section 501(r), tax-exempt hospitals must comply with specific financial assistance and billing regulations. Hospitals cannot engage in Extraordinary Collection Actions (ECAs) before making reasonable efforts to determine if a patient qualifies for financial assistance.

**Financial Assistance:** Assistance is provided for eligible patients who are at or below 400% of the Federal Poverty Level Guidelines and out-of-pocket expenses for Medically Necessary Services or emergency services would cause financial hardship.

**Financial Assistance and Charity Care Policy:** A separate policy that describes NIHD's financial assistance and Charity Care program including the criteria patients must meet in order to be eligible for financial assistance as well as the process by which individuals may apply for financial assistance. This policy can be obtained free of charge at NIHD, via email, on the website, or by contacting the Credit and Billing Office.

**General Credit Policy:** An attempt to get the responsible party to agree to a specific payment plan. NIHD may extend credit based on information provided to the Credit and Billing Office.

**Group Policy:** The insurance policy purchased on behalf of the Guarantor by a larger (typically employer) group.

**Guarantor:** The person who is financially responsible for the patient's bill.

**Medically Necessary:** Health care services or supplies needed to diagnose or treat an illness, injury, condition, disease or its symptoms and that meet accepted standards of medicine.

**Patient/Guarantor Responsibility:** Any balance due where the financially responsible party is the patient or patient's guarantor and not a third-party payer; also known as "Self-Pay."

**Patient Statement or Statement:** A bill for services rendered. This can be a summary of activity or a detailed bill listing each charge and applicable credit on a patient account.

**Policy Discounts:** Differences between revenue recorded at established rates and amounts realizable for services provided to employees (i.e. Prompt Pay Discounts).

## **POLICY:**

1. NIHD is committed to fair and lawful billing and collection practices. We will make reasonable efforts to determine a patient's eligibility for financial assistance before pursuing any collection actions. This policy outlines permissible collection activities and prohibits actions that violate patient protections under California's Hospital Fair Pricing Act and related laws.

2. NIHD is committed to financial stability and preserving resources for indigent care. Our policy ensures clear and consistent billing and collection practices that comply with the law, prioritize patient satisfaction, and operate efficiently.
3. Information obtained from income tax returns, pay stubs, or the monetary asset documentation collected for the discount payment or charity care eligibility determinations may not be used for collection activities.
4. Payment on accounts will be pursued consistently, regardless of race, color, religion, national origin, age, sex, sexual orientation, gender identity or expression, disability, education, employment or student status, disposition, relationship, insurance coverage, community standing, or any other discriminatory differentiating factor.
5. The guarantor is financially responsible for documented services received. It is the guarantor's responsibility to understand their insurance coverage, with self-pay liability determined by their group policy. NIHD will follow the insurance carrier's adjudication to identify self-pay balances for contracted insurance carriers.

## **PRACTICES:**

### **1. Patient Billing & Communication**

- a. NIHD will provide clear, itemized bills to patients and their guarantors.
- b. Patients will receive at least **two** notices before any collection action is taken.
- c. Financial assistance applications will be made available at no cost and will be accepted for up to **240 days** after the first bill.

### **2. Prohibited Collection Actions**

NIHD will not engage in the following actions to collect medical debt:

- a. Selling a patient's debt to a third party unless the buyer adheres to NIHD's financial assistance policies.
- b. Denying or delaying medically necessary (non-emergent) care due to unpaid bills if the patient qualifies for financial assistance.
- c. Requiring upfront payment for medically necessary (non-emergent) care if the outstanding debt is eligible for financial assistance.
- d. Placing a lien on a patient's primary residence.
- e. Foreclosing on a patient's real property.
- f. Seizing a patient's bank account or personal property without first determining financial assistance eligibility and obtaining a legal judgment.
- g. SB 1061 (2025) prohibits consumer credit reporting agencies from including medical debt information in consumer credit reports.
  - i. Violating this provision renders the medical debt void and unenforceable.

### 3. Permitted Collection Actions

If a patient does not qualify for financial assistance and fails to establish a payment plan, NIHD may:

- a. Refer the account to a third-party collection agency without selling the debt.
- b. File a civil lawsuit to recover unpaid debts, only after:
  - i. Determining the patient does not qualify for financial assistance.
  - ii. Providing at least 180 days' notice before legal action.
  - iii. Offering a reasonable payment plan based on the patient's income.
- c. Garnish wages or seek a writ of attachment only after obtaining a court judgment and ensuring compliance with wage garnishment limits.

### 4. Financial Assistance & Payment Plans

- a. NIHD will actively screen patients for charity care and financial assistance eligibility before pursuing collections.
- b. If a patient qualifies, their bill may be reduced or forgiven based on income.
- c. Patients who do not qualify may request a reasonable, interest-free payment plan.

### 5. Before pursuing Extraordinary Collection Actions (ECAs), hospitals must:

- a. Provide a written notice about financial assistance availability.
- b. Allow at least 120 days from the first billing statement before initiating ECAs.
- c. Give an additional 30-day notice before taking legal action.
- d. Wait at least 240 days from the first bill before selling or transferring debt.
- e. Screen for financial assistance eligibility before proceeding with ECAs.

### 6. NIHD may engage in Extraordinary Collection Actions such as

- a. Selling patient debt to a third party.
- b. Legal actions, including lawsuits, liens on property, wage garnishment, and bank account seizures.

## PROCEDURE:

1. Every patient or guarantor will be given reasonable time and communication to be aware of and understand their financial responsibility.
2. A statement of hospital and physician services will be sent to the patient or guarantor in incremental billing cycles.

3. Billing representatives may attempt to contact the patient or guarantor via telephone, mail, collection letter, text messaging, email, or any other appropriate method during the statement billing cycle in order to pursue collections.
4. NIHD will make reasonable efforts to determine a patient's eligibility for financial assistance under NIHD's Financial Assistance and Charity Care Policy
5. When all feasible collection efforts have been exhausted on an account and it has been determined that the balance is uncollectible, the account shall be identified as bad debt and will go into a "bad debt" status in the hospital billing system. NIHD will not send medical bills to a debt collection agency until the 240-day period has elapsed.
6. Collection efforts are documented in the patient's account.
7. The Chief Financial Officer, Revenue Cycle Director, or designee authorizes advancing accounts that meet the criteria listed for collection.
8. Accounts with a "Return Mail" status are eligible for collection assignment after all good-faith efforts to identify a correct address have been documented and exhausted.
9. NIHD will pursue collection actions for amounts outstanding when the patient qualified for financial assistance and partial relief was granted.
10. As stated in NIHD's Financial Assistance and Charity Care Policy, a patient may qualify for a payment plan for any patient out-of-pocket fees. The payment plan shall consider the patient's family income and the amount owed.
11. Accounts at a collection agency may be recalled and returned to NIHD at the discretion of NIHD or according to state or federal laws and regulations. NIHD may choose to work the accounts to resolution with the Guarantor or a third party as needed, or place the accounts with another collection agency.
12. After these items have been completed and no action to pay by the guarantor or patient was taken, the account(s) will be processed as follows:
  - a. All accounts with a balance of \$10.00 or greater will qualify for automatic placement with an outside collection agency.
  - b. All accounts with a balance of \$9.99 or less will qualify for automatic small balance write off.
  - c. After the outside collection agency determines that the debt is uncollectible or after the small balance write-off was completed, a form 1099M will be issued by February 28, if by mail, or March 31, if by electronic file to the IRS.

#### **REFERENCES:**

1. IRC 501-R
2. California Senate Bill 1061 (SB 1061)
3. Hospital Fair Pricing Act (AB 774)
4. Fair Debt Collection Practices Act (FDCPA)
5. Fair Credit Reporting Act (FCRA)

6. No Surprises Act
7. Medicare CMS Manual 15: The Provider Reimbursement Manual.

**RECORD RETENTION AND DESTRUCTION:**

Maintenance of records is for a minimum of fifteen (15) years.

**CROSS REFERENCE POLICIES AND PROCEDURES:**

1. Charity Care Program
2. Billing and Collections policy
3. Pricing Transparency Policy
4. Prompt Pay Discounts

Supersedes: v.3 Bad Debt
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