HME Providers

Are you tracking the right metrics?

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Introduction

Home medical equipment (HME) providers are experiencing painful times due to price pressures and complex medical billing processes. Quite often, patient care and the day-to-day challenges of billing occupy our minds. We may be overwhelmed by these daily tasks and do what it takes to keep the lights on.

Over the past two decades, Prochant has helped hundreds of HME companies become more profitable through superior front- and back-office processes and our team of highly-skilled specialists. One common theme that we see among providers is the insufficient tracking of metrics, which hinders providers' ability to identify problems and root causes early on. In this paper, we share the metrics critical to your HME success. We also provide effective metrics examples and how to develop a plan for improvement.

Common Problems

Your financial health makes your patients' health possible. To ensure that you are heading in the right direction, you may refer to familiar, quantifiable measures such as allowable billing and accounts receivable (A/R) balances to assess how effectively and efficiently you are meeting your billing goals. Yet, with nearly one-hundred metrics related to HME revenue cycle management (RCM) available, it is easy to lose sight of the metrics that matter.

Common metrics can lead to common problems. We understand that providers want to study as many aspects of their performance in A/R and staff productivity as possible, but relying on dozens of metrics gives a broad view of progress. At the same time, you can place blinders on your business by focusing too tightly on one or two metrics. As a result, you might miss out on information integral to your company's financial success.

Key Performance Indicators

This is where key performance indicators (KPIs) come in. Instead of tracking too few or too many metrics, these industry-standard KPIs allow you measure and track what is most relevant to your goals, and apply them to your decision-making process to gain a deeper understanding of your business. Below is an overview of the KPIs we believe to be crucial to your HME revenue cycle success.

Days Sales Outstanding (DSO)

DSO is a financial ratio that indicates how well your A/R balances are being managed. It is the average amount of time between your date of service and date of payment. If your company has a DSO of 60, it takes 60 days on average to collect after providing a product or service to your patient.

DSO = TOTAL A/R BALANCE / AVERAGE DAILY ALLOWABLE BILLING

90+ A/R Percentage (90+ A/R)

90+ A/R represents the portion of A/R that is aged beyond 90 days from the invoice date. Because the majority of A/R should be collected prior to the first 90 days, this metric indicates “trouble” A/R. Drilling down by payer and product will reveal where your team should apply pressure to get results. Often, a high balance suggests a lack of processes internally to handle adjustments and write-offs.

90+ A/R = SUM OF ALL AGING BUCKETS OVER 90 DAYS / TOTAL A/R BALANCE

Payment Rate

Payment rate is percentage of allowable billing that you collect on average each month. If your payment rate is at 80%, then you collect, on average, $0.80 on every $1.00 in allowable billing. When a provider proclaims a 95%+ collection rate, they are referring to a payment rate with net revenues in the denominator rather than allowable billing.

PAYMENT RATE = PAYMENTS RECEIVED / ALLOWABLE BILLING

Write-off Rate

Write-off rate is the percentage of allowable billing adjusted off your A/R each month as bad debt. Bad debt is A/R that should have been billed and should have been paid, but will never be paid. For example, claims filed past timely filing and claims filed without a valid prior authorization tend to be written off as bad debt. You should regularly monitor write-offs and take preventative action when possible.

WRITE OFF RATE = WRITE OFFS / ALLOWABLE BILLING

Adjustment Rate

Adjustment rate is split into allowable adjustments and billing error adjustments.

Allowable adjustments occur as part of the cash posting process when the allowable reported on the explanation of benefits (EOB) is not the same as the allowable reported in your billing system.

Billing error adjustments are the result of A/R that should not have been billed and was never expected to be paid. Common examples include adjusting rental A/R that billed past the maximum allowed rental months, or adjusting A/R that will be re-billed.

ADJUSTMENT RATE = ADJUSTMENTS / ALLOWABLE BILLING

Denial Rate

Denial rate is the number of denials received divided by the number of claim lines billed for the month. For example, a 10% denial rate indicates that the payer rejects 1-in-10 claim lines billed. To prevent future denials, providers should proactively monitor and address trends by payer, product, and reason.

DENIAL RATE = DENIALS / CLAIM LINES BILLED

Open Order Days

Open order days is the number of days' worth of orders that are tied up in your open, or non-confirmed, orders. You may struggle with front-office process management if this KPI is high. Possible reasons include order confirmation backlogs and "stuck orders" piled high on people's desks and in the warehouse .

OPEN ORDER DAYS = (NUMBER OF OPEN ORDERS / ALL ORDERS CREATED IN THE LAST X DAYS) * X
WHERE X = 30 (MONTH) OR 365 (YEAR)

Hold Days

Hold days is the number of days of allowable billing tied up in your on-hold A/R. Many providers struggle with hold management. Your holds include issues such as certificates of medical necessity (CMNs), prescriptions, and authorizations. Make sure you are properly staffed in this area. Poor hold management is the number one cause of past-timely filing write-offs.

HOLD DAYS = (TOTAL HOLD / MONTHLY AVERAGE ALLOWABLE BILLING) * 30

Industry Benchmarks

You now have the KPIs your HME company needs to better understand, achieve, and refine its goals. To continue on this path, you will want to track your data for a period of 6-12 months. You will then be ready to conduct a benchmark analysis, or comparison of your business' current period and trending results against common industry standards. We understand that it can be concerning to see red flags such as outlier values and negative trends, but learning about these data points allows you to course-correct. Knowing where you stand amongst your competitors is crucial to knowing where you stand as a business.

These benchmarks are general in nature and apply most readily to a traditional HME provider with a wide range of payers and products and a respiratory focus. Speciality providers, and providers with certain payer and product mixes, may not adhere closely to these benchmarks.

METRIC	GOOD	AVERAGE	POOR
Days Sales Outstanding (DSO)	60	60-80	>80
90+ A/R	<20%	20-30%	>30%
Payment Rate	>80%	70-80%	<70%
Write-off Rate	<6%	6-9%	>9%
Allowable Adjustment	<5%	5-8%	>8%
Billing Errors	<3%	3-5%	>5%
Denial Rate	<10%	10-15%	>15%
Hold Days	<4	4-8	>8

Conclusion

We discussed common problems with HME metrics and feasible KPI solutions for your business. Now, it is time to digest this information and take the next steps.

Prochant is committed to helping HME providers become more profitable. Whether large or small, our experts are ready to help evaluate the health of your HME billing processes and work together to elevate your company's financial performance.

For more information on Prochant, please visit prochant.com or email marketing@prochant.com.