How to select a collection service

Not all patients will pay for their treatment in full, resulting in delinquent accounts. Delinquent accounts can result in your practice writing off up to 11.3% of your accounts receivable (A/R) as bad debt. If bad debt is affecting your practice’s bottom line, you may benefit from the services of an experienced collection service. A collection service or agency is an organization that specializes in collecting past-due or delinquent accounts; the agency is usually paid a contingency fee only if and when it collects on an overdue account.

Collection agencies can play an integral role in helping physician practices improve their cash flow by securing payment from hard-to-collect delinquent accounts. Outstanding debt is continuing to grow while physicians and their office staffs no longer have the time or the staff resources to pursue debt collections. Outsourcing delinquent A/R to a third-party collection service may be a worthwhile option to consider—even if your practice follows a clear internal collections policy and collects many delinquent patient accounts.

How to choose an appropriate collection service for your practice

The first step in successfully utilizing a collection service is identifying when to outsource the particular patient debt. A general rule is to refer patient accounts to collections when the practice’s cost to collect the debt and the net recovery are less than the amount that would be received from a collection service after deducting applicable fees. Typically, an outstanding account should not age over 120 days before being turned over to collections.

When considering a collection service, it is important to select a service that will represent your practice in a responsible and professional manner, provide satisfactory recovery rates, perform excellent customer service and ultimately strengthen your practice’s bottom line.


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In order to locate an appropriate organization, physician practices should review several available agencies. A good rule of thumb is to interview at least three different agencies before making a selection. When determining who to interview, practices should request collection service referrals from professional resources such as accountants, attorneys and other physicians. Additionally, practices can contact the national or regional collection professionals association for a listing of members serving your geographic area. The collection services should provide current and past client references for physician practices. Be sure to check the references.

The six most effective questions to ask a physician practice when conducting a reference check for a collection service are:

1. How many collection agencies does the practice use?
2. How would the practice rank the service about which you are inquiring?
3. What recovery rate did the agency deliver?
4. How responsive is the service to the practice’s needs and problems?
5. Would the practice recommend this service?
6. Have you received any complaints from patients regarding the practices of this service?

Finally, remember that the collection service is representing your practice. Make sure that you are comfortable with all of the service’s policies and processes and that you are confident that your patients will be treated with courtesy and respect. Negative patient experiences with a collection agency that you’ve employed could have a detrimental impact on the long-standing relationships and trust that your practice has built with patients.

The following checklist is designed to help you prepare a request for proposal (RFP) to ensure that the collection service meets the practice’s requirements and cost allocations and provide criteria to compare collection services.

**Collection service evaluation checklist**

- How many years has the service been in business?
- How many clients does the service support?
- Does the service belong to any trade and/or community associations?
- Is the service in strict compliance with the Fair Debt Collection Practices Act (FDCPA) and other applicable federal or state regulations?
- What is the service’s philosophy toward collections? Does it approach patients with the intent to maintain your practice’s business relationship with them?
- What collection policies and standards will the service apply in its efforts to collect your debt? How does the agency handle patient disputes of the debt?

**Licensing and bonding laws**

- Is the service licensed and bonded in your state and other states as required by law? Can the agency provide copies of its licenses and bonds? If the service is not licensed in other states, what service(s) does it refer accounts to when debtors may have moved?
- Does the service have “errors and omissions” (E&O) liability insurance to protect the service and your practice from any errors made by the agency? Be sure to request that your practice be placed on the service’s insurance policy documents.
- Does the service maintain a separate trust account for payments made to give its clients financial security, protection and peace of mind?

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Compliance program

- Does the service staff strictly adhere to all laws governing collections, such as the federal FDCPA, which limits the times of day when agencies can contact individuals to communicate about delinquent accounts? The FDCPA also requires certain detailed information to be communicated to debtors when attempting to collect a debt.

- Is the service compliant with the Fair Credit Reporting Act (FCRA)?

- Has the service and/or any of its clients (creditors) been found liable in any litigation as a result of violations of the FDCPA or FCRA, for instance, wrongful actions such as harassment, libel, slander, invasion of privacy or interference with business?

- What is the service’s record of complaints by patients, health plans and clients?

- What policies and procedures have been adopted to comply with the Health Insurance Portability and Accountability Act (HIPAA)?

- Will the service provide copies of its collection letters to allow your attorney to make sure the service is in compliance with all applicable laws and regulations?

- Does the service have a full-time in-house attorney?

- When does the service stop collection efforts and refer to an attorney for legal action?

- What increase in collection fees is applied once an account is referred for legal action?

Staff qualifications

- Who will be handling the collection of the practice’s outstanding accounts, and what are the collectors’ qualifications?

- Are the collectors experienced in medical collections and knowledgeable in medical terminology and insurance requirements?

- Will you be able to speak directly with the collectors handling your account?

- What resources do the collectors have to locate debtors’ current address, telephone numbers and hidden assets? Do they have access to credit reports, Uniform Commercial Code (UCC) filings, judgment recordings and bankruptcy filings? You may wish to test these skills by asking the assigned collectors if they are able to obtain your home address, telephone number and Social Security number.

Technology resources and flexibility of services

- Does the collection service utilize telephone collections or only provide letter-writing services?

- How does the service require placement of accounts for collection by your practice (e.g., paper via mail or fax, disk, tape, online, etc.)? What are the rates for each placement?

- How and when are the status reports of the practice’s accounts provided by the collection service (e.g., mail, fax, phone, Internet access, weekly, biweekly or monthly)? Are these reports included in the collection fee?

- Does the service use a predictive dialer (e.g., automated telephone dialer system) with generic pre-recorded messages? These types of calls may be mistaken as a sales solicitation and usually are ineffective.

- Does the service report uncollected and collected debt to all of the major credit bureaus and relevant state agencies?

- Will the service customize a collection program (e.g., letters, telephone scripts, reports, etc.) to handle your practice’s specific problems?