



Clarification of Medicare Bad Debt Policy Related to Accounts at a Collection Agency – JA0824

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Effective Date: N/A

Implementation Date: N/A

Key Words SE0824, Debt, Collection

Contractors Affected

- Part A/B Medicare Administrative Contractors (A/B MACs)
- Fiscal Intermediaries (FIs)

Provider Types Affected All fee for service hospital and non-hospital providers who bill Medicare FIs or A/B MACs and are eligible to claim bad debt for Medicare beneficiaries



In order for providers to properly claim a bad debt and be reimbursed under the Medicare Program, providers must follow all of the *Criteria for Allowable Bad Debt* set out at 42 Code of Federal Regulations (CFR) § 413.89(e).

Pursuant to those criteria, a provider must establish that reasonable collection efforts were made. A provider must establish that the debt is uncollectible when claimed as worthless and use sound business judgment to establish that there is no likelihood of recovery at anytime in the future.

Provider Needs to Know...

- Until a provider's reasonable collection effort (including the use of a collection agency as well as in-house efforts) has been completed, a Medicare bad debt may not be deemed as uncollectible.
- Section 310.2 of the *Provider Reimbursement Manual (PRM)*, "Presumption of Noncollectibility", provides that, "If after reasonable and customary attempts to collect a bill, the debt remains unpaid for more than 120 days from the date the first bill is mailed to the beneficiary, the debt may be deemed uncollectible." However, Section 310.2 must be read within the context of the regulations and Section 310.
- As noted above, the manual makes it clear that the Centers for Medicare & Medicaid's (CMS) deems the use of a collection agency to be part of the provider's ongoing collection effort, and as long as the debt remains with a collection agency (even if more than 120 days), the debt cannot be deemed "uncollectible."

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- Therefore, in accordance with the regulation/policy in effect prior to the moratorium, effective August 1, 1987, until a provider's reasonable collection efforts have been completed, including both in-house efforts and the use of a collection agency, unpaid deductible and coinsurance amounts cannot be recognized as a Medicare bad debt.
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Background

- It has been a CMS longstanding policy that when an account is in collection, a provider cannot have determined the debt to be uncollectible and cannot have established that there is no likelihood of recovery under the regulations found at 413.89(e) (See 31 FR 14813; published November 22, 1966), and in Chapter 3 of the PRM.
 - Section 310.A of the PRM explicitly states that, "A provider's collection effort may include the use of a collection agency in addition to or in lieu of subsequent billings, follow-up letters, telephone, and personal contacts."
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Operational
Impact

N/A

Reference Materials

The related MLN Matters article can be found at <http://www.cms.hhs.gov/MLNMattersArticles/downloads/SE0824.pdf> on the CMS website.

The regulation, 42 CFR § 413.89(e) (*Criteria for Allowable Bad Debt*), is available at http://www.access.gpo.gov/nara/cfr/waisidx_04/42cfr413_04.html on the Internet.

Sections 308 and 310 of the PRM Manual (CMS Publication 15-1) are available at <http://www.cms.hhs.gov/Manuals/PBM/list.asp> on the CMS website.
