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

Note: This article was revised on May 19, 2018, to update Web addresses. All other information remains the same.

Provider Types Affected

This article is intended for all fee for service Hospital and Non-Hospital Providers who bill Medicare Fiscal Intermediaries (FIs) or Part A/B Medicare Administrative Contractors (A/B MACs) and are eligible to claim bad debt for Medicare beneficiaries.

Provider Action Needed

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 C.F.R. § 413.89(e) (See <https://www.gpo.gov/fdsys/pkg/CFR-2004-title42-vol2/pdf/CFR-2004-title42-vol2-sec413-89.pdf> on the internet.) and Sections 308 and 310 of the Provider Reimbursement Manual (CMS Publication 15-1) available at <http://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Paper-Based-Manuals-Items/CMS021929.html>. 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. Be sure your billing staff is aware of this information.

Background

It has been the Centers for Medicare & Medicaid's (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 Provider Reimbursement Manual (PRM). Section 310.A of the PRM explicitly states that "A provider's

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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.”

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 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 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.” 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.

Additional Information

If you have any questions, please contact your FI or A/B MAC at their toll-free number, which may be found at <http://www.cms.gov/Research-Statistics-Data-and-Systems/Monitoring-Programs/provider-compliance-interactive-map/index.html>.

Document History

Date of Change	Description
May 19, 2018	This article was revised to update Web addresses.
June 26, 2008	Initial article released

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