FAVORABLE

OIG WATCH

08-03

Prompt pay discounts must be proportionate to avoided collection costs

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What OIG Said

OIG said patient discounts and waivers can be defensible if you prove they bear a reasonable relationship to legitimate cost savings, not just goodwill, but documented economic justification.

- ✓ A health system offered patients 5-15% discounts on cost-sharing amounts for paying quickly (before discharge or within 30 days), designed to reduce accounts receivable and collection costs.

- ✓ OIG acknowledged the outpatient portion doesn't fit the safe harbor for waivers of beneficiary coinsurance/deductible amounts, which only covers inpatient services.

- ✓ OIG blessed it because: (1) the discount amounts certified to bear a "reasonable relationship" to avoided collection costs, (2) no public advertising, only disclosed during normal billing process, (3) offered uniformly without regard to diagnosis or admission reason, (4) health system bore all costs and didn't shift burden to payers.

- ✓ The critical insight: legitimate business incentives like prompt pay discounts must be sized proportionately to actual economic benefit received, not used as patient inducements disguised with a business label.

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Diligence Checklist

What you need to be ready to show in diligence

- ✓ Document the reasonable relationship between discounts/waivers and actual avoided costs, prove the financial concession is proportionate to collection costs, administrative burden, or other quantifiable savings you receive.
- ✓ Show the program serves a legitimate business purpose beyond patient attraction, prove it's about cash flow management, reduced bad debt, operational efficiency, not buying patient loyalty or referrals.
- ✓ Limit advertising and make discounts uniform, don't selectively market to high-value patients or vary benefits based on diagnosis, admission reason, or payor mix.
- ✓ Bear the cost yourself and don't shift burden to Federal programs or third-party payers, prove you're not claiming waived amounts as bad debt or building them into your charge structure.
- ✓ Monitor whether the program actually achieves its stated business purpose, track collection rates, days in A/R, bad debt reduction to prove the discount is generating the claimed savings.

If your patient discount policy or payment plan offers waivers without documented proportionality to legitimate business value, this is what will draw scrutiny.

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Structure not diligence-ready?

Cabra Consulting helps healthcare organizations make sure compensation and transaction structures are independently valued, clearly scoped, and defensible in diligence.

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