

**Managing Client Credit  
Vs.  
Providing Pet Health Insurance  
and  
Managing The Accounts Receivable**

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It is apparent from speaking with a multitude of veterinary audiences that most practice management consultants advise practice owners not to extend credit. However, nearly all practices provide some credit and, thus, should have effective financial policies in place. These should include: 1) policies for the payment of routine services, 2) standards for deposits for routine vs. emergency care, 3) protocols for payments by check, 4) requirements for completion of credit applications and promissory notes prior to the provision of any credit, 5) explanations of monthly billing fees and or finance fees on open balances, 6) lists of services or products for which no credit will be extended, and 7) actions by clients that would terminate the extension of any further credit. The importance of offering credit is shown in the following information regarding the rising costs of veterinary care and the changes happening in the veterinary market.

The rising costs of veterinary care are due to:

1. The exponential rise in the perceived value of the human-animal bond.
2. The increasing affluence of Americans during the 1990s and new millennium.
3. The massive expansion of knowledge and technology in the veterinary profession.
4. First and second generation human health care diagnostic equipment being peddled in the veterinary market such as CT scanners, MRI units, linear accelerators at a fraction of their initial costs. The same companies now tapping the veterinary market with their newest technology as a way of advancing sales in a heretofore-unrecognized market.
5. A major increase in the number of privately owned secondary care centers in veterinary medicine brought about because of the residence training of board eligible specialists who are seeing salaries in the private sector equal to double what they could earn in academia.
6. Residents at veterinary schools teaching senior students that everything complicated should be referred.
7. Drug companies developing a growing armamentarium of long term care products for pets such as year-round heartworm and intestinal parasite medications, prescription flea and tick controls, and drugs for lifetime pain management, diabetes, and atopy. On an annual basis, these drugs can cost much more than the total expenditure for veterinary care before clients pets were placed on these great products.
8. The need for veterinary schools to provide more advanced (and expensive) care than that available in today's secondary care centers. In reality, multiple private practice secondary care centers now rival or exceed the quality of care provided at the nation's veterinary school.
9. The rapid rise of educational debts of today's graduates requiring higher fees so that practices can pay salaries that will allow them to pay off their loans.

The changes happening in the veterinary market over the next decade include:

1. Replacing the income practices lose from vaccine protocols that no longer require annual visits – before practices have figured out how to get pet owners to continue to seek annual examinations.
2. Replacing the income from dermatology cases annihilated by advances in Rx flea products.
3. Reducing the dependency on profits from “well care” to subsidize time-consuming, costly, and under priced sick care.
4. Increasing the frequency of client visits.

After practices have established client financial policies, it is time to consider varying payment methods.

1. **Cash** – obviously cash is king and practices are always happy to accept this form of payment, although, it certainly increases the opportunities for embezzlement and theft.

2. **Credit cards** – Offering Visa, MasterCard, Discover, and American Express is not without its drawbacks. This generally costs practices between 1.8-2.5% of the invoice but prevents “bounced” checks and, thus, may be the next best thing to payment in cash.
3. **Use of Check Service Programs** – TeleCheck is one example of this type of service. This is an insurance policy for practices that wish to insure checks to keep them from bouncing, most useful for clients who write checks on relatively new accounts with sequential numbers less than 200. The company’s electronic check acceptance program converts paper checks into electronic transactions at the point of sale and deposits them into the practice’s checking account just like a credit card, with the normal TeleCheck guarantee. Costs for this service are comparable to those assessed by credit card companies. Call 800-366-1054, go online at [www.telecheck.com](http://www.telecheck.com) or look in the *Yellow Pages* under “check verification” for information about the TeleCheck in your locale. Other companies offering check guarantee services include Creative Cash Flow Solutions, [www.ilovechecks.com](http://www.ilovechecks.com), First American Payment Systems, [www.securchex.com](http://www.securchex.com), and Global Payments, Inc., [www.globalpaymentsinc.com](http://www.globalpaymentsinc.com). Remember, if TeleCheck or other check insurance companies won't guarantee a check, the practice probably should provide limited or no credit.
4. **CARE CREDIT** – This specialized lender provides \$1.3 billion of credit annually in the human and veterinary health care arena. This company:
  - a) processes credit applications from forms provided to clients by receptionists who gather the information and phone, fax or email it to CareCredit – a process generally requiring 3-5 minutes,
  - b) advertises a 55%-85% application approval rate (though most veterinarians with whom I have spoken claim it can the qualification rate is considerably less in their communities),
  - c) electronically transfers payments to your bank account within two business days,
  - d) provides creditors with varying repayment plans including 6 or 12 month grace periods with high interest rates thereafter or 12% per annum interest rates for bills in excess of \$1,500, and
  - e) becomes the “bad guy” when a client's credit application is disapproved.

The processing fee paid by practices varies from 5% to 9.9% of the transaction amount, depending on the repayment plan chosen by clients. This is considerably more than that paid to standard credit card companies. However, it is important to remember, these clients don’t have checks, cash, Visa, MC, AE or Discover and the money Care Credit lends them is in your bank account within 48 hours instead of on “your books.” For further information, visit **CARE CREDIT** twenty-three hours per day at 800-300-3046 or at [www.carecredit.com](http://www.carecredit.com) for more information.

5. **Delayed Check Deposits** – For situations where clients have checking accounts but can't pay in full, multiple checks can be accepted that are dated with the day patients are discharged. Each check should be for an appropriate amount equal to 1 divided by the number of months for which checks will be deposited, not to exceed 6. This is as long as most banks will honor outstanding checks. After completing these entries, the deposit date should be written in pencil above the date and these checks stored in a safe location so that the pencil dates can be erased and can be systematically deposited in future months. Extreme care must be taken not to deposit these checks prior to the agreed upon dates. Such action may evoke insufficient funds notices and charges by banks and, thus, immense anger with clients. Checks with future deposit dates should NOT be accepted. These are known as post-dated checks and are not valid instruments.

An advantage of this technique is that it eliminates expensive billing and postage costs, doesn't cost the practice any percent of the transaction for processing credit cards or Care Credit applications, and assures practices that they will have checks to deposit at pre-established times – rather than trusting clients to respond to billing statements. When implementing this procedure, it is important to remember the basis from which it originates, i.e., since practices are trusting clients to make each check good, they must trust them to deposit these checks at the proper times.

6. **Collateral** – Some clients will offer collateral for the veterinary practice to hold until the bill is paid in full. Guns, rings, and driver's licenses are among the most common items. This is one of the least favorite techniques since practices become responsible for the safe storage and security of item(s) offered as collateral but, hey, managing that problem is up to you.
7. **Financial Policies, Extending Credit, and Generating Promissory Notes** – Veterinary practice owners and managers should continue to create and enforce policies that minimize the extension of credit. However, credit may be a necessary evil when practices are being asked to under-treat or over-euthanize patients.

The best time to offer credit is on SLOW DAYS when fixed costs erode the profitability of the business and the staff is underutilized. Clients must fill out credit application forms and sign promissory notes at 1.5% interest per month until the balance is paid in full. With the availability of today's computer software programs, practices should be able to design credit management policies that allow them to collect finance fees sufficient to cover the majority of the business's losses from "bad" debts.

Once practices enter the credit arena, doctors and support staff need to be prepared to pass "bad accounts" without activity for several months on to collection agencies. The reasons for this policy are twofold: a) to prevent owners, doctors, and staff from becoming angry reviewing the receivables at the end of each month and, thus, becoming overrun with negative feelings brought on by a small number of "total deadbeat" clients, and b) because collection agencies have a much better chance of collecting on accounts with completed credit applications and signed promissory notes. Moreover, practice owners and staff need to accept that collection agencies rarely collect more than 25% of all accounts they receive and that 0.5-1% of all income generated will be uncollectible in almost every business in America; veterinary medicine is no exception. A collection agency that has worked effectively with veterinary medical associations from nine states is the Diversified Services Group, 888-494-7900, [www.divservgrp.com](http://www.divservgrp.com). It has been in business since 1978, charges a 28% collection fee for members, and is endorsed by the Colorado VMA.

Following are a sample financial policy and a sample credit application form for customization and use by individual practices.

## **ELSEWHERE ANIMAL HOSPITAL**

### **Financial Policy**

Our pet care facility receives no support from charitable organizations or the government. Only if we receive prompt payment for our services and products can we maintain the well equipped, staffed, and stocked facility that our patients deserve - at affordable prices. Thus, the following financial policy is mandatory:

1. As a convenience to our clients and at considerable expense, EAH provides grooming, boarding, food, medications and/or retail supplies. Due to the low margins related to these items, full payment is expected for them at the time they are provided.
2. Acceptable means of payment include:
  - a. Cash or Checks (This includes checks dated on the day of service but not to be deposited until a later date. WCPC agrees to pay the service charge if we accidentally deposit the check before the specified date.)
  - b. Visa or MasterCard
  - c. American Express or Discover
  - d. Pet Health Insurance (VPI pet insurance) – including an assignment of insurance proceeds directly to WCPC for cases in excess of \$500
  - e. Care Credit Financial Services
3. Practices should insert here, their policies regarding emergency cases which require the extension of credit.
4. In rare instances, when no other alternative exists and after completing an application for credit prior to a patient's admission or discharge, the supervising veterinarian or office manager may authorize credit for **PROFESSIONAL SERVICES ONLY**. In this case, the following guidelines must be met:
  - a. Completion of a credit application and promissory note that includes:
    - 1) Full names and addresses for owners and spouses or co-owners
    - 2) Place and length of employment for each
    - 3) Employers' addresses and telephones
    - 4) A personal reference
    - 5) Drivers license number & Social security number
    - 6) Bank & bank account information
    - 7) Name and location of a prior veterinary facility that we can contact
    - 8) Deposit paid and total amount owed
    - 9) Repayment schedule
    - 10) Date and Client signature
    - 11) Veterinarian or office manager's signature
  - b. Promissory note repayment schedules cannot exceed 120 days. Interest of 1.5% per month (18% per year) will be charged on all accounts not paid within 30 days. A minimum monthly billing fee of \$3 will be charged, regardless of amount owed.
  - c. A deposit of \_\_\_\_% of the total invoice must be collected or secured at the time of the patient's admission.
4. No **ADDITIONAL SERVICES** may be charged to any accounts with outstanding balances past 30 days due. Instead, all fees for such services or products **MUST** be paid at the time of service.
5. Any delinquent accounts deemed uncollectible may be sent to a collection agency or attorney for recovery of reasonable collection and/or court costs, attorney's fees, interest, and/or billing fees.

**Elsewhere Veterinary Hospital  
Application for Credit**

Owner's Name \_\_\_\_\_ Phone: ( ) \_\_\_\_\_  
Pet's Name \_\_\_\_\_ Hospital Account # \_\_\_\_\_  
Address: Street \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_  
Social Security # \_\_\_\_\_ Driver's License # \_\_\_\_\_

Spouse/Co-Owner's Name \_\_\_\_\_  
Personal Reference: Name \_\_\_\_\_ Phone # ( ) \_\_\_\_\_  
Reference's Address: Street \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

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Nearest Relative (not at same address) Name \_\_\_\_\_  
Address \_\_\_\_\_ Phone # ( ) \_\_\_\_\_

Employer's Name \_\_\_\_\_ Position \_\_\_\_\_  
Address \_\_\_\_\_ Phone # ( ) \_\_\_\_\_

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Spouse/Co-Owner Employer's Name \_\_\_\_\_ Position \_\_\_\_\_  
Address \_\_\_\_\_ Phone ( ) \_\_\_\_\_  
Length of Employment Owner \_\_\_\_\_ Spouse/Co-Owner \_\_\_\_\_  
Checking Account Bank \_\_\_\_\_ Length of Time with this Bank \_\_\_\_\_  
Major Credit Cards: \_\_\_\_\_ Account Numbers: \_\_\_\_\_

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Name of Prior Veterinarian or Hospital that could serve as a reference \_\_\_\_\_  
Dr. or Hospital Address: City \_\_\_\_\_ State \_\_\_\_\_ Phone # ( ) \_\_\_\_\_

Has your pet been treated at this practice previously? Yes No When? \_\_\_\_\_  
Approximate amounts paid for medical care here in past 2 years? \$ \_\_\_\_\_

Amount of this bill (Total charges)\$ \_\_\_\_\_ Amount Paid \$ \_\_\_\_\_  
Method of Payment: Cash Check Credit Balance Remaining \$ \_\_\_\_\_

***I, the undersigned owner/agent for \_\_\_\_\_ (name of animal) hereby agree to pay the remaining balance of \$ \_\_\_\_\_ plus any late charges, on a schedule of \$ \_\_\_\_\_ every month commencing on \_\_\_\_\_, 20\_\_\_. I promise to have the above balance paid in full by \_\_\_\_\_, 20\_\_\_. I understand and I accept that a late fee will be charged on this account at a rate of 1 1/2% of the unpaid balance per month. I understand that if an account is turned over for collections, all costs of collection (including reasonable collection agency fees, attorney's fees, and court costs) will be added to the outstanding balance.***

Signature \_\_\_\_\_ Date \_\_\_\_\_

Witness \_\_\_\_\_ Date \_\_\_\_\_

8. **Barter System** – This involves trading veterinary services for products or services that clients can provide in exchange. Furniture reupholstering, landscaping, handy-man repairs, painting, tile work, cabinet-making, plexiglass work, arts and crafts, and many other types of barter exchanges have been tried by the members of our roundtable. The Internal Revenue Service frowns on this business protocol because it produces untaxed income. Therefore, income from these sources is considered illegal, unreported income unless it is reported on one's taxes. Additionally, the quality of clients' work may be inferior to that of the veterinary services provided. Still, this last ditch effort may be better than euthanasia of the pet or a hollow promise by the client to pay off the bill over time.
9. **Good Samaritan Funds** – Such funds can be and often are raised by practices and their staff to assist with veterinary care for indigent clients. Although an altruistic concept, practices who have developed these “slush funds” generally find that the disbursement of funds can create more staff acrimony than they ever expected. Careful guidelines must be established and committees of staff members appointed to oversee the selection of recipients and percentage of services paid for by the fund. Otherwise, such funds may become more troublesome than they are worth.
10. **Teaching Allowances** – This entails practice managers or owners establishing budgets of \$1,000 to \$2,500 for their doctors to use to offer services to two types of clients. The first is for those who lack the funds to treat cases wherein their doctors can gain considerable knowledge and experience from pursuing the recommended care. The second is for clients who have exceptionally strong bonds with their pets but also have serious economic problems that preclude full payment for the requisite care. Practices that offer this form of “in-house” financing generally budget for this procedure in advance and then tap monies stored in their “marketing or CE budgets” to offset these “gifts” to their clients.
11. **Pet Health Insurance** – This rapidly growing vehicle for financing veterinary care offers the best of all worlds. All costs are borne by clients, not by the practices, and fees for services are paid by caring, responsible clients who have budgeted in advance for future veterinary services. More on this later.

### **When Credit is Your Only Option, How Much Should Be Allowed?**

As alluded to above, I have always been of the opinion that if the practice is not busy, veterinarians and support staff may as well be generating income and lining up future payments rather than twiddling their thumbs. Personal experience has led me to conclude that the best veterinary care often is provided on days when staff members are operating in high gear because they are busy; conversely, the worst care often occurs when personnel are in low gear because business is slow. Thus, the following comments are prompted in part by the theory that practices, and veterinary care, are better off being busy rather than slow.

Rule number one, **do not** send expensive laboratory work or dispense or administer high-cost drugs or OTC products without sufficient payment to cover at least the out-of-pocket costs linked to those items. However, rule number two is "why not take a chance on performing some level of service in hopes of being paid" - especially when there is nothing else to do that day, anyway.

The key is not to take any big credit risks, always use credit application forms, and never allow clients to demand credit! This latter tactic is nothing more than a ploy clients use to transfer the blame for their inability to pay for veterinary care from their shoulders to yours. Do not allow clients to place you in this type of awkward defensive position. Instead, take an offensive position and inform them that occasionally you can provide credit, however, they must **APPLY** for that credit.

When pursuing this policy, a simple protocol such as the following one can be employed to decide whether or not to provide any credit. Much of this effort can be accomplished within 2-5 minutes via the telephone. A point system can be applied to the answers provided on the credit application to determine whether or not applicants qualify. Those who score higher than a 6, 8 (or any other number you establish) can be provided with pre-established dollar-levels of credit. Here's my list:

1. 1 point. **Functional current home phone number.** Call the number listed and verify that it is correct. If no one answers, proceed with caution (even if you know the applicant is sitting in your office and you wouldn't expect anyone to be home). In this case, call again later. If the number has been disconnected or has had service temporarily interrupted, proceed with the presumption that this person is a deadbeat and should receive no credit.
2. 1 point. **Address listed for telephone number matches that on the credit application.** When calling the telephone number listed on the application, tell the person answering that "Jane Doe" is at your office and is applying for credit. Ask him or her to provide you with the address of the location you have called (so you can see if it correlates with that on the application).

Alternatively, especially if no one answers the home phone, the practice should be able to access internet sites such as [www.anywho.com](http://www.anywho.com) and [www.411.com](http://www.411.com). These websites allow you to enter a person's name and/or address to obtain a phone number. If the person is listed in the phone book a number will be retrieved that you can cross-check with the credit application. Conversely, you can also use these sites' reverse lookup feature to enter a person's phone number and obtain a name and address that can be correlated with the credit application. Unfortunately, this precludes matching cell phone numbers with addresses so if a client gives their cell phone number only, you will be unable to verify an address.

3. 1-4 points. **Applicant is employed and employment has been verified.** Call anyone listed as an employer and confirm whether the applicant is employed there and if so, how long. The longer the time employed at the same business, the higher the point total. During hours when most employers are closed, office personnel must look in the *Yellow Pages* to establish that the employer's business actually exists and that its address and telephone numbers match those provided by the applicant.
4. 1-3 points. **Determine if the applicant currently has another local veterinarian or has had one in the past.** Call that practice and find out how frequently the credit applicant sought veterinary care there and whether or not the person has an "open balance." Do not ask if credit applicants routinely pay their bills or are good or bad credit risks. After all, you do not want to put the veterinary practice being called in a position whereby they could be liable for a suit for slander. Inquire about the applicant's track record for prompt payment of veterinary services and leave it at that.
5. 1-2 points. **Client has paid cash for \$200-\$300 of veterinary services in past 1-2 years.** Applicants that have paid cash for >\$200 in the past year receive 1 point and those that have paid >\$300 in the past two years receive 2 points.
6. 1-2 points. **Personal references.** Call applicants' relatives and/or personal references listed on the credit application to verify the trustworthiness of applicants as animal owners, the employment status of the pet owner, the reference's knowledge of the client, and length of time the applicant has lived at the current address. Ask the references whether they might consider lending some money to your client who is seeking critical veterinary services. It is amazing what type of information this occasionally produces.

If the credit applicant has no personal references, proceed with caution.

7. 1-3 points. **Cosignatory.** Have the client bring in a person who can serve as a cosignatory. This could be a parent, friend, employer or relative with good credit.
8. 0-1 point. **Existence of a major credit card.** If applicants have major credit cards and do not want to use them, this is not a good sign. They probably have exceeded their allowable limit and are overextended. Sometimes, however, they are merely trying to avoid paying the finance charges on the credit card. When this happens and they discover your practice charges a similar finance fee, many of them will go ahead and use their cards. In other cases, however, they may be able to put 40-60% of the bill on the card and have you finance the rest. If this is possible, they probably deserve 1 point in this category, too. Alternatively, you may be able to get them to split the charges owed between two different credit cards.
9. 1-3 points. **Client has had prior credit and paid off bill on time.** This client has incurred several previous debts at the practice and has paid each of them in full and within a reasonable time.

After tallying the points clients can be granted credit based upon the following formula:

0-3 points	no credit
4-6 points	\$100
7-8 points	\$100-\$249
> 8 points	\$250-500

To supplement these simple ideas, credit reports can be obtained easily today via the internet. Clients pay the credit reporting company's fee as part of their credit application to the practice, generally \$30. A separate paragraph or consent form disclosing a request for this report should be signed and dated by clients on their credit applications. The report is ordered and returned within minutes to the practice.

### **A Place For Pet Health Insurance**

One response that has emerged from the increasing demands for credit at veterinary practices is for staff to take the position that "every pet owner who lacks sufficient funds, complains about a veterinary bill or is forced to pursue euthanasia for financial reasons immediately should be handed a pet health insurance brochure" and encouraged to purchase a policy before their pet's next health care visit. Alternatively, at the time of their first visit, all new puppy, kitten, and exotic animal owners should be asked the question, "Are you rich?" Of course, everyone always answers, "no." At that point the perfect comeback is to say, "You know Mrs. Jones, at some point during your pet's life you will most likely be faced with a major medical decision. There is nothing worse than having to elect euthanasia or second rate care as your only option because you are unprepared for the \$1,000 to \$10,000 expense for veterinary care. Thus, unless you are rich, you should consider insuring your pet."

The oldest and largest company offering pet insurance in the USA is Veterinary Pet Insurance, Inc. It was founded in California in 1981 with investments by over 700 veterinarians. It is licensed by the California Department of Insurance and is the only state regulated pet health insurance company in the USA. Whereas over 45 other efforts to found pet health insurance companies in the U.S. have failed, VPI has 85% of the market and is thriving 24 years after its inception. The company has expanded at an annual rate of 40% per year since 1998 and had over \$100 million in premium income in 2003. The company employs 13 full- and 5 part-time veterinarians with top leadership positions filled primarily by veterinarians.

This company insures dogs, cats, ferrets, rabbits, reptiles, and exotic birds and offers a major medical insurance plan for sick care and a separate \$99/year well care plan that covers payments toward annual exams, vaccinations, heartworm tests and treatments, flea treatments, worming, dental prophylaxes, chemistry profiles, and even spays and neuters. As with human health coverage, pre-existing conditions are not covered until pets have received no further treatments for the condition(s) for 6 months. VPI has an on-line eUniversity educational program available for veterinary students, veterinarians, and support staff at [www.vets.petinsurance.com/education](http://www.vets.petinsurance.com/education). For information about premiums by species, age, and region of the country, [www.petinsurance.com](http://www.petinsurance.com) offers a user friendly system to obtain that information. Alternatively, the company has a veterinary hotline 866-VET-4VPI. Monthly premiums for the major medical portion of this insurance run from \$14 to \$19/month for kittens and puppies to \$44 to \$66/month for 14 year-old cats and dogs.

The company's ongoing growth is being fueled in part by the purchase of a minority interest by the Iams Company. That has led to a marketing alliance between the two companies whereby Iams pays for two months of a one-year puppy or kitten sickness, accident, and well care insurance policy for pet owners who have received a sample of Iams pet food from their local veterinarians. For more information on this, call The Iams Company at 800-675-3849. Equally important in the company's growth are employer payroll deduction plans offered through over 800 major U.S. employers including Sears, IBM, Blockbuster, Daimler-Chrysler, and Sprint. Currently pet health insurance is the third most commonly requested payroll deduction.

Special premium discounts are available for veterinary practices that would like to purchase policies for their staff. This allows staff to make appointments for services and products, just as all other clients do, and receive top-notch care for their pets without the necessity for huge discounts by their employers. In addition, once insured, veterinary support staff will have access to the services of emergency clinics and specialists with insurance coverage for the costs, instead of relying on awkward and often limited access to "collegial discounts." As is the case with all pet health insurance plans, most payments for services and products are made by policyholders directly to veterinary practices, after which clients file claims for reimbursement of their costs. VPI's claims currently are paid within 5-7 working days of their receipt.

A second pet health insurance company, Pethealth, Inc. of Oakville, Ontario, [www.pethealthinc.com](http://www.pethealthinc.com) or 866-275-PETS also sells insurance in the USA. Founded in 1998, it is Canada's largest provider of pet insurance. It sells policies for dogs and cats in 43 states in the USA and Washington, DC and as of February 2004, had 72,000 core insurance policies. It is allied with Petco and sells pet insurance through [www.petcarepals.com](http://www.petcarepals.com). A third company, PetCare, has entered the marketplace and information about its products can be found at [www.petcareinsurance.com](http://www.petcareinsurance.com) or 866-275-PETS. Information about the fourth company, Petshealth Care Plan can be found at [www.petshealthplan.com](http://www.petshealthplan.com) features the comic strip character, Garfield, within its marketing plan. A fifth company, Pet Plan, a big player in Canada can be found at [www.petplan.com](http://www.petplan.com). It sells insurance in the USA through the website [www.gopetplan.com](http://www.gopetplan.com) or by calling 866-467-3875.

Many veterinarians have stated, "Why should we endorse pet health insurance? Look what it has done to human health care costs!" There is no doubt that the availability of human health insurance helped drive up health care costs, to the great economic benefit of the health care professionals in this country. There also is no doubt that the success of human health insurance has provided physicians with an outstanding standard of living while giving residents of the U.S. access to the highest quality health care available in the world today. However, a close look at pet health insurance, as offered by VPI, allows one to see that sufficient differences between the two exist to preclude pet health insurance from going the way of its human counterpart. The following is a comparison of the two:

## **DIFFERENCES BETWEEN PET HEALTH AND HUMAN HEALTH INSURANCE**

### **PET HEALTH**

Pet Owners Pay Premiums  
 Significant Co-Pay  
 Claims Filed by Pet Owner  
 Major Concern over Costs  
 Euthanasia **IS** an Option  
 Minimal Long Term Care  
 Limited Intensive Care Costs  
 Insignificant Liability Risk & Costs  
 AIDS – Not a Major Cost Factor  
 No Psychiatric Care  
 Do Drug Addictions  
 No Suicides

### **HUMAN HEALTH**

Employer &/or Employee Benefit or Gov't Pays  
 Zero to ? Co-Pay by Type of Service  
 Claims Filed by Provider  
 Minimal Regard to Costs  
 Euthanasia **Is Not** an Option  
 Significant Long Term Care  
 High Intensive Care Costs (respirators, etc)  
 Major Liability Risk & Cost  
 AIDS – Is a Significant Cost Factor  
 Covers Psychiatric Care  
 Covers Costs of Drug Addictions  
 Covers Costs Associated With Suicides

VPI offers two different insurance plans which have different premiums and benefits. For pet owners in metropolitan settings, the Superior Plan is the only one recommended. A cancer endorsement which, in the event the insured pet is diagnosed with cancer, doubles the benefit schedule for therapy. Approximately 25% of pet owners are electing to include this added coverage. A drawback of pet health insurance has been the lack of coverage for inherited conditions. Premiums for this new policy would vary remarkably by breed, based on the volume of reported congenital diseases and the actuarial experience of the company. Because of this concern, the company suspects that premiums may be so high as to price this product out of the market.

If your practice, or that of your employer, is missing out on the opportunity to practice a higher quality and quantity of veterinary medicine because of a rigid "no credit here" policy, there are two potential solutions:

1. Develop a sound credit policy for the practice and use it wisely and consistently. (For additional information on credit and pet health insurance, including the use of small claims court, see chapter 13 in the *Law and Ethics of the Veterinary Profession* book (\$59.95) or pages 259-264 in the *Contracts, Benefits, and Practice Management for the Veterinary Profession* book (\$89.85) available from AAHA at 800-883-6301 or [www.aahanet.org](http://www.aahanet.org), Vet Med Publishing at [www.vetmedpub.com](http://www.vetmedpub.com) or from Priority Press, Ltd., P.O. Box 306, Yardley, PA 19067, 215-321-9488.)
2. If your practice isn't a pet health insurance provider or has been inactive for any reason, it is time to contact VPI, Petshealth or the Pet Care Plan for more information about the myriad of insurance policies now available. Equally important, it is time to suggest to your clients that they start budgeting for future veterinary care for their pets by purchasing pet health insurance policies rather than relying on your practice to provide them with credit.

## Managing Accounts Receivable

Although most practices claim they have very few or no accounts receivable, such claims are usually overstated. Almost every veterinary business provides some credit for needy or worthy clients.

However, those that do should always take the three following steps when managing their accounts receivable:

1. **Aged Accounts Receivable** – It is important to make sure that your practice know its accounts receivable on an aged basis. This means that you should know when a client's bill is current, as well as when it is 30, 60, 90, and even 120 days overdue. Remember, if you do not know the aging status of your clients' bills, there is no way to track down the clients that are behind in their payment schedule, and no way to know how many clients have bills that are overdue.
2. **Aging Schedules** – Once your clients are organized on an aged basis, the aging schedule should be reviewed in the middle and at the end of each month. Reviewing the aging schedule twice a month accomplishes three things. First, it insures that statement reminders are sent to clients in a timely fashion and are coordinated with any payment plans clients may have. Also, practices will be kept abreast of any increases or decreases to the volume of credit being offered on a monthly basis. Lastly, reviewing the aging schedule forces the practice to act without delay on accounts that are past due more than 90 days.
3. **Opportunity Costs** – Understand that there are opportunity costs assessed to your practice for lending and holding credit that are determined by the credit limit offered, credit period offered, discounts on early payments, and interest on working capital that has been invested in the business's accounts receivable. Opportunity costs also include administrative costs that Darnell Institute has calculated as costing \$31.60 per client/invoice sent out and payment processed. These administrative costs cover things such as bookkeeping, postage, collection expenses, non payment, and bad debt. No matter how you decide to handle the bad debt accounts, you should check that the accounts receivable balances are updated in your management software program and make sure that balances over 120 days past due do not keep growing without some form of intervention.

When managing accounts receivable it is vital that practice managers apply checks and balances to ensure that they are being dealt with in an efficient manner. Following are various comparisons and calculations that can be implemented as checks and balances to give the practice more control over its accounts receivable:

1. **Comparisons** – Compare your total accounts receivable as a percentage of gross income with different sources to see how they match up. When weighed against the industry standard, your total accounts receivable should be between \$30,000 and \$750,000, depending on the size of the practice, or 4% of your gross income. When comparing accounts receivable to AAHA's 1999 statistics you will find that for small animal practices the mean is 1.9% of gross income, or if the practice grosses between \$750,000 and 2% if it grosses greater than \$1,000,000. Another comparison can be made using Idexx's 2003 statistics which state that for a two or three doctor practice, the mean accounts receivable is 1.73% of gross and for a four or more doctor practice it is 2.5%.
2. **Calculations** – The following list of calculations is another way to apply checks and balances to the accounts receivable:

- a) **Average Daily Credit Sales** – This is figured by dividing average monthly credit sales by 30. For example, if the practice has \$5,000 of credit sales per month, it averages \$167 in credit sales per day. Remember that this money is unavailable to purchase inventory or to pay general expenses.
- b) **Average Collection Period** – After calculating the average daily credit sales, you should figure out the average collection period. This is done by dividing total outstanding accounts receivable by average daily credit sales. For example, if the practice has \$20,000 outstanding accounts receivable and averages \$167 in credit sales per day, it will take an average of 120 days before payment is received. Ideally, the average collection period should be under 30 days.
- c) **Accounts Receivable Turnover** – This calculation is done in order to show the amount of times during a year that the balance of accounts receivable is collected. It is figured by dividing credit sales per year by the average accounts receivable. For example, if the practice has a total of \$100,000 of credit sales per year and an average accounts receivable of \$30,000, then accounts receivable turns over 3.3 times per year. Preferably, it should turn over 12 times per year.
- d) **Average Age of Receivables** – Next, calculate the average age of receivables to show how quickly accounts receivable are converted to cash to use for operations and/or debt repayment. It is figured by dividing 365 (days in a year) by the accounts receivable turnover. For example, if it turns over 3.3 times per year the average age of the business's accounts receivable is 111 days. This is something that lenders look at when considering approval for a loan.

When doing these calculations over the course of a year keep a sharp eye out for any signs of trouble such as the average collection period beginning to lengthen or the aging schedule showing an increase in the percentage of past due accounts.

If you do encounter any potential problems when calculating accounts receivable there are steps to take that can stem their tide. Following are some examples:

- a) **Temporary Reason** – First ascertain whether there may be a temporary reason for the problem(s).
- b) **Tighten Credit Policy** – If need be, tighten your practice's credit policy. Often this requires more effective use of the credit application form presented earlier in this article.
- c) **Discounting** – Consider offering some sort of discount in order to reduce the elongated repayment period for a client. When deciding whether or not to offer discounting to stimulate earlier payments, it is important to calculate the cost/benefit of the revenue given up vs. a lower collection rate for more accounts receivable vs. the cost of continuing to pursue collection efforts as well as the cost/benefit of the additional income to the practice's overall profitability, i.e. net income/revenue.
- d) **Payment Schedule** – Compare the practice's payment schedule to that of your colleagues to determine if it is wise to change it.

- e) **Percentage Of Bad Debt To Gross Income** – Compare the practice’s percentage of bad debt, i.e., uncollectible accounts, to gross income using various industry standards. For example, the NCVEI states that one doctor practices average .40%, Idexx states that two to three doctor practices average .42% in uncollectibles, and four or more doctor practices average .51%
- f) **Carrying Fees** – Consider charging a carrying fee of 1% per month after a bill hasn’t been paid for an initial 30 days. In order to do this the client must be informed via a treatment consent form and/or a credit application that this carrying fee is being imposed before they incur fees for services. In addition, check state laws to find out what the maximum allowable percentage charge is in your particular state.

Other things to think about when trying to manage accounts receivable include the billing statements that are sent out to clients and managing credit in relation to accounts receivable. In regards to billing statements, the most important thing is to set a standard time for them to be sent out whether this is at the beginning, middle, or end of the month or even on a weekly basis. Experience shows that clients who are cash-short, are more likely to make payments if the practice’s billing statements arrive just before the end of each month. When managing credit in regards to accounts receivable make sure staff are instructed to deny credit to any returning, non-paying clients. Moreover, consider whether credit is being given out unwisely (credit policies not followed) and know how much credit the practice is able to carry without impairing its cash position.

It may also be wise to establish a collection policy for any past due accounts. The following steps will explain how to maintain an effective collection policy:

1. **Assertive Policy** – When a collection policy is implemented the first thing that must be remembered is that the policy you create must be maintained assertively.
2. **Work Payments** – It is important that office managers work those payments that are within the 0 to 30 day category by doing scouting/reminder calls to inquire if bills were correct, if there was any displeasure with the service received, if the client is financially unable to pay the bill, and how soon a payment will be received.
3. **Address Service Requested** – Make sure that “*address service requested*” is printed on the billing envelope below the return address so the Postal service will inform you that the recipients have moved.
4. **Advise Clients** – After a bill has been unpaid for 60 days clients should be advised on a billing statement that if the bill is not paid within 10 days it will be sent to a collection agency or small claims court. Remember that federal law states that if this is stated to a client, it is required that the practice follows through. Also make sure to check state laws to see if there are any other regulations that must be complied with when advising clients. After the 70<sup>th</sup> day that the bill has been unpaid send the account to collections or take it to small claims court. Even though full payment won’t be received due to collection and/or court fees, some is better than none.

For example, these are the steps that are taken when sending an account to collections through a veterinary familiar company such as Transworld Systems, Inc.:

- a) **Fees** – The practice is charged either an annual or per account fee when opening an account with Transworld. Their fee is \$13.95 maximum per account.

- b) **Stages** – Transworld uses a three stage process when attempting to collect on an account. First the client is contacted through a written letter, then the client is contacted verbally over the telephone, and finally any and all legal options are explored in order to collect on the account.
- c) **Client Payment** – If the past due amount is collected during the written stage of collections 100% of that amount is paid directly to the practice. This means that the practice is only “out” the \$13.95 transaction fee charged by Transworld. Note that a reasonable collection fee may be included and billed to the client if it has been stated on a 60 day old bill, if and only if, a flat fee is being charged by the collection agency. If the past due amount is collected during the verbal stage of collections the practice only receives 50% to 60% of the amount collected. During the legal stage of collections, with the practice’s approval, both court costs and attorney fees can be charged to the client and added to the amount owed.

A final option when attempting to collect on an overdue account is to take the client to small claims court to try and recover the amount. Following are examples of small claims court operations in both Pennsylvania and New Jersey.

1. **Pennsylvania** – In order to file a claim in small claims court a filing fee must be paid. These fees are \$39.50 for a claim under \$500, \$45.50 for a claim between \$501 and \$2,000, and \$65.50 for a claim between \$2,001 and \$10,000. If the practice receives a judgment and it is not paid within 30 days, the next step is to file with the sheriff’s office and have them attempt to collect the judgment for an \$84 filing fee. If the judgment still has not been paid 15 days following filing with the sheriff’s office you have the option of forcing a sheriff’s sale for an additional \$25 filing fee. Keep in mind that if the plaintiff in small claims court is a corporation and is suing for under \$2,500 legal counsel is not required.
2. **New Jersey** – In order to file a claim in New Jersey the practice must pay a \$15 filing fee and a mileage fee for the court official to deliver the claim if it is under \$3,000. For any claims between \$3,001 and \$15,000 the filing fee increases to \$54. Remember that you are also probably paying your office manager to take care of some of the small claims court paperwork while the claim is pending. Also note that if the plaintiff in New Jersey small claims court is a corporation legal counsel is required.

## **Conclusion**

As much as practices try to avoid it, credit is an accepted part of the American way of life and almost always a necessary evil in veterinary medicine. To maintain an absolute zero accounts receivable balance invites a staff revolt. Why? Because they will see this as an indication that the almighty dollar rules everything in the practice, even the lives of pets belonging to clients on Social Security. Recommending that clients budget in advance by purchasing pet health insurance is, perhaps, the best way to go. Nonetheless, we all know that often times that will not work and that is when a clear, firm, well implemented credit and accounts receivable policy is the next best course of action.