Managing with Fee Balances

*Insights from a risk management consultant*

One common question I have been asked over my 22 years as a risk management consultant for The Trust is whether psychologists should collect overdue accounts receivable and, if they should, how to do it. Contributing to the need for assistance in many cases is the psychologist’s lack of business expertise and discomfort with business issues.

Inappropriate handling of unpaid fees can have problematic consequences for both the client and the psychologist, so it is critical for the clinician to employ solid risk management techniques in this regard. Many psychologists react emotionally when clients fail to pay for services already received. They also often view non-payment from a clinical rather than a business perspective and see it as a continuation of the therapeutic process. Some psychologists want to write to non-paying clients elucidating clinical reasons the clients are not paying and the therapeutic importance of meeting one’s obligations. This is often expressed as “a matter of principle.” Any perspective other than the business perspective is extraneous to the issue and legally and ethically risky. A non-business approach to the problem can lead to a complex licensing board complaint.

### Using a collection agency

Collection actions should be undertaken only when the psychologist has exhausted softer means of persuasion, including at least two written reminders to the clients of the amount owed. Pursuing collection will require some release of confidential information in an adversarial proceeding involving a collection agency or small claims court. Psychologists are limited to releasing only that information needed to collect the debt. In most cases, that means a general description of the services provided, the dates of service and the amount owed.

Psychologists should understand that the only leverage a collection agency has is to harass the debtor-client or damage his or her credit. Many psychologists find the use of collection agencies to be inconsistent with their own perceptions of the work they do with clients. Collection agencies are subject to the federal Fair Debt Collection Practices Act (FDCPA) and a host of state-specific laws which limit the means used by the collection agency. Psychologists must understand, however, that they may be held responsible for the collection agency’s actions, so it is critical to use only agencies with stellar reputations.

Bringing an action in small claims court gives a psychologist more control over the process without impacting the client’s credit. Small claims court involves considerable time and effort, however, and a client experienced with bad debt will know that a judgment is only the first step in effective collection. It also can be costly. Lawyers who specialize in small claims actions charge a high premium and will have to be aggressive in order to collect. That said, in some states, the parties to a small claim action cannot be represented by counsel.

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Collection activities may provoke retaliation by disgruntled clients who have convinced themselves they have no obligation to pay. The larger the account receivable, the more recalcitrant they can be. They may believe the psychologist’s services were an unsuccessful waste of time, or that the psychologist was incompetent. Some with real financial problems may believe that a caring psychologist would not be requiring payment, since the psychologist is “better off” financially and professionally. Further, those clients experienced with the debt collection process know that creditors have a difficult time collecting from debtors determined not to pay.

**Licensure board complaints**

A common form of retaliation is a licensure board complaint against the psychologist. Although many
threaten, few clients actually file complaints with the board; but a board complaint subjects a psychologist’s entire work with the client to scrutiny and always generates considerable anxiety and time and effort to defend. Social media also gives disgruntled clients an easy way to retaliate, even if they do not use the formal licensing complaint route.

The psychologist’s best strategy for dealing with bad debt is to avoid it by developing policies emphasizing payment for services when provided and minimizing the extension of credit to clients. If clients say they are covered by insurance, the psychologist must verify what coverage they actually have and what the deductibles and copayments are, preferably during each appointment. The psychologist must carefully monitor non-paying clients and raise the issue directly with them. If a client is not paying timely, suspending or ending treatment may be the psychologist’s best option. A psychologist is not required to provide services for free, but he or she must end the therapeutic relationship appropriately to avoid allegations of abandonment.

Address client debt head-on

Psychologists must understand the financial side of their practices, including how much bad debt they are accumulating over the course of a year. A low level of bad debt (perhaps 1-2 percent of total income) may not be cost-effectively collected (financially or psychologically). A higher level of bad debt should prompt a psychologist to reduce that percentage by addressing the matter head-on with the non-paying clients or by adopting electronic payment methods (credit and debit cards). The psychologist needs to be aware, however, that there is a cost (approximately 2.5 percent or more of the payment) for accepting electronic payments.

Informed consent contracts must spell out specifically the psychologist’s policies regarding payment of fees, the consequences of non-payment, and what information is released if a collection agency or small claims court is used.

The contract should also anticipate a scenario in which the client is involved in a legal case and explicitly address the client’s responsibility for fees to the psychologist, whether subpoenaed by the client or the other party. In many states a “treating expert” witness may be entitled only to a statutory witness fee (often less than $50). The psychologist must make it clear to their clients in advance what their responsibility is for the costs of preparation, travel and testimony time.

The business aspects of a practice are challenging, and those involving money can be uncomfortable as well. Psychologists reluctant to raise issues regarding outstanding fee balances with clients struggling with other stressors in their lives may unwittingly turn manageable debt into unmanageable debt. Rarely does letting a client run up an unmanageable balance due prove to be therapeutically helpful. Even if it does, the psychologist’s later collection action may end up eroding whatever improvement was achieved. Being aware of the risks when dealing with unpaid fees and ways to minimize those risks is good practice.