

Speedbumps on the Road to Healthcare Consumerism



Don Paulson, FHFMA

Definition of Healthcare Consumerism

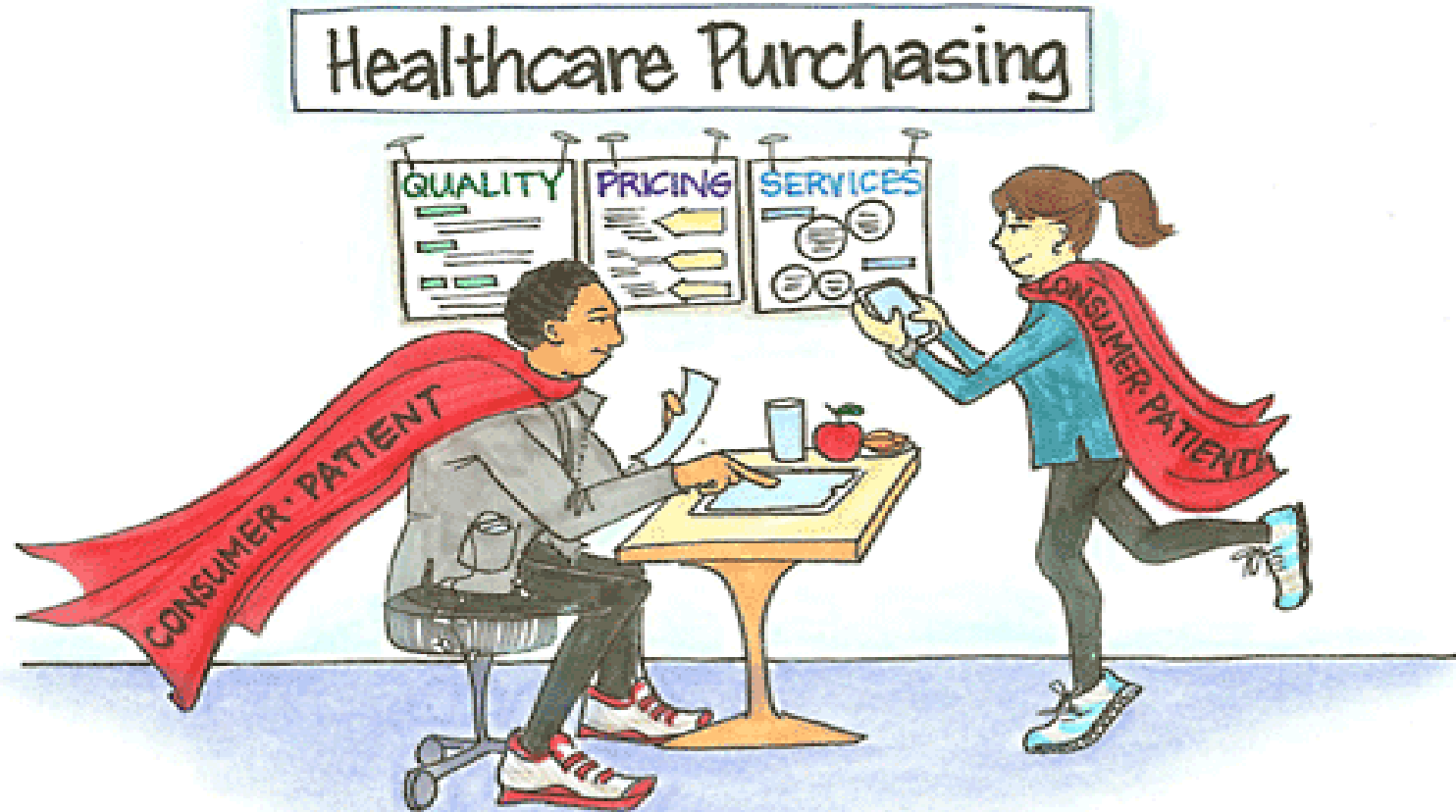
Consumer driven economics apply when Patients...

- Pay more of their healthcare bills
- Have comparative quality information

Then Patients will:

- Choose providers that provide the highest quality at the lowest price
- Will more prudently utilize healthcare services

Patients as Consumers Will Provider Choices Change?



WITTMANN 2012

“Economic Spending Theory”

Prices Effect Choices

- Nobel Laureate economist, Milton Friedman identified four ways consumers buy goods and services
- The decision factors are:
 - Who is the purchase for?
 - Who is paying for the purchase?

On Whom Money is Spent

Yourself

Someone Else

Whose Money is Being Spent

Yours

**Care about
Price and
Quality**

**Care About
Price More
Than Quality**

**Someone
Else**

**Care about
Quality More
than Price**

**Don't Care
About Price Or
Quality**

Resources Available to Patients

Quality Comparisons



Quality Comparisons are Readily Available

- CMS -Medicare
- Medicaid
- National Healthcare Quality Report
- NCQA
- Joint Commission
- Innumerable others

CMS Quality Measures

- Nurses "Always" communicated well
- Doctors "Always" communicated well
- Patients "Always" received help as soon as they wanted
- Patients pain was "Always" well controlled
- Staff "Always" explained about medicines before giving it to them
- Their room and bathroom were "Always" clean

The CMS Quality Measures

- The area around their room was "Always" quiet at night
- “Yes”, they were given information about what to do during their recovery at home
- Patients "Strongly Agree" they understood their care when they left the hospital
- Patients who gave their hospital a rating of 9 or 10 on a scale from 0 (lowest) to 10 (highest)

Note the Absence of Outcomes

Speedbump!

Pricing Transparency

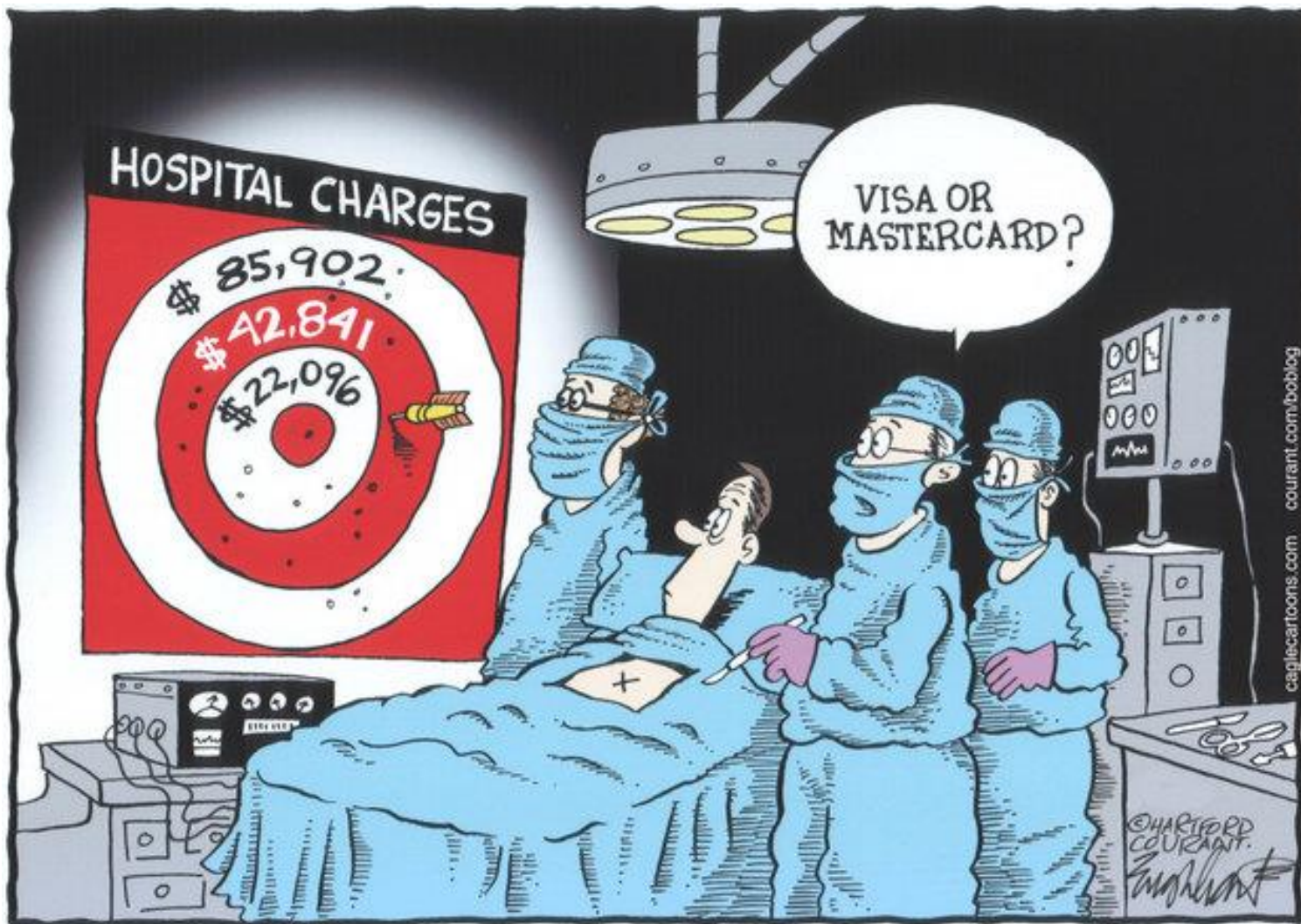


Speedbump!

Pricing Transparency

Where can patients find healthcare prices?

- There are different definitions of “prices”
- The terms “prices” and “charges” are used interchangeably and usually inaccurately
- The media and politicians are demanding to see “prices” even when they don’t know the differences





COST *of* **CARE**

**New law lets
patients examine
hospital price lists**

MARCH 4, 2013

S P E C I A L R E P O R T

TIME

ONE
ACETAMINOPHEN
TABLET
COSTS 1.5¢.
YOUR HOSPITAL
MARKS IT UP
10,000%.



**WHY MEDICAL BILLS
ARE KILLING US**

BY STEVEN BRILL

www.time.com

Pricing Transparency

Illinois gets F grade for price transparency

- State Price transparency laws based on 2014 legislation has produced F grade for Illinois.

Patch.com

Massachusetts hospitals fail to comply with price transparency law

- Survey suggests many are ill-equipped to respond to patient queries

Fiercehealthfinance.com

Pricing Transparency

Hospitals failing to meet state law on price inquiries

“Massachusetts hospitals seem to lack a culture of price transparency,” ... “extracting a price from hospitals posed significant challenges,”

Boston Globe

64% of the survey participants said that it is difficult to find the cost of medical treatments and procedures... 76% of uninsured survey participants reported that it is difficult to find cost information.

Kaiser Family Foundation

Pricing Transparency

“Why do we continue to tolerate price secrecy?”

Modern Healthcare

“If I was in HHS, I would interpret it as being the amount that is actually paid,” ... “... my reading of congressional intent, that they wanted actual price transparency.”

- *Gerard Anderson, Johns Hopkins University*

Speedbump!

The Supreme Court



The Supreme Court

- In 2016 the Supreme Court will take up the case of Vermont vs. Liberty Mutual
- Liberty Mutual contends the Vermont law that creates price comparisons is in violation of the Employment Retirement Income Security Act
- They contend that the claims collection function is pre-empted by ERISA, and that if multiple states have different reporting requirements, data collection would then become unnecessarily burdensome

Speedbump!

Are Prices Changing Patient Decisions?



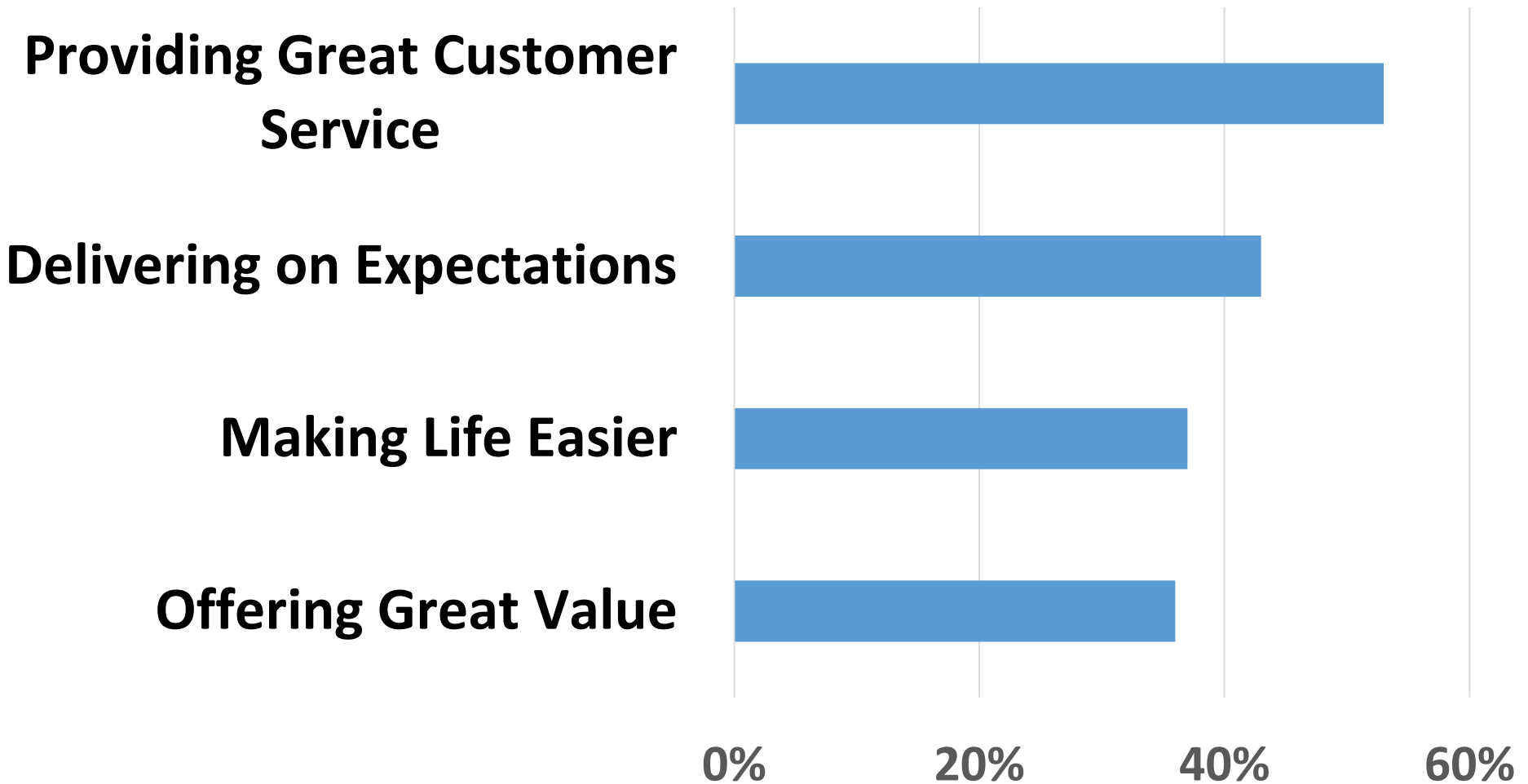
Are Prices Really Changing Patient Healthcare Decisions?

McKinsey and Company

**“Debunking Common Myths
about Healthcare
Consumerism”**

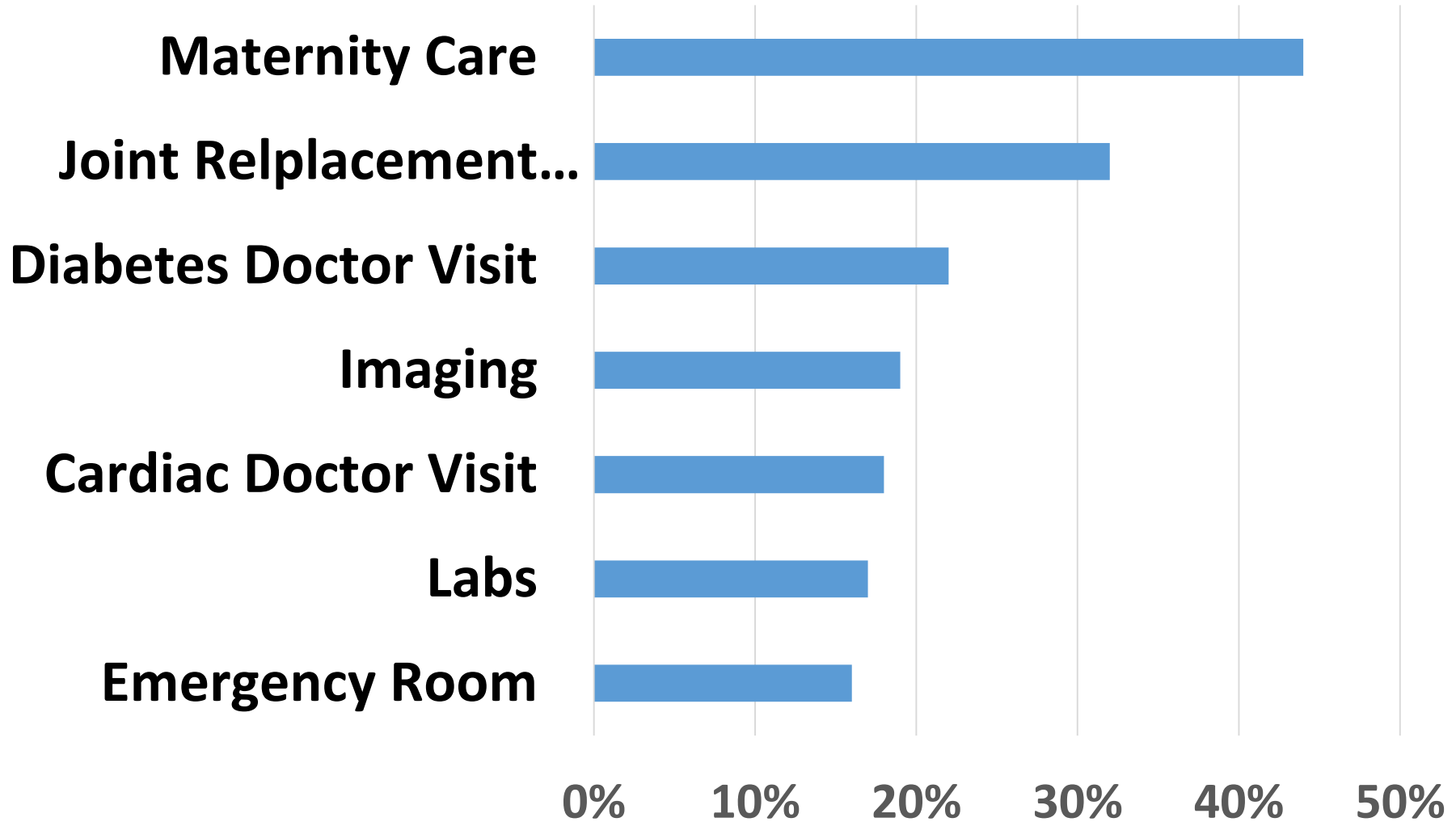
McKinsey Study

Qualities Customers Value in Healthcare



McKinsey Study

% of Patients Who Researched Costs



McKinsey Study

- Patients said they valued one thing as much as “value for money”

“Ease of understanding bill and financial support”

- Assisting patients with their bills is as important as cost/quality

Speedbump!

Payors Disclosing Provider Prices



Pricing Transparency

But...

- If few patients are shopping for lower cost providers, then what is the value of price transparency?
- Because if providers don't give patients cost estimates then...
 - Payors can and already are...

Pricing Transparency

Payor Response

Payors are providing prices of healthcare services to their subscribers

- Subscribers can contact the payor for an estimate
- Payors are proactively provide prices
 - Particularly for high cost services such as
 - CT, MRI, and Special Imaging
 - And other high cost/high margin services

Pricing Transparency

Payor Response

An authorization sent to the payor triggers a communication to the patient showing...

- Other providers that meet the payor's quality standards and...
- **HAVE LOWER PRICES**
- **The payor then offers to cancel the scheduled service and reschedule the patient with the lower cost provider**

Pricing Transparency

Provider Response

There are other reasons to provide price estimates to patients

- Maintain a positive Patient-Provider relationship. As seen previously, patients value...

“Ease of understanding bill and financial support”

- Providing prices is key to optimizing collections of higher patient balances

Pricing Transparency Provider Response

HFMA has noted...

... Advisory Board experts estimate that institutions need to collect 5 percent of net patient revenues at the point of service to remain financially healthy amid expanding patient responsibility for payment.

Rich Daly, October 27, 2015

Pricing Transparency Provider Response

Software tools can provide patients with reasonably accurate estimates

Once the service is identified, the combines...

- The average of previous charges for the service
- Expected payer reimbursement
- and the 271 transaction information

Pricing Transparency Provider Response

When should estimates be provided?

- Patient collection rates are higher when the patient pays before the service is rendered
 - The inverse is true, that collectability declines over time
- Point of service collections result in higher collection rates

Pricing Transparency

Provider Response

- When the estimate is provided, the patient should also be presented with payment options
- If the patient is unable to pay the bill, then they should be referred to a financial counselor
- The financial counselor can set up payment plans or initiate financial assistance applications

Speedbump!

POS Collections vs. Patient Access Goals



POS Collections

- Providing estimates will extend registration times
- Most Patient Access employees are evaluated on productivity
- Many providers do not have dedicated financial counseling at the POS
 - Most financial counseling services are provided subsequent to billing
- There can be an inherent conflict between speed and counseling

POS Collections

POS Financial Counseling Implementation

- Determine the additional financial counseling workload
- Calculate the ROI of adding financial counselors at the POS
- Stage the transfer of financial counselors to POS based on the roll out of providing estimates
- Outsource financial counseling to fill gaps in staff availability

Speedbump!

501r



POS Collections

- The 501r regulations can impact point of service cash collections
- A hospital can have a policy to delay or defer care for POS non-payment for that service
- 501r allows hospitals to This is not considered an ECA

BUT...

POS Collections

- If the patient pays for at the point of service, to avoid care being delayed...
- And the patient later qualified for financial assistance...
- And the hospital collected more than the AGB, then the hospital will NOT BE COMPLIANT with 501r
- Even if the hospital subsequently refunds the payment it would still be deemed to be non-compliant

Speedbumps!

Collections - Discounts



Collections - Discounts

- Patients acting as consumers will impact collections
- A common patient comment is
 - “How much will you discount my bill if I pay it all today.”
- Prompt pay discounts are allowable
 - Historically based on the subsequent reduction in collection

Collections - Discounts

However

- Most payers and employers want the patient to pay a portion of the bill
- Most, payor contracts prohibit “discounting” patient deductibles
- Higher patient payments discourage utilizing higher cost services, (emergency rooms), and incent using lower cost services, (primary care physicians)

Speedbumps!

Collections - Payment Plans



Collections - Payment Plans

High balance patient obligations decrease the ability of the patient at one time

- Payment plans were typically of shorter durations because:
 - Monitoring, managing, and modifying plans is time consuming and costly
 - Shorter payment plans accelerate cash flows

Collections - Payment Plans

- Patients favor extended plans to manage balances
 - To consolidate multiple provider bills
 - To lower monthly payments
- Interest free payment plans are especially attractive
- When patients become aware of long term payment plans, providers cannot easily disqualify patients from utilizing them

Collections- Payment Plans

- Patients needing prolonged healthcare services will add new balances to existing payment plans
- Long term payment plans will evolve into revolving lines of credit

So, should providers charge interest for long term plans?

The Government and Payment Plans

A new agency, the Consumer Financial Protection Bureau, (CFPB)

- The CFPB study highlighted the negative impact of medical bad debt on patient credit scores

The CFPB Director, Richard Cordray stated:

- “The CFPB is taking action to improve credit report accuracy. Getting medical care should not make your credit report sick.”

The Government and Payment Plans

- if a patient’s debt arises from an “extension of credit” such as a payment plan, or a similar arrangement, the hospital may be providing a “consumer financial product or service” in certain circumstances and therefore subject to the CFPB’s authority.

American Hospital Association

- One of the “certain circumstances is charging interest on medical debt”

One Last Speedbump! Rational Pricing



Currently... Irrational Pricing



Rational Pricing

Revenue Cycle Issues

- Financial Counselors consistently deal with patients that are dissatisfied because the provider's **charges** are too high
- Many patients believe that the charges drive what they owe
- There are negative impacts on...
 - Patient satisfaction
 - Cost of collections
 - Bad debt

Rational Pricing Reporting Issues

Management of bundled payments and population health management require accurate cost estimates

- Cost allocations begin with charges
- Over time, the charge changes have not been synchronized with cost variances
- Internal cost accounting is distorted by the use of inaccurate cost to charge ratios
- Cost estimates will not be accurate

Rational Pricing Charge Master

If charges are irrational and have little effect on net revenue, the why not just lower charges?

- **Because it its not easy**
 - Charge Masters house massive amounts of data, are complex and difficult to maintain
 - Many health systems have multiple Charge Masters
 - Don't forget the Service Master

Rational Pricing

Charge Changes and Contracting

Payor contracts usually impact charge changes

- Charge changes need to be negotiated
- Outcome modeling is essential prior to and during negotiations
 - Create multiple models in advance of negotiations
 - If the provider lacks contract modeling capabilities, external consulting assistance should be engaged

Conclusion

Managing consumerism will enhance patient satisfaction as well as to optimize financial outcomes

- Assist patients in managing ever increasing payment obligations
- Provide transparent pricing information as early as possible
- Provide multiple and flexible payment tools
- Provide counseling in applying for financial assistance

Healthcare Consumerism

Speedbumps or the Open Road

