

Patient Collections: A Path to Reduced Write-Offs and Improved Cash Flow

JANUARY 2017

Prepared for:



TABLE OF CONTENTS

INTRODUCTION 3
MARKET OVERVIEW..... 4
COLLECTION PAIN POINTS FOR HEALTHCARE PROVIDERS 7
HEALTH PAYMENT SYSTEMS SOLUTION 8
BENEFITS OF THE HPS SOLUTION 9
CONCLUSION 10
 AUTHOR INFORMATION 10
 CONTACT..... 10

LIST OF FIGURES

FIGURE 1: U.S. COMMERCIAL HEALTH INSURANCE HOSPITAL OUT-OF-POCKET-PAYMENTS VOLUME..... 4
FIGURE 2: PERCENTAGE OF TOTAL U.S. HOSPITAL BILL PAYMENTS VOLUME BY PAYMENT CHANNEL..... 5
FIGURE 3: PERCENTAGE OF U.S. HOSPITAL BILL PAYMENTS VOLUME BY PAYMENT METHOD 6

INTRODUCTION

In the era of high-deductible health plans, the new hospital reality hinges on healing a fractured patient billing experience that hinders collection rates and increases accounts receivable write-offs that erode providers' bottom lines. Most in-house hospital collection processes are reflective of a bygone era when copayments were the bulk of out-of-pocket payments collected from patients, not bill payments. At the onset of this high-deductible era, hospitals looked to their early-out vendors to collect the larger bill payments, but hospitals that fail to rethink their in-house and outsourced approaches can surely expect a nagging patient bad-debt problem to get worse before it gets better.

A consultative in-house point-of-service approach and outsourcing collections to vendors with new technology cure the most chronic pain in the patient billing process—fixing the billing process via a digital patient statement. The good news is that hospitals that are reinventing their patient billing processes are increasing collection rates, reducing finance costs, and avoiding collection-related costs all while turning an unpleasant patient experience into a positive one, one bill payment at a time.

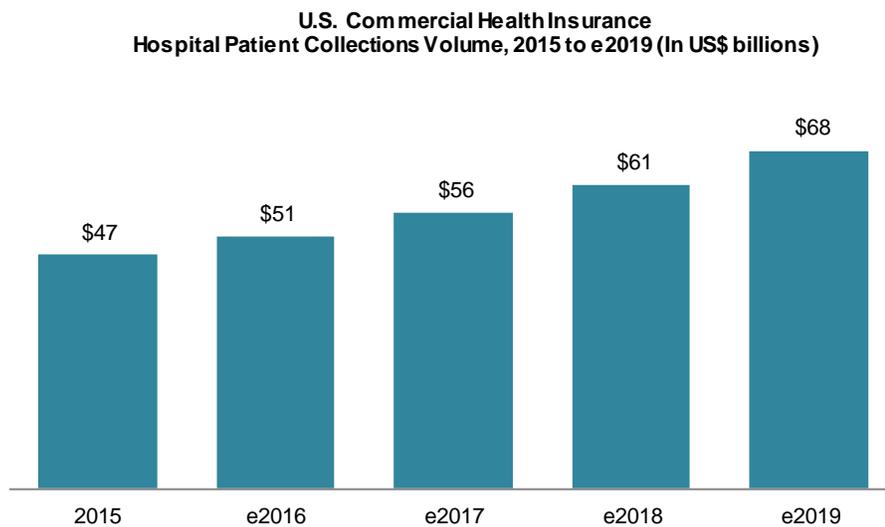
This white paper will be useful to midlevel and senior healthcare leaders with responsibilities for their institutions' revenue cycles or collections who are seeking to use automation and outsourcing to improve outcomes in these areas and make the case for doing so. Senior-level managers at healthcare providers may use this white paper to evaluate or understand the business case for the automation and outsourcing of patient billing and collection.

MARKET OVERVIEW

Patient out-of-pocket-payments growth is a call to arms for a hospital industry struggling to recoup reimbursements with its other third-party payers, such as Medicare and Medicaid. Hospitals are seeing patient balances increase as a percentage of their total commercial accounts receivable, as more of their patient population is enrolled in a high-deductible plan design via an employer-sponsored plan or a third-party insurance exchange (e.g., Affordable Care Act public marketplace).

The industry should brace for this trend to continue as the amount consumers pay hospitals is expected to increase at a compounded annual growth rate (CAGR) of 10% from 2015 to 2019. As a result, hospitals will be responsible for collecting an additional US\$21 billion from their patients. Consumers paid hospitals US\$47 billion in 2015, a figure expected to increase to US\$56 billion in 2017 and reach US\$68 billion in 2019 (Figure 1).

Figure 1: U.S. Commercial Health Insurance Hospital Out-of-Pocket-Payments Volume



Source: Centers for Medicaid & Medicare Services, Aite Group, April 2016

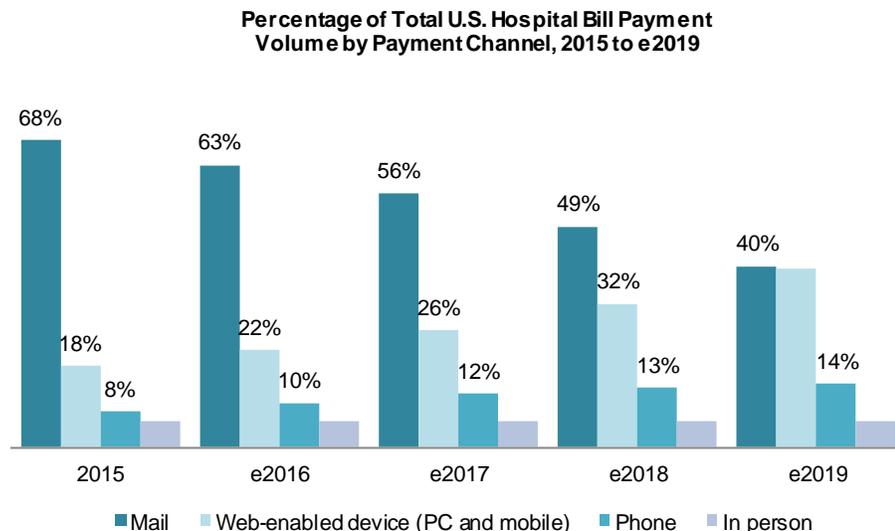
Online bill payment is the new norm in the hospital industry, yet it does not solve the patient bad-debt issue on its own. Rather, an online bill payment is an integral piece of a broader approach that blends a consultative point of service to secure a commitment to pay and a consultative back-end solution to secure collections using new bill presentment technology. The new hospital reality hinges on developing a process leveraging the following concepts:

- **Know your patient's health and wealth status.** Gather health insurance history via an estimate of the bill payment based on the patient's current deductible status and research the patient's credit history to shape a payment collections approach.

- **Secure payment commitment at the point of service or checkout.** Based on an understanding of your patient’s health and wealth, score which payment options, such as payment plans, present the greatest likelihood of payment; present those options, including payment amounts, and secure an enrollment commitment.
- **Present a digital, simplified patient bill.** Combine information from the health plan’s explanation of benefits and the hospital’s patient bill and provide multichannel support options to create a better patient experience. In its May 2016 online survey of 355 patients, Mad*Pow, a leading design agency, found 61% of respondents rated their medical bills as confusing or very confusing.
- **Tie the digital bill to a digital payment.** Turn the simplification into collections, offering online and mobile bill payment that accepts many different payment options.

Hospitals need a multichannel approach to collecting bill payment; however, online bill payments—not the mail channel—now sit at the center of any hospital patient collection approach. On a percentage basis, mailed payments will decrease from 68% of all hospital bill payments in 2015 to 40% in 2019, while web-enabled bill payments will increase from 18% in 2015 to 40% in 2019, and phone-based payments will increase from 8% to 14% over that time period. In-person payments will remain static at 6% (Figure 2).

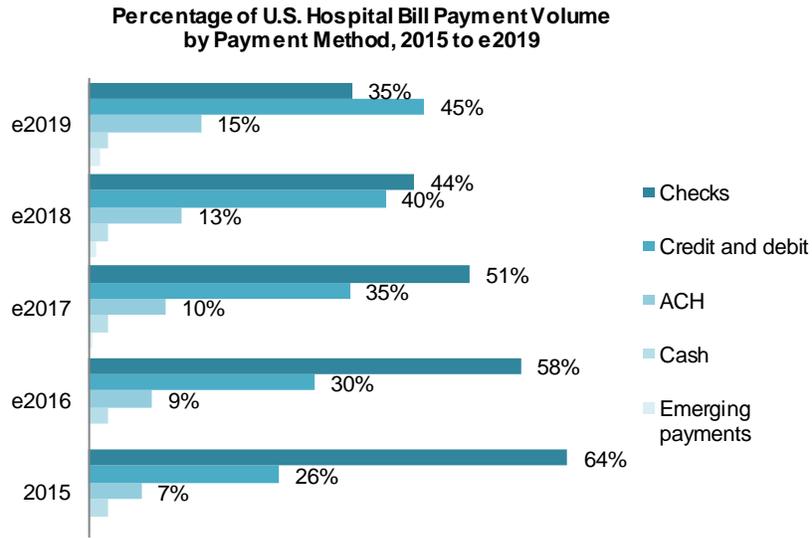
Figure 2: Percentage of Total U.S. Hospital Bill Payments Volume by Payment Channel



Source: Aite Group, April 2016

The decline in paper check payments should be good news for hospitals given the cost (e.g., postage) and cash implications, as electronic payments allow for timely reconciliation and cash flow management due to their faster settlement. Paper check payments are projected to decrease from 64% of all hospital bill payment transactions in 2015 to 35% in 2019; card payments will increase from 26% to 45%, and ACH from 7% to 15% (Figure 3).

Figure 3: Percentage of U.S. Hospital Bill Payments Volume by Payment Method



Source: Aite Group, April 2016

COLLECTION PAIN POINTS FOR HEALTHCARE PROVIDERS

Collecting the out-of-pocket portions of patient payables involves significant pain points for healthcare providers. Among these challenges are organizational distractions, payroll costs, high out-of-pocket account write-offs, and working capital bloat.

- **Organizational distraction:** Healthcare providers are rewarded for core competencies in three areas that are important to society and difficult to achieve: diagnosing medical ailments, treating patients who are ill, and marketing these capabilities so that revenue is maximized and costs of care are covered. Lying outside of these competency areas are less relevant but organizationally required capabilities in functions such as scheduling, billing, and records management. These tasks, although organizational mandates unless outsourced, incur overhead without enhancing a provider's core competencies.

Even further from a hospital's core competencies is the back-office task of collecting from patients the portions of their bills not covered by insurance. Such collections typically challenge healthcare providers. Hospital collection employees typically work from 9 a.m. to 5 p.m., and this is not an optimal time to make collection calls, as this is when patients are typically at work and not readily reached. In fact, many states prohibit collectors from calling debtors at their place of work. Patient payment collections must also be performed delicately, increasing the specialization of this staff. Although a heavy hand is required to achieve payment, compassion is also required, as the patient, by definition, may be struggling with a health issue and possibly also financial problems. Lastly, patient collections can be even more complex if local laws prevent collection calls after 5 p.m.

- **Payroll costs:** Increased headcount is one outcome of the organizational distraction caused by collecting out-of-pocket patient payables. Collecting such balances requires staff trained in this specialized form of collection. The need for specialized skills means hospitals must train collections staff, formally or informally, or pay a premium for specialized collectors from recruitment firms. Although the number of such specialized employees will vary from one provider to another and vary based on the patient population, one rule of thumb used in the industry is that one full-time collector is required for every 1,000 patients with balances over US\$500.
- **High out-of-pocket write-off rates:** Lying outside of a provider's core competencies, out-of-pocket collections efforts often have mixed results, causing these payables to linger on a provider's balance sheet, sometimes indefinitely, until they are written off. Such write-offs represent both lost cash flow and a dilution of the provider's earnings, a metric typically watched closely by regulators and capital providers.
- **Working capital bloat:** Almost as important as an out-of-pocket balance write-off is its carrying cost before write-off. The more slowly a healthcare provider collects its receivables overall, the larger its accounts receivable balance is, the more working capital it has in general, and the more capital it requires to finance its balance sheet.

HEALTH PAYMENT SYSTEMS SOLUTION

Health Payment Systems (HPS) is an outsourced technology and services solution that mitigates collection pain points and transitions the consultative point-of-service approach into back-office collections via its presentation of a digital bill, multichannel customer support, and broad payment acceptance options.

The HPS solution delivers the following capabilities:

- **Digitally presented patient statement** through consolidating claims data and rendering patient statement information into a single, consolidated document readily understood by patients
- **Payment acceptance via multiple channels**, such as online, mobile, and by mail if preferred by patient
- **Convenience of multiple payment options**, such as PayPal, check, checking or savings account, HRA, FSA, HSA, debit or credit card, or other bank account
- **Online/mobile patient portal** to pay bills, review claims history and transaction details, view account summaries, and enable text alerts
- **Multilingual customer service** to take inbound questions and initiate outbound calling to introduce patients to HPS.

The HPS solution addresses key process pain points across multichannel statement delivery, simplified bill presentment, multiple payment acceptance options, and proactive support to ensure the patient understands the bill.

BENEFITS OF THE HPS SOLUTION

When HPS examined deployments of its solution, direct benefits of adoption were found in four areas: increased out-of-pocket collection rates, reduced financing costs, avoided collection-related costs, and avoided or eliminated out-of-pocket collection headcount.

- **Increased out-of-pocket collection rates:** By using HPS to outsource patient out-of-pocket collection efforts, HPS' solution users obtained specialization in this challenging task, which led to two benefits. First, the number of patients for whom collection was successful and the value of these collected balances both increased. Second, by avoiding write-offs on their income statements, the bottom line was increased, improving cash flow, equity, and regulators' and capital providers' perception of the management team.
- **Reduced financing costs:** By using the HPS solution to collect more out-of-pocket balances and convert these balances into cash, healthcare providers were able to reduce reliance on capital providers in general and bank borrowing in particular.
- **Avoided collection-related costs:** By outsourcing their patient out-of-pocket collection activities, users of the HPS solution avoided many operational costs typically incurred in such collection activities. Among these are the following:
 - Credit card fees incurred when out-of-pocket patients clear their accounts
 - Postage and bill printing costs, since claims detail and billing are not only handled by HPS but also integrated into one patient statement and sent on a periodic and repeated basis in an effort to compel payment
 - Call center costs, as patients with out-of-pocket balances may, at any given time during a collection effort, call the hospital's primary call center, its billing department, or its out-of-pocket collection team
- **Avoided out-of-pocket collection headcount:** HPS found that the vast majority of its healthcare provider partners dedicated few employees to the task of collecting out-of-pocket balances from patients. Two significant benefits were observed. First, many had maintained out-of-pocket collection teams before adopting the HPS solution, but after adoption, eliminated or redeployed most of these workers, resulting in a direct, quantifiable benefit in the form of eliminated headcount. Other providers, although they lacked out-of-pocket collection staff before deployment, nonetheless were able to increase collection rates, avoid collection costs, and reduce financing costs without maintaining an out-of-pocket collection team as a result of their use of HPS' solution.

CONCLUSION

HPS enables more efficient healthcare administration by combining elements of outsourcing and improved collections. The benefits of outsourcing allow hospitals to avoid organizational distraction and enhance a patient experience that results in increased customer loyalty. Among the benefits of improved collections are reduced patient collection headcount dedicated to out-of-pocket collection activities, increased collection rates, avoided write-offs, and the avoided cost of carrying aged self-pay accounts receivable on the balance sheet.

AUTHOR INFORMATION

David O'Connell

+1.617.338.6001

doconnell@aitegroup.com

Mike Trilli

+1.617.398.5058

mtrilli@aitegroup.com

CONTACT

For more information on research and consulting services, please contact:

Aite Group Sales

+1.617.338.6050

sales@aitegroup.com

For all press and conference inquiries, please contact:

Aite Group PR

+1.617.398.5048

pr@aitegroup.com

For all other inquiries, please contact:

info@aitegroup.com