# Money matters:
## *Billing and payment for a New Health Economy*

**Health Research Institute**

May 2015

### *At a glance*

*The nation's healthcare billing and payment system is an artifact of an earlier age. Much can be done to improve the system in the short term, but in the long term, structural change is needed to compete in the New Health Economy*

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# The heart of the matter

*A horse-and-buggy in a world contemplating driverless cars, the healthcare industry's consumer billing and payment system is an inefficient antique. Much can be done in the near-term to improve the system, but longer-term fixes will require a new structure for a New Health Economy.*

## Executive summary

The nation's healthcare payment system is an artifact of an earlier age, focusing for decades on perfecting business-to-business functions. American consumers were patients, not purchasers.

This is changing rapidly as individuals shoulder more of the cost of their own care. The healthcare billing and payment model must change as consumers demand systems that reflect the mobile, one-click reality of their lives.

Businesses that make this shift—offering convenient, seamless, affordable, quality, reliable and transparent billing and payment—may expect to be rewarded in the New Health Economy. They may expect to retain more customers and attract new ones.

Hospitals, physician practices and other healthcare providers who successfully transition may collect more of their patients' bills and they may collect them more quickly. They may expect be able to better manage cash flow, reduce reserves for bad debt and minimize administrative costs. This shift is attracting attention from new entrants and traditional healthcare organizations, which are finding opportunity in expediting the change.[1]

**Figure 1. US consumers views are mixed when it comes to healthcare payment and billing.**
US consumers were asked survey questions designed to measure their opinions on various aspects of the payment and billing processes for hospitals, pharmacies and health insurers.


Source: 2015 HRI consumer survey

The financial services industry has led the transformation of payment systems and technology, enabling the rise of new Internet-based business models. These advances have not made it into the health business, much of which still relies on telephones and paper. The health system is fragmented, with an array of patch-like solutions and a lack of universal standards.[2]

The industry is burdened with systems that do not work together and bills that are difficult for the average consumer to decipher. The relationship between customer, healthcare provider and insurer is complex. New billing codes, known as ICD-10, will only add to the complexity. Healthcare payment marries two of the most regulated industries in the country, compounding complexity and risk.

It is hardly surprising many consumers are unhappy. In its 2015 consumer survey, PwC's Health Research Institute (HRI) found dissatisfaction with healthcare billing and payment (see figure 1). The one bright spot was retail pharmacies.

"People have been frustrated for many years," said Jamie Kresberg, director, product management at Citi Retail Services. Citi launched its Money[2] for Health online medical bill management tool last year. "They want to view their bills, make a few clicks, pay their bills and be done."

Despite the challenges, green shoots are emerging from the system's long-dormant soil. Wal-Mart shoppers are paying $40 cash for visits to its clinics. The next generation of healthcare consumers in Atlanta are approving $100 charges for Alii Healthcare smartphone visits with emergency room doctors.

Savvy insured hospital patients are asking for self-pay and prompt pay discounts. And thanks to a partnership with healthcare payments network InstaMed, Apple Pay customers will be able to pay some medical bills with the swipe of their phones or watches.

Aetna members are managing and paying their medical bills online with Citi's Money[2] for Health. Banner Health patients are receiving one bill for all of the care they receive. Innovators are contemplating and, in some cases, offering, layaway for care, loyalty programs, healthcare subscriptions and more. As Wal-Mart's Marcus Osborne told HRI, "If you build for today, you will miss tomorrow."

To create a roadmap for a new consumer healthcare payments system, HRI interviewed executives from new entrants and traditional healthcare organizations and commissioned a survey of 1,000 US adults. HRI also analyzed commercial claims from 34 million Americans in the Truven Health MarketScan® 2012 commercial claims database. Key findings include:

- *Patients and affluent consumers are most dissatisfied with the healthcare billing and payment system.* For example, one in two consumers in poor or fair health—the greatest utilizers of the system—rated hospitals poorly on price transparency and affordability.
- *Cost-conscious millennials are more likely than the general population to judge healthcare organizations based on their billing practices.* They also are more likely to challenge medical bills, search for better deals and make value-based decisions.
- *Consumers and new entrants are beginning to circumvent the claims-based healthcare payment system, especially in primary care services and chronic disease management.*
- *Four in five adults with commercial insurance paid less than $1,000 in out-of-pocket expenses in a year, according to an HRI analysis.*[3] Almost half had medical claims of less than $1,000. And yet as deductibles rise, more patients will find paying their share of their medical bills difficult. As many as two out of three bankruptcies involve illness, injury, significant uncovered medical bills or a combination of these factors and the fallout from them.[4]

## What this means for your business

In the short term, healthcare organizations should begin building more convenience, transparency, affordability, reliability and seamlessness into their revenue cycle and payment systems. In the longer term, healthcare payment must fall in step with other industries. The system needs more than patches, bolt-ons and retrofits: It needs structural change.

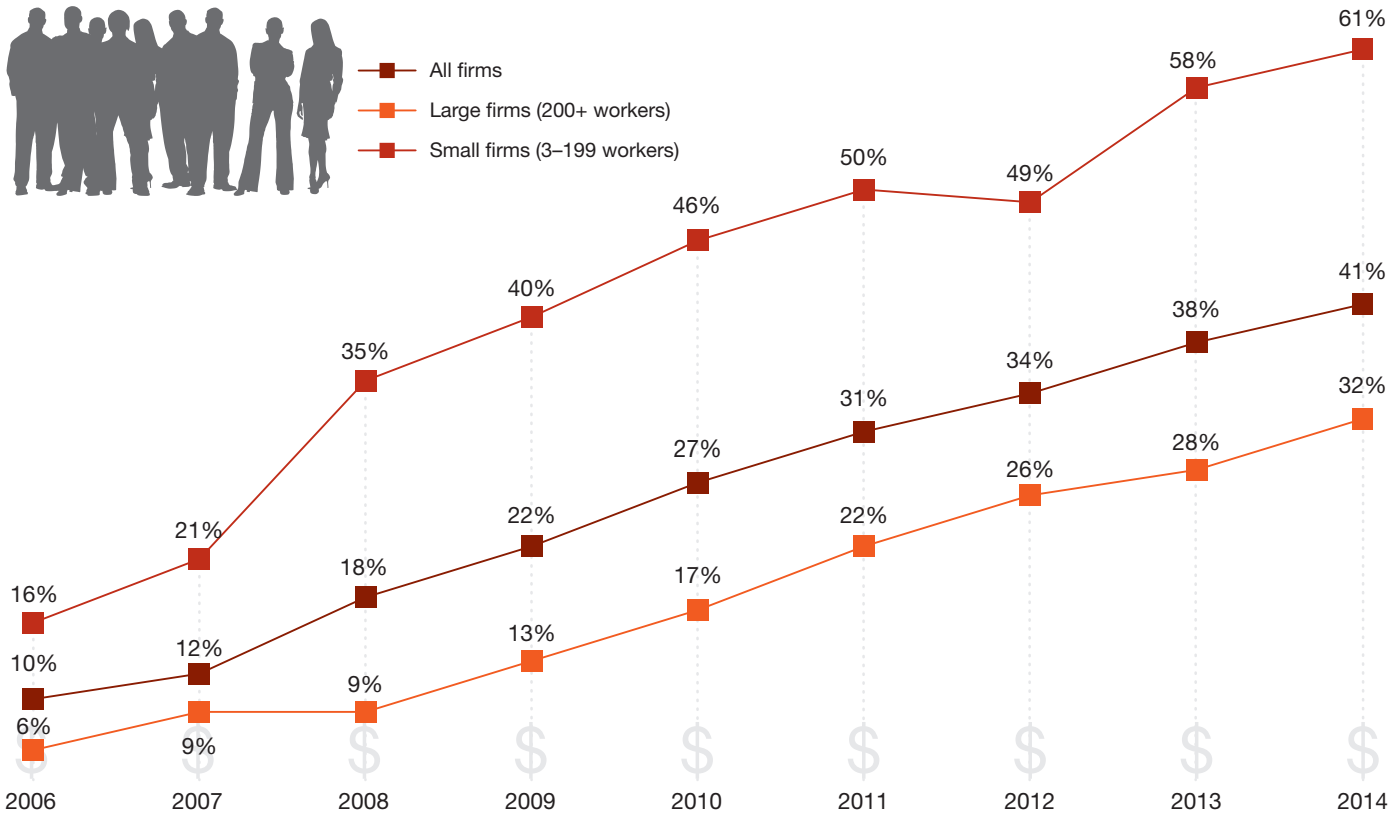
- *Accelerate the move to digital.* Commercial health insurers conducted just 15% of payments and 27% of payment remittance advice electronically in 2013. The rest of US business averages 43% for payment.[5] This remains one of the system's most critical bottlenecks.
- *Embrace simplicity.* Many consumers do not understand their insurance benefits and are confused by their medical bills. Online payment sites, mobile apps and aggregated billing are all steps toward a simplified consumer experience.
- *Sidestep claims.* The growth of high-deductible plans means more consumers will pay for care out-of-pocket. New entrants are reconsidering whether these cash payments require claims. Consumers are interested, even though receiving credit toward deductibles is more important than ever.
- *Multiply payment options.* The system's complexity and opacity lead to consumer delays in paying medical bills, or even abandonment of them. Offering choices for payment, making payment easy and helping consumers plan for costs can reduce bad debt and days in accounts receivable.

# An in-depth discussion

Built for a business-to-business world, the health sector's billing and payment system is being pushed and pulled toward a business-to-consumer model. This year, Americans will spend an estimated $345 billion out-of-pocket on copayments, coinsurance, deductibles and other cost-sharing provisions, an amount that will only grow, according to HRI analysis (see figure 2).[6] They will spend an estimated $271 billion on health and wellness products and services.[7]

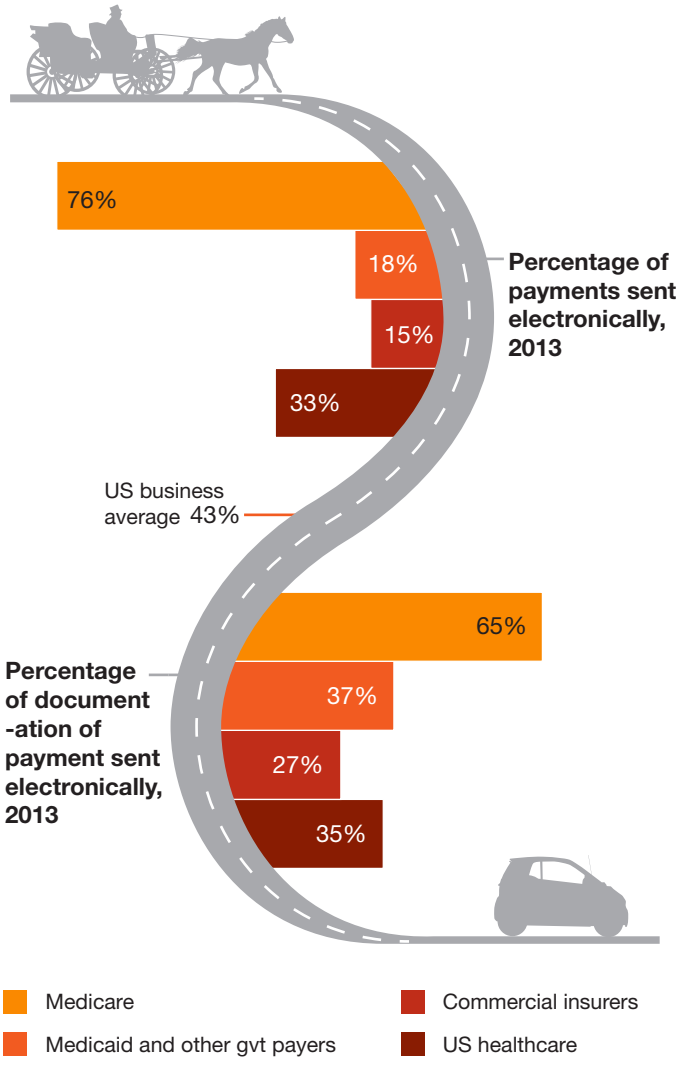
At the same time, payment for much of the rest of consumers' lives is becoming more mobile, cloud-based, real-time and digital, setting consumer expectations for how the healthcare billing and payment system should operate. The contrast between the health industry and the rest of the economy is growing (see figure 3).

**Figure 2. Deductibles are rising**
Percentage of covered workers enrolled in a plan with a deductible of $1,000 or more for single coverage.




Source: Kaiser Family Foundation—2014 Employer Health Benefits Survey

**Figure 3. A horse-and-buggy model in a world contemplating driverless cars**
US healthcare lags behind the rest of business when it comes to digital payments and payment communications.




Source: Federal Register/Vol. 77, No. 155/Friday, August 10, 2012/ Rules and Regulations

Insurance companies have spent millions retrofitting existing billing and payment systems to provide single statements and simplify explanations of benefits. Efforts at administrative simplification and standardization, such as those contained in the Affordable Care Act and HIPAA, have attempted to address parts of the problem.[8] A dizzying array of companies are selling network and point solutions (see figure 5 on page 13).

The payment and billing system needs more standardization, and more companies that can aggregate across providers before it can happen at scale, said Nita Sommers, chief strategy officer at Castlight Health, which provides transparency, analytics and other cloud-based solutions for employers. “The infrastructure is not there yet,” Sommers said.

The stakes are high. PwC’s Customer Experience Radar research found that consumers credit positive experiences to the person who administered care while poor experiences are blamed on the institution.[9] But in an industry struggling to shift from volume to value, absorb reimbursement cuts, meet increased regulatory requirements and integrate technology and data, resources are spread thin. What are the pain points in the payment system and importantly, what do consumers really want?

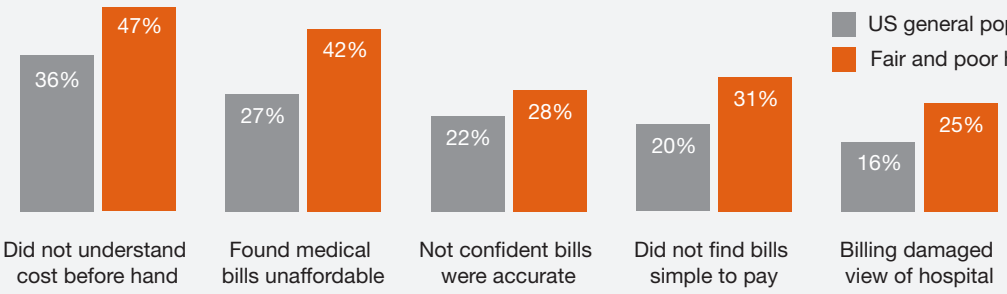
Pain points

# Many consumers are dissatisfied with billing and payment

HRI surveyed 1,000 US consumers about their billing and payment experiences in hospitals, pharmacies and insurance companies. Three groups of consumers registered more dissatisfaction than the general population, or were more willing to challenge their bills—patients, millennials and affluent consumers. Below, we highlight these consumers' most acute "pain points:"

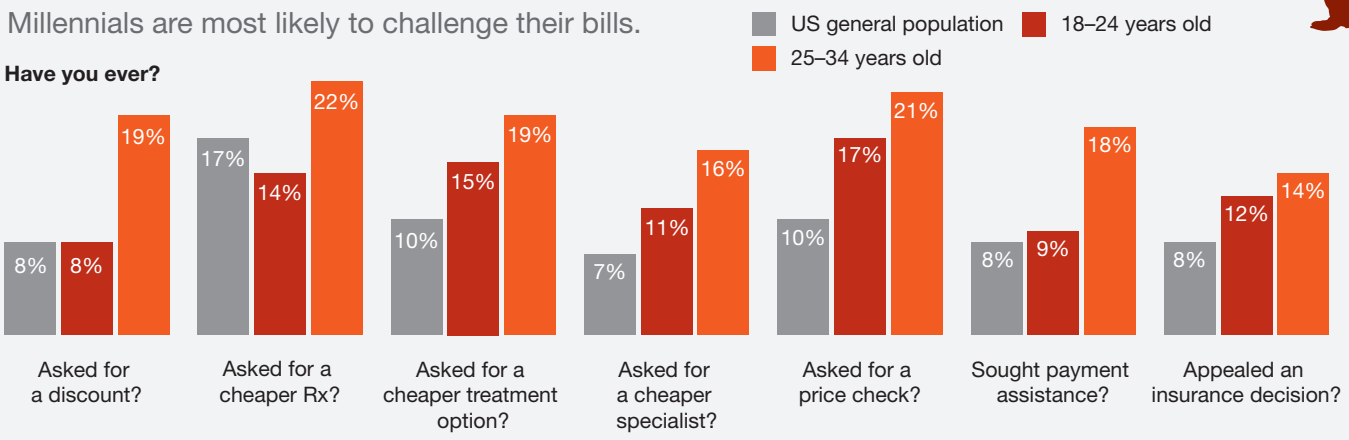
## Patients

Consumers in poor or fair health report more dissatisfaction with hospital billing.



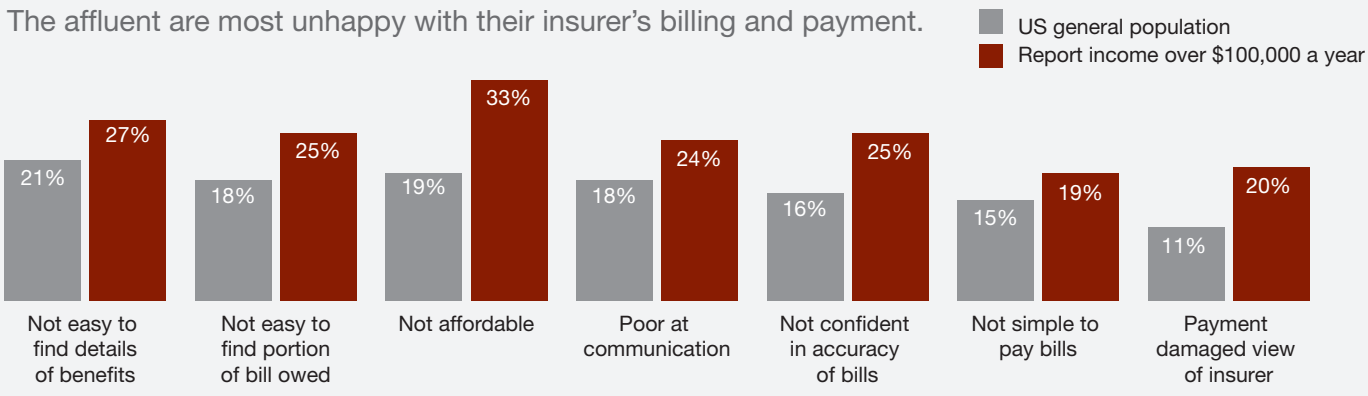

## Millennials

Millennials are most likely to challenge their bills.




## Affluent

The affluent are most unhappy with their insurer's billing and payment.




Source: 2015 HRI consumer survey

**Pain point: Rx**

# Consumers want transparency discounts and seamless payment options

HRI also asked consumers to pick their top three choices from a list of billing and payment "pain relievers." Options offering transparency, discounts and seamless digital payment were top choices for all consumers. Below are the most popular five choices for each group.

● Patients

## Hospitals — Top choices

- ● ■ ▲ Receive estimates for treatment and services ahead of time
- ● ■ ▲ Receive estimates for follow-up care ahead of time
- ● ■ ▲ Have discussions about treatment choices and costs
- ● ■ ▲ Be able to comparison shop online
- ■ ▲ Be able to manage and pay bills online
- ● Talk to a financial counselor to help manage medical costs

■ Millennials

## Pharmacies — Top choices

- ● ■ ▲ Know what products will cost ahead of time
- ● ■ ▲ Be able to comparison shop online
- ● ■ ▲ Enroll in loyalty program with discounts
- ● ■ ▲ Have discussion about treatment choices and costs
- ● ▲ Pay with variety of accounts at register
- ■ Use a pharmacy app

▲ Affluent

## Health insurers — Top choices

- ● ■ ▲ Know what care will cost ahead of time
- ● ■ ▲ Be able to comparison shop online
- ● ■ ▲ Receive help choosing right treatments at right price
- ● ■ ▲ Have choices for care at different price points
- ● ■ ▲ Be able to manage and pay bills online
- ■ Enroll in loyalty program with discounts

Source: 2015 HRI consumer survey

## *Toward a payment system for a New Health Economy*

HRI identified four strategies that hit all six consumer-oriented principles —convenience, transparency, affordability, reliability, seamlessness and quality. Many of these strategies share common features. Organizations and companies employing these tools operate with the assumption that an informed consumer with choices will pay more of their bill more quickly, and that seamless and clear billing and payment can be a differentiator.[10]

Technology is an important component of these strategies. Digital health and do-it-yourself healthcare, which use mobile and digital technologies to provide services, play roles in many new entrants' business models, with payment ease offered as a feature meant to attract and retain customers.[11] Many of these tools are designed for the earlier stages of the billing and payment process, before the patient arrives or upon arrival.

The principles of a consumer-oriented payment system

- Convenient
- Transparent
- Affordable
- High quality
- Reliable
- Seamless

## *Strategy: Accelerate the migration to digital*

In April, Apple released the Apple Watch. Users will be able to measure activity and heart rate, link to some electronic medical records systems, participate in medical research and pay with the swipe of the wrist.

That month, millions of medical bills, explanations of benefits and letters from collection agencies streamed through the US Postal Service. Millions of phone calls were placed to and from physician offices, consumers, collection agencies, hospitals and insurance companies. Consumers mailed millions of checks to their doctors, hospitals or clinics. Others decided to deal with their bills later, or never.

As Torben Nielsen, co-founder of HealthSparq, which provides online price transparency tools, including a marketplace for healthcare shopping, said, "We're bringing the same technology to shop for health care services enjoyed in every other sector of our economy. The health care system is joining the 21st century."

Consumers repeatedly told HRI they want mobile and digital options—from pre-service shopping to online portals and mobile apps to manage and pay bills to flexible payment plans. These kinds of options started as nice-to-haves, but now are must-haves, said Jonathan Bush, CEO of athenahealth, which provides cloud-based services for healthcare, such as electronic health records, revenue cycle management and patient engagement. "It changed night to day in the last 24 months," Bush said.

The reason? Appointments were slowing for athenahealth hospital clients' employed primary care physicians while days in accounts receivable were growing, Bush said. "Hospitals are frantic to reverse that trend," Bush said. Though the company offered an online consumer portal, only 5% of its 56 million athenahealth consumers were using it.

Athenahealth decided it needed "a sexier front-end and a more knowledgeable back-end," Bush said. The company began investing in digital tools for consumers, enabling easier scheduling and payment and importantly, near real-time adjudication of claims so consumers could know what they owe.

### *Implications*

- *Don't ignore the front-end.* The payment process is as much about the front-office—and customer experience—as back-office operations. HRI's consumer survey showed that for many consumers, billing and payment can improve or damage their opinions of a healthcare provider, pharmacy or insurer.

  "We believe that healthcare organizations that deliver a strong consumer experience that is simple, private and secure will see higher satisfaction and engagement with their customers," said Chris Seib, CTO and co-founder of InstaMed, which recently announced a partnership with Apple to bring Apple Pay to healthcare. "Paying the bills is an often ignored, yet important part of the consumer experience."

- *Think "Health-Wealth 2.0."* Consumers have been moving into consumer-directed health plans and setting up health savings accounts (HSA) for years, attracting the attention of financial services companies that have made attempts at payment reform. Many of these failed due to complexity and a focus on back-end claims processing. Healthcare companies should focus on the front-end customer experience, even side-stepping claims where possible.
- *Embrace transparency.* Consumers want to know what they are going to pay before they incur charges, and they also want to know what their care will cost at the point-of-service. Both of these require access to health insurers' benefits and claims data. Reverse engineering these systems is a good second best.

  Many insurance companies have been building cost estimate tools to help consumers plan and compare. But real-time adjudication of claims at the point of service will continue to be a barrier to structural payment system change. Clearinghouses and other third-party organizations sitting between insurers and healthcare providers may have the best shot at solving the puzzle.

  "Five years ago, nobody knew what we were talking about," said Sommers of Castlight Health. That, she said, has changed dramatically. "In the next few years, the majority of employers will be putting a solution into place for this."
- *Involve cybersecurity early in plans.* The shift to digital is accompanied by unique security issues, which are only magnified in a health context. Carrying the critical ingredients for identity theft, healthcare financial data are of special value to data thieves. Failure to secure these data can result in significant financial penalties. Digital improvements to the payment system should be carefully scrutinized early on for additional security risks, both externally and internally.[12]

### *Digital case study: Money² for Health*

Making things more convenient and seamless for healthcare consumers was Citi's aim when it designed Money² for Health, a website for managing and paying medical bills. The financial services company launched Money² for Health last year. Its first health plan was Aetna, offering the service free to the insurer's members.

The Money² for Health portal pulls together medical bills, allowing consumers to link their bank accounts, most credit cards, HSAs and flexible savings accounts. Once it is set up, the service allows consumers to view their bills in one place, and easily pay them using their linked accounts with a few clicks. Consumers can schedule one or multiple payments in advance, and also pay bills with different funds with a few clicks.

Many insurers now offer members the ability to view claims online but not the option to pay them. Money² for Health makes it possible to view and pay the bills in one spot, said Jamie Kresberg, director, product management at Citi Retail Services.

Helping consumers easily view and pay their bills is a good deal for hospitals, physician offices and other healthcare providers, who wait at the end of an inefficient and often paper-based trail of bills. Days in accounts receivable is going up as deductibles grow.

Healthcare providers who sign up with Money² for Health receive payments electronically, said Kresberg. Providers who sign up pay Citi a percentage of the transaction in exchange for the quicker electronic payment.

Erin Hatzikostas, head of product marketing and strategy at Aetna's PayFlex company, said that one of providers' primary pain points is collecting money from their patients. "It is a clunky cumbersome process," Hatzikostas said. "We knew that we had a great opportunity to solve the providers' issues as well, by solving first the consumer's primary pain point. A true win-win."

The relationship between Aetna and Citi was fortuitous, said Hatzikostas. Aetna brought knowledge of the healthcare industry, its millions of members and its deep provider network to the partnership while Citi brought its consumer-oriented prowess and its vast machinery to implement it.

*"In the next few years, the majority of employers will be putting a solution into place for this."*

—Nita Sommers, Castlight Health

## *Strategy: Sidestep claims*

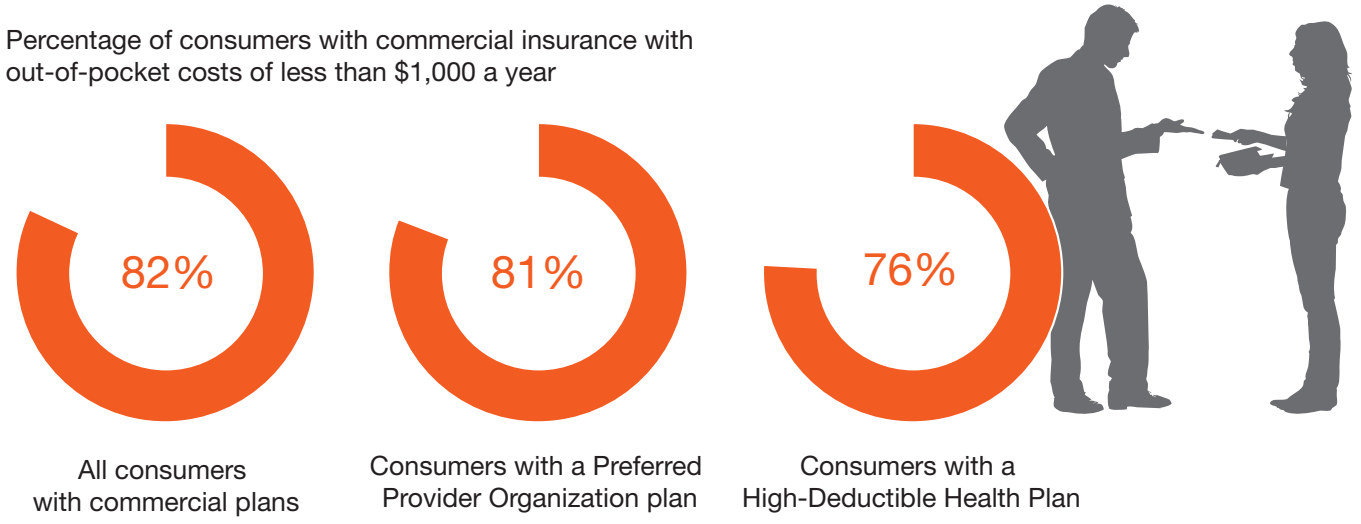
An advance guard of companies is embracing business models that sidestep the claims process for common medical ailments and chronic disease management. The appeal is clear. The claims process is expensive, delaying payment by weeks and even months. Consumers find the process confusing. For startups, the uncertain and delayed cash flow can be a nonstarter. And, as Marcus Osborne, Wal-Mart Stores' vice president of health and wellness payer relations, asked, why should providers of healthcare pay to help insurers gather data on their customers?

With almost two dozen clinics in California, Texas, Georgia and South Carolina, Wal-Mart is offering $40 visits for primary care services and chronic disease management. In some cases, insurance isn't currently accepted. Consumers are streaming in anyway, Osborne said. "The consumers have voted with their wallets and are willing to get care outside of their insurance," he said. "So why should I go through the trouble of trying to send you info about your members through a cumbersome claims process unless you want to compensate me for that?"

Todd Craghead, Intermountain Healthcare's vice president of revenue cycle, said he is seeing more insured patients ask to be treated as if they are uninsured so that they can access automatic self-pay discounts for services with costs that will fall short of their deductibles.

Some are even asking for additional early pay discounts above the automatic self-pay discount if they pay upfront. These savvy consumers are making the calculation that they won't hit their deductibles during the year and if they do, they may be

**Figure 4. Many US adults incur less than $1,000 in out-of-pocket costs in a year.**
Many of these consumers are ripe for poaching by healthcare companies seeking to sidestep claims.




Source: HRI analysis, 2012 Truven Health MarketScan® Databases

*"For us, it is fundamentally about the challenge of providing dead simplicity on pricing and being really transparent about it."*

—Marcus Osborne, Wal-Mart Stores, Inc.

able to submit the claims manually themselves. "We are seeing this trend more and more," Craghead said.

An HRI analysis of commercial claims for over 34 million Americans in 2012 found that 80% paid less than $1,000 in out-of-pocket expenses. That year, the average annual deductible for an individual was about $1,000. Nearly half of consumers with commercial insurance incurred less than $1,000 in medical bills in a year. These consumers are ripe for poaching by new entrants from the emerging claims-free healthcare economy (see figure 4).

Marcee Chmait, CEO of SpendWell, a new entrant direct-pay marketplace for healthcare services, said she foresees a future when "cash is king" in healthcare. Higher deductibles, real-time adjudication of claims and transparency will phase-out negotiated rates and discounts.

These changes create a true retail shopping experience between buyer and supplier (consumer and provider). When third party pricing arrangements are eliminated, pricing falls as suppliers costs fall as suppliers set their prices directly to their end buyers. "Consumers are ready," said Chmait, who said the company registered 1,600 users in its first weeks of operation. "The future of health care payments will be cash prices for bundles of care for services and procedures that are shoppable."

Even as companies targeting consumers with low annual medical expenses forge a direct-pay economy, the majority of medical costs are borne by a small percentage of people with serious and chronic illnesses. These costs require different fixes.

### *Implications*

- *Partner with a sidestepper.* Healthcare providers and insurers operating in risk models should consider partnering with nontraditional companies offering services that sidestep claims. These services, feature transparency, convenience and affordability and could clamp down on administrative and clinical costs.
- *Consider eliminating claims for some services.* With high deductibles, many Americans will pay for simple care out-of-pocket. Innovators could dramatically reduce costs and collect more upfront by finding ways to streamline the process.

  This could leave gaps in their claims history, such as office visits and prescriptions, from a financial perspective. Financial tools that track all healthcare spending, or easy access to medical records, could help pull together consumers' medical history even as care becomes more fragmented.
- *Think wellness too.* Americans will spend $271 billion a year on health and wellness products and services this year, estimates HRI.[13] In an out-of-pocket world, these services can be mixed in with healthcare services without confusing questions about what is covered by insurance and what is not. An integrated payment system also could give physicians, hospitals, insurance companies, pharmacies and others more holistic views of their patients' behavior, from how often they refill medications to whether they belong to Weight Watchers.

### *Sidestep claims case study: Alii Healthcare*

Atlanta-based startup Alii Healthcare is side-stepping the claims-based payment system, charging consumers $100 for a telemedicine visit with an emergency room doctor via smartphone. Insurance is not accepted.

"The traditional insurance pathway introduced so many barriers for a startup," said Dr. Sylvan Waller, Alii Healthcare's founder and CEO. "We could not afford the 40-to-50-day lag in accounts receivable. That is a deal breaker for a startup."

But the company is confident that a lot of consumers—including insured ones—are willing to pay $100 for an online chat with a physician about common medical issues, such as rashes, sinus infections and flu. Time saved is worth more than the cost of the service, he said, and $100 is still less than a trip to the emergency department.

At first, the company, which is still in beta testing, piloted a subscription service in which customers paid a flat fee for unlimited visits with a physician. Waller said they expected people use the service between two and two-and-a-half times a year.

They were surprised when subscribers began calling in twice a month, often for medical advice. Parents with a child with a bad cut would buzz in to Alii wondering whether they should head to the ER or slap on a Band-Aid.

"All of a sudden, the barrier is lower, people are using this to ask questions they would ask if they had 15 uninterrupted minutes with their

doctor," Waller said. "People are happy to pay $100 for that. The vast majority will be insured, but what they see is they still cannot get access to a physician. And they value their time."

The unexpectedly high usage prompted Waller to settle on a fee-for-service model. Waller also said he was surprised by Alii's users. He expected them to be busy executives, affluent families. They got those customers, but also bartenders, schoolteachers and millennials. They had some things in common—they described themselves as healthy, busy and always on their smartphones. And, they deplored accessing healthcare.

These were folks who didn't want to miss a waitressing shift going to the doctor or urgent care clinic, he said. Paying $100 out of pocket turns out to be a deal, especially when many have large deductibles.

Waller expects that eventually many healthcare services will be available Netflix-style, as subscriptions. "We're not there yet," he said. Blockbuster, fee-for-service movies, paved the way for subscription movies by helping consumers understand how often they wanted to rent titles, and how much they were willing to pay. Some healthcare services could follow a similar model, Waller said. "We will get to the Netflix component of this," he said, "but not until the market has been defined by the [now defunct] Blockbusters."

## *Strategy: Embrace simplicity*

Successful retailers such as Starbucks, Amazon.com and Wal-Mart are creating ways to make payment as seamless and simple as possible. Healthcare should aim for the same, said Bill Marvin, CEO of InstaMed, which handles healthcare payment transactions for more than 1,500 hospitals, 70,000 practices and clinics and 100 billing services. "If it is too much of a hassle, you will lose consumers' interest," Marvin said.

Making things simpler doesn't mean narrowing choices. Rather, it means meeting consumers where they are, and offering choices. Marvin said he considers payment to be sales. "Payments are channels too," Marvin said. "You have online, mobile, point-of-service, mail order, lockbox. You want to give your consumers as many ways to pay you as possible. Not one channel, my way or the highway."

At Intermountain Healthcare, embracing simplicity meant creating online tools for patients to get estimates for services and treatments and manage and pay their medical bills, said Craghead. Intermountain's My Health website allows patients, after registering in-person, to view test results, request appointments, renew prescriptions, view sections of their medical records, and communicate with their physician securely and privately online.

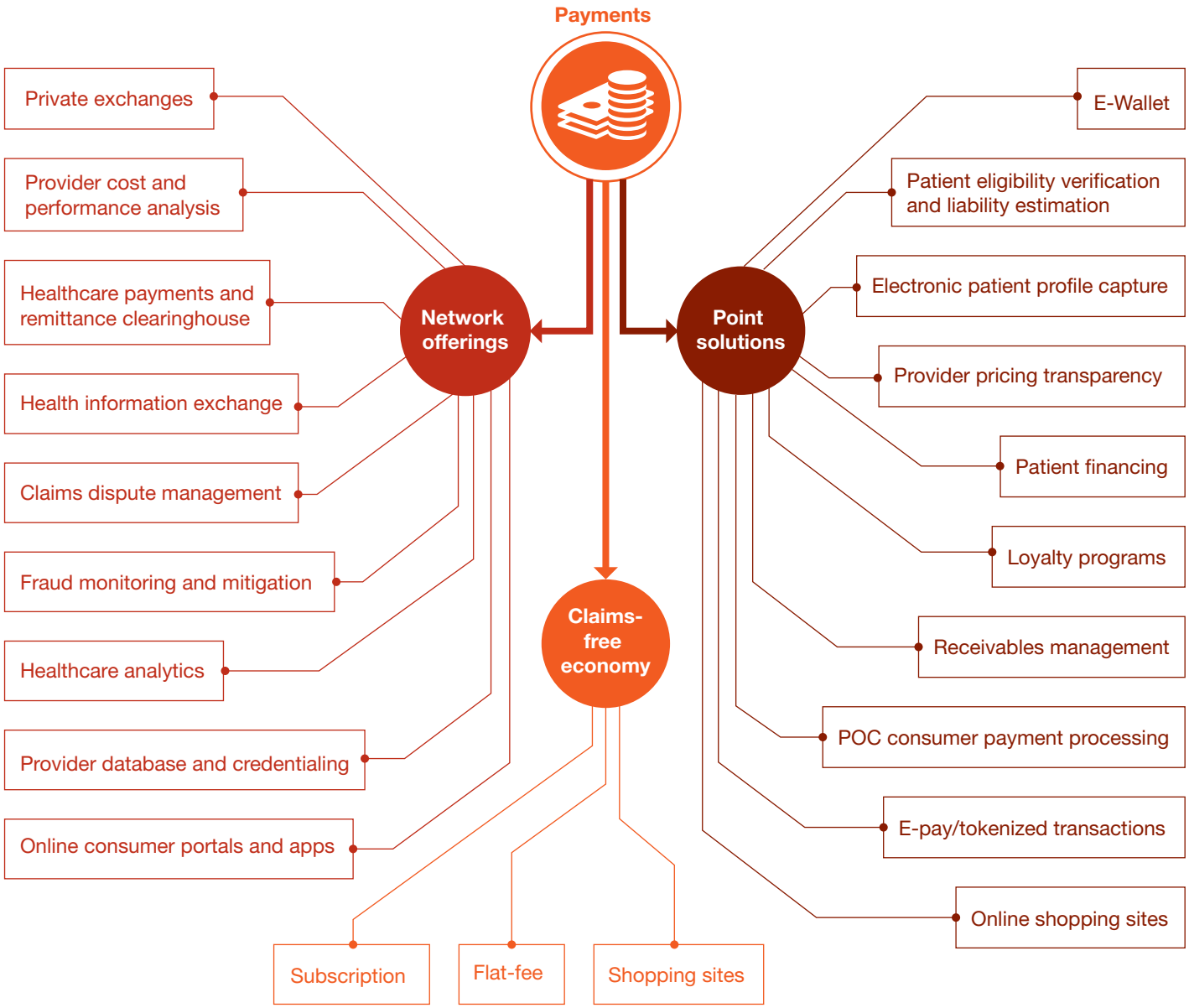
Simplicity can also mean making pricing simple. Theranos, the lab-testing startup, lists prices online.[14] And Wal-Mart settled on $40 for a visit to one of its in-store clinics, echoing its industry-shaping $4-generic prescription drug model launched in 2006. "People want to know, how much is a visit? $40. What if we do this or that at the visit? $40. Is there any way for it not to be $40? Yes, labs could add $3 to $17," Osborne said. "For us, it is fundamentally about the challenge of providing dead simplicity on pricing and being really transparent about it."

### *Implications*

- *Resist the urge to do too much.* Websites and mobile apps should be mobile-friendly and consumer-friendly, involving as few steps as possible. Cluttered sites will confuse consumers, who won't come back. Consumers should be able to link their bank accounts, HSAs and other accounts. Insurance companies, banks and others have the opportunity to become consumers' go-to services for information about medical care and finances.
- *Focus on the empowered consumer.* Innovators make it abundantly clear to the consumer what they are getting. They stress value, allowing consumers to make informed choices, plan for care and review earlier transactions. Healthcare consumers will still seek quality over convenience when it comes to many healthcare services, especially high-dollar ones.

  PwC's Customer Experience Radar research found that consumers are willing to submit to more invasive testing, use e-visits and see care extenders first and make other tradeoffs in exchange for discounts off their insurance premiums.[15] Consumers are willing to make tradeoffs when it comes to billing and payment too.

**Figure 5. Many solutions for a complex problem**
The fragmented health industry has spawned a complex web of billing and payment solutions.



### *Embrace simplicity case study: Banner Health*

Several years ago, Phoenix-based Banner Health took on some added complexity in order to offer its customers simplicity.

The seven-state network of 25 acute-care hospitals and health facilities knew its customers frequently complained about receiving cascades of medical bills. They were confused, did not know what they owed, or when they owed it. They were unsure how to pay. Pay all of one bill first, or split small payments among many?

Banner decided its customers would receive one bill, which they could pay down without having to worry about which doctor or department to pay, said Betsy Sullivan, Banner Health's vice president of revenue cycle. Banner Health would figure out how to split up the money between parties, which could include different medical centers and physician offices in different states.

Partnering with another company, Banner Health created the one-bill system, which required consolidating charges from the non-profit's many centers and engineering ways to divvy up consumers' payments among them. At first, Banner expected it would pro-rate consumer payments by the size of their accounts, but the organization eventually settled on a first-in, first-paid model.

The entire process took about a year of planning and implementing. The program is budget-neutral. "It took a lot of work and a lot of planning and a lot of testing," said Sullivan.

Collections have risen, she said, in part thanks to the single-bill system. Whether the effort has led to higher patient satisfaction scores is unknown, as federal hospital consumer surveys do not ask patients about medical billing and payment. Still, "we have had a very positive response," Sullivan said. "It was our consumers that drove that change."

## *Strategy: Multiply payment options*

Thanks to higher deductibles and other cost-sharing measures, patients have become important payers for hospitals, physician offices and other care providers. But many providers remain focused on submitting clean claims and getting money from insurance companies. "That's not good enough anymore," said Hanny Freiwat, CEO of Wellero, a new mobile healthcare payments company.

As deductibles rise, more patients will struggle to pay their share of their medical bills. Research has found that as many as two out of three bankruptcies involve illness, injury, significant uncovered medical bills or a combination of these factors and the fallout from them.[16] For hospitals that receive Disproportionate Share Hospital (DSH) money for treating indigent patients, this is especially critical as these payments are scheduled to shrink under the Affordable Care Act.

Transforming revenue cycle operations will help shrink bad debt and increase collections from consumers, as will investing in price transparency tools and providing numerous options to plan, manage and pay medical bills. Many patients, for example, lack bank accounts or access to credit cards, and will need simpler—and more affordable—ways to pay for their medical bills or insurance premiums than money orders.

### *Implications*

- *Engage early.* The payment process must begin before the patient receives the product or service. HRI's research shows that consumers want to know what they will owe before they owe it, they want to know how they will pay for it and they want to know if there are other options. Healthcare providers and insurers should initiate this process before consumers arrive.
- *Talk about cost.* Consumers repeatedly told HRI they want physicians, pharmacists and other caregivers to talk to them about costs and treatment choices.

  Insurance companies, physician offices, clinics and other caregivers should offer all of their clinicians guidance on having cost discussions with patients. And those are just the first steps toward true cost-benefit conversations, which would require sophisticated understanding of costs and the comparative effectiveness of multiple treatments.

  Some specialties—such as those involved in elective dental or cosmetic procedures—already do this. Yet even these areas could do a better job of enabling easier online comparison shopping.

- *Carefully consider extending credit.* Banks and other companies have long extended credit to help consumers pay for dental, cosmetic and veterinary services. Several companies, including large banks and smaller startups, have started to extend credit for larger medical expenses while many financial institutions have shied away due to the complexity of assessing the credit risk of patients. As cost-sharing grows, healthcare providers, pharmacies and others will need to find creative ways to fund expensive treatments and services, such as amortization of treatments or loyalty programs.
- *Build for tomorrow.* Consumers are happy with pharmacies' payment processes now, but those feelings could sour as deductibles and cost-sharing grows. They will be looking for more sophisticated choices for payment than handing a credit card to the pharmacist. Pharmacies should consider payment plans, lines of credit, partnerships with assistance programs and other options.

### *Case study: CarePayment*

Bad debt remains a top concern of hospital CEOs, as does patient satisfaction. But how to collect without marring a patient's opinion of your institution?

Craig Hodges, CEO of CarePayment, which works with healthcare providers to provide patients with flexible, 0% APR open-ended lines of credit to pay for medical bills, believes the solution is to improve patient financial engagement upfront by understanding the needs of each individual and offering them an affordable payment option. Doing this part well can enhance patient satisfaction and decrease bad debt.

Many providers think patient engagement is limited to the clinical experience, or, if they are focusing on operations, they may be incorporating price estimators. But "all of the financial transparency in the world is not going to help on a bronze plan that comes with a $6,000 out-of-pocket experience," Hodges said, referring to a type of lower-premium health plan for sale on Affordable Care Act exchanges.

CarePayment, which works with over 700 healthcare providers, partners with health systems, hospitals and physician groups to flag patients that may benefit from assistance paying their medical bills.

These may be patients wanting to schedule a treatment or service but don't have the savings or credit to cover their portion of the bill, or they may hold aged accounts ready to be written off. These also may be patients who are simply delaying care due to perceived financial barriers. CarePayment, which was founded in 2004, offers these patients lines of credit, and works with them to find payment plans they can afford.

"One of the top reasons people fail to pay their medical bills is a lack of viable financing options," he said. "Hospitals across the country are dealing with almost $50 billion in bad debt even though lots of people are willing and able to pay."

CarePayment's "secret sauce," said Hodges, is working with consumers who might have been reluctant to come in for necessary treatment due to cost or whose accounts would have gone straight to bad debt. With the lines of credit, the company can create longer term payment plans people can afford.

Instead of ignoring a $5,000 bill, or a $500 monthly payment, patients will make payments of $100 a month or less over a longer period of time, he said. "It is amazing to me how long the opportunity has been around and nobody has done it," he said. "There has not been a lot spent on the financial dimension and that is where the pain points reside."

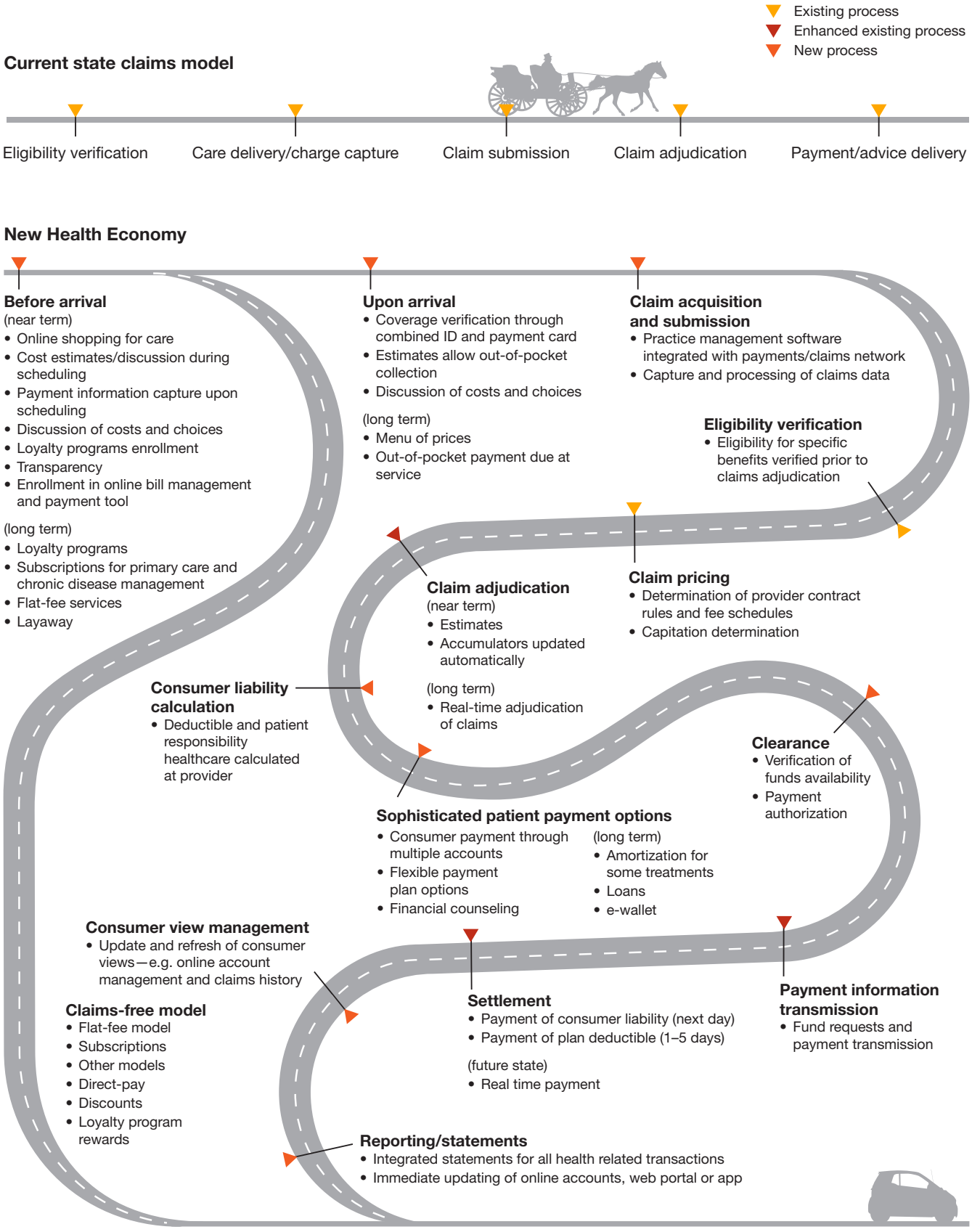
## *Conclusion: A roadmap*

As consumers shoulder higher deductibles and cost-sharing, they increasingly are being forced to navigate the complex healthcare billing and payment system on their own. Streamlined payment could be a differentiator for health systems, insurers, new entrants and others, especially for services that can be commoditized.

Technology will not completely solve the billing and payments system's issues. Complexity must be removed from the system. The entire structure needs to be rethought, considering differences in consumers' needs. Digital can do its magic once the streamlining is done.

Many improvements can be made in the near-term, from offering consumers cost and payment information before they arrive for service to aggregating their medical bills on a simple online site. In the longer term, the system will need to be re-engineered to accommodate the millions of consumers paying cash for care. Here's a roadmap for near-term pain relievers and longer-term fixes.

## Figure 6. A consumer payment system for a New Health Economy



# *Endnotes*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## About this research

In January 2015, PwC's Health Research Institute commissioned a survey of 1,000 US adults representing a cross-section of the population in terms of age, gender, income, and geography. Through its survey, HRI sought to measure consumer preferences related to healthcare payments. One portion of the survey measured consumer's preferences regarding the convenience as ease of healthcare payments at providers, pharmacies, and with health insurers.

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