FEATURE STORY

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consumer-directed health care

what to expect and what to do

Consumer-directed health care is here, and CFOs can be the change leaders for their organizations

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AT A GLANCE

> As consumer-directed health care grows, providers will need to develop competitive prices and make prices and payment options available to consumers.

> Providers should expect an increase in self-pay patients and be prepared to offer them financial counseling.

> Providers also will need to create a strategic plan and budget for CDHC.

In just a few years, consumer-directed health care has moved from the shadows of healthcare policy to the center stage of healthcare reform. Employers, the purchasers of health insurance for most working Americans, are rapidly moving toward these mechanisms to give workers and their families more choices (something consumers have been demanding for a long time) and to rein in spending by transferring the up-front costs and more overall financial responsibility to their employees.

Although employers and developers of consumer-directed health plans are marketing them as pathways to progress through consumerism in health care, no one knows for sure whether these plans will actually produce the promised improvements. Many industry observers and policy experts see significant gaps between the theory of informed, satisfied consumers and a potential reality of confused, frustrated patients. The sudden rise of CDHPs does not necessarily mean that they are a good idea or viable solution to the vexing problems of paying for health care.

However, CDHPs and their funding mechanisms--health savings accounts, medical spending accounts, and other health reimbursement arrangements--are ushering in a critical era for finance departments in hospitals and medical groups. Providers will increasingly be drawn into personal healthcare financing for consumers on multiple fronts. For better or for worse, the emergence of new financial realities for healthcare consumers creates serious and unprecedented challenges for leaders in healthcare finance.

Developing Consumer-Friendly Pricing

Consider a fundamental aspect of CDHPs: the belief that consumers will use a wealth of data to make informed healthcare decisions. With millions of consumers now covered by plans built on this premise, hospitals and medical groups will need to adapt quickly to the new world of consumer-directed health care. First, providers need to develop information systems that produce the quality and cost data being demanded by employers, consumers, and public and private payers. Second, providers need to be directly involved in developing the mechanisms that will be used to define value from the purchasers' points of view.

For starters, providers will need to make sure their billing statements are clearly understandable to patients. Successful organizations will need to learn how to work with consumers who engage in price-based comparison shopping. Consumers paying the first few thousand dollars of care with their own money (not to mention coinsurance beyond the new, higher deductibles) will want to know prices in advance. Because payment has never been consumer-centric, however, pricing medical services remains one of the least transparent elements in our opaque healthcare system. Providing a comprehensible and accurate answer will not be easy, but neither will it be avoidable as rising consumer responsibility for health services becomes fact.

CFOs will need to analyze the true costs of every service that patients want to buy, whether it's a gall bladder operation, hip replacement, or normal childbirth. "It depends" will no longer be an acceptable answer to the question, "How much does it cost?" for price-conscious, value-seeking CDHP patients who are shopping for elective care. Open-ended pricing will be acceptable only in the case of unpreventable complications and life-saving emergency care. Indeed, CDHPs may be the development that finally forces providers to standardize care (i.e., to eliminate avoidable deviations from acceptable practice) according to the imperatives of patient safety, error reduction, and evidence-based medicine.

In a sense, CDHPs will force providers to do for consumers what the prospective payment system forced upon hospitals with diagnosis-related groups in the 1980s and upon physician practices with

resource-based relative value scales in the 1990s. Much like Medicare announcing it would henceforth pay only standard, predetermined prices for comparable services, consumers enrolled in CDHPs will oblige providers to offer consistent pricing across all categories of basic care. In short, transparent, up-front consumer pricing will be to the first decade of the 21st century what prospective payment was in the last two decades of the 20th.

Very important, hospitals will be pressured to develop bundled pricing for the majority of their services. There will always be exceptions--unusual procedures for which it will be impossible to estimate costs in advance. But exceptions will represent a tiny percentage of all services. As a general rule, a growing number of consumers with CDHP-style coverage will expect to be quoted a reasonable base price for a needed health service. Many price-conscious health consumers will also want to know the price of "extras," such as 24-hour nursing care or a private room, in much the same way they would consider adding a bigger engine, more memory, or a first-class cabin once they know the base price of a ear, a computer, or a vacation cruise. Like their retail counterparts, healthcare providers will need to learn how to make profits from the add-ons, not the basic products.

What's more, hospitals will have to move as quickly as possible toward fair and understandable pricing. Bills for medical services should be as straightforward and accurate as credit card statements to avoid confusing consumers.

The challenge facing hospitals in this context is immense. CFOs will have to lead comprehensive, intensive initiatives to develop new pricing architectures. Those initiatives will necessarily involve clinicians, department managers, IT specialists, and a host of other experts across their organizations to achieve a new pricing system acceptable to consumers who are shopping around for health care because their own money is on the line. Successful CFOs will use Six Sigma analysis, Lean manufacturing principles, and other waste-reduction/performance-improvement methodologies to standardize production as a foundation for standardized pricing.

Providing Financial Counseling

Next, providers will need to become involved in consumers' decisions on how to pay their growing share of bills for medical services. Like automobile dealers and real estate agents, providers will need to develop partnerships with credit card companies, banks, and credit unions. Most CDHP enrollees have to make major financial choices regarding their HSAs--deciding, for example, whether to pay for some procedures out-of-pocket or to draw down their medical spending accounts (assuming they have

an MSA with money in it). CDHP-insured patients will need to have the opportunity to speak with a financial counselor who can help them find a viable way to pay for care.

Two things become apparent here, as "business as usual" is not a good response to CDHC. First, a hospital or medical practice will need to have a mechanism for connecting patients to financial services that can help them meet their new levels of responsibility for payment. Second, to facilitate payment, the hospital will need to employ a new kind of front-office professional--one who combines the roles of admitting clerk, personal financial counselor, reimbursement specialist, and salesperson. This staff member will not only need to be able to explain the technical details of up-front payment; he or she will also need to help patients identify and evaluate all viable financial options, including the possibility of eligibility for free medications, participating in clinical trials, and in some cases, qualifying for charity care. In extreme circumstances, this professional will need to be able to address the issue of denial of service if the CDHP patient is unwilling to make a commitment to pay. This new business office employee is definitely not your father's (or mother's) admitting clerk.

How will hospitals get CDHC-capable finance professionals? Initially, they will have to train existing or newly hired staff. A new class of professionals will need to be rapidly developed to handle these needs and to interface with a wide variety of consumers and financial arrangements. An appropriate analogy might be the challenge hospitals are already facing in the health information management area (formerly known as medical records). When all medical records were on paper, employees in that department acted as file clerks, filing pieces of paper in folders and then organizing and storing the folders. As medical records continue to go electronic, file clerks are being replaced by a new contingent of HIM professionals with higher levels of skills than were previously needed. The same transformation necessarily will occur in patient accounts management as consumer-directed and consumer-financed care soon becomes common.

Key Steps for CFOs

Few hospitals are positioned to reengineer their finance departments in response to the forces described above or to hire the new employees needed to fulfill the functions implied by the expected growth of CDHC. Following are some key steps CFOs should take now to prepare for CDHC.

[1] Create a strategic plan for CDHC. Healthcare finance executives need to ensure expeditious development of a strategic plan that addresses the needs for rational pricing of services and for consumer financing of significant front-end payment obligations. Needless to say, the

executive team responsible for this planning should include the CFO, COO, CIO, chief medical officer, chief medical information officer, chief nursing officer, and other key executives involved in production, pricing, and payment of medical services.

[2] Put the CDHC plan in the budget. As soon as CFOs conceptualize the new functions and responsibilities for maximizing consumer payments under CDHC, they will need to develop budgets that allow the plan to be fully implemented. The budget should enable reorganization of the finance department as necessary (e.g., funding new staff positions for consumer financial counselors) and engagement of consultants needed for design and implementation of these new elements. Given the rapid growth of CDHC, some relevant resources almost certainly need to be allocated or reallocated in the current fiscal year budget. Budgets must also provide resources for development of consumer-friendly pricing, human resources staffing, and IT support.

[3] Begin the processes. Pricing analysis will take a significant amount of time and will necessarily involve a large number of individuals, from clinical department heads to data analysts. Developing a comprehensive consumer-centric price list will be a complex, time-consuming task. Creating a consumer financial counseling service will probably be less conceptually complex, but it will require an analogous investment of resources and time to achieve success. Both of these major activities will require ongoing evaluation and occasional redirection if the provider is to present consumers with a coherent, consistent, and comprehensible set of policies that prevent massive losses in the early years of CDHC.

Conversely, poorly conceived or mismanaged responses could be disastrous. Some hospitals and medical groups may find value in testing their consumer pricing and payment options with their own employees who select the CDHP benefit before rolling them out to all consumers.

[4] Watch the competition. The development of CDHP-responsive capabilities will not take place in a vacuum. Competitors will likely be pursuing the same solutions at the same time. Consequently, consumers will judge every provider against the competition. As CDHPs and their funding mechanisms evolve, hospitals will be judged not just on patient care quality and service, but also on their ability to manage the consumer credit and personal finance aspects of the new arrangements. Ability to counsel consumers and work with financial services organizations better than the competition will become a critical success factor.

The National Market: Moving Forward, Moving Fast

Unexpected developments are already unfolding in the national marketplace. For example, The Wall Street Journal reported on March 13 that UnitedHealth Group was set to offer an automatic-payment system that would give providers advance payments of amounts owed by CDHP beneficiaries and then collect the money from the consumers through payroll deductions. On March 20, The Tennessean (Nashville) announced that HealthGrades.com would provide consumers with the local prices of 50 common procedures, creating a "Blue Book for health care." The New York Times has published several reports about banks and brokerage firms entering the market for CDHC-related services. The sudden entry of financial institutions and information brokers into this market should be a wake-up call for hospitals and medical groups.

Not all aspects of the new CDHC will work to the obvious benefit of consumers. Indeed, many negative developments are likely to occur, including the arrival of greed-motivated CDHP offerings that misrepresent the patients' benefits and obligations. Confusion on the part of patients and their families is already emerging and getting lots of media coverage. Consumers do not immediately understand or accept their obligations under CDHC, and the possibility of outright fraud by unscrupulous vendors of services is also high.

At the same time, the emerging market realities of this reform movement are becoming clear as consumers are being given more choices, along with increased personal financial responsibility. Individual providers will be judged by consumers--and inevitably, by the news media and other groups interested in consumer health issues--on how and when they respond to CDHC. Consequently, CFOs should consider their organization's response to these emerging market trends with the following imperatives in mind:

> Focus on issues of fairness, simplicity, openness, and transparency in pricing and financing. Accept, and maybe even embrace, these factors as new competitive differentiators.

> Pay close attention to the regulatory and media scrutiny that will accompany consumer-centric pricing and consumer financing. Be ready to justify all organizational responses to pricing and payment counseling.

> Expect the problems involved in creating consumer-centric pricing systems and full-service consumer finance services to be complex and challenging. Be prepared for immense financial and operational impact on cash flow and profit.

> Engage stakeholders across the spectrum in your hospital or medical group, especially clinical leaders and physicians in their private practices. Use CDHC as a reason to align incentives and strengthen partnerships because hospitals and their medical staffs are facing the same new challenges as consumers decide whether and where to spend their own dollars on health care.

> Collaborate with information systems vendors now. Pursue partnerships with IT companies that will immediately begin to build needed functions into their software products that manage care delivery and patient accounts.

The first several years of CDHP will surely be a period of confusion and trial and error. Providers will be drawn into an unfamiliar and unfriendly vortex of market-based competition over pricing and consumer financing, whether they wish to be or not. How they respond will determine their relative success in their local market. CFOs are in a unique position to lead required and responsive change. They have the responsibility to face the new imperatives of market-driven change. Given the right strategic vision and tactical development, finance leaders can master this crucial element in the emerging healthcare marketplace, to the benefit of their organizations, their consumers, and their communities. CFOs owe it to all concerned to achieve the best possible outcomes in the emerging world of CDHP.

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READ MORE ABOUT CDHPs

As consumer-directed health plans become more common, consumers will demand to know prices before they purchase healthcare services. Read "Consumer-Directed Health Plans: Pot of Gold or Red Ink?" by David C. Burchfield in the June issue of Revenue Cycle Strategist. To subscribe to this monthly HFMA newsletter, call (800) 252-HFMA, ext. 2, or visit www.hfma.org/rcs.

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MEET THE CHALLENGE OF CDHP

Meeting the Challenge of Consumer-Directed Plans, an HFMA executive roundtable report, discusses challenges and opportunities, consumer behavior, cost of collections, communications with self-pay patients, and the impact of pricing. To view the report of online visit www.hfma.org/ reimbursement.

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