

# New Dynamics of Payment for Care: Consumer Plans are Coming

*Jeffrey C. Bauer, PhD*

Professionals in healthcare IT are accustomed to assuming new responsibilities without being relieved of their existing commitments. They generally have responded well to a growing list of requirements that help health systems stay afloat and out of trouble. The scope of HIT is always expanding.

Beginning with the automation of financial information in the 1970s, information services has tackled additional assignments to facilitate patient accounts management in the 1980s and to manage clinical data in the 1990s. The current challenge is to provide reliable, low-cost infrastructure that promotes patient safety and to integrate business processes, with a special focus on clinical transformation.

Each of these cumulative assignments has arisen from a methodical process where providers responded to growing pressure from private and public purchasers. All the tasks were important, but none was truly urgent. Health systems have obviously done better when HIT professionals performed their roles in a timely fashion, but very few organizational failures can be attributed solely

to IT implementations that fell behind schedule.

## **Fast-approaching Storm**

IT soon will be called on to respond to a challenge that must be met quickly. Within a year or two, a financial storm is likely to arrive that could threaten organizational survival, the fallout of a dramatic shift in finan-

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cial responsibility from third-party payers to patients. IT professionals and their colleagues in finance soon will be scrambling to develop effective mechanisms for collecting

substantial sums directly from patients with health insurance.

Admittedly, collecting money from insured patients has never been ignored or discouraged. It just hasn't been a high priority for a variety of reasons. The dollar value of co-insurance payments and deductibles has been relatively small, compared with the total amount reimbursed by Medicare, Medicaid, and private health plans. Patients paid their portions of the bill often enough that the potential backlash from aggressive collections seemed to not be worth the effort. Besides, IT and finance departments were kept very busy accounting for contractual allowances and other discounts in widely varied agreements with a large number of health plans.

The healthcare delivery system must begin to prepare for collecting a lot more money directly from insured patients because private employers and public insurers are rapidly reducing third-party reimbursement.

The shift from insurance reimbursement to patient responsibility has been occurring slowly over the past decade. Increases in the out-of-pocket, or consumer, portion of payment have averaged less than 1 percent

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of total healthcare spending on an annualized basis.

However, growth in patient responsibility for healthcare bills is likely to accelerate very soon for one compelling reason: the government and private-sector employers who have paid for the vast majority of healthcare for the past 40 years are no longer able to afford their historical largesse. Government deficits have reached unsustainable levels, leaving no politically viable sources of money to sustain historical patterns of healthcare spending. Likewise, many employers are being forced to cut spending just to stay in business.

Even if the costs of healthcare were stable, third parties would be reducing their expenditures. Unless patients are willing to consume fewer medical services—a doubtful scenario, in my opinion—the consumer portion of payment will increase substantially for the foreseeable future.

### New Payment Mechanism

Several leading health insurance companies have begun to offer a new type of health plan in response to the changed financial imperatives of reimbursement and public policy. Called medical savings accounts or health savings accounts, these plans have very high deductibles. The consumer is commonly responsible for the first \$5,000 to \$10,000 of health expenditures. This new level of upfront consumer responsibility is dramatically different from the \$100 to \$1,000 deductibles that have been small enough to “overlook” for many years.

Collecting more money directly from the consumer gains a whole new level of importance in ensuring the survival of healthcare providers. It almost certainly means that IT will be called upon sooner rather than later to

develop new mechanisms for billing patients who are unaccustomed to treating their financial responsibility to hospitals and physicians as a matter of life and death (for themselves or for their providers).

### Keep It Simple

The shift in fiscal responsibility from purchasers and payers to patients will necessitate many modifications in billing practices and related business processes. The most important change is arguably simplification—more specifically, the rationalization—of the bill itself. Providers cannot expect patients to pay bills that are almost always incomprehensible and often full of errors.

The patient bill that gets paid in the future will be consumer-friendly, with charges clearly identified and presented in a simple and understandable format.

The effective bill will be accurate, final, and fair. Patients will not be asked to pay unreasonable prices for items that cost only a fraction of the billed amount (a \$6 charge for an aspirin tablet does not generate goodwill). The imperative for fair billing will almost certainly require hospitals to modernize their approaches for allocating costs and pricing services. It will become even more important for clinical transformation to provide better care at lower cost.

In close collaboration with the finance department, IT will need to continue improving business processes related to payment at the point of care. Patient billing information will need to be completely up-to-date and accurate. Software systems will need to identify consumers' obligations and communicate them to patients. Admission procedures will

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need to convey complete information about payment alternatives, such as credit cards, loans, and installment plans, so consumers can see options for paying their medical bills.

If hospitals and physicians do not learn how to bill and collect on consumers' terms, they soon will find themselves in a world of financial hurt. IT professionals should start thinking very seriously about solutions to emerging problems with consumer billing.

A correct, comprehensible, and affordable bill will be a critical success factor in the changing medical economy. Collecting a few thousand more dollars from insured consumers will make a big difference for margin and mission. Add this task to HIT's expanding "to do" list.

### About the Author

Jeffrey C. (Jeff) Bauer, PhD, a nationally recognized medical economist and health futurist, is a partner in the management consulting practice of ACS Healthcare Solutions (Dearborn, MI).

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