# New Payment Systems for Medical Offices

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As the prevalence of high-deductible health care insurance plans rises, driving up consumers' initial out-of-pocket medical expenses, doctors and medical clinics are seeking new ways to collect payments through credit and debit cards.

The trend is creating opportunities for developers of systems that enable doctors' offices and clinics to lock in a patient's bankcard information at the time a medical service is performed so they may charge the account when providers and insurance carriers later determine the patient's out-of-pocket costs.

These systems, which slash billing costs dramatically and improve health care provider's collection rates, could represent a significant growth opportunity for card issuers, merchant acquirers and independent sales organizations, say health care finance experts.

Indeed, payment card acceptance through health care channels is strong, though third-party systems designed to help streamline the acceptance and payment processes represent a new direction for both the payments and health care industries, insiders note.

"We are seeing more third parties and merchant-services providers entering this arena to help add efficiency and security," Stacy Pourfallah, senior business leader for health care products at Visa Inc., tells PaymentsSource.

Total System Services Inc., or TSYS, which markets a card-based health care payments service called First Paid through TSYS Merchant Solutions, has identified health care as one of the payments industry's most-promising new growth channels, says Jim Morin, the merchant-services unit's vice president of business innovation.

TSYS gained the service when it acquired First National Bank of Omaha's stake in First National Merchant Solutions LLC earlier this year (see story).

"Health care has among the highest write-off rates of any other merchant category, and one of the reasons is that traditional systems for mailing out bills and collecting payments later fall short of today's needs," Morin says.

Besides First Paid, other examples of card-based health care payment systems that have emerged within the past few years include A-Claim, a product marketed by Blue Cross Blue Shield of South Carolina's Carrollton, Texas-based Preferred Health Technology Inc. subsidiary, and a service provided by

Minneapolis-based mPay Gateway Inc., to name a few.

The health care industry for years has needed better systems for collecting patients' payments, says Shubham Singhal, a McKinsey & Co. consultant whose research suggests that collection rates on the consumers' portion of payments for health care services at doctors' offices, clinics and hospitals has hovered for the past few years at around 70 percent. Other industry estimates show medical collection rates range between 50 and 70 percent, depending on the region and the type of services provided.

Total expenditures on the processing of bills, claims and payments, along with bad debt, cost more than $300 billion annually, according to McKinsey's research, and laborious paper-based medical-billing processes consume about 15 percent of every dollar collected.

And medical debt is mounting as consumers' out-of-pocket health care costs rise. Bad debt from unpaid consumer health care services reached an estimated $65 billion last year, up 8 percent to 63 percent from an estimated $40 billion to $60 billion in 2007, according to McKinsey. The balance owed after insurance pays its share is increasing at an annual rate of 30 percent at one large hospital McKinsey studied last year.

Medical offices tend to collect about 25 percent of total patient-services revenue directly from patients, and the percentage likely will rise with out-of-pocket costs increasing, according to research the Medical Group Management Association conducted with Visa in October 2009. The Englewood, Colo.-based association represents medical-practice managers nationwide.

Moreover, 41.2 percent of patients pay for at least a portion of their expenses, which could include a co-pay amount paid with a bankcard at the time of the service. And no matter what method patients use to pay for services, health care providers send an average of 3.3 billing statements to patients for each medical service before the balance is paid in full, the association's research also found.

Tying payment for a majority of medical services to credit and debit cards at the time of service could go a long way toward speeding up payments, improving the collection rates and reducing costly statement production, Singhal suggests.

The new software systems enable doctors and clinics to confirm a patient's insurance eligibility. They generate a close-to-final estimate of a patient's out-of-pocket expenses before medical services are provided, although providers do not immediately bill patients for the full amount.

After presenting the final estimate to the patient, the medical provider charges the patient for the immediate costs owed, such as a co-pay amount, typically charging a patient's credit or debit card using a traditional point-of-sale terminal.

The provider also obtains the patient's permission to charge the card for the total balance owed, which insurance companies typically determine at a later date.

When the insurance company eventually determines what the patient owes for the service--usually within a few weeks to 90 days--it sends an explanation of those benefits to the patient and simultaneously signals the medical office's payments system to automatically charge the patient's payment card.

The Web-based systems store payment card data securely, and system providers can link relatively easily to small medical practices' existing office systems and to more-robust back-office systems that integrate billing and medical records.

**Proven Effectiveness**

The systems, while relatively new to the payments industry, already are proving to be more effective than traditional billing methods, especially for health care providers seeing a growing number of patients with high-deductible health care plans, observers say.

The U.S. processes $1.9 trillion in health care payments each year, and as health care costs have soared recently, more employers have adopted high-deductible insurance plans for employees, often tied to health savings accounts attached to a debit card.

The number of U.S. consumers covered by high-deductible insurance policies attached to HSAs in January 2010 rose 64 percent from two years earlier, to 10 million from 6.1 million, according to Washington, D.C.-based America's Insurance Plans, an association representing most of the nation's health insurance providers. Industry observers expect that number to rise further when the association releases 2010 HSA patient-enrollment figures in May.

Employers and employees may deposit funds into HSAs before taxes are deducted, up to a maximum each year, and consumers may use the funds in the accounts to pay for medical services, prescription drugs and certain other approved health care expenses. Banks typically issue HSA accountholders debit cards to access the accounts; accountholders may also authorize direct deductions of funds to pay for health care expenses or pay by check.



High-deductible health care plans require consumers to meet a larger portion of their initial medical expenses using funds in their HSAs, but the burden to collect such payments falls on providers, most of which are sending out more bills, with mixed results.

Medical bills fall low on consumers' household bill-payment hierarchy, below mortgages, rent and utilities, McKinsey's research suggests.

Moreover, most consumers likely would pay their health care bills if they had appropriate transaction processing and financing options, Singhal tells PaymentsSource.

In a consumer survey McKinsey conducted a 2009, 37 percent of insured respondents said the "lack of financing options" was their chief reason for not paying health care bills. Another 36 percent cited a combination of billing-technicality issues, such as the timing of the bill's arrival or confusion about what was owed. Eight percent said they believed health care is a right and that they should not have to pay their bill, while 19 percent cited other reasons for not paying with a card.

More than half of consumers would use a credit or debit card to pay for health care services if providers presented that option to them in an appropriate fashion, and that would vastly improve the collection rate for health care services, Singhal contends.

"Our research suggests that most consumers are both willing and able to pay for their health care bills with the right transaction-processing and financing services," Singhal says. "In fact, we estimate that as much as 90 percent of the balance owed by insured consumers would be collected if the industry were to adopt more consumer-friendly, innovative methods."

So far, most card-based health care payments systems have been a boon to certain small and midsize doctors' offices and clinics that have seen bill-payment rates deteriorate as consumers' out-of-pocket health care expenses rise.

Twin Cities Pain Clinic, a 20-employee, Edina, Minn.-based medical office with a busy physical therapy operation, added mPay Gateway's service in 2009. Since then, it has seen its patient bill-payment rate improve "significantly," says Christa Olive, clinic administrator.

The system also has cut the average time to receive payments by 44 percent, to 45 days from 80 days. And the costly process of mailing out up to 200 bills per month has tailed off to just a handful of bills mailed each month, Olive says.

The only obstacle has been the ongoing effort to explain the process to patients, most of whom previously had never experienced the pre-authorization process for future medical payments, she says.

"We spend a lot of time explaining how it works to patients, especially on their first visit. And we've had to take time to train our entire staff in how to educate patients on the process," Olive says.

To sell its service, mPay Gateway typically forms partnerships with merchant acquirers and independent sales organizations that resell them, says Brian Beutner, CEO of the 12-person company that launched its product in 2008. He declined to provide the exact number of clients the firm has but says medical offices nationwide are using the service and number in the thousands.

**Costs Vary**

The service's cost varies based on a medical practice's size, but the overall cost to a medical provider is about 5% of the total transaction amount (including routine merchant transaction fees and interchange), Beutner says. The higher cost is "easily" offset by a higher collection rate and reduced billing costs, he says.

As do companies offering similar systems, mPay Gateway also provides medical offices with a secure way to handle patients' payment card data by storing the information using methods that comply with Payment Card Industry data security standards.

"Card security is becoming a hot issue for smaller merchants, and a lot of medical offices know very little about PCI standards," Beutner says. "Our system protects them from putting card data at risk."

Preferred Health Technology's A-Claim, launched in 2007, operates both as a purveyor of medical office payment systems and as an independent sales organization, says Michael Rothstein, the company's chief financial officer. The firm has "thousands" of clients in 30 states, and its customer base has grown by about 40 percent within the past two years, he says, declining to specify numbers.

A key to the product's success is its ability to calculate a "very realistic" estimate of a patient's final amount owed, which helps eliminate additional billing, Rothstein says.

"When the insurance company adjudicates the service, it sends an exact amount to the provider, which is usually very close to the estimate. If the actual amount is higher, the provider usually makes a phone call to the patient to explain the difference," Rothstein says.

Providers pay for the service based on the size and scope of the practice. But the cost, which is over and above a typical merchant discount rate, is "much less" than the cost of collections and sending multiple bills to patients, Rothstein says.

First National Merchant Solutions launched First Paid, a rival card-based health care payments product now marketed by new owner TSYS Merchant Solutions, last year as a pilot, says Morin. The product is still relatively new, but so far "we are seeing very good success with it and a promising growth rate," he says, declining to name the total number of users or specific clients.

TSYS is looking to promote the product through relationships with medical associations, Morin says, declining to name prospects.

"We're also planning to get referrals from banks through our merchant-acquiring relationships," he says. "We are just now in the process of setting up the sales channels that will drive First Paid."

**ACH Options**

Most of the new payment systems also enable medical offices to accept checks and payments deducted from patients' checking accounts electronically through the automated clearinghouse system, but these channels are less in demand, say the systems' purveyors.

"We are offering ACH as a convenience to our customers who have been asking for it,"' says Beutner of mPay Gateway, which plans to introduce ACH to the system this spring. But he does not expect to see significant ACH payment volume. For health care providers, "taking patient payments on credit cards provides better protection and assurance of getting paid," he says.

The increased availability of third-party systems to help health care providers collect more payments through cards overall is a positive, McKinsey's Singhal says. But most of the new offerings lack the benefit of broader-scale technology that would enhance adoption and awareness.

"Widespread adoption (of the new card-based systems) is limited by fragmentation, relatively long cycle times ... and lack of consumer focus," he says.

As for how changes in health care policy might affect the growth of the new card-based payment systems, the March 2010 passage of the Patient Protection and Affordable Care Act, slated to become effective in stages over the next several years, will not alter general trends, Singhal says.

"While the expansion of coverage under reform will ease the burden of bad debt for (health care) providers, the level of cost-sharing for the products many individual consumers will purchase on the (health insurance) exchanges will remain high," Singhal says, noting "consumer-directed, high-deductible" health-insurance products likely will remain popular with employers for the foreseeable future.

The future of the law, however, is not clear as a federal judge recently declared the entire act unconstitutional. The federal Court of Appeals and Supreme Court eventually will have the final say.

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