HEALTHCARE PAYMENT FINANCING STRATEGIES:

Solving the bad debt problem for hospitals while improving patient financial experience

iVITA financial

INTRODUCTION

Hospitals are not banks. But as patient financial responsibility continues to climb, providers are having to adopt strategies from the banking world to not only protect their bottom lines but also their patients from financial hardships. Add to that a great strain on the U.S. healthcare system and economy due to the COVID-19 pandemic and we've reached a perfect storm that impacts every hospital's financial outlook. Securing the revenue cycle and operating cash is now more important than ever.

This paper will provide the information healthcare executives need to decide which payment financing strategy is the best one for their hospital and patients. Included is a summary of key healthcare consumer and financing trends and an overview of the three key financing strategies deployed by hospitals: in house payment plans, recourse lending programs and non-recourse lending programs. Primary considerations for evaluating the financing strategies include lending features desired by consumers, collection success rates and impact on hospital resources.

KEY HEALTHCARE CONSUMER PAYMENT TRENDS

One of the most significant impacts to the U.S. model of healthcare has been the shift in revenue collection from the insurer to the patient. The increasing trend toward consumerism has been reshaping how hospitals collect revenue, yet hospitals and health systems have struggled to keep pace.

Patients are the new payer – yet they don't pay as reliably

Patients are rapidly becoming a hospital's fastest growing payer class. According to the 2019 Employer Health Benefits Survey report from the Kaiser Family Foundation, more employees (82%) are enrolled in company-sponsored health plans with a general annual deductible compared to 10 years ago (63%).[1]

How much these individuals are required to pay before their coverage has also increased significantly. The report found that the average annual deductible for covered workers in a single coverage plan increased to $1,655 in 2019, representing a 36% increase over the last five years.[2] This makes patients one of–if not the single–fastest growing payer for healthcare providers.

Successful collection of patient financial responsibility is critical to managing this transformational shift in payer mix. But legacy collection strategies centered on complete and timely reimbursement from health insurance companies and the government will have to evolve to fully collect what is owed to providers.

Meanwhile, almost 40% of American adults are not able to cover even a $400 emergency with cash, savings, or credit, according to the Federal Reserve's 2018 report on the economic well-being of US households.[3] With more Americans out of work than ever before, this situation becomes even bleaker.

Even before the Covid-19 pandemic, the Centers for Disease Control and Prevention confirmed that high out-of-pocket costs for patients continue to trouble Americans. According to new data from the agency, 14% of Americans live in a household facing challenges with paying healthcare bills.[4]

Many of these individuals want to pay their out-of-pocket costs and stay out of medical debt. However, this is not a reality for many patients who lack realistic and manageable payment options for healthcare services.

Rethinking how to collect patient financial responsibility is imperative to providers in the shifting healthcare landscape. With flexible, interest-free payment plans, hospitals can mitigate the impact of patient financial responsibility on hospital revenue, while improving the patient financial experience in an era of high-deductible health plans and consumerism.

Impact of patient financial responsibility on hospital revenue

While hospitals traditionally communicated with a small group of payors to collect most of their revenue, providers are now relying more on their patients to sustain their organizations financially.

Total hospital revenue attributable to patient balances after insurance increased by 88% over a recent five year period, according to an analysis conducted by TransUnion Healthcare.[5]

These data points spell trouble for hospitals still relying on revenue collection strategies that do not account for the fastest growing payer – the patient.

iVITA financial

Attributing more of a hospital's revenue to patients, however, amplifies a hospital's exposure to bad debt. The percentage of collections on patients with account balances greater than $5,000 is four times lower than collections on patients with low-deductible health plans.[6]

It is no surprise then that hospitals wrote off approximately $617 million more as bad debt in 2018 compared to 2015, resulting in $56.5 billion in total hospital bad debt, a recent study by the American Hospital Directory (AHD) found.[7]

These data points spell trouble for hospitals still relying on revenue collection strategies that do not account for the fastest growing payer – the patient.

Hospitals relying on insurance reimbursements to fund their operations will find their bottom lines sinking fast as patients make a bigger splash on hospital revenue. However, developing more consumer-centric payment strategies will help hospitals improve key metrics, including patient bad debt and days in A/R, while improving the overall patient experience.

Designing consumer-centric payment strategies

Adapting to the new reality that patients are the new payer means adopting a new outlook and approach to patient collections. Successful hospitals will be the ones enabling patients to pay for healthcare just as they would for other large purchases – digitally with low interest rates and a long repayment term.

Patients are also demanding more consumer-centric payment methods. A 2018 survey of consumers found that capabilities such as self-service portals, simple medical bills, and more flexible payment options would not only improve their healthcare experience but also encourage them to pay their financial responsibility in full.[8]

Even in an increasingly digital world, paper appears to still be the standard when it comes to patient collections. In a recent report created by HIMSS Analytics, nearly all hospitals billed patients for their financial responsibility using paper statements. Almost half (48%) of these hospitals also reported that it takes over three months for patients to pay their financial responsibility, while about a quarter (24%) said it takes longer.[9]

As patient financial responsibility grows, improving the financial experience is becoming increasingly important for patients needing care. Kaiser Family Foundation recently found that out-of-pocket costs are stopping half of patients from seeking the care that they need, and 1 in 8 say their medical conditions have gotten worse as a result.[10]

A satisfactory patient experience also bolsters the bottom line, according to a Deloitte Center for Health Solutions analysis that found hospitals with higher patient-reported experience scores have higher profitability.[11]

Implementing modern, convenient payment methods that instill confidence in patients is key to enabling patients to receive the care they need while protecting the provider from bad debt.

KEY PAYMENT FINANCING STRATEGIES

Payment financing programs improve collections and patient financial experience

Payment financing programs such as in-house payment plans or loans through recourse and non-recourse lenders have recently drawn much interest among patients and providers.

However, fewer than 20% of respondents of the 2019 HFMA survey offered payment plans to patients.[12]

Hospitals have an opportunity to reduce patient bad debt and improve the overall patient experience by offering these plans to patients.

"Effective payment financing programs stretch out the patient's payment over time, which helps patients successfully pay their patient responsibility in full," said Chris Cox, Vice President Product & Strategy at iVita Financial.

Payment plans and loans help address the patient's biggest pain point with rising out-of-pocket costs, but there are key differences among them, Cox elaborated.

Typically, when consumers make a large purchase like a car or other large item, their available financing options largely depend on their income and credit score.

In healthcare, however, a patient's income has no bearing on their treatment protocol or eligibility to receive care.

"Patients often owe more than $1,000 in patient financial responsibility and they just don't have the income or savings to cover it all at once," Cox said, citing a recent report showing that 69% of Americans have less than $1,000 in savings.[13]

Banking is not part of a hospital's mission, which is why many organizations opt to partner to imprement patient payment financing programs.

Flexible payment plans and loans that stretch patient financial responsibility over time help patients manage the burden of high deductibles while still allowing them to pay for healthcare as they would for other goods and services.

But not all financing programs are the same, Cox stresses. To most effectively meet the financial needs of patients, financing options should offer 0% interest with long-term repayment options. Ideally, plan eligibility should not depend on a patient's credit score, and patients should also be able to access their plans online in a fully digital manner–including full support for multiple devices.

There are a variety of options for hospital executives to choose when considering an effective payment financing program for their patients. Selecting the best program will depend on a number of considerations. Below are features and benefits of the three main financing programs being considered by most hospitals today: in-house payment plans, recourse lending programs, and non-recourse lending programs.

In-house payment plans

The HFMA survey of members attending the 2019 Annual Conference found that only a few providers offered in-house payment plans and these plans were generally interest-free over terms from 4 to 24 months.[14] Developing in-house payment plans can be a resource-intensive project and capacity constraints should be considered upfront. For example, if the provider is focused on improving cash flow and has less than 30 days cash on hand, adding an in-house payment plan program could actually have a negative impact on cash flow.

At the most basic level, hospitals developing in-house payment plans should consider:

- How will the program impact cash flow?
- What are the eligibility or qualification criteria?
- What are the minimum payment amounts for qualifying patients?
- What are the policies and procedures for late payments and patients who fail to pay?
- What safeguards are in place to maintain financial information like debit or credit card numbers?
- What procedures are in place to effectively collect scheduled payments over time?
- What are the incremental labor and/or tools needed to support the program?

The plans essentially require hospitals to become banks by managing multi-million-dollar consumer debt portfolios, Cox explains. Banks and financial institutions have spent decades developing, managing, and optimizing these consumer programs and it's no easy task to replicate these capabilities at the scale and efficiency necessary to achieve a positive ROI.

Furthermore, banking should not be part of a hospital's mission, which is why many providers opt to partner to implement patient payment financing programs.

Overview of third-party financing programs

Outsourcing a patient payment financing program to a third-party partner is often a more attractive solution, as it can typically be implemented quickly without overly burdening existing resources. There are two main types of third-party patient payment financing programs: recourse and non-recourse.

Both types focus exclusively on managing patient payments, so they don't eliminate the work of the revenue cycle, but they can offload some of the burden

of collections as well as the management of receivables and bad debt. Most vendors will assume the full operation and servicing of the program, including resourceintensive duties like sending statements, payment processing, exception handling, payment method management of debit cards, checking accounts, and other payment options, and all of the typical call center and servicing functions needed to make a payment plan program successful.

Patient payment financing vendors also have the technical and operational capabilities to administer a large volume of plans effectively, yielding higher collection rates, cash flow, and, in many cases, improved patient satisfaction. But deciding on what type of vendor to partner with depends on the hospital's financial standing as well as the overall financial health of the patient population.

Selecting the right financing strategy is becoming increasingly important as patient financial responsibility continues to increase.

Recourse lending

For both recourse and non-recourse lending, patient payment financing vendors collect payments from patients on behalf of the hospital. But it is what the vendors do when patients fail to pay that sets the programs apart.

In recourse lending, non-paying patient accounts are returned to the hospital, shifting the bad debt and collections burden back to the hospital and the unpaid balance is returned to the hospital by the lender. Whereas, with non-recourse lending, the full burden of repayment remains with the lender and there is no recourse back to the hospital for unpaid balances or defaults.

Determining whether recourse or non-recourse lending is the best fit for a hospital will depend on many factors. But most importantly, the decision will depend on the financial demographics of the patient population served.

Recourse lenders rarely approve and fund all patients. Often, they require patients to have a certain credit score or minimum income to qualify, Cox explained.

"Many vendors promote attractive recourse rates, but only a small percentage of the hospital's population will qualify," he stated. "But getting qualified doesn't

mean the hospital will receive funding; recourse lenders will often withhold funding until the patients makes their first payment. Given this low qualification rate, coupled with first payment defaults, hospitals may experience minimal financial improvement."

"We recently conducted a study with a hospital where the majority of their patients were considered to have a poor financial health score," he elaborated. "These are the patients who need access to credit as patients with good financial health scores are typically able to access credit for their healthcare bills. As a provider, I would ask the recourse lenders how they qualify patients for their program, if they use credit score cut-offs to determine eligibility and if there are there any fees, finance charges or deferred interest, teaser rates, or other charges that may not be readily apparent to the provider or their patients."

Hospital executives should also consider the capabilities of their billing office and accounting processes when deciding on recourse or non-resource lending programs.

From an accounting perspective, in the recourse lending model, hospitals must book a portion of payments from recourse plans as a contingent liability. The contingent liability covers the hospital in the event a patient does not pay, and the receivable is transferred back to the hospital.

Hospitals experiencing below-average collection rates and billing operations with limited capacity will face challenges in booking revenue from recourse plans due to this contingent liability.

Accordingly, there must be a reconciliation process between the recourse lender and the provider when a loan is in default and is returned to the provider for reimbursement. "This reconciliation process is one the most commonly cited pain points for CFOs who have tried recourse lending programs," Cox explained.

Finally, one point to consider is that recourse lenders primarily work with investment-grade hospitals, as the recourse lenders will want assurances that the non-payment amounts will be returned, Cox added. "This re-directs many hospitals who need financial assistance to consider non-recourse lending."

Non-recourse lending

As mentioned above, non-recourse lenders manage the patient account for the entire lifecycle until the account is resolved and will bear the full risk of non-payment and default. Likewise, there are many factors to consider when partnering with a non-recourse lender.

First, while a recourse loan favors the lender as they have recourse to the hospital for non-payment, a non-recourse loan favors the provider – and the patient, as the lender assumes the full risk of non-payment including default. Partnering with a non-recourse lender can provide a better overall experience for patients since the lender works with each patient throughout the lifecycle to enable them to ultimately successfully pay off their patient balance, even if they miss a payment along the way, Cox explained.

"Recourse lenders effectively take on less non-payment risk because if the patients fail to pay, the lender will return the unpaid amounts to the hospital," he said. "The incentive to build and maintain a relationship with the patient and work with them to successfully pay simply doesn't exist."

While a recourse loan favors the lender, a non-recourse loan favors the provider – and the patient.

"For a non-recourse product, it's death do us part," Cox stated. "It is in the non-recourse lending company's best interest to maintain a white glove servicing effort with the borrower base to increase the chance of collection and maintain a reputation of being a patient-friendly lender. It only takes one bad patient experience to hurt a lender's brand in the healthcare community."

In addition, many hospitals are familiar with the effect a bad financial experience can have on their patient satisfaction surveys, despite an otherwise great encounter. Having the patient engage with a separate company for their payment financing helps the patient relate to the hospital brand purely on the clinical aspect of their experience.

Second, non-recourse lending provides immediate resolution and funding of the patient's liability, which is not necessarily the case with either in-house payment plans or recourse-lending programs.

In the current economic environment, cash acceleration is more important than ever which makes nonrecourse lending even more attractive. Unlike recourse lending, the funds received are not encumbered in any way. For many hospitals, this accelerated cash flow can be especially beneficial to maintain their operations and support cash collection goals.

While the provider pays the non-recourse vendor a fee in support of each loan the amount, when compared to the overall cost-to-collect, including non-repayment of patient balances, early-out vendor fees, collection agency fees, or the cost to manage an in-house payment program, can be significantly less. Ultimately, implementing a non-recourse lending program would help a provider reduce its accounts receivable as well as the percentage of patient accounts that are written off as bad debt.

Third, as with the recourse lenders, it's important to understand the non-recourse lender's participation requirements. The same questions should be asked relative to credit scores, minimum income requirements, and any other criteria to qualify. Since non-recourse lenders assume the full credit risk, many may offer programs tailored to specific patient population demographics. As with all patient payment financing programs, it's important to understand the financial health of the population the provider is trying to serve. One method of non-recourse lending is to offer patients a healthcare line of credit. This provides the patient with access to a line of credit that can be used not only for their current encounter but also for ongoing care.

Such line of credit offerings can be established with a patient or patient guarantor and made available to members of their entire family. Guarantor-level lines of credit can help reduce patient leakage within the hospital or health system and increase patient satisfaction. Of course, this ongoing relationship between the non-recourse lender, the patient, and the provider requires high-quality customer care for the patients that are using and reusing the line of credit.

Lastly, non-recourse lending is also a good option for hospitals that do not have the capital for contingent liability necessary in a recourse lending program. Hospital operating margins are improving, but research shows that margins are still 30% below 2015 levels.[15]

For these reasons, using a non-recourse lender offering a line of credit that can immediately reduce days in A/R, improve cash flow and improve patient satisfaction is often the preferred choice for many hospitals.

CONCLUSION

Patient financial responsibility and consumerism are here to stay. Fortunately, hospitals now have many more options to help their patients manage their new role as payers without having to become a bank.

Payment financing options are an ideal way to support patients by providing a consumer-centric approach to healthcare payments. Financing options also improve the hospital's bottom line, reduce patient bad debt and improve collection rates.[16]

Hospitals should consider their patient populations through a credit lens as they delve into payment plan implementation. In-house and recourse payment programs provide some hospitals, particularly those with more sophisticated billing offices, the opportunity to work with patients to reduce their medical debt, while non-recourse lending programs are ideal for hospitals looking for a program that requires less administration and reconciliation, improves cash flow, and supports most of their patients with financing options.

Patient financial responsibility and consumerism are here to stay. Fortunately, hospitals now have many more options to help their patients manage their new role as payers without having to become a bank.

Non-recourse payment plans make back-end reconciliation processes easier after claim adjudication and ensure patients receive the professional support they need to not only pay for care, but feel confident accessing it when they need it.

So which financing option is the best fit for your hospital? While each plan serves a purpose, consider the option that will allow the greatest number of patients to qualify and participate and will maximize the overall collection yield on patient balances, while minimizing hospital resources to implement and administer. The non-recourse lending option often offers the best fit for many hospitals to augment the goals of revenue cycle departments seeking to improve cash collections and patient satisfaction.

About iVita Financial:

iVita Financial is impacting the patient finance world by helping patients pay for their healthcare bills while helping providers increase their cash flow and improve patient satisfaction. Our zero interest, non-recourse lending program helps health systems improve their financial performance so they can focus on what they do best: deliver quality care. Backed by a global private equity firm, partnered with a large bank, and led by seasoned industry executives, iVita Financial is uniquely positioned to help hospitals and health systems transform the way they approach patient payments and improve operating margins.

iVITA financial

Endnotes

1. Claxton, G., Rae, M., Damico, A., Young, G., McDermott, D., & Whitmore, H. (2019). 2019 Employer Health Benefits Survey. Kaiser Family Foundation. Retrieved from https://www.kff.org/health-costs/report/2019-employer-health-benefits-survey/

2. Ibid.

3. Board of Governors for the Federal Reserve. (2019). Report on the Economic Well-Being of U.S. Households in 2018. Retrieved from https://www.federalreserve.gov/publications/2019-economic-well-being-of-us-households-in-2018-preface.htm

4. Cha, A. E., & Cohen, R. A. (2020). Problems Paying Medical Bills, 2018. National Center for Health Statistics at the Centers for Disease Control and Prevention. Retrieved from https://www.cdc.gov/nchs/data/databriefs/db357-h.pdf

5 TransUnion Healthcare (2018, June 26). Patient Balances After Insurance Continue to Increase in 2018, Driving Bad Debt and Uncompensated Care. Retrieved from https://www.globenewswire.com/news-release/2018/06/26/1529420/0/en/Patient- Balances-After-Insurance-Continue-to-Increase-in-2018-Driving-Bad-Debt-and-Uncompensated-Care.html

6 Crowe Horwath LLP (2017, March 29). Hospitals should consider the impact of high-deductible plans on revenue. Retrieved from https://www.crowe.com/news/rca-q4-2016

7 Shoemaker, W. (2019). Bad debt expense benchmarks: U.S. acute care hospitals show improvements since 2015. Healthcare Financial Management Association. Retrieved from https://www.hfma.org/topics/hfm/2019/october/bad-debt-expensebenchmarks-us-acute-care-hospitals-show-improvements.html

8. Connance (2018, October 10). New Industry Survey Highlights Transformation Between Providers and Patients During the Financial Experience. Retrieved from https://markets.businessinsider.com/news/stocks/new-industry-survey-highlights-transformation-between-providers-and-patients-during-the-financial-experience-1027603758

9. Waystar (2018, May 3). Waystar™ Releases Second Annual Patient Payment Check-Up™ Survey. Retrieved from https://www.businesswire.com/news/home/20180503006005/en/Waystar%E2%84%A2-Releases-Annual-Patient-Payment-Check-Up-%E2%84%A2-Survey.

10. Kirzinger, A., Muñana, C., Wu, B., & Brodie, M. (2019). Data Note: Americans' Challenges with Health Care Costs. Kaiser Family Foundation. Retrieved from https://www.kff.org/health-costs/issue-brief/data-note-americans-challenges-health-carecosts/

11. Betts, D., Balan-Cohen, A., Shukla, M., & Kumar, N. (2016). The value of patient experience Hospitals with better patient-reported experience perform better financially. Deloitte Center for Health Solutions. Retrieved from https://www2.deloitte.com/content/dam/Deloitte/us/Documents/life-sciences-health-care/us-dchs-the-value-of-patient-experience.pdf

12. Healthcare Financial Management Association & Parallon. (2019). Analyzing pre-payment and point-of-service collections efforts. Retrieved from https://www.hfma.org/topics/hfm/2019/november/analyzing-pre-payment-and-point-of-service-collections-efforts.html

13. Huddleston, C. (2020, January 29). Survey: 69% of Americans Have Less Than $1,000 in Savings. Retrieved from https://www.gobankingrates.com/saving-money/savings-advice/americans-have-less-than-1000-in-savings/

14 Healthcare Financial Management Association & Parallon.

15 Weist, J., Goldsmith, J., Hunter, A., & Mayes, M. (2019, October). Analysis: Health System Earnings Rebounded in 2018 but Remain Well Below 2015 Levels. Retrieved from https://guidehouse.com/insights/healthcare/2019/health-system-earnings-rebounded-in-2018

16. Solomon, J., & Lessard, L. (2016). CarePayment Program Hospital Outcomes: Results from Semi-Structured Interviews with Hospital Staff. Journal of Health Care Finance, 42(4). Retrieved from https://healthfinancejournal.com/index.php/johcf/article/view/66

iVITA financial

What is the best payment financing strategy for your hospital?

Rethinking how to collect patient financial responsibility is imperative to providers in the shifting healthcare landscape. Hospitals can mitigate the impact of patient financial responsibility on hospital revenue with a variety of financing strategies. See the table below for a comparison of the three main strategies hospitals are considering today.

Program	Collection Results	Hospital Resources	Best Fit Hospitals	Program Pros	Program Cons
Payment Plans	$		• Available cash • Highly capable billing office • Average to above average collection rates	• Offers patients consumer-friendly option for bill payment, can improve cash collection over time	• Manual process • Initial negative impact on cash collections because of slow pay model • Requires staff resources and highly capable billing office with resources to administer the program
Recourse Lending	$ $		• Somewhat sophisticated billing offices • Enough capital to manage contingent liability • Average to above average collection rates	• Higher cash collection success rates than payment plans • Assumes some operational functions • Lower fees versus non-recourse lending	• Hospitals must work with patients to offer payment plans through the lender • Hospitals take back non-paying accounts • May implement credit limits to keep recourse rate low • Interest Charges likely • Contingent liability
Non-recourse Lending	$ $ $		• Limited capital for contingent liability • Below-average collection rates • Billing operations with limited capacity • High percentage of patient bad debt • High performing hospitals seeking to implement a lending program	• Higher cash collection success rates than payment plans • Assumes all operational functions • Lender manages all patient accounts • Resolution of the patient's liability within days after discharge • Can extend healthcare line of credit to future services • Can immediately improve cash flow	• Higher fees versus recourse lending • Patient must pass underwriting criteria based on their income and amount owed

Contact iVita Financial today to discuss non-recourse patient payment financing options for your patient population or to request a data study identifying the financial improvements that can be gained with a non-recourse lending program. iVita Financial provides zero interest, non-recourse payment plan programs that can grow with patients as they need care and can improve hospital balance sheet performance through algorithm-driven underwriting.

iVITA financial