Patient Payment Optimization

Practical considerations for optimizing patient payment processes and performance.
When attempting to improve patient payment processing and collections, there are a number of challenges that healthcare provider organizations can face, including:

- **Technical challenges** in adding, integrating and improving transactions processing to better meet the needs of patients and consumers, often in complex environments and with disparate systems.

- **Operational challenges** in improving patient collections and revenue cycle workflows, improving “the ask” (i.e., knowing when and how to request payments) and improving customer experience in billing and collections.

- **Strategic challenges** impacting business plans, information technology implementations, bond ratings and other key organizational initiatives.

Revenue cycle, patient accounting and collections make up the financial engine of a healthcare provider organization—and payment processing is the fuel. Payment optimization initiatives can deliver tremendous value, helping healthcare systems compete in rapidly evolving and uncertain markets. And as patient payments increase as a percentage of net patient revenue, the ability to optimize patient collections and drive payments earlier in the process will take on even greater importance.
Trends and Challenges Impacting Patient Payments

When it comes to increased patient responsibility, there are a number of implications that healthcare providers should take into account, including:

**Patient payment volumes:** There has been an almost 200 percent increase in patient payment volumes—and over 300 percent growth in automated payments—between 2011 and 2014, with mobile payments expanding to more than 11 percent of all patient volumes. Since 2013, there has also been an 11 percent increase in the average ticket price, which now reaches almost $150.1 And patient payment volumes and dollar amounts will likely continue to grow, challenging healthcare providers to give their patients access to improved payments, pricing, billing and collections services.

**High-deductible health plan (HDHP) risks:** A 2015 Becker’s Hospital CFO article outlined the risks of HDHP plans for providers: “According to the National Center for Health Statistics, 36 percent of Americans under the age of 65 with private health plans are enrolled in an HDHP, and only one-third of those consumers are enrolled in plans linked to health savings accounts. With the out-of-pocket costs for patients increasing due to the popularity of HDHPs, and with so few purchasers taking advantage of savings plans, the risk of bad debts and charity care increases for healthcare providers.”2

As the percentage of HDHP patients rises, climbing deductibles could strain patient finances—which means that providers will need to focus on improving collections methods, billing practices and patient payment optimization.3

As patient payments increase as a percentage of net patient revenue, the ability to optimize patient collections and drive payments earlier in the process will take on even greater importance.

<table>
<thead>
<tr>
<th>Deductible Size</th>
<th>Propensity to Pay</th>
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<tbody>
<tr>
<td>$500-$999</td>
<td>68%</td>
</tr>
<tr>
<td>$1,000-$2,000</td>
<td>62%</td>
</tr>
<tr>
<td>$2,001-$3,500</td>
<td>61%</td>
</tr>
<tr>
<td>$3,501-$5,000</td>
<td>50%</td>
</tr>
<tr>
<td>$5,001-$6,350</td>
<td>36%</td>
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*Source: Advisory Board interviews and analysis.*

**Why focus on patient payment optimization?**

1. Patient payments are growing due to the increasing popularity of HDHPs.
2. Rising healthcare costs are passed directly to patients, consumers and employees.
3. As healthcare grows more expensive, HDHPs have become a popular way to keep monthly insurance costs stable.
4. The Affordable Care Act (ACA) has increased the number of newly insured patients, a population that has largely embraced HDHPs.

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Patient Payment Optimization Methodology

There are four steps to consider as part of a comprehensive payment optimization plan:

1. **Evaluate the current situation:** Where are we now?
2. **Set clear goals:** Where do we want to be?
3. **Assess the value of change:** Why are we changing, or where is the inertia for change?
4. **Establish key initiatives:** How are we going to get to where we want to go?

Each stage of the optimization plan can then be divided into three levels: payments, processes, and performance.

**Payments**
Optimize the use of all payment types—including the introduction of payments made via the Web, at the point of sale (POS) and via mobile platforms—that are faster and cheaper for patients than mailing payments. You may also want to consider offering ACH payments instead of credit card payments. Successful organizations should strive for comprehensive goals, such as making all payment outlets, payment types and tender types available at any time for any account, including one-time or recurring payments, payment plans, and patient financing.

**Processes**
Process optimization includes two key steps: First, integrating systems (including patient accounting modules, image archiving solutions and patient portal applications), and second, workflow optimization of posting, reconciliation, compliance, reporting, and analysis.

**Performance**
How do payment processes impact financial performance, cost savings and operational efficiencies? What is the value of change and the return on investment (ROI)? How have improved payment processes impacted business plans and strategic initiatives?

**LEVEL I. PAYMENTS: OPTIMAL PAYMENT OUTLETS AND TYPES**

**Common payment types include:**

- **Point of sale (POS):** Includes payments made via cash, check, credit card, payment plans or patient financing
- **Web:** Includes e-checks/ACH, credit card, payment plans, patient financing or any payment made via:
  - Patient portals
  - Websites
  - Online bill pay platforms
- **Phone:** Includes payments made via credit card, payment plans or patient financing
- **Mail:** Payments made via check or credit card
- **Mobile:** See “Mobile Payments” box on the next page for more
- **Payment plans:** Patients set up recurring payments via credit card or ACH/direct debit
- **Back office**, which includes:
  - Check scanning
  - Lockbox solutions
  - Customer service representatives who use Web payment tools, payment plans and/or patient finance
  - Interactive voice recognition (IVR)
  - eVault/SmartSafe solutions for cash
- **Other**, which includes payments made via:
  - Kiosks
  - Non-healthcare locations (e.g., gift shops, cafeterias)
  - Donations
If younger HDHP patients don’t have the payment outlets and methods that they want, or if providers don’t offer payment plans or patient financing for customers with high balances, financial performance will likely suffer.

MOBILE PAYMENTS
Why dig deeply into mobile payments? Mobile payments are fast becoming more common, and your largest demographic of patients with high patient responsibility and HDHPs will likely be looking to pay via mobile channels.

Percentage of Mobile Payments

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
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<tbody>
<tr>
<td>2011</td>
<td>2%</td>
</tr>
<tr>
<td>2012</td>
<td>5%</td>
</tr>
<tr>
<td>2013</td>
<td>9%</td>
</tr>
<tr>
<td>2014</td>
<td>11%</td>
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</table>

Source: InstaMed

Why “Responsive Web” Is a Requirement
- Websites need to render on all devices: desktop computers, tablets, phones, kiosks, etc.
- The billing modules on websites and patient portals need to render on all devices in a patient-friendly format

Mobile Payment Types
Payments via mobile websites and patient portals, including:
- Tokenization (the substitution of data with a token, or a unique ID)
- eBills sent either directly or via online banking portals
- Payments made by email or via text messaging
- Payments built into mobile apps (e.g., patient portal apps), which can include payment plans and patient financing

For building out payment outlets and types, optimization goals should:
- **Provide all requisite payments types**, including:
  - Tender types (e.g., checks, cash, credit cards)
  - Payment outlets (e.g., Web, mail, mobile apps, kiosks, smartphones)
- **Plug payment gaps.** Consider asking the following questions when evaluating all the gaps in your payment chain:
  - Are all payment types available everywhere they’re needed?
  - Have all payment types been integrated into all required systems and modules?
  - Which missing payment types are the most necessary?
  - What payment types do you need to plan for in the near term vs. the long term?
  - How can payments be integrated (or better integrated) into workflow, systems and third-party applications?
  - Can new payment types be introduced into new and existing environments, as well as into other parts of the organization?
  - How does corresponding payment data feed your patient accounting system, image archive, general ledgers and enterprise resource planning?

- **Meet the payment needs of “patients as customers.”** Customer satisfaction is not just an indication of clinical outcomes and success; it also reflects satisfaction with the business side of healthcare, from pricing and billing to collections and payment processing. If younger HDHP patients don’t have the payment outlets and methods that they want, or if providers don’t offer payment plans or patient financing for customers with high balances, financial performance will likely suffer.
LEVEL II. PROCESSES: OPTIMIZING PAYMENT PROCESSES

Once all payment types have been implemented (or are at least planned), it’s time to start thinking about how you can optimize their use. What processes can be impacted by payment processing?

Optimization of Payment Types and Outlets
Think about encouraging your patient-customers to use preferred payment types. For example, when setting up payment plans, can patients be incentivized to pay via ACH or direct debit instead of by credit card? There are definitely potential cost benefits of ACH payments compared to the interchange rate on credit card payments.

You should also consider encouraging preferred payment outlets. For example, if 60-day-old mailed paper payments or customer service phone calls can be replaced by better, faster and cheaper Web payments, what would it take to move toward these outlets, and how could you market and incentivize patients and staff to use these preferred payment outlets?

Outlet-Specific Process Optimization
From registration paperwork, eligibility verification and fee estimation to propensity to pay calculations, address verification and statement preferences, a great deal happens at the POS. The POS process should have payment processing capabilities integrated into the workflow in order to effectively accept any payment type, via any outlet, at any time.

Digital payments cover everything from payments made via websites and patient portals to payments made via mobile apps and online bill pay platforms. Providers often offer patients the option to pay via only one or two Web methods, when there can be good justification for using every available outlet. For example, when provider organizations introduce a new patient portal, this often becomes the only way for patients to pay online—these patients, however, may be reluctant to establish an account or download the app required by the portal. The wide variety of digital payment options made possible through websites, Web portals, online bill pay services and mobile devices will challenge providers to integrate payments across every system in ways that improve workflow.

Direct mail and coupons should tout faster and cheaper ways patients can pay compared to sending payment through the mail. Likewise, patient statements should reflect a concerted marketing effort to:

- Emphasize preferred payment options and outlets
- Guide patients to use optimal forms of payment earlier in the process—whether at the POS, via phone or online—instead of relying on mailed statements
- Encourage more cost-effective payment types, like ACH or direct debit

Patient Collections
From pricing to billing, make sure all requisite payment types are supported and integrated into your systems, whether POS, patient portal or website.

IT Optimization
How do payment processes impact the efficacy of IT systems? Often, payment processing is an afterthought in the implementation of IT systems. Do your payment outlets provide your accounting and finance teams with the tools necessary to seamlessly collect, post and reconcile payments, while also creating a positive patient experience?

Control Environment
All payment types require thorough compliance and controls, including those around data security, cybersecurity and fraud protection. They should also help make the auditing process faster and cheaper. And remember: You are only as strong as your vendor’s weakest subcontractor. Who ultimately controls your data, connectivity and transaction processing, and what are the implications for controls and compliance? Make sure that third parties such as transaction processors, bank treasury services providers and merchant services providers improve the control environment, not hinder it.

Reporting, Dashboards and Analytics
It’s important to get visibility into the performance of your payment processes. In addition to tracking and reporting on your internal metrics, make sure that your vendors supply you with the data, reports and visibility you need and want.

Benchmarking
When setting and evaluating internal benchmarks, make sure to consider the before and after effects of a payment optimization initiative. For external benchmarks, evaluate whether you can measure payment optimization initiatives against the industry average or best practice metrics.
CHALLENGES WITH ASKING FOR PAYMENT

While this white paper is focused on patient payment optimization, there are issues related to asking for payment that can be part of a patient payment optimization initiative. A few things to consider to improve the process of asking for payment (“the ask”):

Can you make the ask?
Sometimes provider organizations are not in a position to ask patient-customers for payment because they don’t know what to charge yet. Consider these key questions:

- Can you arrange for future payment? In other words, can you put a credit or debit card on file and process the payment once you know how much to charge?
- Do you have the information required to collect a small initial payment? Collections rates dramatically increase when a patient participates in a financial transaction early in the collections process.
- While you may not be able to estimate payment with 100 percent accuracy pre-service or pre-encounter, can you estimate payment within 15 to 20 percent accuracy, and then begin the collections process sooner?
- Do you offer flexible payment arrangements for patients across multiple service areas and obligations? Can patients pay any account, at any outlet or any point in time in the collections process?

How can you improve the ask?

- Can you effectively train staff to improve the ask, or even incentivize staff to go through a payment protocol?
- Do you leverage patient obligation tools? These include:
  - Eligibility verification tools for copays, deductibles, year-to-date deductible balances, etc.
  - Fee estimation capabilities
- Do you have a way to predict propensity to pay? Consider making a scorecard using this equation: Fee estimation + data on payment likelihood = propensity to charge
- Do you produce patient-facing patient obligation information, complete with eligibility and fee estimation data?
- Can you address payment during scheduling, pre-registration or at registration?

LEVEL III. PERFORMANCE: IMPACT OF PATIENT PAYMENT OPTIMIZATION INITIATIVES

The goal of patient payment optimization is to improve key performance metrics, including:

1. Financial Performance
Payment optimization initiatives, such as adding payment types and integrating improved payments into collections workflow, can have a profound impact on financial performance. Make sure you evaluate the impact on specific financial performance metrics such as revenue, collections, costs, days accounts receivable (by patient type, payer type, etc.) and reduced write-offs. For example, how might moving from 60-day-old mailed payments to 30-day-old electronic payments impact your cash flow? Can revenue leakage be mitigated by encouraging patients to make payments as soon as possible? What are the cost-benefits and ROI of optimization projects, especially if they include the addition of third parties or outsourced solutions?

2. Operational Efficiencies
Consider the impact on operational performance metrics, including electronification rates (e.g., elimination of checks and patient coupons in favor of electronic payments) and automation rates (e.g., autostoring to patient accounts, autoreconciliation of bank deposits to patient accounts and autostoring to the general ledger) and people or full-time equivalent (FTE) time. Have electronification and automated payments lowered FTE processing times? Not only does less time mean cost savings for your organization, but spending less time on lower value processes can allow the reallocation of resources to more valuable processes.

3. Patient and Customer Satisfaction Rates
Billing and collections, and the subset that is payment processing, are increasingly important parts of patient and customer satisfaction rates. How do payment optimization initiatives directly impact customer satisfaction? How does this impact your ability to compete?

4. Business Plans, and New Business and Payment Models
The retailization and consumerization of healthcare are key trends that have healthcare provider organizations competing with big box retailers, retail pharmacies and urgent care clinics. Do payment processes support this move toward retail, consumer-oriented businesses? Consider your experience as a consumer with other large retailers and the differences between engagement in retail and Web transactions versus those of a traditional healthcare organization. What other business and payment models require updated payment types or transaction processes—and what does your organization need to do to plan for these?
5. Bond Ratings
Ratings agencies have recently started informing healthcare provider organizations that as the patient responsibility percentage of total revenue increases, their expectations for a healthcare provider’s ability to collect or address this trend will become an important aspect of receivables management, ultimately affecting bond ratings. According to the Advisory Group, self-pay as a percentage of net patient revenue has increased from less than 1 percent historically to more than 8 percent in 2015, and bond rating agencies are now considering the ability to address this revenue category in their performance ratings. Effective payment optimization can demonstrate more than just competence in this area—it can positively impact the bottom line and overall success of the business.

Example Patient Payment Optimization Initiatives
Payment optimization can be a daunting task. You want comprehensive and robust plans to add payment types, improve workflow and processes and significantly impact performance. But while there are numerous payment types, processes and performance metrics that you can consider, you may also want to distill this process down to several key initiatives that have optimal impact.

Healthcare provider organizations might have shorter-term initiatives, e.g., “2016 Key Initiatives,” or longer-term plans, e.g., a “2020 Plan.” But for each payment optimization initiative, you should be able to clearly articulate a business case or justification for the initiative with the following:

• Current situation
• Objectives and goals
• Value of change

EXAMPLE INITIATIVES

Revenue enhancement initiative

For payments:
• Add missing payments, e.g., online bill pay, more payment types in clinical settings, more Web payment options, compatibility with mobile payments, etc.
• Plan to address:
  − Gaps and deficiencies in mobile payment
  − Website and payment module responsiveness on smartphones and tablets
  − Tokenization
• Focus attention on better, cheaper payment channels, e.g., Web and mobile
• Add solutions like payment plans and patient financing in certain settings to certain patient demographics
• Integrate more payments into a few key third-party modules, e.g., propensity to pay, payment portals, pre-registration and scheduling

For process and workflow improvements:
• Understand and address the sources (missing payment types, inadequate “asks” at the POS, lack of information when patient is present, etc.) of revenue leakage
• Focus on credit card versus ACH payment processes
• Put a spotlight on financial performance metrics
• Improve the ask—arm your staff with the information they need to give payment counselors more payment options to present to patients/consumers, and give staff incentives to get a payment or make payment arrangements

For performance metrics, goals and value, look at:
• Growing revenue
• Reducing days accounts receivable
• Lowering write-offs
• Implementing cost savings
Operational efficiencies initiative

For payments:
- Promote electronic transactions that can automatically post instead of manually processed paper transactions
- Outsource payments or embed payment processing in third-party applications (if in-house payments are manually processed)

For process and workflow improvements:
- Improve posting and reconciliation processes
- Achieve control environment enhancements (including data security, cybersecurity and fraud protection improvements and solutions)
- Improve reporting, dashboards, and visibility into performance
- Implement benchmarking: internal project benchmarks (“before and after”) and external peer benchmarks (if possible)

For performance metrics, goals and value, look at:
- Reducing people time on lower value processes (e.g., check processing and payment posting) in favor of people time on more valuable processes (e.g., exceptions management)
- Improving electronification and automation
- Lowering the cost of compliance audits

Customer satisfaction initiative

For payments:
Expand satisfaction criteria to include billing, collections and payments processes
Provide all the payment types that patient-consumers demand
Promote the ability to pay any way, any time and via any outlet

For process and workflow improvements:
- Be transparent about price whenever possible
- Simplify billing and collections processes

For performance metrics, goals and value, look at:
- Improving customer satisfaction ratings related to pricing, billing, collections and payment processing
- Impacting your ability to compete on the business side, not just in the clinical aspects of patient and customer satisfaction

Patient collections initiative for bond rating agencies

For payments:
- Demonstrate that all the payment types that patient-consumers demand are offered
- Exhibit expertise in payment processing, billing, collections

For process and workflow improvements:
- Demonstrate that you are meeting consumer needs by plugging payment gaps and improving collections processes
- Clearly describe revenue cycle, patient collections, billing and other process improvements down to the payment optimization plan level

For performance metrics, goals and value, look at:
- Demonstrating impact on customer satisfaction ratings related to pricing, billing, collections and payment processing
- Highlighting initiatives that impact revenue, efficiencies, control environment, reporting and benchmarking

Conclusion

As patients grow accustomed to their new responsibilities as healthcare consumers, they will increasingly see themselves as customers—and you should see them that way, too. Providers will be challenged to improve customer service in addition to providing quality care. Expanded payment options are a key avenue for ensuring convenient, accessible care for your patient-customers. And provider organizations that take on a few key patient payment optimization initiatives—ones that are focused on financial performance, operational efficiencies, customer satisfaction, and compliance and controls—stand to profoundly impact their revenue and patient collections, working capital, operations and customer satisfaction, as well as their own ability to compete.
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Jeffrey Eyestone and Matthew Rozen are Executive Directors and Healthcare Solutions Specialists with J.P. Morgan Treasury Services. They have over 35 years of combined experience in healthcare information technology, consulting, revenue cycle process improvement, product management and treasury services.

Eyestone and Rozen work with the nation’s largest healthcare provider organizations, payers, national labs and pharmacies to integrate payment processing into their systems and workflows, optimize payment transaction processes, and help drive key financial and operational performance metrics.

Eyestone and Rozen are experts in revenue cycle, patient and payer payment processing, and healthcare system and workflow improvement—especially as these processes leverage bank solutions, including solutions from Treasury Services and Merchant Services.