Patient Refund Optimization
Practical considerations for improving the patient refund process.
The volume of patient refunds is up considerably. This warrants attention in an effort to lower costs, improve patient and customer satisfaction, and improve workflow. The rise in patient refund volume is primarily due to the rise in patient obligation (the rise in the percentage of revenue collected from patients and the rise in the volume of patient payments) as well as the challenges associated with billing patients accurately.

A patient refund process optimization initiative can address a number of challenges, including:

**Costs**
- Check printing and mailing is not the only cost: Lost credit card interchange fees, escheatment, staff time and more can make the refunds process an expensive disbursement type. Refunds can also lead to significant call center or customer service inquiry volumes, which can increase costs considerably.
- Accounts Payable (A/P) staff time and check printing costs—which have historically focused on higher dollar, lower volume business-to-business (B2B) checks—may be more expensive than consumer- or patient-focused business-to-consumer (B2C) payments that are often higher volume, lower dollar amount checks.
- New payment types can reduce the cost of refunds by lowering check volume in favor of payments that cost less per transaction and do not escheat.

**Technical Challenges**
- Refunding to the original payment method (e.g., crediting back to credit cards) can be challenging given technical limitations depending on the configuration of IT systems and payment gateways in use.
- Integration of refund processing with patient portals and web payment portals can be challenging.
- Storage of customer or patient payment data in case there is the need for a future refund can present many challenges, including additional regulatory requirements.
- Less-than-perfect data quality during patient registration often leads to downstream challenges when issuing statements, patient communications or patient refunds. One data integrity mantra—“manage data quality at the point of submission”—certainly applies to operations with higher patient refund volumes.
- New technologies (e.g., new transaction types and batch mode processing) come with technical challenges like system integration.

**Operational Challenges**
- Electronification and automation of paper-based, manual processes, including:
  - Batch mode refund processing (versus refunds processed one at a time).
  - Auto-posting and payment reconciliation in the patient accounting system (PAS) and the general ledger (G/L).
- Multiple departments and disparate systems are involved: Often the patient accounting department and PAS need to inform accounting or accounts payable (A/P) about who is due a refund, and then, once the refund is processed, both the PAS (in patient accounting) and the G/L (in accounting or A/P) need to record the refund.
- Not only is escheatment expensive, it is a major operational challenge that can add manual steps to delivering and recording refund payments.
- Compliance and the control environment (e.g., fraud protection on refund disbursements) is always a concern.

**Strategic Challenges**
- Refund optimization is really a two-step process with two compelling cost-benefits:
  - Refund payment optimization: How can healthcare provider organizations pay out refunds more efficiently and cheaply? Refund minimization: How can healthcare provider organizations greatly reduce the amount of refunds generated in the first place?
- This white paper primarily focuses on refund payment optimization, which can form the basis for taking on refund minimization as a follow-up initiative. Healthcare provider organizations should consider tools and services that leverage better fee estimation, patient eligibility inquiries and patient obligation calculators in an effort to bill more accurately and reduce the overall number of refunds. But this white paper proposes efforts to improve the refund process once refunds are due.
- Refund optimization initiatives should be aligned with patient- and customer-satisfaction initiatives. Just as billing accuracy and price transparency are important components of customer satisfaction, so too is a smooth and easy-to-understand refund process.
WHY FOCUS ON PATIENT REFUND OPTIMIZATION?

- Patient refunds are expensive, and there is a good cost-benefit to updating refund processes.
- There are newer, improved refund processes and payment types:
  - Processes: batch-mode refunds back to credit cards, refund capabilities of payment portals, check printing outsourcing.
  - Payments: pay-by-email, pay-by-text.
- Patient refund optimization can impact customer service inquiry volumes and improve customer satisfaction.
- Due to the growing prevalence of high deductible health plans (HDHPs) and the increased need for estimation/eligibility/patient obligation technology and services, many providers are seeing spikes in their patient refund check volume as providers try to collect earlier in the revenue cycle. Patient refund optimization can be a precursor to initiatives that focus on refund volumes and help to lower the number of refunds that are necessary.

Patient Refund Optimization Methodology

The J.P. Morgan payment optimization methodology looks at:

- **Payments:** all the requisite or available payment types
- **Processes:** a deep level of process improvement
- **Performance:** optimizing payments and processes should have a demonstrable impact on financial performance and operational efficiencies—delivering a clear benefit and return on investment (ROI)
- **Plans/projects:** considerations for payment optimization projects

**Payments**

Refund payment optimization means using the optimal payment type for any given refund:

- **Refunds to credit cards:** Refunding via the original payment outlet, using automated or batch-mode processes if possible, usually means putting credits back on credit card payments. If healthcare providers currently cut checks for all refunds, they are losing all credit card transaction fees and interchange (two to three percent of the original payments made via credit card) that they could be recovering, at least in part, as a result of credits back on credit cards.
- **New payment types for refunds:** There are noncheck refund types for any payment that cannot go back on a credit card. Instead of printing and mailing checks, some of which will eventually escheat, all of which can be costly, consider these new payment types:
  - Pay-by-email solutions—for patients or customers whose email addresses are available.
  - Pay-by-text solutions—for patients or customers whose email addresses are not available but whose cell phone numbers are available.
- **Checks:** As a third option, refunds can be disbursed via check and mailed to any patients who do not want to receive an electronic form of payment.
- **Prepaid debit cards:** Some providers have been issuing patient refunds via prepaid debit card as well.

**Process Improvement**

There are numerous process improvements and efficiencies that result from patient refund optimization:

- **Electronification**
- **Automation**
- **Posting or recording refund payments in the PAS and G/L**
- **Fewer escheated items**
- **Less staff time on the refund process**
- **Better compliance and controls, improved fraud protection**
- **Potentially lower customer service inquiry and call center volumes**
Performance
There is the opportunity for a significant cost-benefit as a result of patient refund optimization. J.P. Morgan has a refund process improvement cost-benefit calculator for use with clients evaluating the performance impact of improved refunds processing.

COSTS
- Check printing and mailing costs
- Staff time (FTEs)
- Escheatment
- Phone support and customer services costs, which can be expensive in support of refunds

BENEFITS
- Lower check volumes in favor of cheaper transaction methods and a reduction in escheated items can mean much lower costs
- Outsourcing check printing can be cheaper than in-house printing and mailing
- Recovered credit card fees (interchange)
- Less staff time with more automation

Example Patient Refund Payment Optimization Initiative
An example patient refund payment initiative could include three key components:

1. Automation of credits back to credit cards in batch mode. Consider the technology available with either the merchant processing payment gateway, the patient portal or the payment portal. Can either support daily batch-mode processing of refunds back to credit cards?
2. New payment types that can reduce check volumes: pay-by-email and pay-by-text.
3. Outsourcing of check printing and mailing processes.

Conclusion
Patient refunds are expensive and time-consuming, but there are new payment types and processing improvements that can have a significant impact on costs and even patient/customer satisfaction. A patient refund payment optimization project will consider new payment types, better payment processes and the cost-benefit of making these refund process improvements. Healthcare providers that take on patient refund optimization might also consider a refund minimization initiative, which will lower the number of refunds issued by investing in technology that allows for a more accurate bill based on better fee estimation.
About the Authors

**Jeffrey Eyestone and Matthew Rozen**

Jeffrey Eyestone and Matthew Rozen
Executive Directors, Healthcare Solutions Specialists,
J.P. Morgan Treasury Services

Jeffrey Eyestone and Matthew Rozen are Executive Directors and Healthcare Solutions Specialists with J.P. Morgan Treasury Services. They have more than 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.

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