

Improve revenue cycles and patient engagement by delivering pre-care cost estimates



Would you purchase an automobile or a house without first knowing the price? Probably not. That's not how most people shop for cars or homes – or for any other major purchase. In just about any retail environment in the U.S., people know how much they'll pay for something before they buy it.

Except when it comes to their health.



Patients are often not provided with pre-service estimates because of the complexity involved in estimating healthcare costs.

Patients in hospitals and health systems routinely receive services without expecting a pre-service

cost estimate. This is often due to the complexity involved in estimating healthcare costs. Variable factors within the services delivered, patient accumulators (such as out-of-pocket costs and deductibles) and plan contracts all make it difficult to prepare these estimates ahead of time.

That's not the only reason for lack of pre-service cost clarity, though. It's also because providers have long focused on insurance reimbursement. Health plans have traditionally been the primary paying "customer," meaning hospitals and health systems simply haven't had to pay much attention to patient payments. Instead, they have generally relied on a downstream "envelope process" to collect the relatively small patient portion of the bill.

However, with the growing prevalence of high deductible health plans, patients are becoming a significant payer. In fact, 30 percent of the average healthcare bill now comes from the patient's pocket.ⁱ This cost shift to patients from payers and employers – with few cost controls for providers – means a different set of needs must be met.

30 percent of the average healthcare bill now comes from the patient's pocket.ⁱ

Patients expect cost estimates in every other retail industry, and are starting to demand them in healthcare as well. According to one recent study, for example, more than 90 percent of patients felt it was important to know their payment responsibility upfront.ⁱⁱ

According to one recent study, more than **90 percent of patients felt it was important to know their payment responsibility upfront.**ⁱⁱ

An illustration of a clinical setting. A female doctor in a white lab coat is examining a female patient sitting in a white chair. To the left is a medical cart with a monitor. To the right is a desk with a computer monitor, a clock on the wall, and various lab equipment.

Moreover, hospitals and health systems are finding that in many regards, they are acting like lenders. Patient balances commonly exceed \$10,000 for complex services such as surgery. This can quickly become downstream bad debt without a process to mitigate the bad debt risk.

Healthcare organizations must equip themselves to manage financial risk and meet consumer expectations, beginning with clear and accurate pre-care cost estimates. To keep both patient relationships and revenue cycles strong, providers should offer upfront estimates that give welcome insight into potentially high-dollar charges. This can provide a unique opportunity to establish funding mechanisms and financially engage patients before they receive care.

Good for providers, good for patients

The needs of providers and patients align when it comes to upfront cost estimates. No patient wants to experience sticker shock – especially on the heels of an event involving their health. They would rather know their costs early on than be hit with surprise bills afterward.

Likewise, an accurate assessment of costs gives hospitals and health systems a valuable opportunity to connect with patients at the onset of care delivery. By evaluating a patient's ability and willingness to pay, providers can offer any necessary payment or charity assistance before services are rendered.

In reality, the goal is to strengthen patient engagement as much as financial outcomes.

Achieving that aim starts by establishing a collaborative point-of-service (POS) collections culture that includes delivering cost estimates within patient-access workflows.

Cultivate a collaborative culture

The financial staff in most hospitals and health systems are accustomed to working against a wide variety of collections targets. Yet for long-term success, hospitals and health systems must engage staff at all levels to work toward common objectives. Feedback must be shared often; the celebration of small wins can help sustain momentum. Staff and patients alike must realize the importance of POS financial discussions before a forward-facing collections culture will flourish. Buy-in is essential.

For that reason, organizations should carefully explain changes to collections workflows, not just mandate them. It's not enough to tell staff *what* you're doing; take the time to explain *why* a POS collections strategy is beneficial for

both the organization and for patients. Patients receive the financial clarity they crave, and the organization is better able to reduce bad debt and keep operations in the black.

Let staff know, for example, that it's not only about reaching collections targets, but about educating patients and helping them navigate their care costs. Most patients appreciate the assistance, too.

A study by McKinsey & Company, for instance, reveals that "92 percent of insured consumers are both able and willing to pay their out-of-pocket medical expenses for annual liabilities of less than \$500 per year." Even when expenses top \$500 per year, the research indicates that 54 percent of patients are both willing and able to pay.ⁱⁱⁱ

The key is to make sure that patients are aware and engaged – not surprised by the amount – when the bill does arrive. Yet before an organization can achieve patient financial engagement, it must first equip staff by clearly defining their roles.

Although all stakeholders benefit from having clinical and financial conversations in parallel, a line should be drawn between clinical and financial roles. Organizations should create distinct – but consistent – messages for their clinicians, registrars and other billing and patient access staff. Everyone must understand his or her role, as well as how that role fits into the broader organizational collections strategy.

"92 percent of insured consumers are both **able and willing to pay their out-of-pocket medical expenses** for annual liabilities of **less than \$500 per year.**"



Even with that insight, however, adopting a more collaborative POS collections culture does not happen overnight. Talking about financial estimates at the time of service is a novel experience for most staff and patients, so it's usually best to roll out new workflows gradually. Start with the simplest services or procedures, or those that most impact revenue, while steadily increasing staff familiarity with pre-service estimation tools and conversations.

For example, consider beginning pre-care cost conversations with diagnostic imaging services, which incur relatively straightforward costs compared to complex surgeries or ED visits. Alternatively, run bad-debt reports to identify common care episodes that generate the most patient complaints and/or incur the most bad debt and launch the new approach with those services first.



Consider beginning **pre-care cost conversations with diagnostic imaging services**, which incur relatively straightforward costs compared to complex surgeries or ED visits.

Create a meaningful collections approach

It's one thing to deploy an estimation tool and develop a culture of collections; fully optimizing their impact requires evaluating the pre-service estimation *workflow* as well. There is no single best method for collecting from patients pre-service. Instead, the approach should be determined by each individual patient's ability and willingness to pay – and that means knowing your audience.

Healthcare organizations typically have the most success when they communicate with the most receptive patients first, and tailor POS financial conversations based on the type of patient being engaged. Patients tend to fall into three broad categories, so pre-access screenings can be used to shepherd accounts into the most appropriate workflow:

- ✓ *Patients who can pay.* These are patients with a willingness and strong ability to pay. These patients usually require minimal staff assistance.
- ✓ *Patients who need help paying.* These are patients with a willingness but borderline ability to pay. Staff should devote most of their attention to these patients, who may need support to fully understand the various payment solutions available to them.
- ✓ *Patients who cannot or do not want to pay.* These are patients with little

willingness or ability to pay. Staff may be able to talk with these patients about Medicare enrollment, charity care, or other financing options.

No matter how the workflow is employed, it's important to discuss costs with every patient early and often. Conversations should be initiated prior to service and at every touchpoint throughout the patient care journey; at scheduling, pre-access, registration and pre-discharge, for example.

The key to conducting these proactive financial discussions is to equip staff with data and analytics that help drive decisions. In other words, enabling them to efficiently determine financial clearance so they can verify as much information as possible prior to the patient's service.

An effective estimator toolset, for example, is essential. In addition to specific coverages and benefits, intelligent estimation automation should give staff the answers to questions such as:

- ✔ What are the patient's accruals (e.g., limits on out-of-pocket costs, deductible amounts met, or available days for defined benefits)?
- ✔ What are the known cost ranges for the type of care being estimated?
- ✔ What are the contract terms with the patient's health plan?

Estimators should prepare an accurate analysis of known costs and variable factors, and present them in an easily understood format to guide proactive patient financial conversations. Staff training, however, is as important as detailed data. Hospitals and health systems must coach staff to have patient discussions brimming with the 4 C's: competence, confidence, compassion and collaboration.

Hospitals and health systems must coach staff to have patient discussions brimming with the 4 C's: competence, confidence, compassion and collaboration.



Start the training with instruction on empathetic communication strategies. Make staff aware that the point of each conversation is not necessarily to capture the maximum patient payment upfront, but to enable a productive dialog that protects patients' rights and dignity. The conversation should always be driven by clear explanations of the financial numbers and where they came from – as well as the reasons for any variables or cost ranges.

Once supplied with this information, some patients might want to pay their obligations in full prior to care, while others might prefer a payment plan. Still others might need help exploring Medicaid or charity care qualifications. No matter the situation, staff can create a positive patient financial experience with the benefit of estimation data, scripts and role-playing. They can provide patients with funding options in a simple, elegant manner.

The ultimate goal is to eliminate surprises; it's all about having patients understand and accept what they are paying for. Providing accurate and professional pre-care cost estimates lets hospitals and health systems strengthen the patient relationship while also improving financial outcomes.

A case study in success

With 26 facilities managing more than two million patient visits a year in Arizona and the western U.S., Banner Health illustrates the benefits of building a meaningful and collaborative collections culture.

The new approach started a few years ago when the organization – always looking for ways to improve the revenue cycle and the patient experience – decided to offer pre-service cost estimates to every patient. At the time, though, the health system's workflows and Excel-based tools could not support its vision.

So Banner Health teamed with TransUnion Healthcare to create a comprehensive plan for presenting patients with pre-service cost estimates. From the organization's top leadership on down, the initiative was prioritized and fully explained. Staff were offered plenty of training, their roles were well defined, and leaders were selected to champion the process.

Today, front-end staff at Banner Health quickly generate estimates and hold competent, confident, compassionate and collaborative financial conversations with every patient. As a result, the health system's POS collections grew from about \$75 million to nearly \$105 million within three years – a 39 percent increase. In

addition, the organization's POS collections as a percentage of net revenue now stands at 3% percent, a figure considered "top performing" by industry analysts such as HFMA MapKeys, NAHAM, and Healthcare Business Insights.^{iv}

Banner Health **improved collections by 39% in three years** by implementing a pre-service estimates and a culture of collections.

By **offering pre-service cost estimates**, Banner Health increased point of service collections by 3% in a three year timeframe.



Pre-care cost estimates offer an opportunity for healthcare organizations to manage risk while also improving patient satisfaction.

Patients and providers can use effective pre-care cost conversations to create a more rewarding healthcare experience for all.

Reaping the rewards

The revenue impact of high deductible health plans and rising patient responsibility is a well-known industry challenge. It is felt today by every hospital and health system, and it will not disappear any time soon. These dynamics aren't temporary; patient costs will remain high, making traditional patient billing processes unsustainable.

However, pre-care cost estimates offer an opportunity

for healthcare organizations to manage risk while also improving patient satisfaction. A collaborative collections strategy can help mitigate the risk of bad debt simply by meeting patients' desire for the same financial information they receive before making other high-dollar consumer purchases. That is why, working together, patients and providers can use effective pre-care cost conversations to create a more rewarding healthcare experience for all.

For more information, visit
www.transunionhealthcare.com
or email hcsolutions@transunion.com.

¹ InstaMed, *Trends in Healthcare Payments*, Sixth Annual Report: 2015, <http://www.instamed.com/wp-content/uploads/Trends-in-Healthcare-Payments-Annual-Report-2015.pdf>

² InstaMed, *Trends in Healthcare Payments*, Sixth Annual Report: 2015, <http://www.instamed.com/wp-content/uploads/Trends-in-Healthcare-Payments-Annual-Report-2015.pdf>

³ *U.S. healthcare payments: Remedies for an ailing system*; Patrick Finn, Thomas Pellathy, Shubham Singhal; McKinsey on Payments, No.4, April 2009
http://healthcare.mckinsey.com/sites/default/files/762679_US_healthcare_payments_Remedies_for_an_ailing_system.pdf

⁴ *The Next Generation of Revenue Cycle Management*; David C. Hammer, HFM, July 2007 <http://www.hfma.org/DownloadAsset.aspx?id=12950>