Current Trends in Healthcare Payments

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The healthcare industry is experiencing sweeping change driven by regulatory reform, altering the dynamic between patients, providers, and payers...
High-deductible health plans are driving rapid growth in patient-to-provider payments…

...while new insurance exchanges will dramatically increase individual health plan premium payments

Total Estimated Size of the Patient-to-Provider Payment Market (in US $ billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Market Size</th>
<th>Prescription Drugs</th>
<th>Post-service</th>
<th>POS</th>
</tr>
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<tbody>
<tr>
<td>2011</td>
<td>$304</td>
<td>$122</td>
<td>$125</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>$318</td>
<td>$127</td>
<td>$130</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>$332</td>
<td>$133</td>
<td>$136</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>$346</td>
<td>$139</td>
<td>$142</td>
<td></td>
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<tr>
<td>2015</td>
<td>$362</td>
<td>$145</td>
<td>$148</td>
<td></td>
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Source: Aite Group

Source: Congressional Budget Office (April 2014)

*In November 2014 HHS estimated 9.1-9.9 million enrollees for 2015
Commercial Payments
New standards for electronic funds transfers (EFT) and operating rules for EFT and electronic remittance advice (ERA), and consequently, new products, are driving paper transactions to electronic.

**Health Plan**
- Originate ACH payment
- Load reassociation data to ACH transaction
- Deliver Electronic Remittance Advice to provider

**Provider**
- Receive healthcare payments
- Request Reassociation data from bank
- Match payment to remittance advice

**Reassociation Data**
- Company Name
- "HCCLAIMPMT" Company Entry Description
- Reassociation Trace Number Segment
Large payers began implementation Q3/4 2013

Effective 1/1/2014 - Most payers have to offer ERA via ANSI 835 and EFT via ACH CCD+

Increased adoption throughout 2014, payers “working out the kinks”

New enforcement rules in 2016 should push stragglers

5.8% increase in volumes per year

800 million new data transactions/year by 2016

ACH Payments/Year (Millions)

Today

<table>
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<th>40-60</th>
<th>15%</th>
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2023

| 400+  | 79% |
12 Month Change in Paper Volumes
Despite ERA adoption there are still large paper volumes

<table>
<thead>
<tr>
<th>Volume Growth</th>
<th>Small Volume Trading Partners</th>
<th>HIPAA-Exempt Payers</th>
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Correspondence – Even with ERA, payers still send significant volumes of actionable correspondence
Virtual Card Payments
A pain point for providers

Payer sends paper with a one-time use credit card number and instructions for use

Two types:
- Payments for health plan claims
- Bulk payments patients, including HSA/HRA/FSA accounts

 Manual process (esp. for providers that had automated their paper check processing)

 Provider must absorb merchant fees

 Opt-out versus opt-in

 Payer/vendors create barriers to opting out

 Some vendors trying to charge for ACH
Virtual Card Payments
What can providers do?

Try to opt out – more payers and vendors allowing this
If not successful with the vendor contact the health plan

Providers have a number of choices for receiving health care payments from health plans, including Electronic Funds Transfer (EFT) through the Automated Clearing House (ACH) Network, checks, Fedwire, or through other payment networks. We encourage providers to implement the standard EFT through the ACH Network.

If a provider requests that a health plan conduct the electronic funds transfer (EFT) and remittance advice transaction in standard format (by using the ACH network), then the health plan must comply with the HIPAA standard for this transaction. *And if a provider requests that a health plan transmit payments consistent with the HIPAA standard, the health plan is not permitted to delay or reject a transaction because the transaction is a standard transaction* (45 CFR 162.925).

*The health plan also cannot incentivize a provider to use an alternate payment method other than the adopted standard or adversely affect the provider for using the standard transaction (i.e. charging excessive fees).*

Regardless of the method a provider chooses to receive health care payments from health plans, the provider should carefully analyze their agreements for any added fees.

- CMS
Patient Payments
Patient Payments
Healthcare Consumerism

Driven largely by legislative reform and the need to control healthcare spending, providers, payers and employers have been shifting more responsibility to consumers for their own healthcare decision-making and overall costs.

This has resulted in a broader trend of consumerism in healthcare, where individuals are transitioning from a largely passive role to an active participant in the end-to-end value chain of healthcare delivery.

**AREAS OF IMPACT TO HEALTHCARE PAYMENTS**

<table>
<thead>
<tr>
<th><strong>Insurance Exchanges</strong></th>
<th>27 million members</th>
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<tbody>
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<td>Public and private marketplaces are shifting consumers from group health plans to individual coverage.</td>
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<th><strong>Pricing Transparency</strong></th>
<th>$350 billion volume</th>
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<td>Providers must disclose pricing and out-of-pocket costs to consumers prior to care delivery, and demonstrate value for the services they provide.</td>
<td></td>
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<tr>
<th><strong>Growth of C2B Payments</strong></th>
<th>$65 billion bad debt</th>
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<tr>
<td>Consumers now represent the fastest growing portion of provider receivables, while collection rates continue to languish at 50% - 70% of total outstanding amounts.</td>
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Patient Payments
Forces Driving Consumerism in Healthcare

Market Dynamic

Rising out-of-pocket consumer costs for both health plan premiums and care delivery

High-Deductible Health Plans now becoming the norm

Public and private exchanges could trigger huge shift from group to individual coverage

Competitive market dynamics forcing payers to reveal true cost of services and demonstrate value

Industry Shift

“Employees are paying almost a quarter of the annual cost of coverage, now $2,975 a year, up nearly 7 percent from 2013.”

*Towers Watson*

“44 percent of employers reported that they are likely to offer only high-deductible health plans (HDHPs) during the coming year.”

*Price Waterhouse Coopers*

“The very deliberate intent of this structure is to make consumers more price sensitive, making it ever more important that healthcare organizations sell consumers on the value that they offer.”

*InformationWeek Healthcare*
Patient Payments
Dynamics of Retail Healthcare Payments

Critical Aspects of Retail Healthcare Payments
- Payers and providers both want to “own” the consumer
- Consumer perceptions changing and evolving
- Technology, including mobile solutions, opening new channels
- Healthcare consumer often must be educated before they can decide
Patient Payments
Patient Payment Challenges

Patient out-of-pocket financial responsibility is increasing and will be for the foreseeable future.

- Increasing number of patient-to-provider payments
- Increasing time and resources for posting patient payments
- Growing demand for multiple payment options
- Increasing risk associated with patient payments

“The healthcare payments markets is growing at a 9% compound annual growth rate (CAGR) and will reach US$4 trillion by 2016”

“By year-end 2014, U.S. patient-to-provider payments will grow to an estimated $381 billion, from $270 billion in 2010”

“The patient-to-provider payments segment, which includes out-of-pocket payments, co-pays, and post-adjudication payments, currently represents close to 11% of the overall healthcare payments markets; this percentage will increase to approximately 14% over the next five years”

— Aite Group
Patient Payments
Characteristics of Patient Payments

Patient payments and the underlying business processes associated with them are outdated and unsustainable

- “Paper out, paper back” process of patient billing and collections results in an average cost-to-collect of over $9 per payment for healthcare providers
- Balance-after-insurance collection rates are somewhere between $0.50 and $0.70 per dollar of outstanding patient receivables, depending on the provider
- Total patient bad debt exceeded $65 billion in 2010

- McKinsey

<table>
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<th>Payment Method</th>
<th>Average Cost</th>
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<tbody>
<tr>
<td>Paper Checks</td>
<td>$7.15</td>
</tr>
<tr>
<td>ACH</td>
<td>$4.72</td>
</tr>
<tr>
<td>Card</td>
<td>$3.96</td>
</tr>
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</table>

Popular Payment Methods in Healthcare Insurance

Q: What are the ways you generally pay for your healthcare expenses? (N=837)

- Debit or credit card in-person: 35%
- Check by mail: 26%
- Cash in-person: 23%
- Check in-person: 19%
- Direct debit online through your checking account: 14%
- Debit or credit card by mail: 11%
- Check paid online through your bank's online banking: 10%
- Call doctor's office or billing office to give payment information: 9%
- Make payment online at your doctor's website: 6%
- Using a smart phone or tablet: 2%
- Other: 10%

Source: Aite Group survey of 1,024 U.S. consumers, October 2011
Tools for Reducing Paper Transactions

Point of Sale – More up front collections, collections on prior balances

Online Portals – Direct patients to web site to pay balances by card or EFT

Bank Lockbox – Scannable coupons, automated posting

Prepaid Card – Replace paper checks for patient refunds
Emerging Technologies for Patient Payments

Patient Financing
Adoption has been low but start-up firms are trying new approaches.

Increased System Integration
Vendors are improving their ability to integrate their solutions (e.g., registration/scheduling, eligibility, patient estimators, Telemedicine) with core provider systems.

Price Transparency and Provider Marketplaces
Emerging online marketplaces allow providers to advertise prices and compete for price-conscious consumers.

Wellness/Reward Programs
Incenting healthy behavior through employer-funder incentives.
New Payment Mechanisms

Bitcoin
- Very little adoption in commercial space, esp. healthcare
- Too many risks
- Difficult to convert to US currency

Apple Pay
- Growing adoption
- Many vendors and platforms adding support in 2015
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