Vexical's Solution to the Patient Responsibility Conundrum

Abstract:

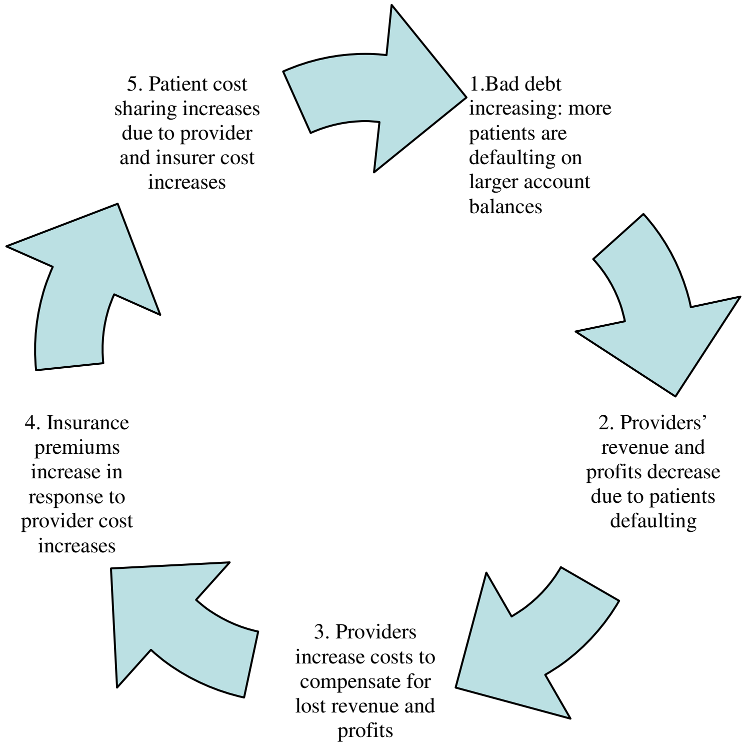
Providers are drowning in bad debt to the sum of $65B annually[1]. A significant portion of the bad debt is due to the fact that patients/families seldom budget for unforeseen medical expenses and when confronted with these unforeseen expenses, are unable to pay the bills.

While patients desire to pay their bills, and avoid having their credit rating affected, often patients/families just cannot afford the unforeseen medical expenses. This set of circumstances often results in providers collecting little, or nothing, on the accounts and the patient is then harassed by collection companies only to have their credit rating affected; and later a possible lawsuit. This is the Patient Responsibility Conundrum – wanting to pay, but not having the means. Vexical is positioned to bridge this divide rescuing patients/families from financial ruin and ensuring the provider payment; though less than billed charges. Vexical achieves this by buying the patients' medical debt liability; patients: "Sell Your Medical Bill."

Effects of Patient Debt:

Deductibles, co-insurances, insurance denials, the uninsured, and balance billing constitute the patient responsibility portion of medical bills. Historically, providers have expended greater resources seeking payment from insurance companies because the patient responsibility portion was never significant. Now, with increasing deductibles and co-insurance, the patient responsibly portion of the bill can affect providers' financial well being. These increases are causing financial stress on providers because while insurance companies are solvent, patients continually demonstrate an inability to pay. These defaulting accounts create financial stressors that are predicted to cause strained relationships among employees (a/k/a patients), employers, providers and insurers[2].

Employees are increasingly becoming dissatisfied with their employers and insurance companies because employees are being forced to pay more for their healthcare. Employers are becoming increasingly dissatisfied with insurers because premiums continue to increase at double digit rates. Providers are in a constant struggle with insurers over reimbursement; and insurers are continually squeezing providers on payment. To compensate for the bad debt associated with the patient responsibility portion of debt, providers are becoming more aggressive about collecting from patients and are establishing rules to obtain payment from the patient prior to care being rendered. In short, unless America can find a way to control costs and/or increase the amount of money in America's healthcare system, relationships between the parties will be strained.



Healthcare Financial Statistics:

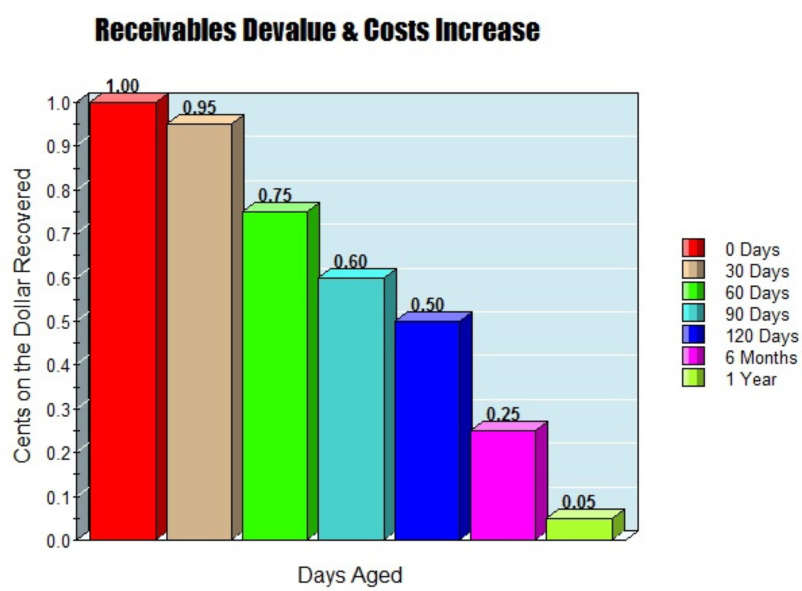
- 62.1% of all bankruptcies in 2007 were medical; 92% of these medical debtors had medical debts over $5,000 according to a 2007, Harvard University study.
- Hospitals on average collect 15.3% of the debt sent to collections[3].
- America's medical bad debt is expected to be $170 billion in 2014[4].
- In 2010, 41% of people ages 19-64 reported having medical debt or trouble paying medical bills[5].
- In 2003, the Federal Reserve reported that 52% of all collections actions by collection agencies and creditors are associated with medical bills.
- Recovery rates for patient debts are extremely low. For hospitals the recovery rate is 11.3% and for physicians it is 16.7% for aged receivable accounts[6].
- 30% of patients leave physician offices without paying anything[7].
- Payment plans set up by hospitals have a default rate of 45% or greater[8].
- Physician offices collect $15.77 per $100 of accounts sent to collection companies[9].
- As of 2012, 75 million people reported problems paying their medical bills or were paying off medical debt[10].
- Some hospitals are reporting the rate of bad debt is increasing at a rate well over 30% annually[11].

Part of the conundrum is the fact that many providers will not reduce their fees and collect on the account. Instead, providers remain determined to try and collect full charges, or full charges with a minor discount. Reasons for the provider mindset include:

- Studies show that patients regularly prioritize newspaper and lawn care bills over medical bills[12]. Because of this, providers wrongfully think that most patients can pay their bills in full. This provider perception conflicts with a survey by Cashnetusa.net stating that 22% of people surveyed have less than $100 in savings to cover unexpected expenses and 46% had less than $800.
- After 180 days to one year, providers write-off the bad debt. Once written-off, providers invest fewer resources in settling aged accounts.

  Example: A family making $23,000/yr, with no insurance, had a $2,283 bill. The family had $837 on their credit card and could pay that sum but nothing else. The office manager declined the $837; the result was another defaulted patient account. When asked why they would not accept the $837, the office manager simply stated that it is an old account and she does not want to talk about it – the doctor just lost money because the office manager could not be bothered.
- If providers were to discount patient bills regularly, patients would become educated to the practice, causing patients to engage in a "wait, then pay the discounted rate" practice.
- Greed: providers often reject patients' attempts to pay in an effort to obtain a greater payment.
- Providers cannot alter their collection practices based on specific demographic data. This means that providers must apply the same collection practices to all patient populations.
- It used to be that the patient responsibility portion of the bill did not pose a financial threat to providers' financial well being. With the increasing numbers of HSAs and high deductible plans, the patient responsibility portion of the bill now poses financial harm to providers. The issue is that many providers continue to implement the legacy thinking on this matter and have not resolved themselves to collecting as much money as possible vs. the futile attempts at collecting the full balance.
- Historically, providers have placed the majority of resources in seeking reimbursement from insurers.
- The cost of collecting on patient balances is high. These costs result in providers not being able to apply a micro-management approach to collecting outstanding patient responsibility balances.
  - Cost per provider billing cycle: $2- $3[13]
  - Credit card transaction fees: 2% - 2.5% of the transaction amount[13]

- Collection company fees: generally 20% - 45% of what is collected
- Litigation fees: 25% - 40%
- Cost to open an envelop and process a payment: \$1 - \$2 per payment[13]
- Cost to reconcile a patient account: \$1 [13]
- Result: Based on the costs above, a \$150 bill paid via a credit card, 90 days post service, may result in a \$120 payment to the provider. If the account was sent to a collection company, the provider may only receive \$102, after transactions costs[13].



The cost of collections increases with age and probability of collecting decreases with age[14].

Vexical's Solution to the Patient Responsibility Conundrum:

Provider-insurer contracts often have a "favored nations" clause and are duty-bound to attempt to collect full balances due. Additionally, providers often do not believe that patients are unable to afford their bills because surveys indicate that patients regularly prioritize their cable TV, newspaper, lawn care and Internet bills over that of their medical bills. Based on the fact that patients prioritize other bills over that of medical care, providers actively use collection companies and lawsuits to collect from patients. While many patients try to resolve the outstanding debt when collection activities begin, other patients become paralyzed by the fear of collection companies and lawyers and simply avoid the issues. A common patient comment, "*I started getting calls from a collections agency maybe a little more than 6 months ago but I did not pick up the phone.*"

The costs associated with billing, collection companies and legal action means that when the provider does receive payment, profit margins are lost. The question from a revenue cycle perspective becomes how do providers collect more money and/or expend fewer resources in collecting the money in a timely manner?

Vexical, the pioneer in the Medical Accounts Acquisition Industry, evaluates the patient's debt liability and assumes the patient's liability in exchange for a payment less than the provider's billed charges. In essence, patients "sell their medical bills." Simplistically, Vexical assumes the risk of accepting the patient's debt liability in hopes that the bill contains enough errors (i.e. miscoding, unbundling) allowing Vexical to *work the margins*. While it is obvious why a patient would engage Vexical, why would a provider work with Vexical?

- Based on Vexical's consumer-friendly implementation, Vexical is bringing revenue to the providers' bottom line that may otherwise remain in bad debt.
- Vexical's approach can reduce providers' cost of collecting revenue.
- Savvy providers understand that a best practice is to collect as much money on the patient responsibility portion of the debt as possible.

What is the end result? Time will likely prove that providers will be collecting on a larger number of accounts and/or increased revenue on accounts when the provider works with Vexical.

Vexical's Potential Effect on Hospital Bond Rates:

The market for hospital bonds reflects providers' troubles in collecting from patients and insurers. This is evident when comparing hospital bonds vs. Dow Jones averages[15]. Specific examples include the 2012 downgrades including large systems like Catholic Health Initiatives, Dignity Health and Memorial Sloan-Kettering Cancer Center.

If a successful synergy between providers and Vexical is established, Vexical can, in theory, increase the provider's bottom line helping to maintain bond ratings.

Vexical's Effect on Healthcare Costs:

Economics support the theory that more money being placed into America's healthcare system will lessen the financial stressors on the parties (i.e. employer vs. insurer vs. provider vs. employee). And, while all parties are continually seeking ways to control costs, Vexcial's implementation may add additional revenue, bridging the divide between patients who are limited as to what they can pay and providers seeking full charges – thereby easing the financial stressors of at least two of the parties.

Vexical Offers Patients:

- An easy and seamless way to pay all of their medial bills. This alleviates the confusion and frustration of multiple bills, and the worry that the patient was billed incorrectly as that concern is alleviated by way of a reduced payment.
- A way to avoid financial ruin due to unforeseen medical expenses.
- No fear or stress. Vexical is not adversarial to the patient such as is the perception of a collection agent or lawyer.
- Payment options.

The features and benefits listed above play well to the principles of behavioral economics as patients are incentivized to pay their bills by way of a reduced payment and avoiding negative credit ratings, while in a non-adversarial environment. This process then ensures payment to the provider. The end result is increasing providers' bottom lines and placing more money into America's healthcare system thereby easing financial stressors among all parties (employer vs. insurer vs. provider vs. employee).

Note: An "insurer" is a payer including Medicare, third party administrators, et al.

Disclaimer: "Sell your medical bill," "sell their medical bills" means to dispose of the debt for a profit (i.e. reduction).

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