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## REVENUE & CAPITAL MANAGEMENT

### Hospitals issuing 'medical credit cards' to increase patient payment options, collections

Although some uninsured or underinsured patients have the means to pay their out-of-pocket expenses, hospitals frequently capture less than 20% of charges for self-pay patients, who cite complex hospital billing processes or unattainable hospital-negotiated payment plans for their failure to pay (Costello, Los Angeles Times, 12/12/05; Watch interviews, 12/20/05; 12/21/05). To offer a more patient-friendly payment option, prevent bad accounts from going to collections agencies, and boost upfront revenue collection, a growing number of hospitals have contracted with independent credit issuers to introduce "medical credit cards" that patients can use for health care spending.

#### Use of cards expands as firms, possibilities grow

First introduced in physician and dental practices as a payment option for elective procedures, medical credit cards increasingly are issued by hospitals seeking to stem growing losses from bad debt. Hospitals back the cards through partnerships with local lending banks or one of the national credit issuers specializing in patient financing, such as Charlotte, N.C.-based AccessOne assumes the responsibility of patient collections (Times, 12/12/05). The cards are issued to patients who may not necessarily qualify for traditional credit cards and prefer the low monthly payments offered by many medical cards; in addition, some hospitals lure patients to participate by offering up to a 25% discount on their total bill. As an incentive for patients to quickly settle their balances, the cards tend to be interest free if the total bill is paid within three months, after which the cards charge "competitive" interest rates of around 13% and require small monthly minimum payments. After a patient makes an initial payment on the card, partner hospitals often are compensated in full by the credit issuer for the patient's outstanding balance; should the patient default on payment, however, the patient's account can be returned to the hospital.

Credit issuers and self-pay patients say that medical credit cards' flexibility is preferable to the sometimes unwieldy and overly aggressive payment plans negotiated by a hospital's billing department. Moreover, experts say medical credit cards command consumers' attention in a way that medical bills do not; according to Oren Wyatt, Group Vice President at Charlotte-based Carolina HealthCare System, patients "perceive debt owed to financial entities to have a much greater importance than they do medical debt" (Watch interview, 12/21/05).

#### Cards boost patient compliance with payment plans

The use of medical credit cards now cuts across provider size and location, with many early adopters reporting that the cards are easily managed and a sustainable model. Carolinas HealthCare System, which launched its AccessOne-backed credit card in 2000, has approximately 5,000 open accounts and opens 455 new accounts per month (Atwater, Wichita Eagle, 12/17/05). The patients registering for the cards are not

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extremely needy but rather representative of most hospital patients; according to Dr. Rusty Salton, CEO of AccessOne, which administers 23,000 accounts at 42 hospitals, the typical user of the firm's medical credit cards is uninsured or underinsured, has a household income of approximately \$50,000, and averages approximately \$1,200 in charges (Watch interview, 12/20/05).

Some hospitals offering medical credit cards have reaped significant—and nearly immediate—dividends by better capturing self-pay patients' payments. One organization projected a 45% increase over two-years in self-pay receipts; Carolinas HealthCare System reduced defaults by self-pay patients on payment plans from 80% to 20% within one year of implementing its cards (Watch interview, 12/21/05). According to Wyatt, because 11% of Carolinas' \$2.5 billion in revenue comes from self-pay patients, the arrangement with AccessOne—which takes an 8% service fee rather than the 20% the hospital's collections agency charges—boosted the health system's collections by millions and helped cut days in A/R from over 60 days to between 40 and 50 days, in addition to “getting [the system] out of financing self-pay balances.”



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