



Trends in Healthcare Payments Annual Report: 2010

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EXECUTIVE SUMMARY

The U.S. Healthcare Payment System facilitates the exchange of healthcare payments among three core constituents: payers, providers and patients. The healthcare payment process is influenced by healthcare reform, rising patient responsibility and the growth of consumer-directed healthcare (CDH), all of which increase costs for both providers and payers. A recent study estimated that providers had written off \$65 billion in patient bad debt in 2010.¹ Similarly, payers face problems with the administrative costs of disbursing payments. According to another study, claim processing costs payers an estimated \$15 to \$20 billion annually.² These costs represent a significant percentage of the \$2.5 trillion that flow through the U.S. Healthcare Payment System each year.

The purpose of this report is to showcase key market trends impacting the healthcare payments industry in order to educate the market and promote awareness, change and greater efficiency. These trends are based on quantitative data processed on the InstaMed Network as well as qualitative data obtained from healthcare providers using InstaMed.

KEY DATA POINTS

Payers paid providers an average of 32 percent of the billed charges in 2008, which decreased to 27 percent in 2010.

Patients were responsible for an average of 21 percent of the allowed charges in 2008, which increased to 31 percent in 2010.

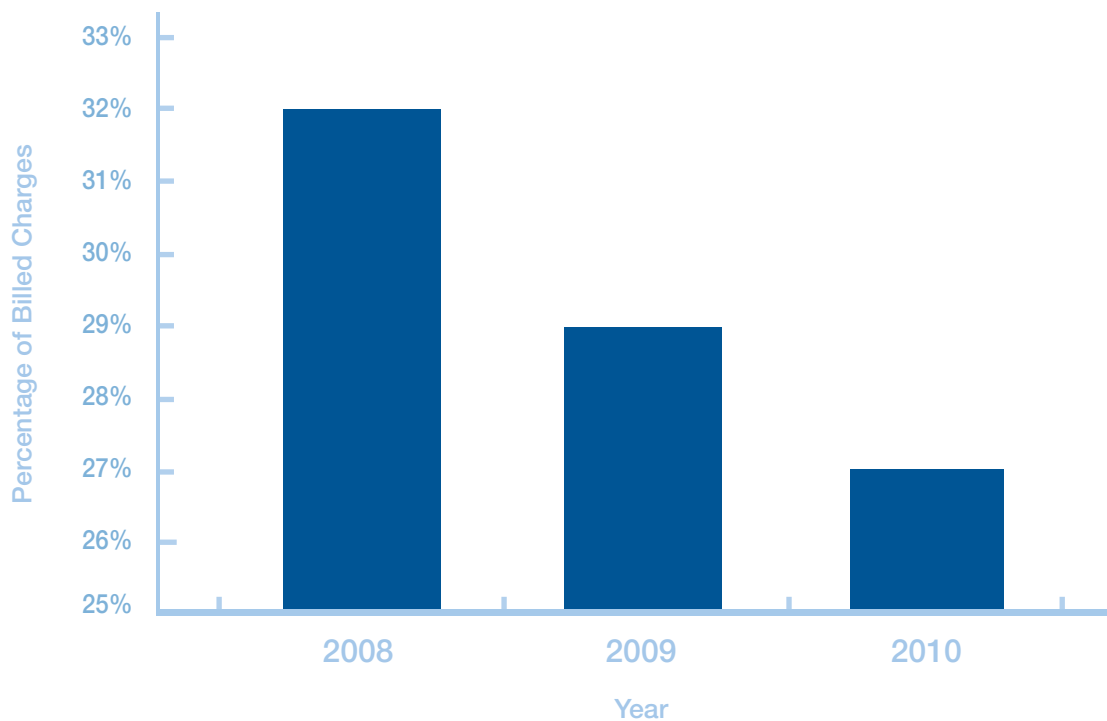
In 2008, the transaction count of payer-to-provider payments disbursed via EFT represented 43 percent of all payer-to-provider payments, which increased to 56 percent in 2010.

In 2008, online patient payments represented 3 percent of the gross dollar volume of all patient payments, which increased to 9 percent in 2010.

TRENDS IN PAYER PAYMENTS

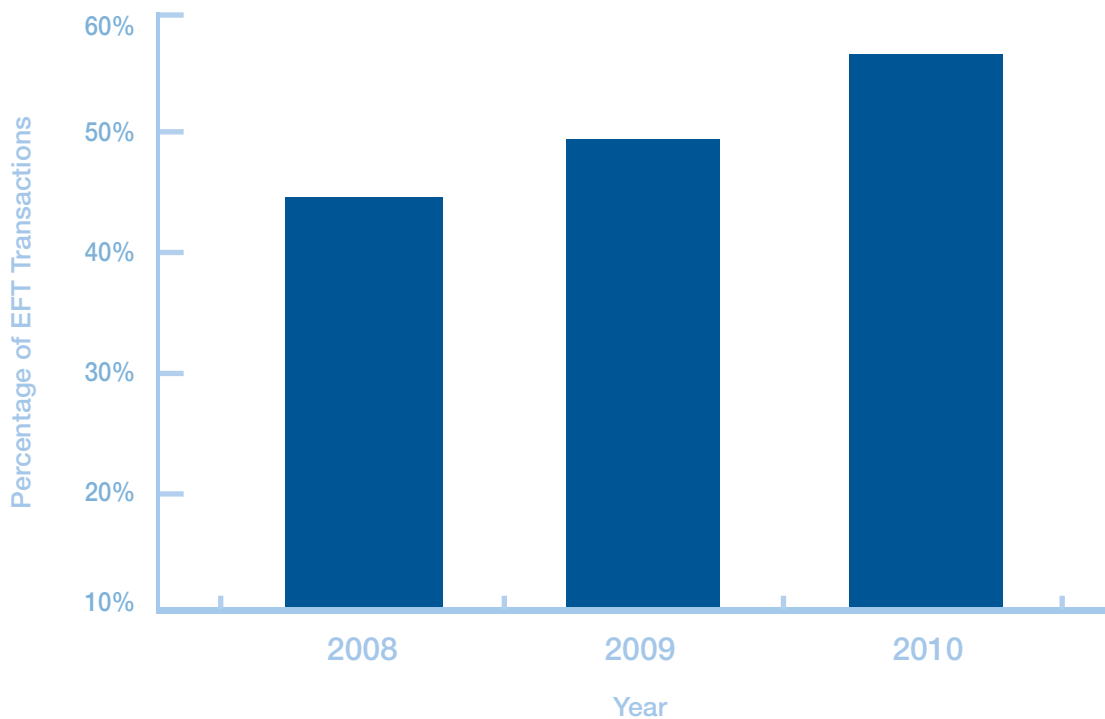
Growth in CDH plans has been a major influence in the healthcare payment process for payers. Since 2008, the number of individuals covered by CDH plans has nearly doubled to more than 10 million.³ A major factor driving this trend is the rapid increase in health insurance premiums, which have seen an average annual growth rate of 7.1 percent.⁴ To offset these increases, employers are switching to lower cost, high-deductible (CDH) plans, which shift payment responsibility to patients. Data from the InstaMed Network confirms that this trend has resulted in an overall increase in patient responsibility and, consequently, an overall decrease in payer payments to the provider. Payer-to-provider payments have decreased, as payers paid providers an average of 32 percent of the billed charges in 2008, which decreased to 27 percent in 2010 (Figure 1.1).

Figure 1.1 Payer-to-Provider Payments



Previously many of these payer payments were delivered via paper check, but the current trend has been toward electronic payments in order to increase efficiencies and cut costs. With limits on administrative costs set by the PPACA (Patient Protection and Affordable Care Act), payers are reviewing ways to drive a more efficient provider payment process with electronic payments. One such method is the offering of ERA/EFT (electronic remittance advice/electronic funds transfer), which combines both the payment and the healthcare payment information to enable provider posting and reconciliation. In 2008, the transaction count of payer-to-provider payments disbursed via EFT represented 43 percent of all payer-to-provider payments, which increased to 56 percent in 2010 (Figure 1.2).

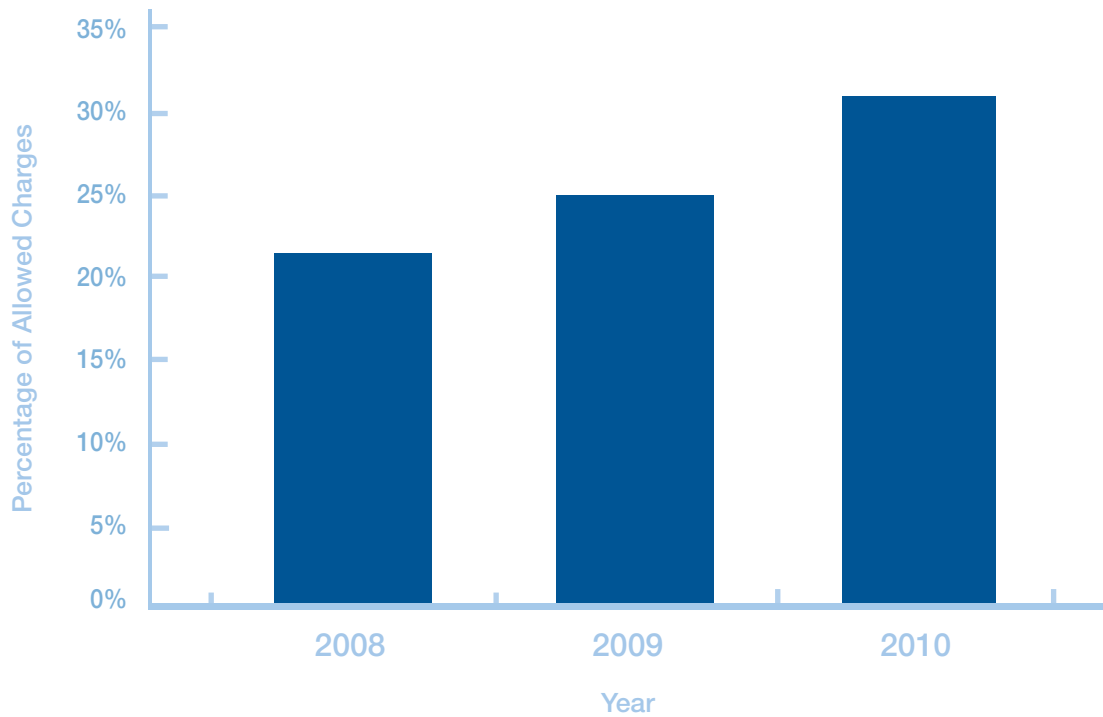
Figure 1.2 Payer-to-Provider EFT Payments



TRENDS IN PATIENT PAYMENTS

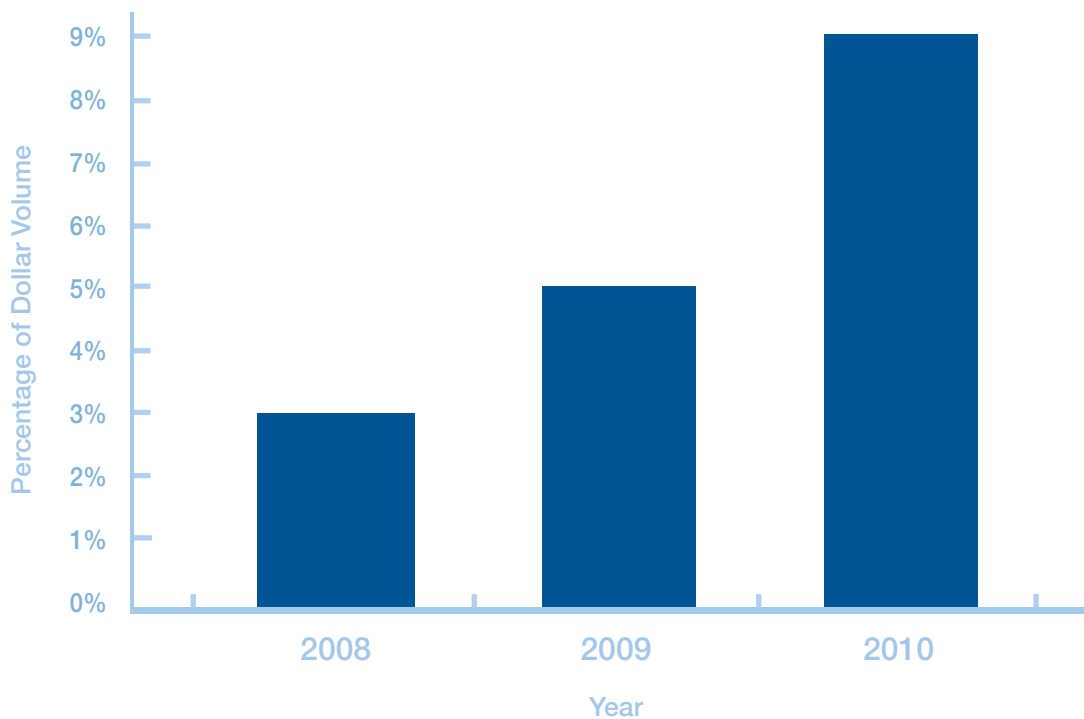
While payer payments have decreased as a result of CDH, inversely, patient responsibility for payments has begun to increase. The rapid growth of patient responsibility means that providers must now collect a greater percentage of their revenue from patients. This trend has broader impacts for providers, who typically have focused on collecting from payers. According to a recent study, collecting from a patient costs a provider twice as much as collecting from a payer.⁵ The data from the InstaMed Network shows that patients were responsible for an average of 21 percent of the allowed charges in 2008, which increased to 31 percent in 2010 (Figure 2.1).

Figure 2.1 Patient Responsibility



As patients have become an important part of the provider's revenue cycle, providers have begun to engage with patients to offer more convenient payment options while reducing their own administrative costs. One solution has been to give patients the option of paying their medical bills online. In 2008, online patient payments represented 3 percent of the gross dollar volume of all patient payments, which increased to 9 percent in 2010 (Figure 2.2). The growing prevalence of online payments shows that patients are willing to pay online and will continue to do so.

Figure 2.2 Online Patient Payments



PROVIDER SENTIMENT

Based on the data surrounding both payer and patient payments, it is apparent that providers are impacted by these trends. To better understand the experiences of providers, InstaMed conducted a nationwide healthcare survey. The survey participants ranged from solo practitioners to billion dollar health systems. The following are the key data points from the survey:

Figure 3.1

77 percent of providers indicated they have seen an increase in patient responsibility.

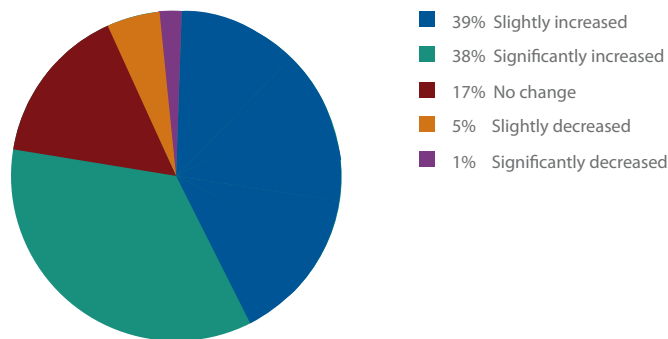


Figure 3.2

When questioned about their top priority for 2011, 36 percent said they are focused on patient payments and 23 percent said they are focused on meaningful use.

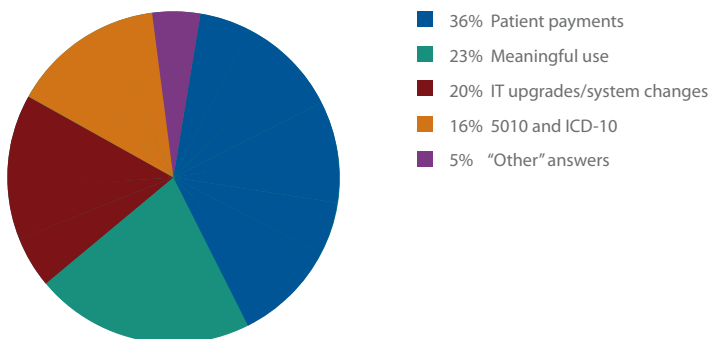


Figure 3.3

When questioned about their primary revenue cycle concern, 33 percent said it is the increase in patient responsibility, while 28 percent said it is days in A/R.

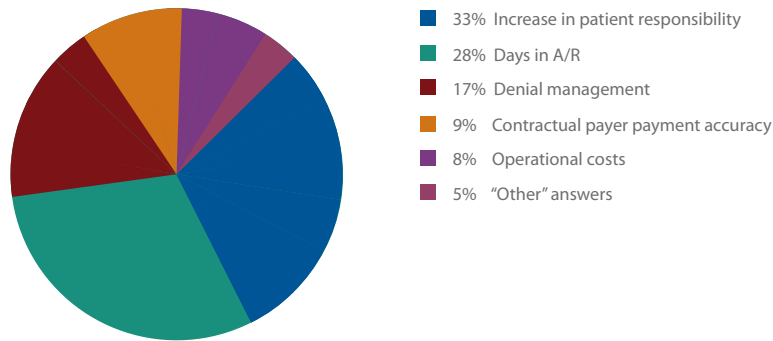


Figure 3.4

80 percent of providers indicated they collect patient payments at the point of service.

For the 20 percent of providers who do not collect patient payments at the point of service, 55 percent said the reason is that patient responsibility is unknown.

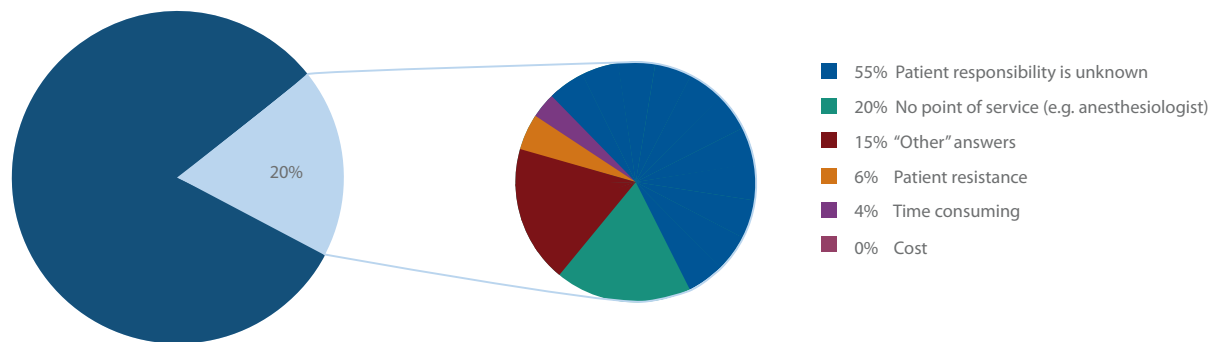
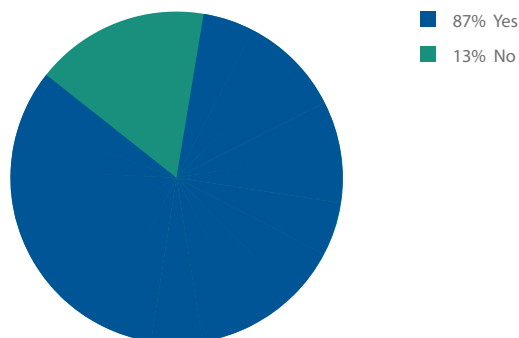


Figure 3.5

87 percent of providers said they receive some of their payer payments via EFT.



CONCLUSIONS

The trends in healthcare payments show that the industry is changing, with lower provider reimbursement, higher patient responsibility and a push for administrative efficiencies. These trends result from an industry managing an increase in CDH plans, higher patient payment responsibility and healthcare reform. Payers, who previously were focused only on delivering payments to providers, now are evaluating ways to maintain provider network satisfaction while driving down administrative costs. Patient requests for payment clarity, convenience and payment options are a result of their increasing payment responsibility and growing contribution to the provider's revenue stream. Patients have become an important constituent in healthcare payments. Besides focusing on patient care, providers will need to implement solutions to collect efficiently from both patients and payers while reducing their own administrative costs and burdens. Additionally, payers will need to find ways to become more efficient managers of the payment process to their provider network.

METHODOLOGY

The Trends in Healthcare Payments Annual Report is a summary of aggregated data from the InstaMed Network, which powers healthcare and payment transactions for a wide range of providers, from solo practitioners to billion dollar health systems, and payers of all sizes nationally. The data represented was processed between 2008 and 2010.

This report also includes qualitative market survey data from respondents representing over 10,000 healthcare providers nationally. The group of survey respondents is comprised of 64 percent medical practices or clinics; 20 percent durable medical equipment (DME) providers, labs or other offices; 9 percent billing services; 3 percent single hospitals; 2.5 percent health systems; and 1.5 percent home health/skilled nursing practices.

Sources:

¹ McKinsey Quarterly (2010)

² McKinsey Quarterly (2007)

³ AHIP HSA/HDHP Census (2010)

⁴ AHIP (2010)

⁵ Celent, "Effective Solutions" (2009)


ABOUT INSTAMED

InstaMed's Healthcare Payments Network transforms the business of healthcare by connecting healthcare providers, payers and patients for highly secure and mission critical communications, administrative transactions and payments. Leveraging a single, integrated network in its private cloud, InstaMed supports healthcare clearinghouse, eligibility, estimation, patient and payer payment and patient billing transactions. InstaMed's solutions deliver payment assurance to providers, enable payers to disburse payments at a lower cost with fewer incidents of fraud, and give patients a simple, convenient and secure way to pay. The InstaMed Network powers healthcare payments for over 200,000 providers nationally with tens of billions of dollars in healthcare payments processed. Visit InstaMed on the web at www.instamed.com.

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