

## Self-Pay Patients: A Cautionary Tale

Self-pay patients typically include the medically indigent patient population (i.e., the uninsured and underinsured) and other patients with out-of-network insurance policies.<sup>1</sup> The number of self-pay patients is on the rise, driven by the downturn in the economy and the rising number of patients with health savings accounts (HSAs) and other health plans with high deductibles.<sup>2</sup> A November 2009 survey conducted by the Healthcare Financial Management Association (HFMA) indicated that from 2008 to 2009, 97% of hospitals experienced an increase in the number of self-pay accounts receivable cases, and 35% of these experienced an increase of 10% or greater in self-pay patients.<sup>3</sup>

In response to the growing number of self-pay patients, and in the absence of a policy mandating a cap on charges for services provided to them, hospitals have gradually increased fee collection from this group of patients. A 2007 article published in *Health Affairs*, found that hospitals charged self-pay patients 307% over the Medicare allowable costs and approximately 2.5 times more than what most private and public health insurers pay.<sup>4</sup>

Hospitals have justified these price discrepancies with several explanations: (1) self-pay patients can negotiate pricing discounts in advance; (2) cost shifting is necessary to make up for under reimbursement from Medicare, Medicaid, managed care plans, and other insurers; and, (3) competitors charge similar rates to self-pay patients.<sup>5</sup> Hospitals also note that many self-pay patients below a certain minimum income threshold (e.g., the uninsured, patients who receive charity care) typically don't pay their bills.<sup>6</sup> As a consequence of hospital price discrepancies and patients' inability to pay, self-pay patients have filed a number of class-action lawsuits challenging disparities in charges for patient services, leaving hospitals vulnerable to crippling litigation and settlement costs.<sup>7</sup>

To avoid negative publicity, complaints, and increasing levels of uncompensated care, hospitals must adapt to a patient case mix composed of an increasing proportion of self-pay patients.<sup>8</sup> Traditionally, all self pay patients were considered indigent charity care cases, and collection processes would treat all self-pay patients the same, but today this isn't true. By screening patients

financial situations upon registration hospitals can locate which patients truly need charity care, those that could fit into a government payment program, those to charge, and those patients who are unlikely to pay. By implementing screening practices, hospitals can avoid unpaid bills and lower charges billed to self-pay patients.<sup>9</sup> In addition, improved communication and providing clear and simple billing procedures can reduce tension and support a positive experience for both parties.<sup>10</sup> However, despite noted changes in the way hospitals handle self-pay patients, hospital financial experts agree the majority of self-pay patients remain vulnerable to perceived overcharging for hospital services.<sup>11</sup>

Some issues leading to high prices for self-pay patients reflect problems with the healthcare system at large. One solution to lower rates for self-pay patients includes decreasing the number of uninsured in America.<sup>12</sup> Another is to require hospitals to publish their rates charged for medical services, which would allow patients to comparison shop and establish pricing caps for healthcare providers.<sup>13</sup> Whatever the solution, as the economy continues to decline, it is likely that the constitution of the payor mix for hospitals will be comprised of an increasing proportion of self-pay patients, making it more important to address the issues posed by the inability of many of these patients to pay for medical services rendered.

1 "From 'Soak the Rich' to 'Soak the Poor': Recent Trends in Hospital Pricing" by Gerard F. Anderson, *Health Affairs*, Vol. 26, No. 3, (May/June 2007), p. 781.

2 "Hospital or Banker?" by Michelle Ponte, *HealthLeaders Media*, July 31, 2009, <http://www.healthleadersmedia.com/content/MAG-235769/Hospital-or-Banker> (Accessed 1/8/10).

3 "The Changing Face of Self-Payment in Hospitals" *Healthcare Financial Management Association*, November 2009, p. 4.

4 "From 'Soak the Rich' to 'Soak the Poor': Recent Trends in Hospital Pricing" by Gerard F. Anderson, *Health Affairs*, Vol. 26, No. 3 (May/June 2007), p. 780, 81.

5 "From 'Soak the Rich' to 'Soak the Poor': Recent Trends in Hospital Pricing" by Gerard F. Anderson, *Health Affairs*, Vol. 26, No. 3, (May/June 2007), p. 784-785.

6 "From 'Soak the Rich' to 'Soak the Poor': Recent Trends in Hospital Pricing" by Gerard F. Anderson, *Health Affairs*, Vol. 26, No. 3 (May/June 2007), p. 784-5; "Best Practices for Self-Pay Collections" by Tina Eller, *Healthcare Financial Management Association*, June 2008, p. 51.

7 "From 'Soak the Rich' to 'Soak the Poor': Recent Trends in

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- Hospital Pricing” by Gerard F. Anderson, Health Affairs, Vol. 26, No. 3 (May/June 2007), p. 781, 783-4, 787.
- 8 “Collection Reform: Build Stronger Relationships with Self-Pay Patients” by Geoffrey J. Hakel, Healthcare Financial Management Association, September 2005, p. 134.
- 9 “Best Practices for Self-Pay Collections” by Tina Eller, Healthcare Financial Management Association, June 2008, p. 50, 51.
- 10 “The Changing Face of Self-Payment in Hospitals” Healthcare Financial Management Association, November 2009, p. 13.
- 11 “Hospital or Banker?” Michelle Ponte, HealthLeaders Media, July 31, 2009, <http://www.healthleadersmedia.com/content/MAG-235769/Hospital-or-Banker> (Accessed 1/8/10).
- 12 “From ‘Soak the Rich’ to ‘Soak the Poor’: Recent Trends in Hospital Pricing” by Gerard F. Anderson, Health Affairs, Vol. 26, No. 3 (May/June 2007), p. 785.
- 13 “From ‘Soak the Rich’ to ‘Soak the Poor’: Recent Trends in Hospital Pricing” by Gerard F. Anderson, Health Affairs, Vol. 26, No. 3 (May/June 2007), p. 786.



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