Healthcare DIVE

Cash Discounts for Bypassing Insurance Stirs Up Debate, Administrative Unease

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As hospitals and other providers increasingly offer patients the opportunity to pay cash for services up front for a discount that makes it attractive to bypass their insurer, several experts weighed in with Healthcare Dive on the implications.

The idea is that hospitals save on administrative costs and efforts, while patients get a better deal than their insurer's negotiated rate. Some argue insurers benefit as well, because they get to collect premiums without paying out as often.

However, the pros and cons are a bit more nuanced. Experts note that while the practice of bypassing insurance is perfectly legal, providers need to check whether undercutting their own negotiated rates violates any of their insurer contracts, and in either case, consider the potential implications.

How hospitals could be impacted

Vizant COO Angie Grunte has been hearing about the practice and sees a possible trend. "I can't really tell you what we'll see in the long run," she says, "but we are seeing it more and more and it's becoming more of a conversation point."

She suggests it can have meaningful financial implications for hospitals and providers to receive payment at the time of service rather than having to wait, but that providers have to take care with how they determine their discount and be very specific about what they define as cash payment. Many providers and patients may be interested in using FSA and HSA cards, which are considered the equivalent of cash, as well as debit and credit cards. However, there are costs associated with those cards, Grunte notes.

"You're going to have to be very cognizant of costs associated with those payments and very calculated in using the timing and the cost to set the discount," she says.

Gary Sastow, a partner at Brown, Gruttadaro, Gaujean & Prato PLLC (BGGP), raises concerns about the potentially negative impact the move could have on a provider's relationship with insurance carriers.

"The hospitals and doctors who are doing this would need to make sure it is not violative of their contracts with the various insurance carriers," he says. Even assuming it doesn't violate any terms, providers should be prepared for the possibility that insurers may take the position that they will reimburse based on the lower fee, and argue that it supercedes any previously negotiated fee because there can only be one, not two different fees for insurance-using patients and cash-paying patients.

Sastow suggests insurers could even reach back several years and try to demand the return of sums paid in the past. If nothing else, providers can expect insurers to try to change what they'll pay in the future. "It certainly will dramatically affect future negotiations," Sastow predicts.

Although he has not personally encountered such legal arguments yet in this context, Sastow says he has seen some related issues around providers waving co-insurance amounts or other fees and anticipates that some waves are going to be made over the issue.

“The other concern I have would be that there would have to be very strict administrative controls,” he adds. “If you were to collect from the patient, and then even erroneously bill that patient’s insurance company anyway, you’ve now double dipped, and the ramifications of that can be dramatic.”

How patients will could be impacted

Although offering patients a cheaper rate appears beneficial on the surface, it puts them in a position that can potentially cause confusion and disadvantage to those who would be better served by paying toward their insurance deductible. It’s a decision that some may not fully grasp on the spot or that others would prefer to have time to weigh.

While providers do not technically owe customers any guidance, it could prove a sticking point.

“Should providers discuss the implications with these cash customers? Yes. But do they? Probably not,” says SOLIC Capital Senior Managing Director Robert Annas, on the healthcare team at the restructuring firm and investment bank, who has also been watching this trend.

Rebecca Palm, co-founder and chief strategy officer of copatient, a healthcare expense management company that helps patients understand and manage their healthcare expenses, offers advice from the patient perspective.

She warns patients to be wary of any deal in which they are pressured to make a decision at a time when urgent treatment is needed, and to only consider it if they will have ample time to make a decision and consider their overall healthcare spending for the year.

“However, the hard part can often be determining what you would pay based on your health plan coverage so you can truly compare the costs,” she notes.

Palm adds this type of arrangement may undermine a patient’s ability to manage their medical bills because they don’t apply to their deductible or out of pocket maximum calculations. “If they pay these fees and then subsequently need additional care, they may end up paying more than they had budgeted for the year,” she warns.

How insurers could be impacted

SOLIC Capital’s Annas suggests the impact to insurers is mixed—and uneven.

“We’re seeing more providers target individuals with the higher deductible plans, which has become more common with the passing of the ACA,” he says.

“The increase in cash payments could ultimately be bad for insurers,” he adds. “While insurers might avoid some payouts, the larger factor is today’s high deductible environment. Large swaths of the population still can’t pay deductibles, so they skip preventative care and delay necessary treatment. This lack of care adds up, ending in a more catastrophic event that requires a pricey payout for the insurance company.”

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