



Given the reports of runaway healthcare costs over the past few decades, how is it possible that out-of-pocket medical expenses have remained relatively constant as a percentage of household income? The numbers are telling.

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that burden through higher taxes and perhaps slower wage growth, those indirect impacts are nearly invisible to the average patient. This lack of direct visibility has also prevented the basic laws of supply and demand to operate in the healthcare market and has contributed to rapidly growing expenses for healthcare services.

The current environment may, however, represent the low point for consumer out-of-pocket spending. Medicare's trust fund is projected to become insolvent as early as 2016. Without substantial changes in the Medicare program, the cost of providing health care to the Baby Boomer generation will require massive tax increases. Private insurance is also under stress as employers increasingly find the growing cost of healthcare benefits to be unsustainable. Healthcare costs for American companies often place their products at a disadvantage to foreign competitors. While the American auto industry has a number of issues, a cost differential of \$1,300 per vehicle for employee and retiree medical costs at GM is difficult to overcome when compared with a foreign competitor such as Toyota.

Healthcare plan designs are changing to shift greater payment responsibility to the consumer. Traditional plans now include higher co-pays and co-insurance. In addition, a growing number of companies offer high-deductible

and Medicaid were both relatively new programs, having been instituted through legislation passed in 1965. Back then, both Medicare and Medicaid accounted for only 19 percent of total spending. Private insurance accounted for 23 percent. The largest share of the cost, at 37 percent, was born by consumers as out-of-pocket payments.

In the nearly 40 years since 1970, the sources and distribution of spending for the healthcare system have changed dramatically. In 2007, total spending for health services and supplies is 31 times greater than 1970, at \$2.98 trillion. These services now account for 21.5

percent of GDP. Medicare and Medicaid have seen the fastest growth, accounting for 37 percent of total spending. Private insurance accounts for another 37 percent. Consumer out-of-pocket spending has fallen to only 13 percent of the total. While \$889 per capita in out-of-pocket spending may feel significant, this represents only an eightfold increase since 1970 as compared to an overall increase of 31 times!

To a large degree, consumers have been shielded from the dramatic increase in healthcare costs, as third-party payers absorbed more and more of them. While consumers may ultimately bear

health plans and consumer adoption is increasing. While it is difficult to predict the ultimate form that healthcare reform may take, the continued shift of increased consumer responsibility may be the only economically viable alternative. In addition, early experience with high-deductible health plans has also demonstrated greater consumer engagement by helping to control spending growth. Studies by UnitedHealth Group and CIGNA suggest that high-deductible health plans can reduce total healthcare costs by three to five percent annually.

My own family of four today is certainly living in this world of greater consumer responsibility. Some generic drug co-pays are still as low as \$5, but other branded drugs may carry a co-pay of \$90. A visit to the doctor results in a \$25 co-pay and 20 percent co-insurance if in the network. Co-insurance outside of the network increases to 40 percent. Given that some members of my family have

chronic conditions, our family out-of-pocket medical expenses are nearly \$8,000 per year.

A healthcare market that incorporates greater consumer payment responsibility requires new approaches and tools. Healthcare providers have historically been focused on claim submission and collection from third-party payers. Consumer billing is almost an afterthought — it's conducted after the service and often after the adjudication. The resulting paper-intensive process of mailing monthly billing statements is costly and unproductive. Estimates of uncollected balances run as high as 40 percent of all physician post-service billing. As consumer responsibility increases, providers recognize the need to develop a mechanism to make payment arrangements at the time of service, increasing collections and reducing administrative costs.

Consumers will also need payment devices to help them navigate this new and unprecedented environment. Payment cards are increasingly becoming the payment vehicle of choice in a point-of-service payment environment. These payment cards need to access tax-advantaged healthcare spending accounts (HSA, HRA, FSA) as well as other unrestricted accounts (DDA). In addition, lines of credit dedicated to healthcare spending are becoming more prevalent to deal with especially large consumer costs.

As part of TSYS Healthcare, and personally, I am excited about the opportunities that this transformation will create. The dusty old ledger of years past is a reminder that all of us in the healthcare services industry must place an increased focus on efficiency and effectiveness of the payment process.

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