

# Consumerism and Personal Debt Accumulation

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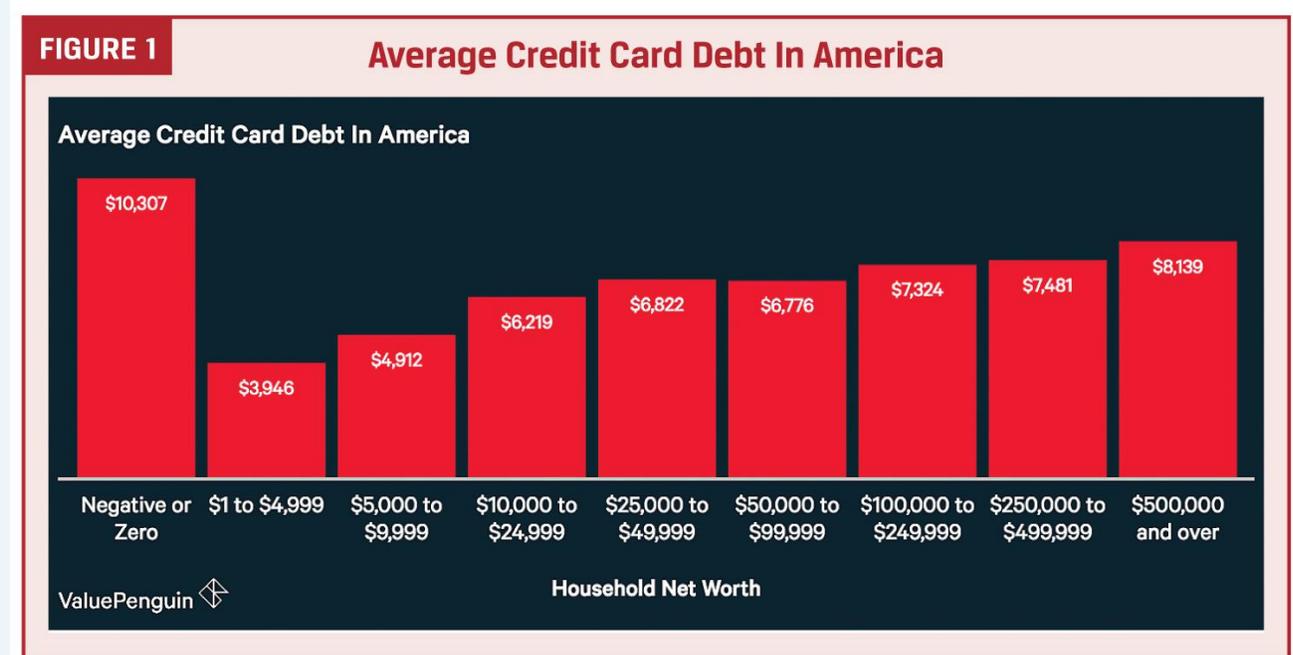
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## Consumerism and Personal Debt Accumulation

Merriam-Webster defines consumerism as *the promotion of the consumer's interests and the theory that an increasing consumption of goods is economically desirable*. The United States has become a society of increasing consumerism, where individuals are making greater levels of purchases for a variety of consumer goods.

Retailers and service providers are enjoying expanded consumer spending, but that growth has come at a cost for all Americans. The U.S. population carries a substantial amount of debt. The typical American owns 3.5 credit cards and their household average balance carry of credit card debt is \$16,048.

In Figure 1, ValuePenguin estimated that households with a negative or zero net worth have over \$10,000 in credit card debt and families with a net worth over \$500,000 average \$8,139. In 2010, the average outstanding revolving debt in the U.S. was \$841 billion. As of March 2016, that number had risen to \$952 billion and the total of outstanding debt was \$3.4 trillion.



These economic factors have contributed to the growing challenge families are facing paying for their healthcare.

Healthcare reform is not the only major change the health industry is experiencing. The concept of healthcare consumerism is unfolding right in front of our eyes.

### The Rise in Healthcare Consumerism

Today, the term healthcare consumerism has become a popular way to describe the shift of payments and the delivery of services as the industry moves from a fee-for-service economic model to value-based care. Government programs and commercial insurance have largely been responsible for administering consumer payments and care authorization. Their programs have stymied the industry's effort to become more consumer-friendly. Nevertheless, that has not dissuaded consumer advocates from promulgating the concept of consumerism. Samuel Butler's saying from 1754, "win the day," best describes the results that supporters of healthcare consumerism have achieved. In reality, healthcare consumerism has "won the day."

There are two main considerations for consumerism in healthcare. They are:

1. The moral imperative for consumerism
  - a. Save lives with increased quality of care and better population health
2. The economic imperative for consumerism
  - a. Save money by lowering operating costs and service prices
  - b. Create more jobs

The Patient Protection and Affordable Care Act has accelerated the current state of consumerism because it left many consumers with large deductibles that put pressure on them to find the most cost-effective care for the out-of-pocket dollars they are spending.

Consumers now have more control over their care and now are better able to evaluate the pricing and quality of the various providers they may

consider engaging. The industry is moving toward full consumer transparency, but it is not there yet.

Previously, patients seeking information about a doctor or hospital were only able to uncover the most basic data, leaving them to make treatment decisions based on the limited amount of data they could understand—their insurance coverage and the availability of the care they needed. Now, many of those patients can access detailed information about important aspects of their care, such as a physician's experience with a particular procedure or a hospital's outcome track record and readmission rates.

Increasingly, consumers have access to information, which is helping them decide who will deliver their care and what they will pay for it. Patients are slowly slipping into the healthcare driver's seat. They are now less likely to follow the provider's old paradigm of "doctor says and the patient does" as they transition into a new culture of consumer choice. With checkbooks in hand, consumers are now demanding more pricing transparency and better data so they can make informed healthcare decisions.

### **Do Patients Know What They Want From Healthcare Companies?**

Consumers tend to have strong opinions about what matters most to them when making healthcare decisions or receiving healthcare services. [McKinsey & Company \(McKinsey\), a research consultancy firm, conducted a study on healthcare consumerism from 2007 to 2015](#) where they surveyed over 11,000 people about how they perceive their healthcare needs and desires, how they select providers and how they make other healthcare decisions. Their results suggest that many assumptions about healthcare consumerism are inaccurate.

The evidence is surprising, as it suggests a disconnect between what consumers believe matters most and what influences their opinions. It appears that some factors play a greater role than most consumers realize. For example, a 2014 McKinsey Consumer Health Insights survey indicated that more than 90 percent of participants said they were somewhat satisfied with the care they received, and most of them rated the outcome achieved as the most important influence on their satisfaction. However, they found that empathy and support provided by health professionals (especially

nurses) had a stronger impact than did outcomes. Also, the information participants received during and after treatment had a remarkable influence on patient satisfaction.

What consumers say is important does not always correlate with actual satisfaction levels. In general, the results suggest that people:

Overstate tangible factors such as:

- New/updated facility building
- A quiet environment and room appearance
- Cleanliness of room
- Simplicity of administration
- Availability and access to parking

Understate factors that are more emotional:

- Keeping them informed about treatment before and after
- Doctor and nurse empathy
- Outcome of procedure or care

Taking these results into consideration and other factors, expanding consumerism in healthcare “is easier said than done.” Shopping for healthcare is not like shopping for clothes, cars or appliances. Unlike retail purchases, where information on products and services is readily available, healthcare consumers do not have access to accurate pricing before they receive care. The complexity of healthcare pricing is the culprit for growing consumer confusion and frustration. Understanding the basic terminology of healthcare is a challenge for most consumers. There are many technical terms that consumers must understand to evaluate and purchase healthcare services. Here are some examples:

- In-network/out-of-network
- Reasonable and customary charges
- Billed charges
- Contracted pricing
- Global pricing
- Co-pay and deductible

- Procedural pricing
- Nonessential health benefits cost

With all of the overlapping reimbursement methodologies involved in current pricing practices and the way patients are charged for their healthcare services, it is no wonder they are exasperated and confused.

<b>FIGURE 2      Knee Arthroscopy: Baton Rouge, Louisiana (2010)</b>			
<b>Medical Provider</b>	<b>Lake Surgery Center</b>	<b>Baton Rouge General Medical Center</b>	<b>Our Lady of the Lake Regional Medical Center</b>
<b>Total Price</b>	<b>\$4,500</b>	<b>\$7,500</b>	<b>\$14,000</b>
Discount rate	20%	20%	20%
Actual discount	\$900	\$1,500	\$2,800
Discounted balance	\$3,600	\$6,000	\$11,200
Applied to deductible	\$500	\$500	\$500
Member co-insurance (20%)	\$620	\$1,100	\$1,500
Member responsibility	\$1,120	\$1,600	\$2,000
<b>Employer Cost</b>	<b>\$2,480</b>	<b>\$4,400</b>	<b>\$9,200</b>

### What You See Isn't Always What You Get

So, how will patients make an informed choice to select a provider? In traditional retail markets, pricing and feature richness determine how consumers choose products and services. In healthcare, high-priced medical procedures may not be the best value or produce the best outcomes. Since consumers often cannot get the comparative cost and quality data they need to make smart purchasing decisions, they have to “fly blind” by choosing a provider by referral or selecting them from a list of approved providers.

Consumers want to know what it will cost to see a physician or have a procedure. Regrettably, providers find it almost impossible to give patients true estimates for the cost of care. They can offer ballpark estimates created from inexact information, but not much more.

Comparing healthcare pricing is not a simple task. It is analogous to comparing apples to oranges. It is not as simple as formulating pricing from a list of gross charges or average reimbursements from Medicare or commercial insurance payers. They do not indicate what the patient will have to pay. The guesswork patients go through is frustrating, but they are not alone. Providers also need accurate pricing data to help them effectively compete in the marketplace.

Healthcare costs and quality can differ widely from one provider to another in the same network and even in the same city. In some areas, in-network prices can vary by 300-500 percent in the same town for the same service (e.g., endoscopy, CT scan, lab test, surgery). Many people do not realize there is such a massive variation in the prices providers charge. For instance, most consumers would be excited to save \$100 or \$200 on the purchase of a product or service like a magnetic resonance imaging (MRI) exam by just by choosing a different provider. What they do not realize is that an MRI might cost \$600 at one provider and \$5,000 at another just a few miles away. In the end, even with a discount, the total cost of the procedure could still be much higher and the patient would never know it. Surgeries can have thousands of dollars difference in pricing from provider to provider and their equipment capabilities can vary widely, which can have a dramatic effect on outcomes. With the availability of accurate data, consumers can save thousands of dollars by shopping for healthcare services. Figure 2 illustrates the differences in pricing for a knee arthroscopy at three Baton Rouge, Louisiana hospitals.

### Selecting the Right Provider is Not Easy

As the changeover to a consumer-based model gains steam and more pricing data becomes available, patients will attempt to improve their healthcare decisions by selecting the right provider at the right price. To stay competitive, providers must begin to provide real pricing, not just estimates.

A well-informed patient will shop multiple healthcare providers for the best price. When the perception of quality is equal, the consumer will most often choose the provider who offers the lowest price. The recent trend toward enhancing the accuracy of provider quality comparisons is positive as it helps patients make decisions other than by price alone. There are no other

service industries where the stakes are higher than in healthcare. Selecting the wrong healthcare provider can mean the difference between life and death.

Healthcare technologies that provide cost estimates for patient financial responsibility are rapidly becoming available. Once a healthcare provider knows the type and scope of services a patient requires, these new software platforms can combine previous average charges, expected payer reimbursement, and transactional data from commercial or governmental payers to provide relatively accurate pricing estimates. Previously, owning this type of technology was nice to have. Today it is a strategic imperative.

In a consumer-based market, if providers cannot provide estimates for the cost to the patient, they are at a competitive disadvantage. It is a good bet that healthcare providers operating with open transparency will win over patients and become market leaders.

### Healthcare Pricing: The Good, the Bad and the Ugly

If you read any newspaper in the U.S., you will eventually find a story about the irrationality of healthcare charges. Unfortunately, these stories erroneously report that aggregated gross charges make up the price for services when the amount a patient pays is much lower. While this reporting is not accurate, it does shed light on healthcare pricing in general, which has helped build momentum toward full price transparency.

Today, charges for healthcare services are the byproduct of decades of payer contract negotiations and changes in reimbursement approaches. Over time, the disorderly modification of reimbursement methods has distorted charges, making them much harder for the average consumer to understand.

Since providers have such wide disparities between their costs to charge ratios compared to their competitors it perpetuates the perception that healthcare pricing is irrational, and consumers doubt its validity.

Why don't providers just reduce their charges? Because it's no easy task. There are currently payment mechanisms in use such as Medicare fee

schedules that reimburse based on charges, therefore negating the ability to simplify provider-charging practices. For accurate reimbursement, a provider's charges must be equal to or greater than the fee schedule amount. Also, to mitigate any financial loss, the provider must have the ability to model the effect of changing charges on reimbursement. That requires owning a sophisticated contract modeling system to evaluate the effect of changing charges on reimbursement. The fact that many health systems have different contracts for commercial payers and different charge masters for each hospital only serves to complicate the effort. Ultimately, any sweeping change in pricing hinges on having an agreement from commercial and government payers about how they will view and evaluate charges.

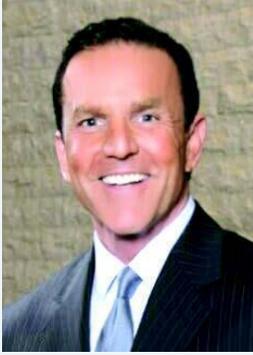
### Summary

Consumerism in healthcare is here to stay, and this trend will have a material impact on the way healthcare is perceived and delivered for the foreseeable future. Providers must develop a flexible approach so they can respond to the new consumer-centric economic landscape. They need to meet the demands of consumerism by designing products and delivering services that address patient needs and expectations. Patient education must advance to address the differences in patient health conditions and motivations. The days of the typical "one size fits all" educational approach are long gone.

Driving behavioral changes requires a deep understanding of individual patient needs and how to influence their choices. Pursuing qualitative analysis such as focus groups and evaluating quantitative data found in surveys offers some valuable insights; however, consumer participants do not represent a uniform population with similar views, beliefs and attitudes.

Improving patient satisfaction is a critical component for optimizing financial outcomes. With a solid consumer-based strategy, providers can make a significant impact on the health of an entire community while creating a resilient and more financially sound healthcare organization.

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