CASH-PAY OPTIONS FOR SELF-INSURED EMPLOYERS

Written By Laura Carabello

The timeworn proverb, "Everything old is new again," now applies to the cash-pay medical care model. It was how care was paid for before the advent of the modern healthcare system began in the 1920s when hospitals began offering services on a pre-paid basis.

Fast forward to 2024 and how self-insured employers perceive cash-pay, a novel approach to healthcare that bypasses traditional provider networks. With cash-pay care, patients pay a cash fee directly to the healthcare provider for a range of medical services -- from MRIs and blood work to outpatient surgery. Cash-pay care options are also convenient for accessing prompt medical attention when a primary care provider is not available or seeking care from an out-of-network provider and then arguing coverage for the visit.

This concept also applies to those who are traveling or on vacation. People often forget their medication, poisoning and or allergy or get food poisoning, and find themselves in a quandary to locate a virtual or in-person healthcare professional who can help people avoid a battle over an out-of-state emergency room visit.

Consumer Reports advises that this approach could cost patients less—sometimes a lot less. If the patient feels dissatisfied with the care received, the cash-pay model allows them to simply choose to see a different provider, resulting in a model that is more affordable, transparent and personalized.

Cash-pay care is intended to allow people to pay only for the service provided by the physician or provider instead of paying for administrative costs, processing fees and other third-party price mark-ups. The sole focus of the provider is keeping the patient healthy and satisfied.

While it may seem illogical to pay in cash for medical care if there are health benefits in place, it may make more sense for those with high-deductible plans who must pay a large amount of money out-of-pocket before coverage kicks in to cover medical expenses.


Andrew Berry

Andrew Berry, President, MSL Captives, says his organization is not only aware of these options but is also offering direct pay solutions.

"We believe these solutions offer employers and providers the ability to streamline the administrative process of healthcare payments," he explains. "This can lead to lower cost of care for employers while removing disputes around repricing. Most importantly, it has the potential to reduce the time physicians spend on administrative processes and payment collection so they can spend more time treating patients. Our anecdotal information is that this can take as much as two-thirds of a physician's time."

The direct pay model uses a provider's self-pay rates, which Berry says aids transparency in matching the cost of care for a provider to the cost of care paid by an employer.

"As the self-pay rate is set by the provider and paid at 100% of that rate, upfront without additional administrative costs to collect payment, it is a more accurate reflection of the true cost of that treatment," he continues. "Our experience is that self-pay rates are competitive with leading RBP rates as a percentage of Medicare. As they use rates set by the provider, it also removes the problem of balance billing, and savings can be applied directly to self-funded claims."

Berry cautions that for decrements in stop-loss premium rates, self-pay arrangements need to be actuarially assessed with credible data, like other network discounts or direct contracts.

As employers recognize the benefits of cash-pay options, a growing number of vendors are entering the market to help employers manage these opportunities.

"While the employees are using providers' self-pay rates for treatment, you need a payment mechanism to capture the costs and a TPA that can manage the self-funded plan using self-payments," advises Berry. "That will allow self-pay or cash payments to be applied to an employer's health plan and stop-loss insurance."

Donna Childers, Chief Operating Officer, Plan Stewards, echoes this perspective, adding, "We are also actively engaged with vendors who provide innovative solutions such as virtual credit cards and pre-payment models. Our expertise in reference-based pricing, which bypasses traditional networks, allows us to offer customized and cost-effective options to our clients."

Donna Childers

However, Childers understands the value of continuous improvement and is always open to exploring new opportunities.

"By partnering with vendors who might offer fresh perspectives or more efficient approaches, we can ensure that our clients will receive the best possible service and unlock additional cost-saving strategies in an ever-evolving marketplace," she states.

Childers believes that adopting cash-pay options is a significant step towards greater transparency in healthcare for self-insured employers.

"Traditionally, members are only aware of their co-pay amounts, leaving the actual cost of services hidden," she observes. "Cash-pay changes this dynamic by providing clear, upfront pricing, allowing members to know the total cost of their procedures before they receive care. This transparency empowers members to make informed decisions about their healthcare and often leads to opportunities for negotiation."

She notes that providers may offer reduced rates compared to what would typically be charged through insurance, further enhancing cost efficiency and financial transparency.

"Implementing cash-pay options can absolutely lead to substantial cost savings for both providers and self-insured employers," she continues. Providers are often willing to offer discounts for direct payments as it eliminates the need to track down funds and navigate the complexities of insurance claims. This streamlined process not only accelerates payment but also reduces administrative costs for providers, allowing them to pass on those savings to employers."

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For self-insured employers, these savings translate into more predictable healthcare spending, lower overall costs and a more efficient allocation of resources.

"It's a smart, strategic approach to managing healthcare expenses," says Childers.

AN ENTICING OPPORTUNITY

Many stakeholders in the self-insured community are becoming aware of the opportunity to embrace cash-pay models. Todd Archer, President, Concierge Third Party Administrator, says he is not only aware of these options but is also very interested in pursuing them.

"In a business or governance context, transparency refers to being open and honest, and cash-pay is the purest payment methodology (and therefore the most open and honest) of the options available for the payment for medical services," says Archer. "It strips out all the 'middlemen' along with their associated costs, allowing for an unaltered look at the true cost of the service(s) being provided."

Archer recognizes that stripping the layers out of the current approach, in addition to getting an unaltered look at the true cost of the service(s) being provided, will definitely lower the cost.


Todd Archer

"If you just look at the one dynamic of maintaining the PPO network infrastructure prevalent today, it is enormous," he explains. "You have the access fees that the carriers charge the employer to access their network -- ostensibly to maintain the contracts, but you also have a duplicative cost on the provider side to negotiate and maintain the agreements on their side too."

He says that most plans would not need a separate vendor to process these transactions, provided the plan documents are properly drafted, and the appropriate business rules are in place.

"The use of new technology to communicate effectively with plan participants will also diminish this need," he concludes.

Nick Soman, CEO, Decent, says that his organization has been watching the emergence of cash-pay rates closely.

"We believe they represent a significant opportunity to reduce the cost of care when used in conjunction with negotiated rates for the self-insured plans we administer," shares Soman. "We are in the early stages of figuring out how we can best serve our employer customers and members by incorporating cash rates options in their plans."


Nick Soman, CEO

Expanding this discussion, David Adamson, MD, CEO, Arc Fertility, says financial inefficiencies in our healthcare system result in significant waste that is ultimately paid by employers and patients.

"Self-insured employers have the opportunity to innovate new cash-pay and direct payment options with vendors that will increase transparency, accountability and cost-effectiveness, resulting in lower costs and, in many situations, higher quality care," says Dr. Adamson. "Self-insured employers can work directly with vendors to design higher value, flexible products that meet their unique needs and deliver a lower cost, superior experience with better medical outcomes for their employees."

Cash-pay options for self-insured employers truly result in cost savings, agrees Michelle Bounce, President of J.P. Farley Corporation.

David Adamson, MD

"The numbers may surprise you," she shares. "While the idea of paying cash for healthcare services might seem like a straightforward way to save money, the reality is often more complex."

For example, she invites a close look at one hospital's Machine-Readable Files (MRFs) which revealed that the average self-pay rate is 186% of Medicare rates, significantly higher than rates negotiated by insurance companies. For instance, United Healthcare's negotiated rates can be as low as 149% of Medicare for inpatient services, highlighting a stark difference.

Bounce relates a real-life story from a friend that further illustrates this discrepancy.

Michelle Bounce

"When faced with a $12,000 hospital bill, he negotiated a self-pay amount of $6,000," she continues. "However, after an appeal, his insurance covered the procedure, paying only $2,000, which the hospital accepted as full payment. This scenario demonstrates that even a seemingly significant self-pay discount can still result in paying much more than insurance-negotiated rates – three times more in this case."

SERVING PART-TIME, UNDERINSURED EMPLOYEES

Cash-pay solutions also serve part-time workers and underinsured employees who face high deductibles and steep out-of-pocket expenses. According to the most recent studies regarding the number

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of underinsured individuals in the U.S., the Commonwealth Fund issued a report in 2023 showing that 43% of working-age adults were inadequately insured, 29% of people with employer coverage and 44 percent of those with coverage purchased through the individual market and marketplaces were underinsured. Their analysis implies that many people who technically have health insurance still incur very high out-of-pocket costs.

Joey Truscelli, founder of the "Virtual Me Care Pass," points to the need for programs designed to provide employers with an affordable solution for their uninsured or underinsured employees and/or insured employees with a high deductible health plan.

Joey Truscelli

He designed a telehealth solution that provides a cash-pay subscription to nationwide Virtual Urgent Care, Mental Health Counseling and Health Navigator services through a partnership with Sun Life.

"Employers hiring part-time workers can incentivize and retain employees by offering six-month and annual subscriptions to the services we offer, with $0 out-of-pocket expense to their employees," he explains. "Enrollment is simple and can be purchased individually or in bulk and distributed to employees digitally or in card form."

CASH-PAY COMPLEMENTS HSAS AND FSAS

For employers that offer Health Savings Accounts (HSAs) or Flexible Spending Accounts (FSAs), their members can use the tax-advantaged dollars to spend on a wide range of healthcare services. This is usually a good option if an employee is nearing the end of the deductible year and needs to see a doctor – a time when HSA and FSA funds enable people to shop around for a cash-pay appointment.

During open enrollment season for FSAs, the Internal Revenue Service reminds taxpayers that they may be eligible to use these tax-free dollars to pay medical expenses that are not covered by their benefit plan. An employee who chooses to participate in an FSA can contribute up to $3,200 through payroll deductions during the 2024 plan year. Amounts contributed are not subject to federal income tax, Social Security tax or Medicare tax, freeing up cash that can go a long way in paying for healthcare.

If the plan allows, the employer may also contribute to an employee's FSA. If the employee's spouse has a plan through their employer, the spouse can also contribute up to $3,200 to that plan. In this situation, the couple could jointly contribute up to $6,400 for their household.

HSA funds can be used to pay for qualified medical expenses in 2024, including deductibles, co-pays, coinsurance, prescriptions, and more. HSAs can also be used for health-related items, such as sunscreen, contact lenses and first-aid kits.

In 2024, the maximum contribution to an HSA is $4,150 for individuals with self-only coverage under a high deductible health plan (HDHP) and $8,300 for families with HDHP coverage.

OPT-OUT BENEFITS ARRANGEMENTS

Tangential to this dialogue, consultants advise employers attempting to reduce the costs associated with their employee benefits to implement an opt-out arrangement, whereby employees who decline coverage under the employer's group health plan and/or its other benefits receive some kind of financial incentive for making this decision. This usually translates into additional taxable compensation, which gives the employee access to more cash and opportunities for cash-pay care.

Industry observers regard opt-out arrangements as a powerful tool to enhance the workforce's benefits portfolio while optimizing costs. Employers see these arrangements as an opportunity to reduce insurance costs, drive financial efficiency and allow employees to select providers that best suit their needs. It is also a signal to employees that there is a commitment to advancing individual healthcare choices, fostering a culture of empowerment and flexibility within the workforce while allowing compliance with ACA regulations.

Darryl Meadows, Premier-Rx Client Manager, posts, "Embracing opt-out arrangements presents a compelling opportunity for employers to optimize costs and enhance employee satisfaction by empowering individual healthcare decision-making. By navigating this strategy carefully, employers can foster a workplace culture that prioritizes financial prudence and employee well-being."

There are key considerations. Notably, the need for regulatory compliance and adhering to Affordable Care Act (ACA) guidelines to ensure that opt-out arrangements comply with federal and state healthcare regulations. Under the ACA, employers with more than 50 full-time employees can offer opt-out arrangements to allow employees more personalized healthcare options.

According to the IRS, if an employer offers additional compensation to employees who decline coverage under the employer's health plan, then the amount of the opt-out payment generally is added to the employee's required premium contribution when determining whether the plan meets the ACA's affordability standards, regardless of whether the employee actually declines coverage and receives the opt-out payment.

Employers will need to access professional counseling on these issues as Christine Cooper, CEO, aequum LLC, provides some legal guidance: "State laws governing waiver of insurance may still apply. While ERISA preempts certain state laws, it does not preempt all of them."

For example, she points out that in New York, an employee cannot opt out of his or her employer-sponsored group health plan if the coverage is paid in full by the employer with no contribution to the premiums by the employee.

"The states in which the health plan is issued would also need to be evaluated prior to permitting an employee to waive coverage," advises Cooper.

CAN EMPLOYERS TAP INTO CASH-PAY MARKETPLACES?

The simple answer is "YES," but currently, there are only a handful of marketplaces. Here's a sampling of innovators:

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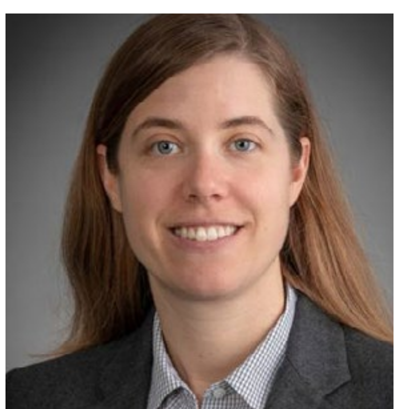
Christine Cooper, CEO

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www.clearhealthcosts.com/

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www.sesamecare.com/about

Sedera offers cash-pay patients direct relationships with their providers and provides Member Advisors and Needs Coordinators to help them find high-quality medical providers.
www.cashpaymarketplace.com/

Childers recommends that employers seek the help of vendors to help them manage these opportunities.

"Properly managing cash-pay opportunities, particularly with systems like virtual credit cards and pre-payment models, demands the expertise of reliable vendors," she advises. "These partners play a crucial role in providing the infrastructure needed for seamless payment transactions. Moreover, they offer services such as managing service codes, procedure codes,

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and diagnosis codes, which are vital for accurate payment processing."

She says that vendors can also efficiently handle the distribution of payments, ensuring that checks are sent out promptly and correctly.

"By partnering with the right vendors, we can ensure that these cash-pay options are streamlined, maximizing both efficiency and savings," she states.

CASH-PAY ADVANCES HEALTHCARE TRANSPARENCY

While federal price transparency rules went into effect for payers and hospitals nearly three years ago, compliance has been slow – although some progress is underway. The rules require public disclosure of all commercial payer-provider negotiated rates to improve price transparency in an effort to serve consumers and purchasers with accurate information prior to accessing healthcare services.

McKinsey advises that the existence of price dispersion in U.S. healthcare is not explained by differences in quality of care, and while price transparency rules address some market inefficiencies driving this price dispersion, others are left unresolved. They project that patients—if given proper incentives and information—would be interested in shopping for care that amounts to 20 to 25 percent of U.S. healthcare claims spend, potentially unlocking greater affordability. Price transparency rules and other innovations can empower patients to shop for care, a trend that could help growth in healthcare costs.

Joel Tompkins, CEO, LaaSy Health, observes, "Unfortunately, insurance companies, PBM's and hospital systems have entered the word transparency as part of the new healthcare lexicon. It's as though a patient or caregiver were given the best set of new lenses to see what they are doing when, in fact, they are issuing mosaic-stained glass. It looks great on the outside, but one cannot see through it to the inside."

He says that is where direct pay for healthcare is an outstanding way to eliminate the ruse and get straight to the best care at the best price.

"But we must become healthcare consumers," he cautions. "It is our money. We must be responsible for how to spend it, and we must start taking accountability for our own health."

Why is direct pay coming back into fashion? Tompkins sets the stage:

In the 1920s, the first Blue Cross plan started in Texas when Baylor University Hospital agreed to create coverage for schoolteachers at $6 per person per year. Then came the incentives of wartime wage controls so that while Americans were not earning more wages, they were offered benefits. Years later, in 1960, healthcare expenditures hit

5% of GDP. In 2022, the U.S. had 2.5% GDP growth, and healthcare represented a whopping 17.3% of GDP.

"Recently, a CMS report came out that healthcare spending will top $7 trillion by 2031, representing about 20% of US GDP," he continues. "This is a 36% increase in just 7 years. These numbers are completely unsustainable. Something must change."

As companies started seeing ways to layer in administrative fees, costs have ballooned for both healthcare payors and providers. The burden doesn't stop there, with the advent of high deductibles. Most employer-sponsored plans also have coinsurance up to an out-of-pocket maximum, so the employee continues to pay a portion of the bill up to the out-of-pocket maximum.

"As I became passionate about the growing weight Americans have had and are facing today with getting care, the idea of direct pay emerged as a way to change the broken system to favor the consumer," he adds. "The idea of direct pay for care is not new. It was how care was paid for before the first Blue Cross plan in Texas. The drawback is that our country lacks education about the simplest ideas of what basic healthcare is and how we as consumers should buy our care -- and where."

Tompkins founded LaaSy to address these issues and enable consumers to know if they are going to the right facility or doctor and gain confidence to be their own advocates.

"For a provider to take an insurance card, they must bake into their negotiations with the insurance company the administrative resource cost and the time it takes to receive payment -- if there is not a denial," he points out. "If they accept cash, they can take it to the bank that day, not wait 30-90 days. It doesn't take long to reflect that we are being forced to think about how else we can make care, even the basics of care, affordable. A direct-pay method and getting a discount is a tried-and-true method that, truly, never gets old."

CASH-PAY CAVEATS

James Vallee, FSA, MAAA, Consulting Actuary and Director, A&H Actuarial Consulting Services, points out, "Health insurance premiums are the fastest growing expenses many businesses face, leading to an increase in the use of cash-pay options. But these options have two main hurdles:

The first is regulatory, as most states require that any health plan offered by an employer meets the Minimal Essential Coverage guidelines of the Affordable Care Act.

The second is the significant financial risk, which has led to a sharp increase in the demand for medical stop-loss insurance."

He explains that clients need assistance to verify that health coverage meets MER regulatory requirements, as well as actuarial analyses showing the cost savings clients may have by making better use of federal programs. When guiding members in their cash-pay decision-making, employers can provide some direction. The benefit design of each plan will determine the employer's policies regarding these arrangements:

1. Monies spent typically won't count toward the deductible. As a result, those dollars will be worthless if medical care is needed that requires the employee to use their deductible.

2. Cash spent may not be counted toward the out-of-pocket maximum, which caps the total amount members owe for deductibles, co-pays, and coinsurance. Typically,

James Vallee


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after the member reaches the out-of-pocket max, and depending upon the benefits structure, the payer picks up 100 percent of the costs.

3. While health insurance is critical for major risks like accidents, hospitalizations, and major diseases, cash-pay medical care solutions can help save money for a broad range of outpatient services, even compared to employer-negotiated prices.

4. Healthcare prices vary widely, even within the same local area and especially by provider. Members should be advised to shop around.

IMPACT ON PROVIDERS

Bill Kampine, Co-founder and Senior Vice President of Analytics at Healthcare Bluebook, which uses insurance claim databases to estimate prices for medical care, says, "Healthcare providers are finding that by charging people who pay cash less than the insurer-negotiated rate for some health services, they can come out ahead financially too. Healthcare providers make up for charging lower prices in other ways."

He believes that cutting out the insurer as the middleman can significantly reduce the provider's administrative and billing costs, adding, "Healthcare providers who get cash upfront don't have to chase down the money

later, either from a patient or the insurance company. It's a much easier transaction in a cash-pay environment."

Industry observers consider that the cash-pay care model promotes a stronger doctor-patient relationship, creating a personalized care experience that incentivizes better outcomes. They regard this approach as an opportunity for providers to be in better control of their schedules and prices and, with some arrangements, to set their own appointment availability. Some models even enable providers to offer virtual care, which facilitates lower costs for patients.

ONE-SIZE HEALTHCARE DOESN'T FIT ALL

Employers have learned that affordable healthcare is not a one-size-fits-all phrase, with alternative models like cash-pay healthcare gaining traction.

This option is particularly relevant to outpatient care, where prices vary widely and can be negotiated. According to Statista, in 2022, about 537 million outpatient visits took place in hospitals across the United States. During that year, with an estimated 519 million visits, most outpatient visits took place in general medical and surgical hospitals.

Michelle Bounce advises self-insured employers to explore alternative structures, such as direct contracting with providers or using a third party to negotiate on their behalf. These approaches can provide more transparency and potentially greater savings than cash-pay options, which may not always deliver the cost benefits they promise.

In the quest to balance quality and cost and meet employee expectations for healthcare benefits, employers recognize the need to understand their options. Offering cash-pay programs may serve as a path to affordability. ■

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