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Don’t Be the Bank

Analyzing How In-House Payment Plans Impact Revenue, Cash Cycle, and Staffing Needs

January 30, 2023

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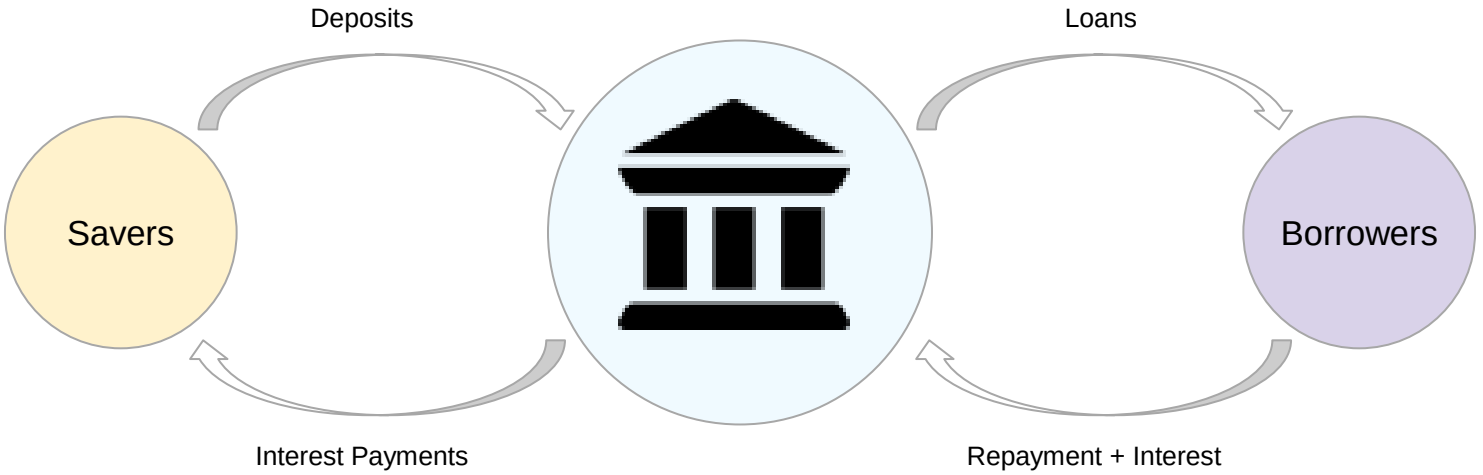
Agenda

- Don’t be the bank
- Patient balances matter more than ever
- Analysis: all-in cost of in-house payment plans
- Alternatives to in-house plans
- Strategies to improve financial performance on patient balances
- Case Study: Allegiance Health Management
- Q&A


Deposits
Loans
Savers
Borrowers
Interest Payments
Repayment + Interest

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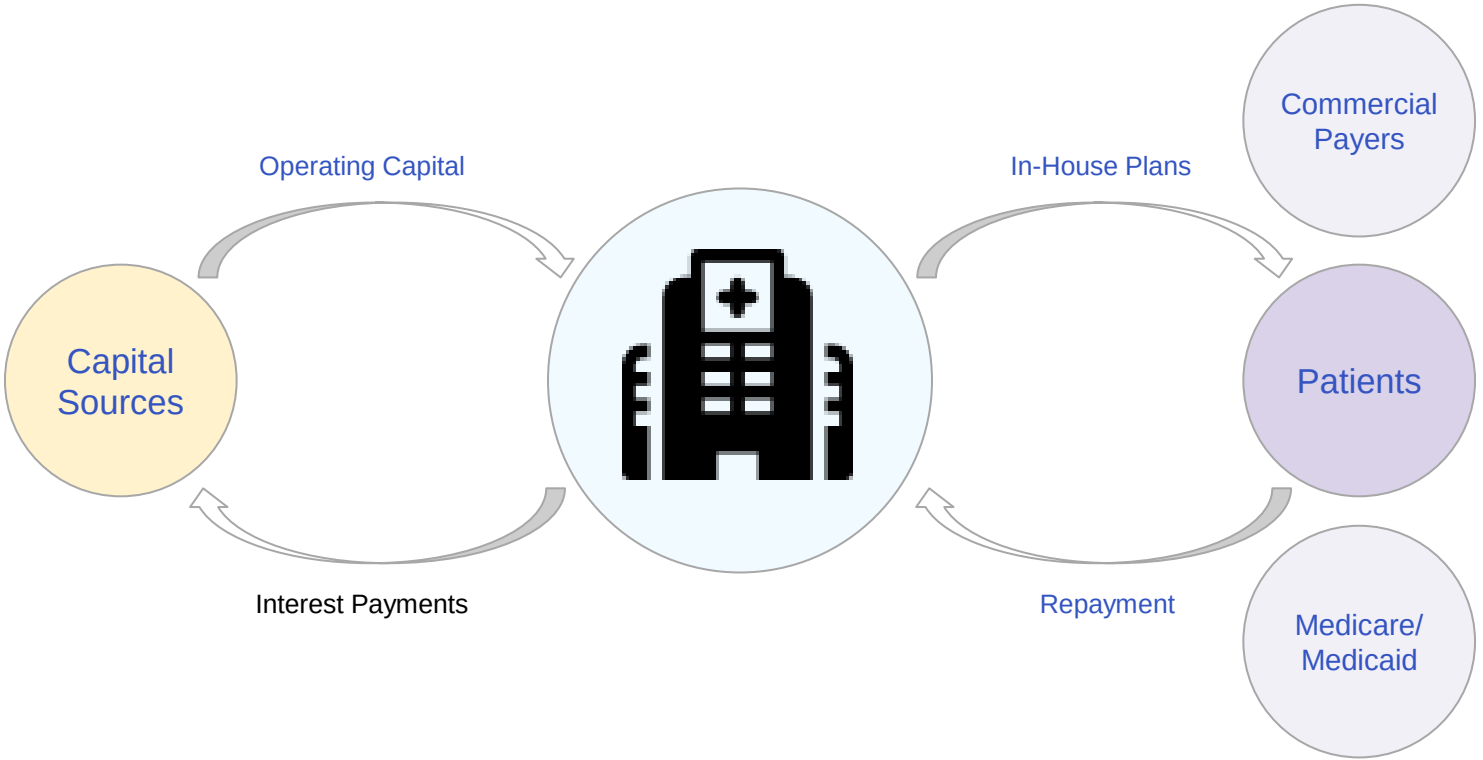
Commercial Payers
Operating Capital
In-House Plans
Capital Sources
Patients
Interest Payments
Repayment
Medicare/ Medicaid

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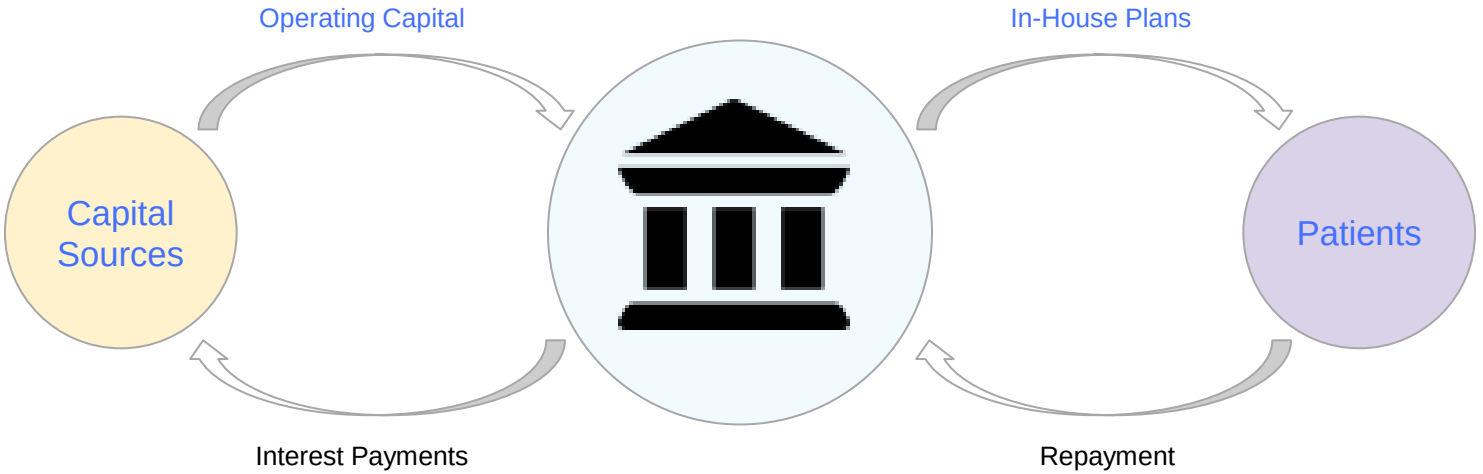
Operating Capital
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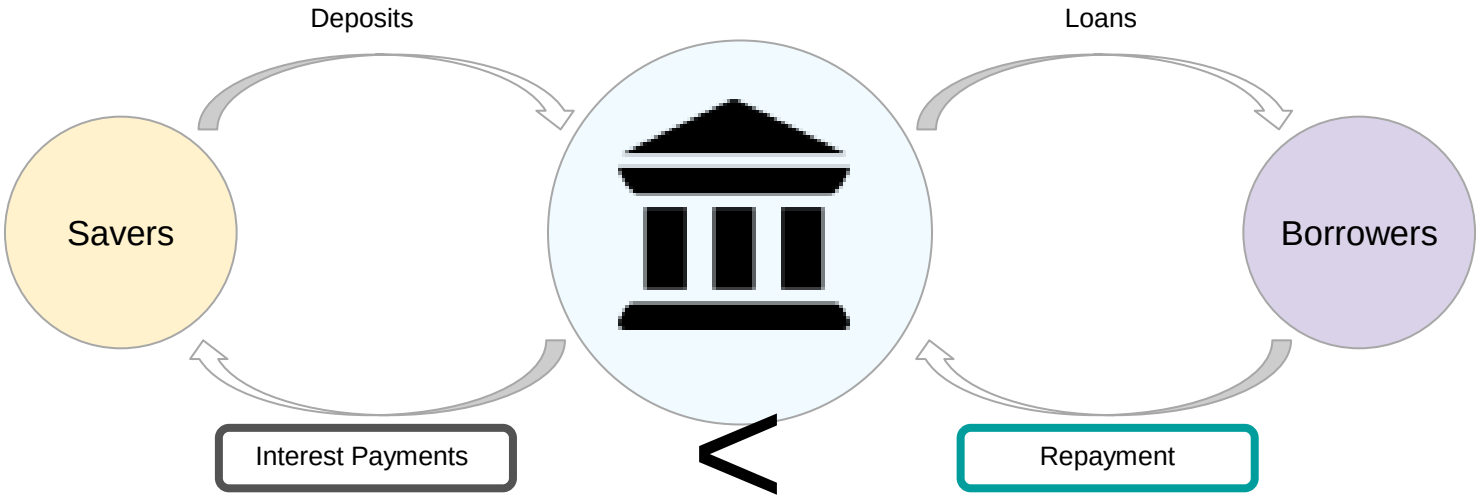
Deposits
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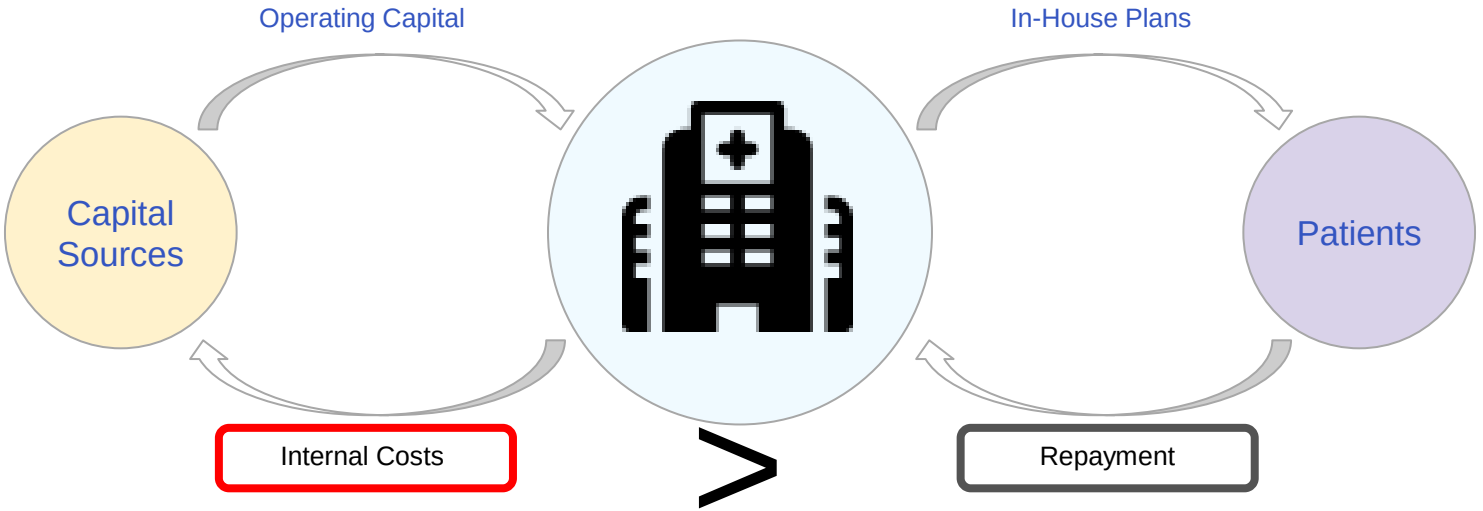
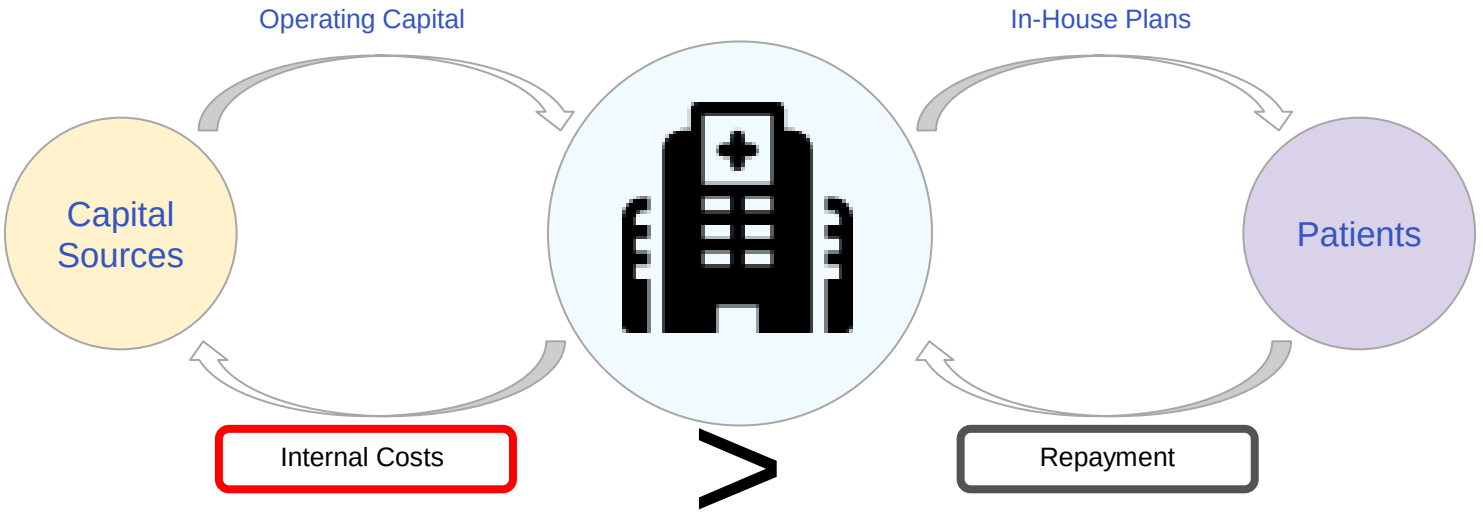
Repayment



Days in A/R

Working Capital



Days in A/R

Working Capital

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Patient balances matter more than ever

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Cost of care burden continues to rise for consumers

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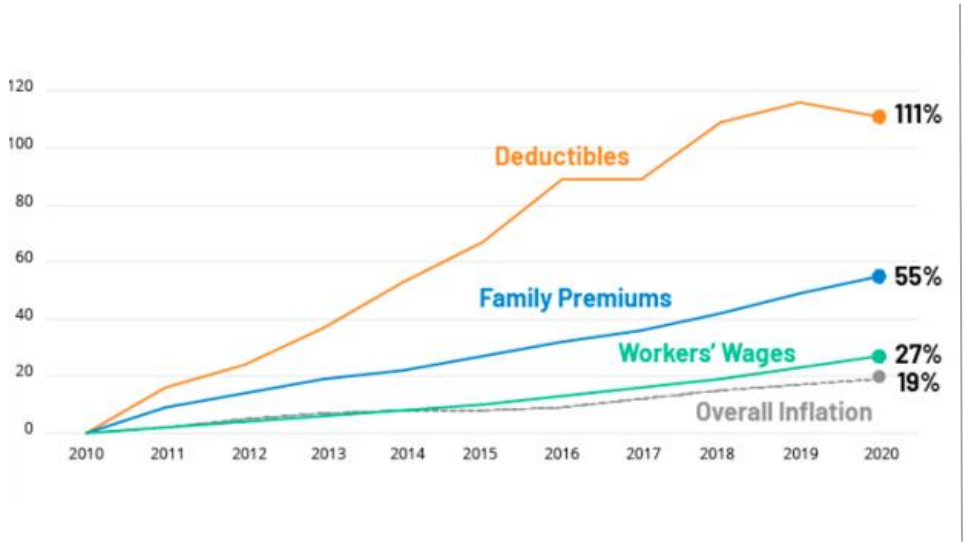

4x Increase in deductibles vs wages since 2010

20% Increase in family premiums in the last 5 years

1/2 U.S. adults can't cover an unexpected $500 medical bill

Source: KFF Employer Benefits Health Survey

Growth in medical debt affects financial and population health

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41% Percentage of adults who have some kind of health care debt

70% Percent of those with medical debt who owe **$1,000 or more**

46% Percent who can't afford out-of-pocket costs for medical care not covered by their insurance

66% Medical debt as a percentage of Debt Collection Industry tradelines

63% Percent of Americans who have **delayed or foregone healthcare** services due to cost

Out-of-pocket is out-of-control

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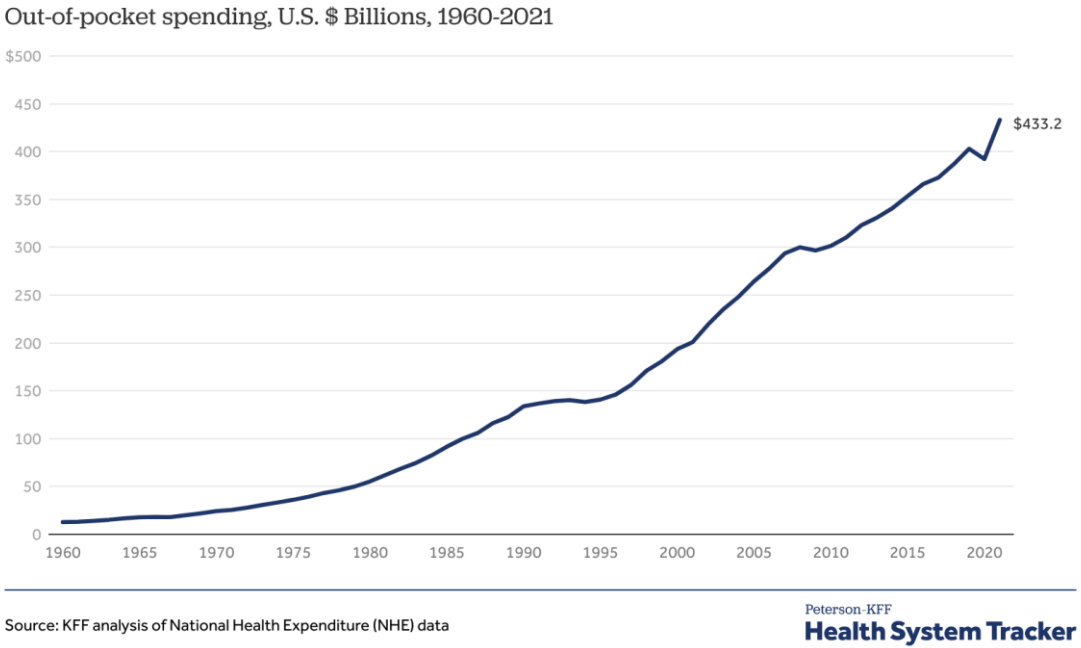

Source: KFF analysis of National Health Expenditure (NHE) data

Peterson-KFF
Health System Tracker

230%

Increase in patient out-of-pocket costs in the past 10 years

High premium high deductible = functionally uninsured

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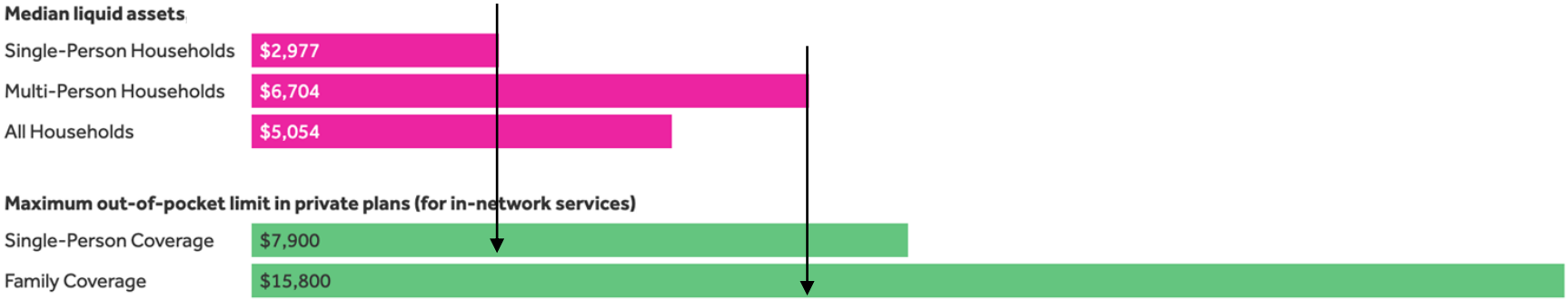
Median liquid assets of households and maximum out-of-pocket limit allowed in private plans for in-network services



Liquid assets include the sum of checking and saving accounts, money market accounts, certificates of deposit, savings bonds, non-retirement mutual funds, stocks and bonds. Among non-elderly households, those in which the head of house and his/her spouse are less than 65

Source: KFF analysis of the Survey of Consumer Finance

Patient-pay is a critical lever to improve financial health

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52% Growth of patient balances after insurance over 5 years

36% Percent of hospitals with over $10M in bad debt

59% Percent of hospital executives citing insurance reform as the primary cause of bad debt growth

72% Percent of providers citing patient financial responsibility and collections as their top RCM concern

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Analysis: all-in cost of in-house payment plans

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Financial and operational aspects of in-house payment plans

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1. Default rates
2. Impact to cash flow
3. Administrative costs
4. Capital costs
5. NPV costs
6. Credit risk
7. Lost revenues

Default rates

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28% Of providers don't know their collection rates

25% Collection rate on patient balances between $1,451 and $5,000

32% Of patient bills under $500 are fully paid

25% Typical default rate on in-house payment plans

1. Plan default rates
2. Plan take rates
3. Plan communication
4. Plan limitations/constraints
5. Non-plan defaults
6. Macro-economic risk

Reduced cash flow

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1. Cash inflows not matched to outflows
2. Delayed payments
3. Reduced payments
4. Missed payments
5. Poor patient follow-up
6. Plan adherence profiles

Administrative costs

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1. Staffing costs
2. Technology costs
3. Training costs
4. Compliance costs
5. Communication costs
6. Non-core competency costs

Cost of capital

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Sample cost-of-capital calculations

	Publicly traded healthcare companies	Not-for-profit health systems	Hospitals	Ambulatory surgery centers	Physician group practices
Unleveraged cost of equity	9.1%	9.1%	9.1%	9.1%	9.1%
Leverage (net debt/capital)	70%	10%	50%	10%	5%
Cost of equity (at actual leverage)	13.3%	6.0%	8.9%	6.0%	5.8%
After-tax cost of debt	3.5%	3.5%	4.5%	5.0%	7.0%
Weighted average cost of capital	6.4%	5.7%	6.7%	5.9%	5.8%
Illiquidity and size premium	0.0%	3.0%	6.0%	9.0%	12.0%
Adjusted cost of capital	6.4%	8.7%	12.7%	14.9%	17.8%

Source: HFMA

Credit risk

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1. Loss of revenue
2. Increased bad debt
3. Damage to credit rating
4. Increased capital cost

NPV – time value of money risk

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1. Total cost of money
2. Opportunity cost / lack of operating flexibility
3. Inflation rate

Impact to top-line revenue

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1. Deferred / foregone care
2. Lower follow-on revenue
3. Loss of patient base to alternative providers

All-in cost of payment plans

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	In-House Payment Plans
Default Rate	20-30%
Cost of Capital	6-13%
Administrative Cost	6-8%
Bottom Line Costs	**32-51%**
Cash Acceleration	None
Financial Risk	Provider
Staffing Burden	Significant
Key Considerations	Constrained by balance sheet capital, internal rev cycle resources, A/R policies, expertise

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Alternatives to in-house payment plans

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Traditional Patient Financing

Poor patient experience
- Clunky applications
- Call-center based
- Generic offers lead to fewer sign-ups

Recourse financing
- Providers continue to carry the risk
- Need to reconcile recourse
- Charged hidden fees

Non-recourse financing
- <50% approval rates
- Patient interest/fees

Traditional Patient Engagement

Focused on bill contextualization and checkout
- Requires deep technology integration
- Focuses on pay-in-full checkout with limited payment options

Standard payment plans
- Payment plans are one-size-fits-all
- Limited to provider's in-house plans (typically shorter terms)

Low yield and slow to collect
- Providers still carry payment plans on their books
- No end-to-end servicing
- Requires provider staff

Combining the best of each: affordability financing solutions

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Recourse Financing	
All patients accepted	✓
Provider retains financial risk	✗
Workflows/staffing for returned accounts	✗
Cash acceleration	✓
Provider must keep/manage escrow reserves	✗
Administrative fees	✗
Patients can be charged interest / fees	✗
Payment based on bill $, not ability to pay	✗
Promo period eligibility impacts health equity	✗
Defaults may be subject to collection/legal	✗
Longer repayment terms available	✓

Non-Recourse Financing	
Only high-credit patients accepted	✗
Vendor assumes financial risk	✓
Workflows/staffing for non-eligible accounts	✗
Cash acceleration non-recourse	✓
Provider needs options for remaining patients	✗
Administrative fees	✗
Patients can be charged interest / fees	✗
Payment based on bill $, not ability to pay	✗
Promo period eligibility impacts health equity	✗
Defaults may be subject to collection/legal	✗
Longer repayment terms available	✓

Combining the best of each: affordability financing solutions

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Affordability Financing	
All patients accepted	✓
Vendor assumes financial risk	✓
No workflows for returned accounts	✓
Cash acceleration non-recourse	✓
No need for escrow reserves	✓
No administrative fees	✓
Patients never charged interest / fees	✓
Payments customized based on ability to pay	✓
No promos, ability-based for health equity	✓
No collections or legal actions by vendor	✓
Repayment terms up to 60 months	✓
Integrated with patient engagement systems	✓

Patient affordability at the core

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A set of beliefs...

People are willing to pay their healthcare bills, but **existing options don't meet their needs**. All healthcare consumers should be given affordable options to pay for the care they need.

Those options should always be free – No one should ever have to pay a penny more than the cost of their care.

Charging interest or fees on payment plans increases the overall costs of healthcare and is not fair to patients, who are already shouldering far too much of the financial burden of their care.

Doing what's best for patients leads to improved financial outcomes for providers.

Healthcare providers share these values and would prefer to offer Affordability Financing payment solutions to their patients.

Comparing the impacts of payment plan approaches

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	In-House Plans	Traditional Non-Recourse	Traditional Recourse	**Affordability Financing**
Default Rate	20-30%	N/A	N/A	N/A
Cost of Capital	6-13%	N/A	N/A	N/A
Administrative Costs	6-8%	6-8%	6-10%	0
Additional Fees	N/A	Sometimes	Sometimes	Never
Discount Rate	N/A	15-25%	10-15%	~30%
Recourse Rate	N/A	N/A	10-30%	N/A
Bottom Line Rate	**32-51%**	**21-33%**	**26-55%**	**30-35%**
Interest to Patient	0%	0-27%	0-27%	0%
Patient Approval Rate	N/A	~50%	100%	100%
Cash Acceleration	None	Some plans	More plans	All plans
Financial Risk	Provider	Vendor	Provider	Vendor
Staffing Burden	Significant	Moderate	Moderate	None
Provider Collection Lift	**baseline**	**often negative**	**~10-15%**	**~25-35%**
Key Considerations	Constrained by balance sheet capital and internal rev cycle resources	Selects for lowest risk patients, generally modest patient adoption	Non-paying accounts return to provider; complexity to reconcile & manage bad debt workflow	Maximum cash acceleration with no impact to staffing or workflows

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Strategies to improve financial performance on patient balances

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Invest in the patient experience

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- Meet today’s healthcare consumer where they are
- Accept multiple payment methods
- Provide payment options that fit the patient’s ability to pay
- Make payment convenient and easy
- Communication and reminders
- Consider personalized payment portal solutions like flywire

Communicate and educate

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- Transparency about cost of care and payment/financing options
- Educate staff about patient payment options
  - Billers, admitting clerks, and financial staff
  - Nurses and physicians
- Patient education
  - Omni-channel marketing efforts
  - Proactively encourage payment plan enrollment
- Community outreach

Optimize collection processes

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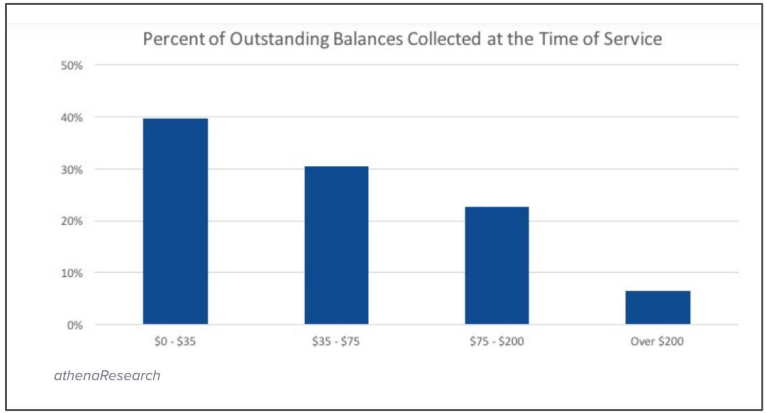
- Think like a retailer
- Implement card-on-file
- Collect balances due at the point of service
- Make follow-up part of the collections process
- Evaluate bad-debt referral timeframes



20% Of hospitals don't have a bad debt recovery process

67% Percent of patient visits where no outstanding balances are collected at the time of service

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Case Study:
Allegiance Health Management

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Allegiance Health Management

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Acute and Post-Acute Health System

- Headquartered in Shreveport, LA
- Operates 13 hospitals n Louisiana, Texas, and Mississippi
  - ➢ Medical Acute & Post-Acute Care Services
  - ➢ Critical Access Care
  - ➢ Long-Term Acute Care Services
  - ➢ Geriatric Behavioral inpatient & Outpatient Healthcare Services
  - ➢ Home Health and Hospice Services

Case Study Summary

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Initial problem research

CFO Jared Graves connected with PayZen, looking for more affordable payment options for Allegiance customers

Initial contact: October 2022 | Contract signed: December 2022. | 3-month sales cycle

Top decision criteria

Affordable payment options. In line with Allegiance's mission of healthcare affordability

Additional key problems to solve

Increase revenue capture and patient engagement, improve cash flow

Approach

Pilot with one facility, followed by gradual roll-out upon success

Implementation

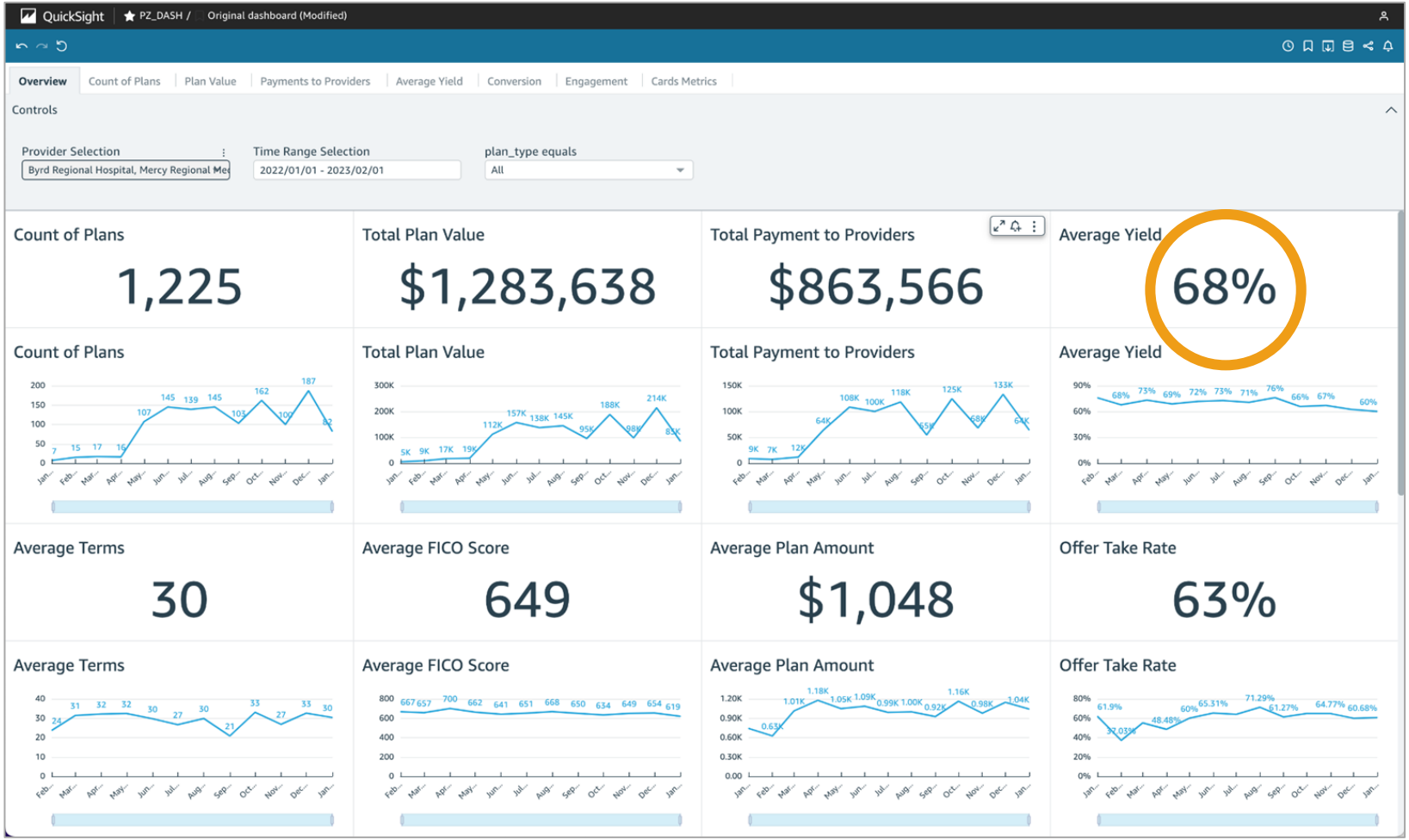
Kick-off to go-live < 4 weeks

Results

Immediate ~30% lift in collections and engagement

"With medical bills being the leading cause of debt in the country, it's imperative to provide patients with transparent, affordable healthcare. PayZen's zero interest plan and unique payment over time offering is an opportunity for our patients to develop the payment strategy that works best for them, while still getting the level of care they deserve. We're working together and helping to improve healthcare affordability in our community."

--Michael Fontenot, Southern Region CFO, Allegiance Health Management


QuickSight
PZ_DASH /
Original dashboard (Modified)
Overview
Count of Plans
Plan Value
Payments to Providers
Average Yield
Conversion
Engagement
Cards Metrics
Controls
Provider Selection
Byrd Regional Hospital, Mercy Regional Me
Time Range Selection
2022/01/01 - 2023/02/01
plan_type equals
All
Count of Plans
1,225
Total Plan Value
$1,283,638
Total Payment to Providers
$863,566
Average Yield
68%
Count of Plans
Total Plan Value
Total Payment to Providers
Average Yield
Average Terms
30
Average FICO Score
649
Average Plan Amount
$1,048
Offer Take Rate
63%
Average Terms
Average FICO Score
Average Plan Amount
Offer Take Rate

Allegiance Rollout and Results

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Mercy Regional Medical Center

- Live date: 1/24/22
- 24 days to go live
- $194,220 originations
- 70% yield = $130,273 paid

Byrd Regional Hospital

- Live date: 5/24/22
- 36 days to go live
- $337,857 originations
- 66% yield = $223,799 paid

North Louisiana Medical Center

- Live date: 5/12/22
- 28 days to go live
- $637,117 originations
- 69% yield = $438,899 paid

Minden Medical Center

- Live date: 12/05/22
- 27 days to go live
- $107,086 originations
- 61% yield = $62,656 paid

Plan performance by facility

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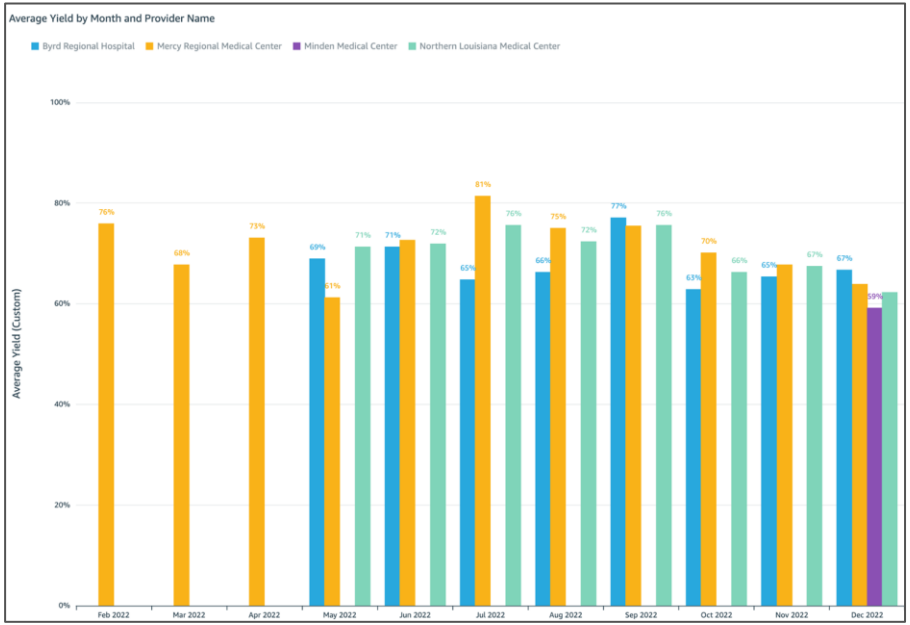

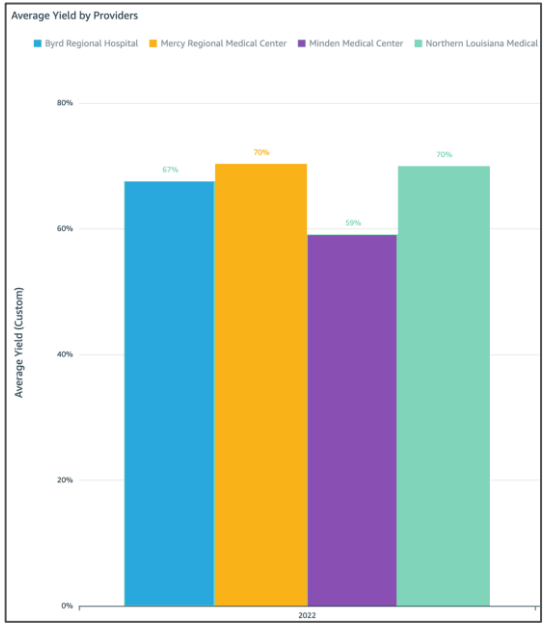

68% Average yield on plan balances

~30% Collection lift on overall patient balances

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Questions?

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