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HEALTH CARE

A New Approach To Out-Of-Pocket Medical Costs

By DIANE LEVICK | The Hartford Courant

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Americans spend more than \$265 billion a year out of pocket on health care and pile up medical debt, struggle to pay it off and sometimes end up in financial ruin.

Now [Haddam](#)-based Criterion Ventures is creating a new approach to dealing with that "cash market" — the chaotic world of deductibles, co-pays and care for the uninsured — where consumers wield little power to negotiate price or how they'll pay.



Criterion's idea is to weave together private and public sources of payment, negotiate discounts on hospital and doctor care, community by community, and load it all onto a hybrid debit-credit card.

Criterion wouldn't issue the cards itself but would hire an existing card services company and tailor the cards' contents for each employer or organization.

"Right now if you pay cash, you're the least powerful person in the system because you're paying out of your own pocket," said Andrew Greenblatt, a [New York](#)-based partner in Criterion. "We think that's nuts. That should be flipped."

The card is aimed at insured as well as uninsured consumers because even those with insurance can rack up thousands of dollars in deductibles, co-pays and co-insurance if they have serious illnesses or surgeries.

Criterion, a small entrepreneurial firm focused on social problems, believes the project will help people avoid drowning in medical debt and result in better access to care and more value for the dollar for consumers and employers.

The system could also reduce bill collection hassles for care providers and the amount they have to write off as uncollectable, the firm said.

The card would work in a variety of ways.

For instance, to help consumers pay out-of-pocket costs, a card could have some employer funding for general or targeted kinds of care, or a zero-interest line of credit subsidized by the employer. The card could have a pre-negotiated discount on services at certain hospitals or medical clinics and could also link to consumers' own accounts. In addition, it could feature a community organization's funding for a specific health initiative, such as ensuring that women get mammograms.

Right now, if an uninsured consumer goes to a doctor or hospital or gets other care, he or she would be charged considerably more than the total price that would apply if insurance is involved. Not everyone knows they can sometimes make payment deals with hospitals, and not everyone qualifies.

Insurers use their huge volume of patients as leverage to command lower prices, and Criterion acknowledges that it, too, will need to build scale through employers and community groups.

Launch Planned

Criterion, a venture capital and consulting firm founded seven years ago by Joy Anderson of Haddam, is planning to launch a for-profit firm by the end of the year to carry out the project.

With \$877,000 from the Rockefeller Foundation, the firm studied the cash market and came up with its proposed solution. It's now arranging more philanthropic money to create the new company, and will seek venture capital to get it into the active sales phase.

The project is called Healthcare_Uncovered, although the new company and the card haven't been named yet. The first cards could be in use during the first quarter of 2009.

The first participants are likely to include a national church organization and groups in [Memphis](#), Tenn., which Anderson noted has one of the nation's most unhealthy populations. Also, Criterion has done much groundwork there, and Anderson knows a senior vice president of a Memphis hospital system.

The Reformed Church in America, of Dutch heritage, runs an insurance program for about 3,000 pastors and is considering using the card to help them pay for care and foster healthy lifestyles.

Any insurance program can leave steep out-of-pocket costs, which can spell hardship for ministers whose average annual pay is \$50,000, including the value of housing, said Woody Bedell, director of benefit services for the Reformed Church. So the cards would be loaded with a line of credit from the church, an amount to be determined that pastors could tap at zero interest for three years, he said. After that, they would start paying interest.

"If you get sick," Bedell said, "you're not going to suffer for it." He's hoping there won't be a default problem because the loans will come from the church's own reserves. "It does come down to faith and trust," he said.

The church's card would also pay for weight control and fitness programs, Bedell said. The church is especially focused on people with "metabolic syndrome," a collection of characteristics, including elevated blood pressure, abdominal obesity and blood sugar/insulin problems that indicate heightened risk of coronary heart disease, stroke and diabetes.

Gary Gunderson at Methodist LeBonheur Healthcare, a group of seven Memphis-area hospitals, sees the region as fertile ground for what Criterion is planning.

"We have lots of poor and working-class people for whom relatively small bills can be overwhelming," said Gunderson, senior vice president for health and welfare ministries for the hospital system. "We're a market with all the problems in abundance, which this is supposed to address."

Anderson believes Criterion's project could encourage people to get preventive care they would otherwise skip, embarrassed about being grilled in a medical office about their ability to pay.

"That moment of humiliation means you don't come back again, even if they work it out," Anderson said.

Important Dollar

Criterion has several ways of making money in the project, including customer fees on the card — maybe 50 cents to \$2.50 a month, consulting fees to set up a program and a cut of the transaction fees that medical providers, like any merchant, pay on cards presented for payment.

Also, in return for bringing new accounts to banks as part of the program, Criterion expects to get a small cut of the interest that banks would pay on the accounts.

Other companies have already tackled pieces of what Criterion is planning. For instance, UnitedHealth Group has a card for members that links to their health savings accounts and flexible spending accounts, and they can apply to add a line of credit. Companies such as GE, [Citigroup](#) and Capital One distribute medical credit cards, often through doctors, dentists or hospitals, to cover out-of-pocket expenses.

But Criterion's approach goes beyond card technology and credit and focuses on organizing at the local level to put together different "purses" of money for different clients, Greenblatt said.

"If we can knit together enough people in a community," Greenblatt said, "we can negotiate preferred-provider relationships with providers that bring the costs way down for consumers.

"The most important dollar in the health care system should be the one that comes out of your pocket. If we can tie enough of those people together, we can achieve that so cash-payers are at least treated with the same respect as people who are walking in with an insurance card."

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