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Radical Approach To Huge Hospital Bills: Set Your Own Price

By **Jay Hancock** | May 13, 2015

In the late 1990s you could have taken what hospitals charged to administer inpatient chemotherapy and bought a Ford Escort econobox. Today average chemo charges (not even counting the price of the anti-cancer drugs) are enough to pay for a Lexus GX sport-utility vehicle, government data show.

Hospital prices have risen nearly three times as much as overall inflation since Ronald Reagan was president. Health payers have tried HMOs, accountable care organizations and other innovations to control them, with little effect.

A small benefits consulting firm called ELAP Services is causing commotion by suggesting an alternative: Refuse to pay. When hospitals send invoices with charges that seem to bear no relationship to their costs, the Pennsylvania firm tells its clients (generally medium-sized employers) to just say no.

Instead, employers pay hospitals a much lower amount for their services — based on ELAP's analysis of what is reasonable after analyzing the hospitals' own financial filings.

For facilities on the receiving end of ELAP's unusual strategy, this is a disruption of business as usual, to say the least. Hospitals are unhappy but have failed to make headway against it in court.

"It was a leap of faith," when Huffines Auto Dealerships, which provides coverage to 300 employees and their families, signed on to the ELAP plan a few years ago, said Eric Hartter, chief financial officer for the Texas firm.

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What he says now: “This is the best form of true health care reform that I’ve come across.”

Huffines first worked with ELAP on charges for an employee’s back surgery. The worker had spent three days in a Dallas hospital. The bill was $600,000, Hartter said.

Like many businesses, the dealership pays worker health costs directly. At the time it was working with a claims administrator that set up a traditional, “preferred provider” network with agreed hospital discounts.

The administrator looked at the bill and said, “‘Don’t worry. By the time we apply the discounts and everything else it’ll be down to about $300,000,’” Hartter recalled. “I said, ‘What’s the difference? That doesn’t make me feel any better.’”

Instead he had ELAP analyze the bill. The firm estimated costs for the treatment based on the hospital’s financial reports filed with Medicare. Then it added a cushion so the hospital could make a modest profit.

“We wrote a check to the hospital for $28,900 and we never heard from them again,” Hartter said.

Now Huffines and ELAP, which launched this service in 2007 and has been growing since, treat every big hospital bill the same way. The result has saved so much money that what the dealership and workers contribute for health costs stayed unchanged for six years while benefits remained the same, Hartter said.

More than 200 employers providing health coverage to about 115,000 workers and dependents have hired ELAP. Company CEO Steve Kelly said he is aware of only one other, smaller, benefits consultant with the same approach.

Normally customers who don’t pay bills get hassled or sued. This sometimes happens to ELAP clients and their workers. Hospitals send patients huge invoices for what the employer refused to pay. They hire collection agents and threaten credit scores.

ELAP fights back with lawyers and several arguments: How can hospitals justifiably charge employers and their workers so much more than they accept from Medicare, the government program for seniors? How can hospitals bill $30 for a gauze pad? How can employee-patients consent to prices they will never see until after they’ve been discharged?

The American Hospital Association and the Federation of American Hospitals did not respond to requests for comment about ELAP.

ELAP is not merely a medical-bill auditor, like many other companies, combing hospital statements for errors. It sets the reimbursement, telling hospitals what clients will pay.

Eventually, “overwhelmingly, the providers just accept the payment” and leave patients alone, Kelly said. A federal district judge in Georgia decided a 2012 case against a hospital and in favor of ELAP and its furniture chain client.

Most patients being dunned by hospitals are unlikely to meet with the same success on their own, lacking backup from ELAP and its legal firepower.

Under ELAP’s main model, neither employers nor their claims administrators sign contracts with hospitals. Employers detail the reimbursement process in documents establishing how the plan covers workers. That gives it legal weight, ELAP has argued in court. ELAP agrees to handle all hospital bills for an employer and defend workers from collections in return for a percentage fee tied to total hospital charges.

There is no hospital network. Employees may use almost any facility. Payments are made later based on ELAP’s analysis.

That may change, Kelly said. Often it makes sense even for medium-sized employers to contract directly with hospitals to treat their workers, he said. That way prices are clear.

But for now ELAP clients such as Huffines and IBT Industrial Solutions are giving hospitals a different dose of medicine.

At IBT, a Kansas distributor of bearings and motors, “runaway health costs were starting to threaten the long-term viability of our company,” said chief financial officer Greg Drown. After reading “Bitter Pill,” a critical Time magazine piece about hospitals, IBT executives decided to try something else.

They hired ELAP, which was “not a simple or risk-free move,” cautions Drown.

About one IBT worker in five using a hospital gets “balance billed” for amounts the employer won’t pay, he said. That can take months to resolve even with ELAP’s legal support. But ELAP’s program cut health costs by about a fourth, he added.

Recently managers at a big medical system in metro Kansas City “finally figured out we were doing something a little bit different,” sent “a nasty letter” and followed up with a call, he said.

The hospital executive on the phone “was very condescending and thought I was stupid and had been duped by a predatory consultant and had been sold a — quote — crappy plan,” Drown said.

Drown listened. He told the man he would consult with his colleagues and reply.

“I called him back a week or two later and left him a rather detailed voicemail that said, ‘We’re not changing anything. We’re staying where we are.’ And the guy never called me back.”

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