PART THREE

The Dental Drilldown: Patient financing programs 101

An easy guide for navigating the who, what, and how much

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INCREASING CASE ACCEPTANCE is one of the keys to running a productive and profitable practice. One way you can greatly improve case acceptance is by offering affordable financing options to put proper care and treatment within reach of every patient.

You create the ultimate win-win situation. The patient receives the necessary care at a cost that suits his or her budget, and you retain a satisfied customer who will be happy to refer others to you.

There are four types of patient financing programs available today, and these are the key differentiators between them:

- Liability for nonpayment
- Timing of payment(s)
- Interest earned
- Responsibility for ensuring legal and regulatory compliance

TRADITIONAL THIRD-PARTY FINANCING

Traditional third-party financing is what happens when patients elect to use their existing credit cards to pay for their treatment. While this is not typically thought of as a dental care financing option, it's commonly used.

Here's how it works. Your practice is paid in full within 24–48 hours after processing the credit card. The financing is provided to the consumer (patient) by the credit card's issuing bank, and the issuing bank assumes the risk for nonpayment.

The issuing bank covers its risk in two ways. First, it earns 100% of the interest if the transaction is not paid off during the normal billing cycle. Second, it participates in the fees from the merchant processor. These fees are your practice's only costs. Basically, you're paying the merchant services provider for the privilege of processing credit card transactions and extending credit to the patient through the settlement process. The average fee for credit card processing in dentistry typically ranges from 2.5% to 3.0%.

DEPENDENT THIRD-PARTY FINANCING

Dependent third-party financing differs from traditional in that you partner with the third-party financing provider. This allows you to offer terms and conditions that increase case acceptance and provide more affordable payment plans for the patient. The process is relatively straightforward. The third-party financing provider will arrange to pay you a smaller amount than the total owed by the patient at the time of the transaction. This difference is often referred to as the "discount," and the practice incurs a cost that is typically 6% to 8% of the total transaction value.

The financing provider holds the complete risk for nonpayment, which means you hold zero liability if the patient defaults.

The provider earns revenue in two ways: (1) the discount from the practice and (2) any interest that's earned during the relationship with the patient. For example, the practice typically helps fund financing that falls into a window of 0% interest over a set period of time (e.g., six or 12 months). However, some providers charge interest or even accrued interest if the balance is not paid off by the expiration of the promotional period.

There are three main advantages in choosing this type of plan: (1) you get paid up front, (2) you don't take any risk for nonpayment, and (3) you increase case acceptance by introducing more favorable terms (extended payment plans with 0% interest).

In terms of disadvantages, you pay 6% to 8% in fees. However, the incremental costs of these programs, compared to traditional credit card payments, are really 3.5% to 5%, considering the average dental practice processing fee of 2.5% to 3%.

TRADITIONAL IN-HOUSE FINANCING

Traditional in-house financing occurs when a patient sets up a payment plan with the practice, rather than applying for financing. In these situations, the practice holds the risk for future nonpayment and typically

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doesn't charge interest. However, the practice also holds total control over the patient experience because you choose the patients who are offered a plan, the procedures included, and the terms given.

For example, it's common for dental practices that use this type of program to offer a cash discount on larger procedures with full payment up front or if the patient agrees to a set schedule of equal payments over six to 18 months.

COSTS TO THE PRACTICE

The amount of fees the practice pays for these types of plans depends. For instance, typically these recurring payments are set up as credit card transactions. This means you'll be hit with a processing fee per transaction, which is greater than 3% on average, based on the typical practice credit card processing plan. If your practice is larger and has a high volume of transactions, you should explore setting up automatic payments via bank draft. With this option, transaction fees typically range from $0.25 to $0.50 and do not include a percentage fee. However, be aware that the documentation required to get set up with an ACH (Automated Clearing House) network is a bit more cumbersome than that required for credit card processing, and there are typically higher monthly fees for this additional service.

HYBRID IN-HOUSE FINANCING

Hybrid in-house financing differs from traditional in two ways: (1) the patients sign a legal financing agreement and are charged interest, and (2) there's an intermediary administrating the program on behalf of the doctor's practice. The intermediary assists with all legal and regulatory compliance for the program and interfaces with the patient.

Firms that provide this type of plan do so using an outsourced solution that enables practices to effectively and efficiently extend credit to their patients and, more importantly, to combine treatment and financing into one plan that works for both the patient and the practice.

With this type of plan, you're not paid fully up front. Rather, you're typically encouraged to make sure the patient pays a deposit equal to or greater than the hard costs of the treatment plan. You hold the risk for nonpayment but also earn the interest income.

Like traditional in-house financing, you maintain total control over choosing the patients and cases for which this program is offered. You have the added benefit of setting the interest rate without the patient knowing you're the financing provider.

But keep one thing in mind: if finances get tight for a patient, and he or she needs to decide which bills get paid and which don't, the credit card or cell phone payment is likely to have priority over the payment to you. However, if a patient defaults, you can instruct the outsourced provider to adjust the terms to make repayment more palatable for the patient. This decision would be based on the situation and your discretion. For example, you might allow one payment to be skipped and add it to the end, or you might reduce the monthly payment but extend the terms.

Plus, since you capture the full payment and the interest earned, the only two offsets are nonpayment and any fees paid along the way. Firms that provide these types of solutions typically have three types of fees: (1) setup fees, (2) monthly fees, and (3) collection fees (typically a dollar amount per collection transaction and/or a portion of the transaction).

The practice is paid as the patient pays, so your gross income stream is the actual amount collected, less the fees, and payments include principal and interest.

RECOMMENDATIONS

Making a one-size-fits-all recommendation is difficult because it depends on your practice's unique situation.

The point here is risk management. If you don't have room in your schedule, then being aggressive about increasing case acceptance probably doesn't make sense. If you have the capacity to do more, then you could be more aggressive with filling the schedule on a standalone basis.

The hotel and golf industries figured this out decades ago. A night or a round left open is lost revenue, so hotels and courses can be aggressive about trying to fill these based on the timing and situation. As a dentist, you can take on more risk if you have the capacity. To more effectively manage the risk, require a deposit that covers or exceeds your out-of-pocket hard costs. DE

Editor's note: This is part three in a three-part series. To read the first and second installments, visit dentaleconomics.com and search for "Sadusky."

ALEX SADUSKY currently serves as the chief executive officer of Dental Card Services Alliance LLC (dentalcardservices.com), an organization he cofounded in 2009. Dental Card Services Alliance is the exclusive credit card processing services provider of the Academy of General Dentistry Exclusive Benefits program and has numerous other endorsements, alliances, and associations.