PRACTICE MANAGEMENT CENTER

AMA AMERICAN MEDICAL ASSOCIATION

Shopping for a credit or debit card merchant agreement: Guidelines for physicians

As patients take on more responsibility for their health care payments, physicians are providing more convenient ways to accept payment. For many physician practices this involves accepting credit, debit and prepaid cards, as well as changing the way paper checks are handled. If you want to accept electronic payments of any kind, your first task is establishing a merchant agreement. Like any major business decision, choosing the right merchant agreement and payment processor requires doing your homework, asking tough questions and examining your bottom line.

The following information is provided by the American Medical Association (AMA) to help you make the right choice for your practice—a choice that can save you thousands of dollars each year and substantial administrative hassle:

What is a merchant agreement?

A merchant agreement is a business arrangement between a service provider (merchant) and a credit card processing company. In this arrangement, the merchant (physician or physician practice) pays the processor certain fees in exchange for the ability to accept credit or debit card payments.

Why should I acquire a merchant agreement?

Your patients expect you to accept credit card, debit card and electronic check payments.

- While it may seem like your practice will save money by avoiding the fees involved in accepting credit card payments, these fees are relatively minor. By not offering credit card payment as an option, your practice risks losing revenue by making it harder for patients to pay you.

This educational flier was developed through a cooperative effort between the American Medical Association and Topline Solutions Inc., a subsidiary of NaviNet.

- Paper checks are becoming less common, and many patients use credit and debit cards for all their purchases. By offering credit and debit card payments as an option, you will make it easier for your patients to pay you and thus increase your chances of receiving payment at the time of service.
- Just as other service providers are less likely to receive payment for their services when their client walks out the door without paying them, so is your practice much less likely to receive payment from your patients if they do not pay during their visit. When you compare the fee percentage points you must pay for card processing with the revenue you will lose by not receiving any payment at all, you will find that a merchant agreement is a wise (and relatively inexpensive) investment.
- You can save money by decreasing your processing fees when you have a personal identification number (PIN) entry device ready at the front desk for debit card payments. Processing debit card payments through a debit network is generally less expensive than processing credit card payments.
- Consider accepting electronic checks (also referred to as ACH debits), which can be a safer form of payment than paper checks. Paper check processing is risky if you do not have good financial controls in place, such as a daily bank deposit. You will pay a small fee for processing electronic checks, but you can't misplace electronic checks as you can paper checks. Compared to a single lost check, the minimal processing fee for electronic checks might actually save you money. Also be aware that if an electronic check charges for "insufficient funds," the fee is often less than similar charges for paper checks.

How do I know which processor offers the best financial arrangement?

1. **Compare processors' prices and fees. This comparison can be difficult, so be sure to take the time you need to understand what processors offer you.**

- Exercise caution when a processor advertises very low discount fees. There is rarely a single fee that covers all your costs for using a particular processor. When quoted percentages are very low, they can be misleading.
- If you already have a processor and are re-evaluating your service, keep in mind that every processor will offer a complimentary savings analysis (in which they will use a few months of your current merchant statements to calculate what you would have paid if you had used their service instead). These analyses can be excellent tools for comparing processing costs—but only when they include all applicable fees. Some questions you may wish to ask include:
    - Does the analysis include all fees (per occurrence, chargeback, voice authorization, PIN-based debit card fees, network fees, annual fees, membership fees, renewal fees)?
    - Does the analysis project several years into the future? If so, pay attention to the impact of multiple years' estimates on your total savings. For instance, based on the analysis, the processor may claim that you would save $480 with its service. But the savings could be $480 per year or $480 per four years—only $10 per month.
- If you have the option of merchant services included with other services from your bank, look closely at the merchant processing fees in comparison with other processors' fees. Banks and other financial institutions will cross-subsidize programs, so they may offer you very low processing fees but then assess higher fees on other bank services. Your best alternative might indeed be your bank, but prior to accepting that as your best choice, research other processors. Ask your banker to walk through all the components of the program to make sure you would not end up paying more in total for your bank services than you would if your financial services and credit card processing services were with separate vendors.
- Many processors assess minimum volume requirements and minimum monthly fees. Depending on the volume of credit card payments your practice receives, these fees can quickly add up and make what

appears to be an attractive deal unsuitable for your practice. Not every processor has minimum requirements, so do not accept unnecessary charges.

- If you process larger dollar amount transactions, you can often negotiate better monthly fees. For example, a surgeon who collects deposits or full payment at the time of service in an ambulatory surgery center can probably get a better deal than a primary care physician practice, which primarily charges $10 copayments. In general, if you can collect the patient's full financial responsibility at the point of service, you will be eligible for better rates than if you must collect the copayment separately from additional coinsurance or other amounts.
- Ask other physician practices what vendor they use for their credit card processing. Consider deals and special rates available through your professional medical organizations. For instance, First National Merchant Solutions offers AMA members special rates and packages.

2. Carefully read and evaluate processor agreements and statements.

- Read the agreement carefully. Did you understand it easily the first time you read it? Is the agreement relatively brief and straightforward?
- Carefully evaluate the pros and cons of multiyear contracts. Multiyear contracts can include such substantial termination fees that they prevent you from terminating a bad agreement you might like to cancel. Keep in mind that even a very attractive short-run deal can turn unfavorable over time.
- You might think of merchant agreements as variable-rate mortgages—they can be very good deals, but after a few "rate adjustments," they can quickly become very bad deals. It is typical that multiyear contracts allow rate increases at the processor's discretion. Typically, processors cannot guarantee processing rates for the future because some of the fees they charge you are based on the fees the card associations (e.g., Visa) establish.
- Review very closely unbundled pricing programs that show a very low base discount fee plus a list of other fees that "may" apply. An unbundled program will use terminology, such as "qualified," "mid-qualified" and "non-qualified," and may use varying combinations of discount rate, authorization fee, transaction fee, assessment fee, processing fee, address verification service (AVS) fee, batch settlement/ACH fee, batch header fee, etc. If you see these on a proposal or contract, be cautious and insist that the salesperson help you calculate the overall effect of these fees in addition to your discount rates and monthly service charges.
- Be aware that processing a payment from a credit card that gives the cardholder rewards may cost you more than a credit card that does not give rewards. If you have a patient population that typically uses reward and corporate cards, make sure you know how much the processor will charge for processing these types of payments—the fees for these card types can be significant, and not all processors charge the same fees. Ask the processor you are considering what it charges for processing these card payments and compare that fee with the fee your current processor or another processor you are considering charges. While an agreement with a certain processor might be a good deal for another physician practice, take your practice's unique circumstances into consideration when evaluating whether an agreement with that processor would be a good deal for your practice.

3. Make sure the merchant statement reconciliation is transparent and easy to understand.

- Ask for a sample merchant statement, and make sure at least two people in your practice know how to read it. The statement should be clear enough that you can easily identify the reason for each fee and determine whether the fee was applied appropriately. For example, processors typically charge more for "card not present" payments (in which the physical card was not swiped) than for "card present" payments (in which the physical card was swiped). If you have numerous card-not-present fees, this could mean several things: your staff might be keying in numbers instead of swiping cards, your card swipe device might be defective, or there might be a mistake on your statement. Once you recognize the cause(s) of the charge, you can correct any of these situations.

- Make sure that the sample merchant statement clearly explains all its fees and accounts for all charges. The charges listed should conform to the merchant agreement.
- Find out whether the processor deposits the gross amount of payments and shows fees as a separate charge or deposits the net amount of payments with the fees already subtracted. If the processor simply deposits the net amount, reconciling your merchant statement and transaction totals with your bank statement can be difficult. **Strongly consider and request gross deposit with fees shown separately on your bank statement.**

What kinds of fees should I look for in merchant statements?

- Rewards, mileage and corporate cards
- Three-digit CVV number missing (located on the back of the card)
- Incorrect address, personal information or missing ZIP code
- Batch of credit charges closed out or posted late (some companies assess a higher rate or extra fee if charges are not closed out or posted after the day they were first entered)
- Card not present. When patients call to pay their account balance over the phone by credit card, or send in their credit card information to pay for a balance by mail, the result is card-not-present transactions for which you pay a higher fee. Determine your practice's policy about whether you will accept credit card payments for cards not present. This is up to the discretion of the physician practice. Assess the pros and cons of collecting or not collecting the funds when setting your policies.

Figure 1. Sample merchant statement

Statement print date: 01/04/2008

Merchant: [redacted]

Processing detail

Line	Card	Processing rate	Amount	# of transactions	Processing fee
1	Visa	2.040%	$280.00	9	$5.71
2	Visa	3.025%	$70.76	1	$2.14
3	MasterCard	3.025%	$20.00	1	$0.61
4	Visa	2.210%	$2,630.00	20	$58.12
5	MasterCard	3.095%	$10.27	1	$0.32
6	MasterCard	2.210%	$105.00	5	$2.32
7	Visa	2.210%	$2,385.00	17	$52.71
8	Visa	3.095%	$155.00	1	$4.80
9	Visa	3.025%	$85.00	1	$2.57
10	MasterCard	3.385%	$10.00	1	$0.34

Let's take a closer look at **Figure 1**:

Line 1 is for Visa transactions. In the period covered by this statement, nine such transactions were made, totaling $280. Under the merchant agreement, the processing rate for these transactions (sometimes called a "discount rate") was 2.040%, totaling $5.71 in fees.

Line 2 is also for Visa transactions. Notice that the processing rate is higher than in Line 1: 3.025%. Even though a standard credit card was used, the card was not present, and the account numbers were manually entered (i.e., not swiped). Had the card been swiped, the processing fee would have been 2.040% for a total fee of $1.44 instead of $2.14. This may seem like a small amount, but when multiplied by numerous patients daily, the amount will add up.

Lines 4–8 are Visa Rewards and Visa Signature or MasterCard World cards. The lowest processing rate incurred with these transactions is 2.210% (lines 4, 6 and 7), and goes as high as 3.095% (lines 5 and 8.) The rates for rewards and corporate cards are 3.095% and 3.385% as opposed to the standard 2.040% rate.

How do I determine whether entering into an agreement with a certain processor will work well for my practice?

1. **Check the processor's reputation and stability.**

- There are literally hundreds of processors in the United States, of all sizes and levels of experience. Find out how old the company is, and check it against national rankings for some guidance about the processor's stability.
- Get references for the processor; it should freely give them to you. If the professional associations, software vendors and other companies you already work with offer deals with certain processors, look into those first.
- Consider your technology infrastructure. Look for a processor that can provide services that match your technology, or that can help you transition to the technology you require. For example, if you are using payment calculators or other tools related to patient payment on the Web, you may want to use a processor that has a Web-based terminal instead of a stand-alone point-of-sale device. If you don't have a high-speed Internet connection, on the other hand, you'll want to use a stand-alone point-of-sale device that uses a standard phone line.

2. **Ask about ongoing support—quality support can make a big difference.**

- Find out what the vendor's procedure is for delivering help when you have a problem. When you need support, will you get it from the same company that is selling the merchant agreement? Will you have an account manager? Can you contact your sales representative, or does the processor transfer you to a separate company once you sign an agreement? Is there a toll-free number? Does the processor outsource its service problems?
- Find out how available the processor is to answer questions, especially after normal business hours. Is there a fee for customer service? Will there be a cost to you to call the credit card companies directly with inquiries?
- Ask whether the processor has any health care experience. If it does, it may be able to suggest ways to improve your efficiency, understand your jargon (such as "time of service" and "post-adjudication") and give you access to tools that can help you manage patient payments more effectively. Having this kind of support can make managing payments easier and more pleasant, and can cut down the time you need to resolve problems.

How does enrollment work?

Enrollment processes vary, but your enrollment should take no less than one full day and no more than one week.

Ask the processor representative what the enrollment requirements are prior to deciding whether you want to enroll. Some processors have a very time-consuming and invasive enrollment process that requires providing business financial statements, personal financial statements, business licenses, tax returns, bank statements and site inspections. The processor may also require signatures and information from multiple principals, or personal guarantees for clients considered high-risk.

- The application you complete should be fairly easy and non-intrusive. Processors that are familiar with health care are less likely to have an overly complicated enrollment process because they understand the nature of the business and know physician practices are inherently less risky than other merchants, such as general retail establishments and convenience stores.
- Ask how quickly the processor can establish your account. You may wish to avoid doing business with processors that suggest they can set up your account and install or reprogram your equipment within a day. Thoroughly research a processor before entering into any kind of agreement.

Will I need equipment?

1. **You will need equipment, but find out the exact equipment the processor requires before you purchase or lease.**

- You can buy, rent or lease equipment from the processor. A processor may suggest that you lease point-of-sale (POS) equipment through their noncancelable lease program, claiming this kind of lease will decrease the amount you spend on related taxes and ensure that you comply with card associations' new technology. However, most terminals can be reprogrammed, and what you might save in taxes on a noncancelable lease can be much less than what you might save over time with other leasing or purchasing options. If you are not interested in purchasing equipment upfront, ask your processor whether it has a month-to-month rental program, which can be less expensive than a longer lease.
- Processors sometimes sell proprietary POS equipment, making it more expensive for you to move to another processor. Before you buy equipment, make sure it is compatible with other processors' programs.
- Some processors will assess equipment upgrade or download fees to keep current with changing card association compliance regulations. Before signing an agreement, ask whether the processor assesses such fees. A number of reputable processors offer necessary updates and downloads free of charge.

2. **Consider Web-based access instead of stand-alone POS devices.**

- Some consultants and accounting firms warn against stand-alone POS devices. Problems you might experience with stand-alone devices include:
    - Fraudulent transactions, which anyone who has access to the device can enter. You might not even discover such illegitimate transactions, especially if you have difficulty deciphering your merchant statement.
    - Unnecessary add-on fees, which may result if your stand-alone POS device requires a staff member to "close out" the device every evening. If you decide to use a stand-alone POS device, you can avoid these fees by programming your device to automatically close out every night.
    - Charges you cannot link to a specific patient. With stand-alone POS devices, you may not be able to identify certain charges with a specific patient because the device will only link the

payment to the cardholder, not the patient. In many cases the cardholder is not the patient. When card charges are not tied directly to the patient account or visit, it is more complicated to post and reconcile payments.

- Times when you cannot process a payment. Because it is a “dial-up” machine, a stand-alone POS device requires its own phone line. If you decide to use a stand-alone POS device, you can avoid this problem by obtaining a separate phone line for the device. If your device will share a phone line (for instance, with your fax machine), you should evaluate whether the volume is such that you can accommodate both the card transactions and the other phone line use.

- Consider using a Web-based application that can record the payments you process and tie them to the charges you post to the patient’s account.

Do I need to change my business practices to accommodate security or privacy issues related to having a merchant agreement?

To ensure credit card security, make sure your internal processes are secure.

- Do not write down credit or debit card numbers and expiration dates on paper—especially on patient charts. Writing down this information can make it very easy for someone in the building to get all the necessary information—medical records, address, phone number, personal identifiers and financial accounts—for identity theft in one place.
- Do not let credit cards “float” around the desk. Make sure the swipe device is right at the patient check-in or check-out point, and always return the credit card as soon as you have swiped it and verified the cardholder signature.
- If your practice has a billing service, make sure it does not fax credit card numbers to you. Work with your billing service to devise a secure process for processing payments from patients who have called in their credit card numbers. You might also seek software services or processors that can work with your billing company to facilitate payments directly to your merchant account.
- Payment Card Industry–Data Security Standards (PCI–DSS), also referred to as “PCI compliance,” is a new set of security requirements you must adhere to when entering a merchant agreement. Your processor may be able to help you with becoming and remaining compliant—ask whether it offers such a service.

In today’s world, having a merchant agreement is a necessity. Make sure you choose a processor that offers the best arrangements for you and your patients.

Questions or concerns about practice management issues?

AMA members and their practice staff can e-mail the AMA Practice Management Center at **practicemanagementcenter@ama-assn.org** for assistance.

For additional information and resources, there are three easy ways to contact the AMA Practice Management Center:

- Call **(800) 262-3211** and ask for the AMA Practice Management Center.
- Fax information to **(312) 464-5541.**
- Visit **www.ama-assn.org/go/pmc** to access the AMA Practice Management Center Web site.

The AMA Practice Management Center is a resource of the AMA Private Sector Advocacy unit.

This educational flier was developed through a cooperative effort between the American Medical Association and Topline Solutions Inc., a subsidiary of NaviNet.