



**Administrative Simplification Under the
Patient Protection and Affordable Care Act:
Standards and Operating Rules for Electronic Funds Transfer
(EFT) and Electronic Remittance Advice (ERA)**

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U.S. Department of Health & Human Services
National Committee on Vital and Health Statistics (NCVHS)
Subcommittee on Standards

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PART I - OVERVIEW OF THE PAYMENT PROCESS

Introduction

NACHA – The Electronic Payments Association is pleased to submit this testimony to the National Committee on Vital and Health Statistics’ (NCVHS) Subcommittee on Standards as it continues to review the administrative simplification provisions (Section 1104) of the *Patient Protection and Affordable Care Act* (PPACA). As requested, NACHA is providing an overview of EFT payment processing. In addition, NACHA is providing recommendations for the adoption of electronic funds transfer (EFT) standards and operating rules for the healthcare industry.

The foundation is already in place for healthcare administrative simplification using EFTs.

NACHA is the not-for-profit organization that develops and maintains the standards for electronic fund transfers using the Automated Clearing House (ACH) Network, and authors operating rules for the implementation of the ACH standards. ACH transactions are a ubiquitous form of electronic payment that is already used by many health plans, including Medicare, to pay healthcare providers. The *NACHA Operating Rules*, and the transaction standards on which they are based, provide the backbone for this system.

Through these standards and operating rules, the foundation is already in place for administrative simplification using EFTs. NACHA proposes that the Subcommittee build upon this foundation, which already governs billions of dollars of healthcare payments each year, by recommending the adoption of the ACH standards, authored by NACHA and described below, as the EFT standard for healthcare payments, and name CAQH CORE, with support from NACHA, as the non-profit entity to author EFT and ERA operating rules for health plans and providers.

The ACH Network

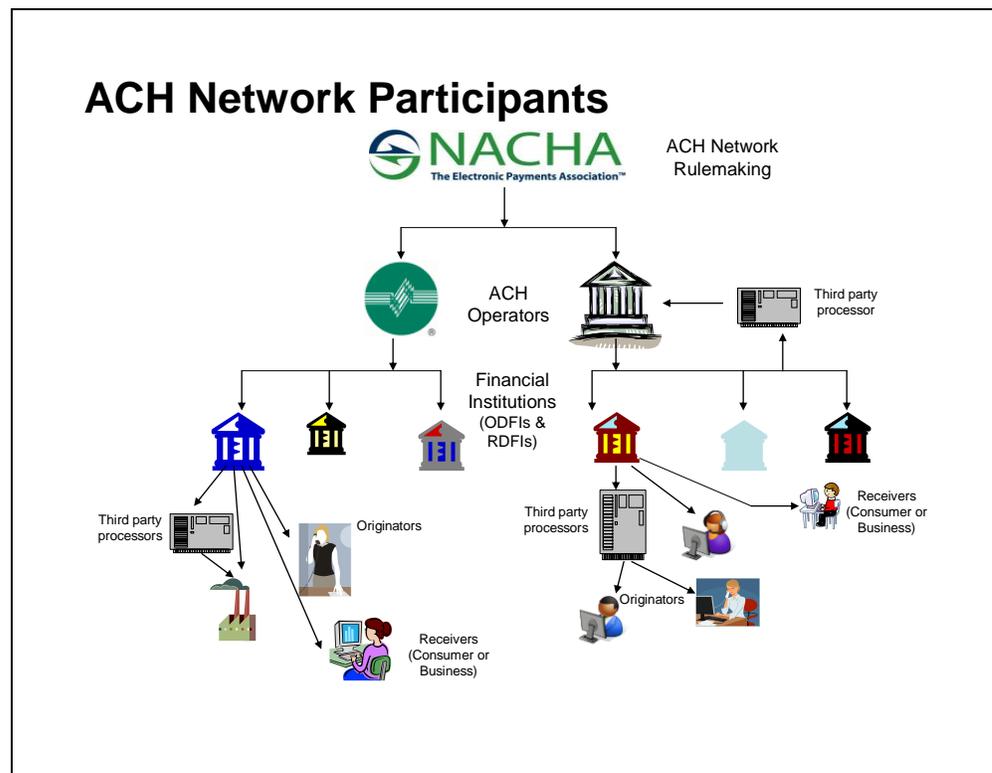
The beginnings of the ACH Network date to the early 1970s as a method to use technology to replace paper check processing. Today, the ACH Network is the backbone for the electronic movement of money and other related data, providing a safe, secure, reliable network for direct consumer,

business, and government payments. It is a fully electronic payments system that connects virtually all of the nation's 14,000 financial institutions.

The ubiquity of the ACH Network is one of its strongest value propositions.

The ACH Network is a batch processing system. Financial institutions receive files of ACH transactions from businesses throughout the day, which are then accumulated and sent to an ACH Operator on defined schedules, at a minimum of once a day, but typically more frequently.

The ACH Operator then sorts the transactions by destination and makes a file available to each receiving financial institution. Each receiving financial institution then posts the individual EFTs to the correct customer accounts. In this way, businesses can use the ACH Network to send and receive EFTs from virtually any other party that has an account at a financial institution. This ubiquity of the ACH Network is one of its defining characteristics and one of its strongest value propositions.



In 2009 there were nearly 19 billion ACH payments made, transferring \$30 trillion in value. The general public is most familiar with the ACH Network through Direct Deposit, which is widely used for payroll, tax refunds, and Social Security and other government benefit payments. Automated and online bill payments are other common uses of the ACH by individual consumers.

The single largest user of the ACH Network is the Federal government. Through the Department of the Treasury, the Federal government uses the ACH Network for employee payroll and retirement distributions, Social Security and other benefit payments, tax collections and refunds, vendor payments, and collections of other payments from individuals and businesses.¹ In 2009, the Treasury sent 1.2 billion ACH payments, moving \$4.3 trillion in value. Through the Center for Medicare and Medicaid Services, the Federal government also uses the ACH Network to send healthcare EFTs to healthcare providers.

*Since 1974,
NACHA has
successfully
administered a
fair and
equitable set of
operating rules.*

NACHA and the NACHA Operating Rules

NACHA is the standards organization for EFT payments through the ACH Network. NACHA represents and brings together financial institutions of all sizes and types throughout the United States, both directly and through 18 Regional Payments Associations. NACHA also brings together more than 450 other companies and organizations through our industry councils and Affiliate Membership program.

NACHA is the author of the *NACHA Operating Rules*, a fair and equitable set of rules and formats that create certainty and interoperability for all parties using these EFT standards. Since 1974, NACHA has successfully administered these private-sector operating rules governing the exchange of ACH payments, and defining the roles and responsibilities of financial institutions and other participants in the ACH Network. The *NACHA Operating Rules* work in concert with applicable laws and regulations to

¹ Through public rulemaking, the Department of the Treasury has adopted the *NACHA Operating Rules* for Federal government ACH payments.

provide a legal and business foundation for the use of ACH payments. The *NACHA Operating Rules* are amended through a deliberative and inclusive process similar to that used by Federal agencies under the Administrative Procedures Act. This allows participants in the ACH Network - commercial banks, community banks, credit unions, large corporations, small businesses, consumer advocates, and industry vendors - the opportunity to comment on proposed rule changes.

Private-sector rulemaking provides the flexibility to promptly identify and respond to participant requirements and new technologies, and to define in sufficient detail the roles and responsibilities of participants in the ACH Network. From this foundation, the *NACHA Operating Rules* promote innovation and efficiency, and provide security and certainty regarding ACH payments.

Through the *NACHA Operating Rules*, NACHA supports EFT standards and sound business practices in the areas of electronic bill payment, e-commerce, electronic check conversion, electronic data exchange and international payments for many industries and entities.

The *NACHA Operating Rules* incorporate standard EFT transaction formats; that is, the manner by which financial institutions communicate payment order data and other payment-related information and instructions to each other. Literally, the standards are data formatting specifications that define the information that is communicated within each EFT, and also standardize where every piece of information is placed within the overall transaction record.

As discussed below, two of these ACH standards are used in business-to-business EFTs; others are used for business-to-consumer EFTs (e.g., Direct Deposits) and consumer-to-business EFTs (e.g., various methods of bill payments).

In total, the *NACHA Operating Rules* - incorporating standards, and amended through an open, inclusive and fair process - produce an

integrated set of rights, responsibilities, and technical specifications that provide an efficient, secure, and ubiquitous electronic payment system to financial institutions and their customers.

***The NACHA
Operating Rules
support two EFT
standards for
B2B payments –
the CCD+ and
the CTX
standards.***

Business-to-Business EFT Standards

Today, businesses within and across many industries pay each other with EFTs using the ACH Network. These payments are categorized as “business-to-business” payments or “B2B.” A private-sector or government health plan payment to a healthcare provider is an example of a B2B payment.

The *NACHA Operating Rules* support two EFT standards for B2B payments – the “CCD” (Corporate Credit or Debit), and the “CTX” (Corporate Trade Exchange). The CCD standard can include one record of payment-related information of up to 80 characters; a CCD with such a record is known as a “CCD+.” The CTX standard can include up to 9,999 records of payment-related information.

The CTX standard was created during the mid 1980s. During that time, NACHA and X12 worked together on an EFT standard that would carry a complete X12 message set enveloped within a complete ACH payment. With this CTX standard, the dollars and remittance data are transferred together through the banking system. Since then, financial institutions have developed a variety of services to businesses for the processing of remittance data, on both the sending and receiving sides of the ACH transaction, in support of varying needs of many different industries.

In 2009, businesses made 286 million EFTs using the CCD+ standard; businesses also made 60 million EFTs using the CTX standard, and these EFTs carried 806 million records of remittance information. Combined, businesses used these EFT standards for 346 million EFTs with nearly 1.1 billion records of remittance information.

Relationship of Standards and Rules

Note: CCD+ and CTX are standards for EFT payments today – only CTX allows for payment + info to flow together

	ERA	EFT Payment
Standards	X12 835	NACHA ACH Standard Entry Class Codes CCD+ and CTX
Standards Body	ANSI ASC X12	NACHA
Operating Rules	ERA Healthcare Operating Rules	NACHA Operating Rules Payment Process Business rules and guidelines that implement the standards
		Potential “thin layer” of EFT Healthcare operating rules
Healthcare Rules describe additional rules and guidelines that are unique and intrinsic to healthcare transactions		

The Migration to EFT

In a typical B2B payment scenario, a business sends a payment in response to the receipt of an invoice. In many industries, these processes were once paper-based, but industry participants have steadily migrated to electronic of invoices, funds transfers, and remittance information. Businesses generally achieve the greatest levels of benefits when the complete billing, payment and remittance cycle is electronic – EFTs are made faster, and are more accurate and secure, than paper checks. Electronic processing also provides tangible time and cost savings benefits, reduction in errors through elimination of re-keying of data, as well as indirect environmental benefits.

The migration of B2B payments from paper to electronic can be characterized as slow but steady. Some of the challenges to greater use of electronic payments include establishing payment arrangements with a potentially large number of trading partners, some of which could be small businesses, and the administrative effort to collect and maintain accurate account information for trading partners. These benefits and challenges

Electronic payments are faster, and are more accurate and secure, than paper checks.

should sound familiar to businesses in the healthcare industry, as will be described below.

Healthcare EFTs and ERAs

According to the US Healthcare Efficiency Index, today only ten percent of all healthcare payments are made electronically.² Other industry research estimates this percentage at around 30 percent.³ Thus, the first step – moving paper payments to electronic payments could, according to U.S. Healthcare Efficiency Index Fact Sheet⁴, create \$11 billion in annual savings. In the June 2007 paper *Overhauling the US Healthcare Payment System*, McKinsey Quarterly stated a cumulative cost savings of \$4.80 per claim payment by moving from paper to electronic processing.

The ACH Network currently serves as an efficient means for health plans to send EFTs to healthcare providers.

The ACH Network currently serves as an efficient means for health plans to send EFTs to healthcare providers. Health plans use the CCD+ standard to send an EFT to a provider with a “re-association” key placed in the addenda record. The provider or its service provider uses the re-association key to match the payment to the ERA, which has been delivered to the provider via another channel. Electronic re-association of EFTs and ERAs represents significant efficiency improvements for health plans and providers compared to paper payments and remittances, and also in comparison to cases in which only one of the transactions is electronic (e.g., EFT with paper remittance, or ERA with paper check).

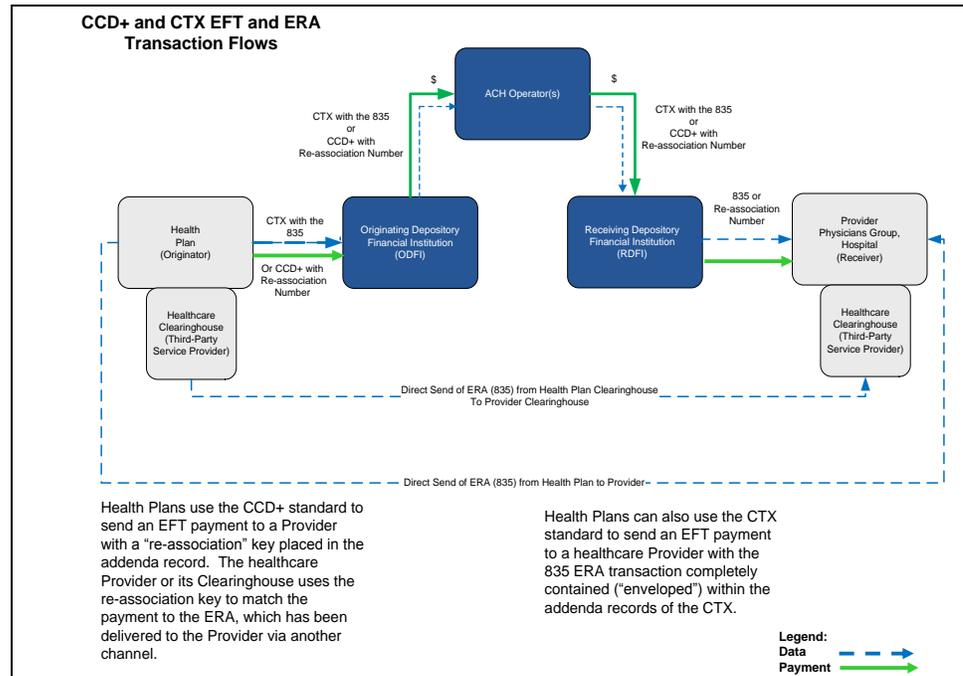
Health plans can also use the CTX standard to send an EFT to a provider with the 835 ERA transaction completely contained (“enveloped”) within the addenda records of the CTX. When dollars and data are transferred together in this manner, the need for any type of re-association is eliminated, and even greater levels of administrative simplification can be achieved by removing additional manual and/or electronic steps – thereby delivering even greater savings.

2 See <http://www.ushealthcareindex.com/> - accessed 11/29/2010.

3 Estimate by PWC, cited by PNC Bank, Sept. 28. 2010.

4 See <http://www.ushealthcareindex.com/resources/IndexFactSheet.pdf> - accessed 11/29/2010.

The CCD+ standard requires re-association, while the CTX standard supports X12 835 within the EFT.



The ultimate goal of administrative simplification is to achieve efficiencies – lower costs of managing administrative transactions. Over the long run, NACHA believes this may best be achieved by “straight through processing” – moving the EFT and ERA together and eliminating interim steps. This will not happen instantaneously on day one; rather, this may be seen as a long-term goal that the healthcare industry will steadily move toward as health plans and providers adopt new and more efficient processes.

CAQH CORE and NACHA Research – Interviews with Industry Participants

To better understand how health plans and providers use EFTs and ERAs, CAQH CORE and NACHA recently collaborated on a research project. We jointly conducted a series of hour-long interviews with 14 industry participants – health plans, providers, healthcare clearinghouses and technology providers, and financial institutions. We asked them to:

- Describe their existing business models for using EFTs and ERAs;

- Explain what works well and what doesn't;
- Identify the challenges and barriers to the greater use of EFTs and ERAs; and
- Suggest changes to standards, rules and business practices that would improve their processes.

All the entities in the healthcare industry that were interviewed - health plans, providers, and clearinghouses/technology providers - use EFTs and ERAs to varying degrees, and all are intending to increase their utilization. Currently, none of these entities send or receive EFTs and ERAs together through the ACH Network for a variety of reasons:

- Existing processes for ERA flow through other channels;
- Believe that it is not permitted;
- Are concerned about privacy of protected health information;
- Didn't know they could do it.

These entities had mixed opinions about whether they would want to send or receive EFTs and ERAs together in the future. The immediate desire for some is that they do not want to re-engineer systems and processes that they currently use; but some also said that they would like to have the option to send or receive EFTs and ERAs together in the future, and that this could lead to additional administrative simplification. The clearinghouses and technology providers generally appear to be ready to serve their customers with business models and services that make sense for those customers.

Regarding EFTs, the interviewees suggested a few enhancements to the CTX standard which may make it even more valuable to the industry; therefore, NACHA is reviewing potential modifications to the CTX standard. These modifications – the “HTX” – would be designed to accomplish several objectives:

- Identify healthcare-specific EFTs with a unique transaction code;

- Segregate healthcare transactions from other ACH standard transactions for HIPAA-compliant handling as necessary;
- Expand the remittance-carrying capacity of the standard.

An industry-wide utility for enrolling in EFT would be beneficial.

In addition, many of the interviewees suggested that an industry-wide utility for enrolling providers in EFT would be beneficial. Currently, providers that agree to or want to accept EFTs must provide their account information to each health plan from which they receive payments. From the health plans' perspective, they must collect account information one by one from the providers in their networks. Viewed from either providers' or health plans' perspectives, this is a cumbersome process that is often manual and repetitive.

The interviewees agreed that there would be a benefit for either a single utility or utilities that are interoperable for enrolling and maintaining providers' banking information for EFT. A secure database holding EFT information of enrolled providers would aid this process. This same utility approach is used for billers in other industries. The interviewees also thought that there is the potential for such a utility to cut down on fraudulent payments by having financial institutions enroll their provider customers for EFT.

Regarding ERAs, the interviewees expressed much more concern about the 835 transaction set than with the EFT standard. Most of these concerns involved variations in use of the ERA standard and the data content of the transaction. There are proprietary codes and implementation guides that lead to non-standard use, which then must be re-mapped or manually adjusted.

Providers also face a challenge as part of the re-association process in reconciling the payments received to the claims that have been made. This challenge becomes bigger as providers receive EFTs from additional health plans, with each providing EFTs that are separated from the ERAs. Matching the payments received versus those not yet received is primarily a manual matching process. In addition, health plans use the re-

association key inconsistently, or sometimes not at all – the provider receives an EFT with no way to re-associate it to remittance information.

Finally, there were suggestions that health plans should be required to send an EFT and an ERA within a specified time period of each other.

Case Studies of Healthcare EFTs and ERAs

At NACHA's annual PAYMENTS conference in April 2010, representatives from one of the largest health plans and one of the largest healthcare providers in the country gave a presentation on their use of EFTs and ERAs.

In 2009, the health plan paid 50 percent of claims electronically. This represents 145 million claims, which were paid using 9 million EFTs sent via the ACH Network. The health plan cited the following as some of the benefits:

- Faster claims processing and payment cycles – this generates additional benefits in reducing telephone calls for status inquiries and duplicate claims;
- Increased self-service capability for providers;
- No lost, missing or mis-routed paper checks – reduces stop payments and re-issuance.

The health plan cited the total cost of paying 145 million claims by paper check at \$30.7 million, while the other 145 million claims paid electronically cost only \$2.7 million.

The healthcare provider sends 10 million claims annually, of which 8 million are sent electronically. Of these, 84 percent are returned electronically as ERAs, but just 36 percent are paid by EFT.

For this provider, the primary benefit of a complete electronic claims and payment cycle is faster payment. The average time from claim submission

Electronic claims and payments improved average payment time from 49 to 14 days.

to payment decreased from 49 days to 14 days, which is a 71 percent improvement in performance. The provider also cited these additional benefits:

- No paper and no envelopes to open;
- No risk of paper checks being lost or stolen;
- Automated data entry and reporting, with greater speed and accuracy;
- Better management of claims denials;
- Faster closeout of accounts receivable;
- Time and expense savings;
 - 64 percent time savings on accounts receivable tasks;
 - \$9.3 million in cost avoidance;
- Ability to handle more claims without adding staff.

Summary

In summary, the ACH Network provides an efficient means for health plans to pay providers using EFT, yielding significant actual benefits when the payment is made electronically. The CCD+ standard is being used effectively and efficiently by many health plans and providers. Health plans also desire to utilize this payment method more readily, and recommend the creation of an industry-wide database utility to more easily direct provider payments.

Although the CTX standard is available to industry participants, it is much less frequently utilized for a variety of reasons. Today, the ERA tends to flow separately from the EFT, requiring the additional steps and expense of re-association. NACHA believes the greatest long-term administrative simplification cost savings, however, may be achieved when the EFT and ERA seamlessly flow together. The ability of entities to utilize the ACH Network with either the CCD+ or the CTX gives tremendous flexibility to the healthcare industry. Changes to the CTX may enable broader use by the industry; and in addition, operating rules for ERA are required for all entities to consistently and interoperable utilize remittance information in a “straight through” process.

PART II - RECOMMENDATIONS FOR THE SUBCOMMITTEE

Adoption of EFT Standard

NACHA proposes that the Subcommittee recommend the adoption of the ACH CCD+ and CTX standards as the EFT standard for healthcare. These are complete and existing EFT standards, supported by a comprehensive and existing set of operating rules - the *NACHA Operating Rules* - for their use. Both standards can reference or hold the same data content and format, even though the flow of the information may take different paths.

The CCD+ and the CTX standards are the only standards that are sufficiently comprehensive to effect electronic funds transfers among all participants accurately, securely, and efficiently. As noted earlier, the 835 transaction set carries advice information about a payment, but does not by itself effect a transfer of funds. Funds transfer today can take place only via a payment system such as check, ACH, card and wire transfer. For reasons of efficiency, cost savings, and ubiquity, the ACH standards alone should be adopted as the EFT standard.

The ACH standards are flexible to accommodate the various business models and entities that exist today in processing healthcare EFTs and ERAs, and also to accommodate those that would prefer to move to a business model in which dollars and data are sent together. The CCD+ standard enables EFTs to be sent directly from health plans to providers, with a re-association key to match the payment to the remittance. The CTX standard, modified and enhanced to the specific needs of the healthcare industry, enables EFTs and ERAs to flow together through the banking system from health plan to provider.

NACHA believes that the greatest levels of administration simplification for EFTs and ERAs may be achieved by sending dollars and data together. To realize this benefit, the parties will have to ensure compliance with HIPAA privacy and security requirements for protected health information processed through the ACH Network. For the healthcare and financial

services industries to embrace the use of the CTX with EFT and ERA processing through the ACH Network as an option for entities, HHS will need to acknowledge that, with the proposed modifications to the standard described below, the process meets the provisions of HIPAA Privacy and Security.

In the interviews conducted by CAQH CORE and NACHA, one of the reasons cited by health plans for why they do not send the EFT and ERA together through the ACH Network today is that they believe that it is not permitted by HHS. With modifications to the CTX standard to demonstrate the privacy and security of PHI (the “HTX” – see below), a statement by HHS supporting the flow of the EFT and ERA together through the ACH Network as a long-term goal would allow health plans to use this option, providing flexibility of various solutions while retaining consistent standards and rules.

Specifically, HHS will need to update its minimum necessary guidance - which it is already required to do under the Health Information Technology and Economic Health Act (HITECH) - to clarify that sending ERA data to financial institutions for transfer over the ACH Network is permissible for effective and efficient “payment,” broadly defined, and/or the efficient “healthcare operations” of plans and providers. It should also clarify that Business Associate Agreements are not necessary when financial institutions simply process payments by health plans and transmit ERA data, since they would be acting as mere conduits. There is an established exception to the Business Associate rules where an entity acts as a “mere conduit.” Acting in the capacity of a mere conduit, financial institutions and ACH Operators do not access the ERA data that is contained within Table II of the 835. Of course, if a financial institution performs added services involving the use of identifiable health information, the financial institution would be required to enter into Business Associate Agreements.

NACHA also proposes that the Subcommittee recommend NACHA as the not-for-profit entity that develops and maintains the EFT standard.

NACHA accomplishes this through the *NACHA Operating Rules* – a comprehensive set of business rules and guidelines that implement the standards.

The NACHA rulemaking process is open and fair; it has an inclusive request for comment period which is open to all industry participants. The *NACHA Operating Rules* are amended through a deliberative and inclusive process similar to that used by Federal agencies under the Administrative Procedures Act, ensuring that all parties have a voice in the rulemaking process. Adherence to the rules is enhanced by an enforcement process that NACHA manages. This enforcement process additionally ensures that all financial institutions manage payments on behalf of their customers in a consistent manner.

Modifications and Enhancements to the EFT Standard

NACHA is reviewing potential modifications and enhancements to the CTX standard to meet the specific needs of the healthcare industry. These modifications – the “HTX” – would be designed to accomplish several objectives:

- Identify healthcare-specific EFTs with a unique transaction code;
- Segregate healthcare transactions from other ACH standard transactions for HIPAA-compliant handling as necessary;
- Expand the remittance-carrying capacity of the standard.

NACHA has formed a rules work group to review the CTX standard for changes that would be needed to both the standard and the *NACHA Operating Rules* to accomplish the objectives. We anticipate that the work group will be able to complete its review in 2011, and that the modifications to the CTX standard can be approved in time to support the adoption date of January 1, 2012, and implemented by financial institutions and ACH Network participants before January 1, 2014.

Authors of Healthcare EFT and ERA Operating Rules

NACHA proposes that the Subcommittee recommend CAQH CORE as the lead entity in authoring healthcare industry operating rules for healthcare EFT and ERA. NACHA would be a collaborative partner in this endeavor, providing the expertise in payments processing and EFTs, including incorporation of the ERA, as well as enabling direct reach into the financial services industry.

CAQH CORE and NACHA Partnership

As discussed earlier, NACHA has experience in creating both industry-accepted standards as well as comprehensive operating rules to support a diverse financial services industry and the customers of financial institutions. In a similar fashion, CAQH CORE has developed operating rules that have embraced healthcare entities, and they are committed to supporting dialogue between health plans and providers. NACHA thinks it is appropriate to propose a partnership that will fulfill the goal of broad stakeholder participation by leveraging the relationships that both NACHA and CAQH CORE have established as part of their core competencies of developing operating rules.

CAQH CORE and NACHA have a good track record as partners.

For the healthcare operating rules for EFT and ERA, CAQH CORE can be designated as the non-profit authoring entity, with its designated mission aligned with healthcare administrative simplification. This would utilize the processes and infrastructure that have already been established, with input provided by a broad set of constituents. NACHA also will serve a leading role, providing expertise in financial services and EFTs. The goal in aligning NACHA and CAQH CORE is to fully leverage what has already been built, which is the CORE umbrella for healthcare operating rules, and to leverage relationships and processes to best – and most quickly – engage the broad healthcare industry in solutions that require cross-industry collaboration in order to meet legislated timelines.

CAQH CORE and NACHA have a good track record as partners. The organizations have been working together since 2005, as NACHA provided consultation to CAQH when it began its work in establishing

operating rules focused on administrative simplification. Additional work this year, including outreach to many industry players this fall, has demonstrated how we can work well together in a collaborative fashion, leveraging resources and processes of both organizations without being duplicative.

Collaboration on Other Operating Rules

When faced with the task of bringing diverse public and private sector parties together to create operating rules for regulated payments, even when those payments do not flow over the ACH Network, other organizations have called on NACHA's core competency in creating operating rules and working with standards bodies. For example, NACHA wrote and administers the *QUEST*[®] *Operating Rules* for electronic benefit transfer (EBT) payments, and developed electronic child support and state tax collection banking conventions – all via collaboration with government and industry (additional information on development of the *Quest Operating Rule* can be found in Appendix 3).

Relationship of Healthcare Operating Rules and NACHA Operating Rules and Standards

In proposing the relationship and partnership between NACHA and CAQH CORE to develop healthcare operating rules for EFT and ERA, it is important to distinguish existing standards and rules from the need for additional operating rules.

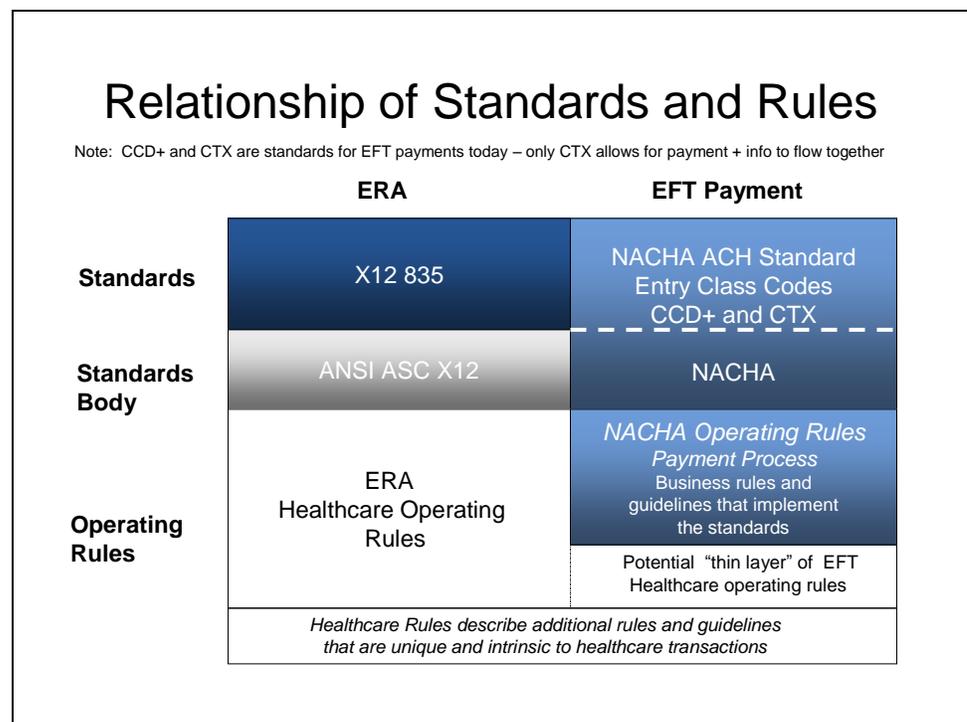
Under HIPAA, a standard is the technical specifications that accomplish an electronic transaction. For EFT, the ACH CCD+ and CTX are existing standards. As they do today, the *NACHA Operating Rules* will continue to define the EFT standards for the payment itself, and serve as the implementation specifications of the standards. For ERA, the 835 is the existing standard.

Operating rules are, under PPACA, the “necessary business rules and guidelines for the electronic exchange of information that are not defined by a standard or its implementation specifications ...” What may be

needed are a “thin layer” of healthcare EFT operating rules that are agreed to through the CORE process. These could address additional business rules and guidelines that are unique or intrinsic to healthcare transactions, and additional requirements for health plans and providers. Examples of topics that could be addressed through healthcare EFT operating rules are the specific timing of sending the EFT and ERA, the proper use of the re-association key, the proper identification of the health plan as the payor of the EFT, and controls around the debiting of providers’ accounts.

As there are no operating rules today for the 835, healthcare ERA operating rules developed and agreed to through the CORE process would provide business rules and guidelines for the parties using an 835.

Most importantly, the collaboration proposed between CAQH CORE and NACHA can ensure that the healthcare operating rules for EFT and ERA and the *NACHA Operating Rules* for maintenance and implementation of the EFT standards will work in concert specifically for the healthcare industry.



Conclusion

The ACH Network already serves as an efficient means of EFT processing for health plans and providers. The Subcommittee should recommend the adoption of the ACH CCD+ and CTX (or as it may be amended as an HTX) standards as the EFT standard for healthcare. These existing standards are flexible to accommodate EFTs and ERAs that are sent separately and re-associated with a key provided in the CCD+ standard, and to accommodate those that want to send EFTs and ERAs together using the CTX standard. The Subcommittee should also recommend naming NACHA as the not-for-profit entity that maintains the EFT standards, which it does as part of the *NACHA Operating Rules*.

Administrative simplification cost savings will be maximized when EFT and ERA can flow together – seamlessly – to provide straight through processing.

Administrative simplification cost savings can be maximized when the EFT and ERA can flow together – seamlessly – to provide straight through processing. This goal requires standardized remittance information that can automatically be associated with appropriate payments – eliminating errors, re-keying, and additional manual intervention. This step also leverages existing standards – those of the 835 and the ability of such to be embedded in a NACHA EFT payment standard.

It is here that the unique characteristics of the healthcare industry’s utilization of the 835 and the NACHA CTX come together. Review of the 835 data content for healthcare requires not only the involvement, but the full engagement of the healthcare industry alongside of the financial services industry and the standards groups that have already spent so much time defining the 835.

As noted above, it is understood that the implementation of EFT and ERA flowing together, and the straight through processing that results, will not happen overnight. The transition, however, can be made more smoothly and uniformly by a stated commitment by HHS to the practice of dollars and data flowing together. In fact, a commitment by CMS to send Medicare dollars and remittance data together by a specific deadline would greatly encourage the industry to move toward straight through processing. HHS and CMS could consider establishing a date at some period out from

January 1, 2014 when it will only send Medicare dollars and remittance data together.

NACHA is prepared to play a leading role in this process and is committed to maintaining and enhancing the partnerships required to this end: with CAQH CORE, which is best in a position to engage the healthcare industry in its intersection of standards and operating rules, with HIMSS, which is situated as a leading knowledge partner with a reach into the healthcare provider space, and with X12, whose prior work with the 835 standard must be leveraged for incorporation into a true integrated set of EFT and ERA standards and operating rules. Further, we point to the processes and outreach that CAQH CORE is developing with respect to the recommendations of the National Committee on Vital and Health Statistics to the DHHS Secretary for the eligibility and claim status operating rules. For healthcare operating rules for EFT and ERA, the most efficient course of action is to rely on the same processes and venues with CAQH CORE remaining as lead organization.

Appendix 1

History of NACHA and ACH Network

The ACH Network was developed in response to the growth of check payments and the many technological advances in the 1970s, and functions as an efficient, electronic alternative to checks. The key objective was to replace paper checks and related information with a much more efficient alternative.

Pre-NACHA Development Work: The ACH movement began in the early 1970s when a group of California bankers formed the Special Committee on Paperless Entries (SCOPE). In direct response to the rapid growth in check volume, the Committee was chartered to explore the technical, operational, and legal framework necessary for an automated payments system.

SCOPE laid the groundwork for the first Automated Clearing House (ACH) association, which began operation in 1972. The establishment of this ACH association led to the formation of similar groups in other parts of the country. Agreements were made between the emerging regional ACH associations and the regional Federal Reserve Banks to provide facilities, equipment, and staff to operate regional ACH networks. Two notable exceptions to this type of arrangement occurred in New York and Chicago, where private clearing houses were formed to handle ACH transactions.

ACH Network Evolution: The ACH Network is an all-electronic funds transfer payments system used by more than 14,000 financial institutions, more than 3.5 million businesses, and at least 160 million consumers to make and receive EFTs. In 2009, there were almost 19 billion Network payments made worth over \$30 trillion dollars. The ACH Network is most easily recognized by its Direct Deposit application – the ability for individuals and families across the United States to electronically receive payroll and benefits. The Network also supports Direct Payment of consumer bills, business-to-business payments, electronic check conversion, and e-commerce payments. The largest user of the Network, the Federal government, sends payments such as Social Security benefits, payroll and tax refunds, and has the ability to receive tax payments electronically via the efficient ACH Network.

Significant changes have occurred since the initial development of the ACH Network to reach the robust state at which it exists today. For example, commercial payment and information exchange capabilities, critical to our discussion here, were added in the 1980s. Subsequently, electronic check conversion, internet and telephone-initiated payments, and international payments were added. Most recently, in anticipation of the EFT and ERA processing needs of Health Plans, Providers and intermediaries under administrative simplification, a Rules Work Group was established to develop even more healthcare-centric commercial transacting capabilities through the ACH Network.

ACH Commercial Applications - In 1982 NACHA sponsored a study in which corporations defined their needs for the movement of both funds and remittance data. As a result, the *NACHA Operating Rules* were modified to support corporate transfers. These modifications establishing the Corporate Trade Payment (CTP) payment standard permitted multiple addenda records to be used with each funds transfer entry, thus enabling the originating company to supply accounting and other payment-related information concerning the transaction directly to the receiving company using a fixed field format. During the same time frame in which CTP was developed, the American National Standards Institute's (ANSI) Accredited Standards Committee (ASC) X12 was working to develop electronic data interchange (EDI) standards for common business transactions and other transactions between corporate buyers and sellers. Because the CTP format and the ASC X12 820 Payment Order/Remittance Advice format were not compatible, NACHA and ANSI committees met in 1985 to resolve these discrepancies. The 820 Payment Order/Remittance Advice was modified and additional fields were added to communicate information concerning the transfer of funds when transmitting through several payment mechanisms. These new fields permitted an Originating Depository Financial Institution (ODFI) to convert the ASC X12 820 Payment Order/Remittance Advice to the CTP format.

Shortly thereafter, a new ACH payment standard, called the Corporate Trade Exchange (CTX), was developed so that X12 transaction sets could accompany the EFT without reformatting. The CTX standard incorporated the strengths of both the NACHA fixed record format and the variable length record format of ANSI ASC X12. This innovation meant that the 820 Payment Order/Remittance Advice could be transmitted via ACH using these payment-related fields, the funds transfer could be effected, and the payment-related data could be delivered to the receiving corporation in the X12 format. With this approach, the EFT, accounting, and payment-related information all remain together.

ACH Network Milestones

1974	<ul style="list-style-type: none"> - The California ACH Association, the Georgia ACH Association, the New England ACH Association and the Upper Midwest ACH Association form NACHA within the American Bankers Association. - Nationwide ACH rules are approved - The U.S. Air Force starts Direct Deposit of payroll
1975	Social Security Administration offers Direct Deposit for benefit payments
1978	Nationwide ACH Network fully complete and operational; supports commercial payments in addition to Federal agency payments
1982	<ul style="list-style-type: none"> - CCD standard established - First business remittance information sent through the ACH Network
1983	First cross-border ACH payments – Direct Deposits to expatriates in the United Kingdom
1985	NACHA becomes an independent organization
1986	CTX standard established
1988	ACH payments exceed 1 billion
1989	<ul style="list-style-type: none"> - NACHA conducts its first Direct Deposit National Marketing campaign; - Banker’s EDI Council formed
1993	The Accredited ACH Professional (AAP) program begins
1996	The <i>QUEST</i> [®] <i>Operating Rules</i> for Electronic Benefits Transfer approved
1998	ACH Payments exceed 5 billion
1999	U.S. Treasury Department adopts <i>NACHA Operating Rules</i> to govern Federal government ACH payments
2003	ACH payments exceed 10 billion.
2004	NACHA marks its 30 th anniversary
2009	ACH payments nearly 19 billion
2010	U.S. Treasury, Social Security, Department of Veterans, Railroad Retirement Board and others announce all-electronic benefits delivery using the ACH Network to be fully effective by March 2013

Appendix 2

NACHA Education & Training Services

NACHA supports a comprehensive framework for the delivery of education to target audiences across the U.S. and globally, consisting of offerings it delivers at the national level, grass roots education conducted by its 18 Regional Payments Associations (RPAs), and collaborative efforts it undertakes with other strategic partners. By partnering with RPAs, education, one-on-one training and audit services are made available across a wide geography to many more industry participants than would otherwise be possible. Education content ranges from broader, strategic topics to focused, tactical instruction depending on program and audience. Across these offerings is a common objective of educating providers, users, and regulators of electronic payment and information services with subject matter of the highest quality that is delivered consistently to foster:

- Understanding of and compliance with applicable rules, regulations, and standards
- Introduction of innovative solutions and technologies balanced with sound risk management
- Development, evolution, and adoption of appropriate business practices

Annual PAYMENTS Conference

NACHA's annual PAYMENTS Conference, recognized for its demonstrated thought leadership and quality, draws decision makers, innovators, implementers, and users from the private and public sector with a comprehensive program that spans the electronic payments field. With over 130 educational sessions ranging from hands-on work shops to strategic, forward-looking general sessions, PAYMENTS delivers delegates at every level of experience and from every perspective of the payments environment with subject matter that challenges, instructs, and can be applied to business processes. The PAYMENTS Conference also features a robust exhibit hall and forums for dialogue that highlight solutions and information sharing.

The Payments Institute (TPI)

The Payments Institute is an intensive five-day school that offers payments novices and veterans a deep dive into core and emerging subject matter. The curriculum is meticulously designed to enable the student to construct a path of educational building blocks, delivered via lecture, interactive classroom instruction, and group projects.

Teleseminars/Webinars

NACHA offers distance learning via telephone and web-based channels in partnership with its Regional Payments Associations. Subject matter instructs participants on the meaning, implications, and implementation of and compliance with amendments to the *NACHA Operating Rules*, risk management practices, research, legal and regulatory developments, and emerging topics of interest. NACHA also collaborates with other

national associations and key entities to educate new and non-traditional audiences on relevant subjects.

Institute of International Payments

The Institute of International Payments delivers payments users and providers in the U.S. with intermediate to advanced-level education on international payments in a classroom setting. The curriculum encompasses the key principles, concepts, processes, infrastructures, best practices, and legal and regulatory issues in international payments. This unique learning experience is crafted to expand upon and enhance the delegate's existing knowledge of domestic payments concepts in an increasingly globalized world of commerce. This program is a part of an educational suite on global payments which also includes:

- *Principles of International Payments* — Introductory-level seminar held in conjunction with Regional Payments Associations at six locations across the country
- *Global Electronic Payments Conference* — Gathering of global payments strategists and executives from the Americas, Asia/Pacific, Africa and Europe

Accredited ACH Professional (AAP)

NACHA manages the Accredited ACH Professional (AAP) Program as national certification program. Since its inception in 1993, the AAP Program has recognized over 3,500 payments professionals. An AAP is an individual who has a comprehensive knowledge of all areas of ACH, a deep understanding of and experience in one or more specific ACH subjects, and a broad knowledge of concepts that relate to the payments system as a whole.

Appendix 3

Quest Operating Rules for Electronic Benefits Transfer (EBT) Payments

NACHA also has unparalleled experience in creating public-private partnerships to enable a rules-setting effort for electronic fund transfers. Most directly relevant in this regard is our critical role in establishing and maintaining the QUEST™ network operating rules and standards for electronic benefit transfers (“EBTs”).

Historically, payments of government benefits at both the federal and state level, such as Food Stamps and cash welfare payments, were distributed through an inefficient paper-based system. As government looked to squeeze waste and inefficiency out of benefits distribution, the Federal EBT Task Force called for nationwide operating rules that would promote interoperability between the states. In response to a request from the Task Force, in 1995 NACHA created a council (the “EBT Council”) to bring together stakeholders from the public and private sectors, including federal and state government representatives, banks, retailers, payments networks and payments processors. This group, under NACHA’s leadership, undertook the difficult task of creating a set of operating rules for EBTs that would enable those electronic fund transfers to flow over existing automated teller machine and point-of-sale networks with minimum disruption to existing systems while taking into account the unique legal requirements for EBT distribution.

Through its open and inclusive process and active outreach to all stakeholders, NACHA was able to bridge the gaps between public and private sector needs and expectations and produce a set of operating rules that any payment system was then free to adopt and use to support EBT distribution. NACHA led the drafting effort, taking comments and guidance from EBT Council Members, while at the same time mediating disagreements among the stakeholders. Ultimately, NACHA produced a final set of operating rules that were approved by the EBT Council and the NACHA Board for general use in the industry and in federal and state procurement processes for EBT distribution services.

A striking success, the QUEST Rules for EBT are now in use in 46 states and territories throughout the United States.

This experience makes NACHA uniquely qualified to develop a set of rules that will govern EFTs for healthcare, taking into account important public policy goals as well as the capabilities and constraints of private sector systems.

Appendix 4

Glossary

Originator (Health Plan)

The Originator is the party that agrees to send EFT entries into the payment system according to a contract or service level agreement established with a Receiver. The Originator is usually a company sending funds to or from a consumer's or another company's account. In healthcare this could be the Health Plan sending funds to or from a Provider or a vendor's account.

Originating Depository Financial Institution

The Originating Depository Financial Institution (ODFI) is the institution that receives the payment instructions from Originators and forwards the EFT entries to the ACH Operator. A Depository Financial Institution may participate in the ACH Network as a Receiving Depository Financial Institution (RDFI) without being an ODFI; however, if a DFI chooses to originate EFT entries, it must also agree to act as an RDFI.

Automated Clearing House Operator

An Automated Clearing House (ACH) Operator is a central facility that receives entries from ODFIs, validates the file syntax, distributes the entries to appropriate RDFIs, and performs the settlement functions for the financial institutions. ACH Operators also maintain a directory of all financial institution routing numbers to ensure that EFT payments can reach all financial institutions across the country. In some cases, there are two ACH Operators involved in a transaction, one operating as the Originating ACH Operator and the other as the Receiving ACH Operator. Today there are two ACH Operators – the Federal Reserve and a private sector ACH Operator – The Clearing House.

Receiving Depository Financial Institution

The Receiving Depository Financial Institution (RDFI) is the Depository Financial Institution that receives EFT entries from the ACH Operator and posts them to the accounts of its depositors (Receivers).

Receiver (Healthcare – Provider)

A Receiver is a consumer or an organization that has authorized an Originator (Health Plan) to initiate an EFT entry to the Receiver's account with the RDFI. In healthcare this would be the Provider or the Providers Third-Party Service provider.