E-Payment Cures for Healthcare

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Agenda

- **Healthcare System Payment Data Processing**
  - Administrative Costs
  - ACH Payments
  - Healthcare EDI
  - Reassociation

- **Healthcare Payer Process**
  - UnitedHealthcare Strategy
  - Payer Challenges
  - Payer Benefits
  - Return on Investment

- **Healthcare Provider Process**
  - VA Strategy: ePayments System
  - Return on Investment
  - Benefits
  - Room for Improvement
According to the Centers for Medicare and Medicaid Services (CMS), the U.S. spent approximately $2.5 trillion on healthcare in 2009.¹

$0.30 of every dollar spent on healthcare in the US currently goes toward administrative costs.²

Utilizing electronic payments can offer at least a 1% savings on administrative costs.

Identified Waste³

<table>
<thead>
<tr>
<th>Behavioral</th>
<th>Operational</th>
<th>Clinical</th>
</tr>
</thead>
<tbody>
<tr>
<td>$303 B to $493 B</td>
<td>$126 B to $315 B</td>
<td>$312 B</td>
</tr>
</tbody>
</table>

- Claims Processing
  - $21 billion to $210 billion
- Inefficient use of IT
  - $81 billion to $88 billion
- Staffing turnover
  - $21 billion
- Paper
  - $4 billion

¹ Source: Centers for Medicare & Medicaid Services, Office of the Actuary: National Health Expenditure Projections 2008 - 2018


³ Source: Analysis by PricewaterhouseCoopers’ Health Research Institute
Percent of Companies that Rank Insurer Services as Critical or Important in 2009

¹ Source: 2009 Trendsetter and Management Barometer Surveys
## Importance of Insurer Services

![Importance of Insurer Services](image_url)

<table>
<thead>
<tr>
<th>Importance</th>
<th>Small Employers</th>
<th>Large Employers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2009</td>
</tr>
<tr>
<td>Admin fees</td>
<td>54%</td>
<td>60%</td>
</tr>
<tr>
<td>Performance guarantees</td>
<td>43%</td>
<td>45%</td>
</tr>
<tr>
<td>Provider discounts</td>
<td>71%</td>
<td>60%</td>
</tr>
<tr>
<td>Claims accuracy / timeliness</td>
<td>82%</td>
<td>94%</td>
</tr>
<tr>
<td>Online payments / eligibility</td>
<td>53%</td>
<td>58%</td>
</tr>
<tr>
<td>Personal health records</td>
<td>28%</td>
<td>42%</td>
</tr>
<tr>
<td>Online comparison tools</td>
<td>50%</td>
<td>49%</td>
</tr>
<tr>
<td>Debit card interfaces</td>
<td>32%</td>
<td>41%</td>
</tr>
<tr>
<td>Disease management</td>
<td>32%</td>
<td>42%</td>
</tr>
<tr>
<td>Wellness programs</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>Reporting capabilities</td>
<td>39%</td>
<td>52%</td>
</tr>
<tr>
<td>Health risk profiles</td>
<td>11%</td>
<td>16%</td>
</tr>
</tbody>
</table>

¹ Source: 2009 Trendsetter and Management Barometer Surveys
## Satisfaction of Insurer Services

<table>
<thead>
<tr>
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<th>Large Employers</th>
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<tr>
<td>Admin fees</td>
<td>64%</td>
<td>66%</td>
<td>2%</td>
<td>78%</td>
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<tr>
<td>Performance guarantees</td>
<td>55%</td>
<td>43%</td>
<td>-12%</td>
<td>70%</td>
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<tr>
<td>Provider discounts</td>
<td>50%</td>
<td>45%</td>
<td>-5%</td>
<td>77%</td>
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<tr>
<td>Claims accuracy / timeliness</td>
<td>76%</td>
<td>86%</td>
<td>10%</td>
<td>86%</td>
</tr>
<tr>
<td>Online payments / eligibility</td>
<td>68%</td>
<td>75%</td>
<td>7%</td>
<td>69%</td>
</tr>
<tr>
<td>Personal health records</td>
<td>44%</td>
<td>45%</td>
<td>1%</td>
<td>52%</td>
</tr>
<tr>
<td>Online comparison tools</td>
<td>45%</td>
<td>44%</td>
<td>-1%</td>
<td>51%</td>
</tr>
<tr>
<td>Debit card interfaces</td>
<td>45%</td>
<td>51%</td>
<td>6%</td>
<td>59%</td>
</tr>
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<td>Disease management</td>
<td>45%</td>
<td>44%</td>
<td>-1%</td>
<td>74%</td>
</tr>
<tr>
<td>Wellness programs</td>
<td>47%</td>
<td>53%</td>
<td>6%</td>
<td>59%</td>
</tr>
<tr>
<td>Reporting capabilities</td>
<td>51%</td>
<td>57%</td>
<td>6%</td>
<td>37%</td>
</tr>
<tr>
<td>Health risk profiles</td>
<td>30%</td>
<td>17%</td>
<td>-13%</td>
<td></td>
</tr>
</tbody>
</table>

¹ Source: 2009 Trendsetter and Management Barometer Surveys
Healthcare Payment Overview

- CTX format permits ERA data to travel with EFT payment
- Financial Institution delivers data & dollars to the provider
- Provider’s Financial Institution can generate customized interface and reporting
- Adoption rates low
NACHA’s CCD+ format permits X12 835 ERA data and EFT payment to travel separately
“Reassociation key” placed in the CCD+ addendum record
Leverages EDI pathway
EFT/ERA: The Payer Perspective

Diana Lisi
UnitedHealthcare
UnitedHealthcare

- UnitedHealthcare Company, the second largest health insurer in the US, provides health plans to employers and individuals through a diverse portfolio of healthcare products including:
  - Commercial products
  - Medicaid
  - Medicare
  - Consumer-Driven Health Plans
  - ASO
- UHC paid approximately 290M claims in 2009, 50% of which were paid via EFT
- 9M ACH transactions issued in 2009
UnitedHealthcare Objective

- The objective of the ERA/EFT initiative was to create the mechanism by which UHC could pay provider claims electronically by moving payment dollars directly to the provider’s bank account as well as electronically issue the associated remittance advice.

- Reduction of administrative work, duplicate claims, claim status inquiry telephone calls.
Benefits of EFT with ERA

- Fewer duplicates - we are seeing decreased cycle time of payments to hospitals, both IP and OP being paid around 15 days. Facilities will generally resubmit another claim if not paid by 24-28 days
  - Industry metrics indicate 30% of payer denials are due to duplicate submissions
- Phone call reduction for claim status checks as payment cycle time is reduced
- EFT coupled with ERA further self-service capability through use of payer portals
  - Remittance advice can be accessed on line
  - EFT delivered to bank account
  - Notifications can be delivered via e-mail
Payer Benefits of EFT

- No chance of sending checks to wrong provider address
- Reduces stop payment and rework activity for Claims Accounting area
- Tighter internal control over dollars and data sent, no liabilities against claims paid through EFT process
- Privacy and Security compliant with HIPAA regulations
Payer Challenges

- Payers and providers have a common goal, to drive down administrative cost. Why then are payers slow to implement EFT Payments?
  - Regulatory mandates addressed ERAs but no mandate on electronic payment. Provider expected to get paper based check for remittances received electronically.
  - Most payers have separate legacy systems, a system that processes the claims and an AP system that generates the check and associated remittance.
  - Generating an EFT for claims paid is not enough if the two are sent separately.
Payer Challenges

- **There is more to a successful ERA/EFT process than just sending data and dollars together.**
  - Provider registration process is key.
  - Payers need to securely collect banking information from providers.
  - Payers need a way to authenticate the person setting up the deposit account.
  - Payers need a delivery system for the data to reach the provider.
  - Payers need to proactively inform providers of deposits made to their account.
Return on Investment

- What do electronic payments mean for Healthcare payers?
  - Cost of paper check processing at the average 2.5 claims per check, $0.53 vs $0.19 average 10 claims per EFT
  - Estimated cost of paying 145M claims via paper check $30.7M
  - Estimated cost of paying 145M claims via EFT $2.7M
  - Additional benefit of EFT consolidation of claims
Current State

- Adoption mode, previous investments in self-service have paid off. UHC is currently paying 50% of its total claim volume electronically.
- Most successful electronic payment solution will facilitate processing for both payer and provider while disrupting the current process as little as possible.
  - EFT and 835
  - EFT and PDF
  - 835 download capability
  - 835 direct connections
Case History:
Veterans Health Administration (VHA)
Electronic Payments System
and Electronic Fund Transfer

Barbara Mayerick
Department of Veterans Affairs
Overview - VHA

- Largest integrated health care provider in the U.S.
- Submits ~ 10 million insurance claims per year
  - For healthcare not related to veterans’ military service
- Over 1,675 payers; approximately 200 payers account for most of payments received
- Developed ePayments system to replace paper checks and paper remittance advices
- Awarded the 2004 Kevin O’Brien Automated Clearing House Quality Award by NACHA
The Old Process

- Paper check payments and Explanations of Benefits were received at 100+ Medical Centers
- Receipt processing and posting were done manually
- Deposits were mailed to local banks, which in turn deposited payments with the U.S. Treasury
The New Process, in Brief

- Developed over 18 months; deployed in 2003
- Enables receipt of
  - Electronic Remittance Advices (ERAs)
  - Electronic Funds Transfers (EFTs)
- Payments go to one Lockbox bank, are then deposited to U.S. Treasury on behalf of VA (Department of Veterans Affairs)
- Payment information and ERAs transmitted to VA Data Center, then routed to VA Medical Centers for AR posting
VHA ERA Flow

1. Payer
2. Transmit ERAs
3. PNC Bank
4. X12 & HIPAA Validate
5. VA Data Center

Translate into Flat File

Unroutable EEOBs

Exceptions & Storage Database

VA Medical Centers’ AR Systems

Courtesy Copy of EEOBs
VHA EFT Flow

- Payer
  - Payment Instruction
  - Payer Bank
    - CCD+ ACH Transaction
- PNC Bank
- VA Data Center
  - Translate into 835
    - Verify Tax ID
  - Translate into Flat File
    - Courtesy Copy of Deposit
    - Exceptions & Storage Database
      - VA Medical Centers' AR Systems
        - VA Financial Management System
  - U.S. Treasury
    - VA Financial Management System
Matching Payments to Claims

• Just as in any business, when money comes in, we have to know which bill is being paid

• “Reassociation” of the payment and the remittance advice allows Providers to:
  • Effectively reconcile payments to AR
  • Automate, with confidence, the posting of remittance advice information
  • More effectively manage exception processing

• The key notion here is that the ERA and EFT need to be matched up
  • We’ll return to this point later
Results

- VHA sends over 8 million electronic claims
  - Virtually all can be returned electronically, as ERAs
- As of latest reports:
  - 84% of electronic claims are being returned as ERAs
  - Of these, 36% of the payments—just over a third—come via EFT
- To date, VHA’s ePayments system has shown, on average:
  - 71% time reduction from claim submission to EFT receipt
  - From 49 days to 14 days, on average, with EFT
- Automated data entry and report generation provide greater speed and accuracy
- Automated matching of payments streamlines AR closeout
### Return on Investment

<table>
<thead>
<tr>
<th>Metric</th>
<th>Before ePayments System</th>
<th>After ePayments System</th>
<th>Percent Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipt of Payment <em>(from payers returning EFTs)</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average time from claim submission to receipt of payment</td>
<td>49 days</td>
<td>14 days</td>
<td>71%</td>
</tr>
</tbody>
</table>
## Receipt of Payments

<table>
<thead>
<tr>
<th>Before ePayments System</th>
<th>After ePayments System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper check &amp; EOB received in mail</td>
<td>No envelopes to open; payment shows up in AR</td>
</tr>
<tr>
<td>Create spreadsheet of check totals</td>
<td>Report created automatically</td>
</tr>
<tr>
<td>Create deposit slip, mail to local bank</td>
<td>Deposit information received from central Lockbox bank, which deposits checks with U.S. Treasury</td>
</tr>
<tr>
<td>Place unposted funds in suspense account</td>
<td>Receipts automatically placed in holding account</td>
</tr>
<tr>
<td>Local bank deposits checks to U.S. Treasury</td>
<td>Deposit already made by Lockbox bank</td>
</tr>
<tr>
<td>Manually locate associated outgoing claim to match payment</td>
<td>Overnight process automatically matches payment to outgoing claim</td>
</tr>
</tbody>
</table>
## Return on Investment

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<tbody>
<tr>
<td>Closeout of Accounts Receivable—receipt and matching of payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average time to receive payments, match to outgoing claims</td>
<td>.89 days</td>
<td>.21 days</td>
<td>76%</td>
</tr>
<tr>
<td>Metric</td>
<td>Before ePayments System</td>
<td>After ePayments System</td>
<td>Percent Improvement</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>-------------------------</td>
<td>------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Closeout of Accounts Receivable—adjustments to claim</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average time to make claim adjustments</td>
<td>3.53 min</td>
<td>2.5 min</td>
<td>29%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Before ePayments System</th>
<th>After ePayments System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Navigate through multiple menus</td>
<td>No menu-jumping; one-stop capabilities—all resources in one spot</td>
</tr>
</tbody>
</table>
# Return on Investment

<table>
<thead>
<tr>
<th>Task</th>
<th>FTE time</th>
<th>Avg. time saving</th>
<th>Weighted average</th>
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</thead>
<tbody>
<tr>
<td>Receipt and matching</td>
<td>.6</td>
<td>76%</td>
<td>46%</td>
</tr>
<tr>
<td>Adjustments, deposit</td>
<td>.3</td>
<td>29%</td>
<td>9%</td>
</tr>
<tr>
<td>Filing</td>
<td>.1</td>
<td>90%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1.0</strong></td>
<td><strong>---</strong></td>
<td><strong>64%</strong></td>
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## Return on Investment

<table>
<thead>
<tr>
<th>Metric</th>
<th>Cost Avoidance</th>
</tr>
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<tbody>
<tr>
<td>Cost avoidance—summary of task and time savings</td>
<td>Steady state: est. $4.0M in cost avoidance</td>
</tr>
<tr>
<td>- Automated matching of payments and AR</td>
<td></td>
</tr>
<tr>
<td>- Automated data entry; less rework</td>
<td></td>
</tr>
<tr>
<td>- Automated generation of payment reports</td>
<td></td>
</tr>
<tr>
<td>- Streamlined adjustment process</td>
<td></td>
</tr>
<tr>
<td>- Less paper processing, filing, retrieving</td>
<td></td>
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## Return on Investment

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</thead>
<tbody>
<tr>
<td><strong>Cost avoidance—summary of task and time savings</strong></td>
<td><strong>Steady state:</strong> est. $4.0M in cost avoidance</td>
</tr>
<tr>
<td>• Automated matching of payments and AR</td>
<td><strong>Actual</strong> (250% increase in claims): est. <strong>$9.3 M</strong> in annual cost avoidance</td>
</tr>
<tr>
<td>• Automated data entry; less rework</td>
<td></td>
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<tr>
<td>• Automated generation of payment reports</td>
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<tr>
<td>• Streamlined adjustment process</td>
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<td>• Less paper processing, filing, retrieving</td>
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</tr>
</tbody>
</table>

Has enabled VA to handle 2.5x as many claims without adding staff
Summary of Benefits - ePayments System

- **Faster collection, Accounts Receivable closeout**
  - Higher cash application rates due to standard data and reduction in AR days
  - Better tracking of payments

- **Time & expense savings**
  - Reduced data entry time and expense, and paper handling and storage expense
  - Reduced dollars-and-data reassociation efforts

- **Ability to handle increased claim volume without increasing staff**
Summary of Benefits - ERA

- ERA data allows for more automated system and improved business intelligence
- HIPAA-standard ERAs enable database for management of claims denials, which leads to:
  - Increased collections
  - Streamlined revenue cycle operations
    - Identification and correction of technical problems and business process issues
  - Reduced rework
    - Improved productivity and performance monitoring
  - Improved patient and payer relations
Summary of Benefits - EFT

- Significantly faster claims-to-collection time

- No risk of paper checks being lost or stolen
  - Saves time and hassle of going to local bank to deposit
  - In terms of cash management, improves cash forecasting and estimation of payment timing
Room for Improvement - ERAs

(HIPAA 835 transactions)

- HIPAA established the “Claim Adjustment Reason Codes” to be used on the 835, yet they are used in different ways by different payers
  - VHA was instrumental in an effort, now part of a mainstream industry group, WEDI (Workgroup for Electronic Data Interchange), to standardize use of these and related codes in the 835 transaction
- Payers need to send appropriate and balanced adjudication information for each line item payment
Room for Improvement - EFT

- Currently, VA sends 8M+ electronic claims
  - 84% of the claims come back as ERAs
  - 36% of the payments for these claims use EFT

- Not mandated by HIPAA: providers need to persuade payers—and their banks—to use EFT
  - And to transmit the EFT using a CCD+ transaction
Room for Improvement - EFT

- **Payers need to be proficient in the use of ERAs before they move to EFT**
- **The provider needs to be able to match up claim and payment**
  - If the provider gets an electronic payment but can’t identify where it belongs, it results in:
    - Increased processing costs
    - Delayed secondary billing and processing of patient co-pays
    - Increased billing to our nation’s veterans
Bottom line: Is it worth it?

- From a provider perspective, Yes!
- Provider benefits include:
  - Streamlining the revenue process and improving collection metrics
  - Increasing productivity—handling more claims without increasing staff
  - Improving business intelligence
    - Enabling analysis and improvement of both technical and business process aspects of the revenue cycle
Bottom line: Is it worth it?

- Which is why we at VHA:
  - Continue to work within the industry to help standardize use of the ERA
  - Seek to bring more payers on board for electronic claims, ERAs, and especially, EFTs

- We think it’s a win-win
835 - The American National Standards Institutes Health Care Claims Payment and Remittances Advice Format. This format provides the first all-electronic standard for healthcare claims, as mandated by HIPAA. Prior to the creation and implementation of the 835, there were hundreds of different electronic remittance formats in use. HIPAA requires that electronic healthcare remittance advice transactions use the 835 standard.

CCD+ - Cash Concentration and Disbursement - corporate electronic payment used in business to business and intracompany transfers of funds. Vendors, including numerous federal agencies, have used the CCD+ payment format, an electronic payment record developed by the National Automated Clearing House Association, to make single invoice payments to suppliers. Funds are cleared on an overnight basis through the nationwide Automated Clearing House.
Glossary

- **CTX** - *Corporate Trade Exchange* - electronic funds transfer used by corporations and government agencies to pay trading partners through the ACH system. The CTX payment format combines payment information and a variable length record (called an addendum record) with related information, such as invoice numbers, allowing multiple payments to trade creditors in a single transfer of funds.

- **EDI** – *Electronic Data Interchange* is a transmission between businesses of information in a standard, computer-readable format.

- **EFT** - *Electronic Funds Transfer* is the transfer of funds from one bank account to another bank account utilizing the ACH Network. It is not mandated by HIPAA.
  - Types of transfers: direct deposit, credit card, ATM, Fedwire, and point-of-sale transactions.

- **EOB** – An *Explanation of Benefits* gives details regarding how an insurance company processed medical insurance claims; the EOB identifies what portion of a claim was paid to the health care provider and what portion of the payment, if any, a patient is responsible for.
Glossary

- **HIPAA** – *The Health Insurance Portability and Accountability Act of 1996.* Largely known for its Privacy Rule and Security Rule provisions, HIPAA provides, in addition, for administrative simplification by establishing standards for electronic healthcare transactions and code sets, standards for practitioner and organizational identifiers, and also covers a broad spectrum of other healthcare issues including protection of health insurance coverage for workers and their families when they change or lose their jobs, prevention of fraud and abuse, and medical liability reform.

- **PPD** – *Prearranged Payment and Deposits.* Used to credit or debit a consumer account. Popularly used for payroll direct deposits and preauthorized bill payments.

- **X12** – An ANSI-accredited group that defines EDI standards for many American industries, including healthcare insurance. Most of the electronic transaction standards mandated or proposed under HIPAA are X12 standards.
For More Information…

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