

Implications of Reform on Healthcare & Insurance Payables

Agenda

During this presentation we will cover:

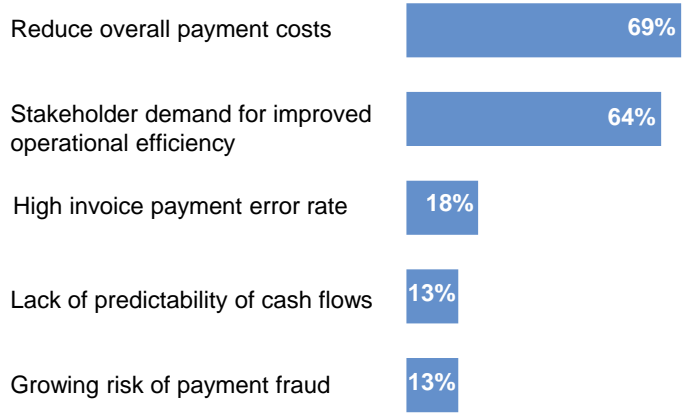
- ❖ General overview of payment trends and how the Patient Protection and Affordable Care Act (PPACA) influences such trends and its implications on Industry participants
- ❖ Details on electronic payment requirements and compliance as per the PPACA
- ❖ Approach and challenges faced by UnitedHealth Group in complying with PPACA EFT requirements and encouraging use of EFT on outgoing payments to providers
- ❖ Approach and challenges faced by UHG and steps taken to comply with Medical Loss Ratio (MLR) requirements of the PPACA
- ❖ General best practices around payables and how they coincide with some of the key goals of the PPACA – moving to electronic/mitigating fraud and waste
- ❖ Conclusions/Key Takeaways

Overall trends in payables – everything points to electronic

Companies are reducing payment transaction costs by increasing use of efficient, electronic payment methods while enhancing security and control

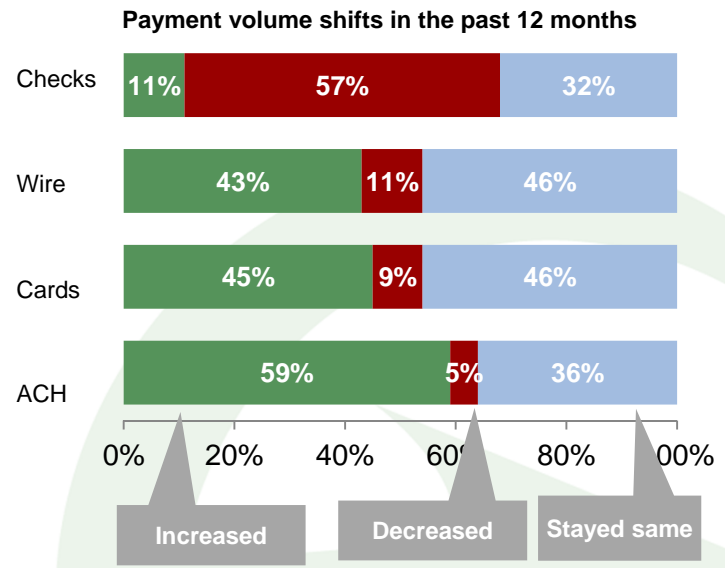
Optimizing payables could offer substantial benefits including freeing capital, reducing processing costs, and mitigating operational risk.

Corporate mandates and inefficiencies in the payables process...



Source: Aberdeen Survey, May 2010

...are driving the adoption of electronic disbursement methods



The Affordable Care Act – pushing healthcare to adopt trend towards electronic payment types

Healthcare Reform Highlights

Currently
In Place

- **Medical Loss Ratio requirement:** 80-85% of premium dollars must be spent on claims and activities to improve health care, otherwise rebates must be issued
- **Increased coverage for children:** Coverage exclusions prohibited for children under 19 with pre-existing health conditions; dependent coverage extended to children up to age 26

Effective in
2013

- **Tax increases:** Medicare tax increase of 0.9% on wealthy; new medical device tax of 2.3%; reduced medical deductions (tax deduction valid only when medical expenses total over 10% of income, compared to 7.5% previously)
- **Increased Medicaid payments:** Medicaid doctors to receive an average 73% pay raise; government sending money to preventative state Medicaid programs
- **Bundling services:** Rather than have each service billed separately under Medicare, flat rate is paid for an episode of care

Effective in
2014

- **Individual mandate:** U.S. citizens and legal residents required to enroll in minimum essential health coverage, or pay a tax to the federal government
- **Employer play-or-pay mandate:** Employers with 50+ full-time employees must offer health coverage to employees and their dependents, or pay a penalty
- **Health insurance Exchanges:** 19 State-based Exchanges, 25 Federally-facilitated Exchanges, 7 State Partnership Exchanges
- **Premium tax credits and cost-sharing subsidies:** Provided by Treasury/IRS for low- to middle-income individuals who purchase Exchange-based health coverage
- **Administrative simplification:** All claims and payments must be electronic

Administrative Simplification

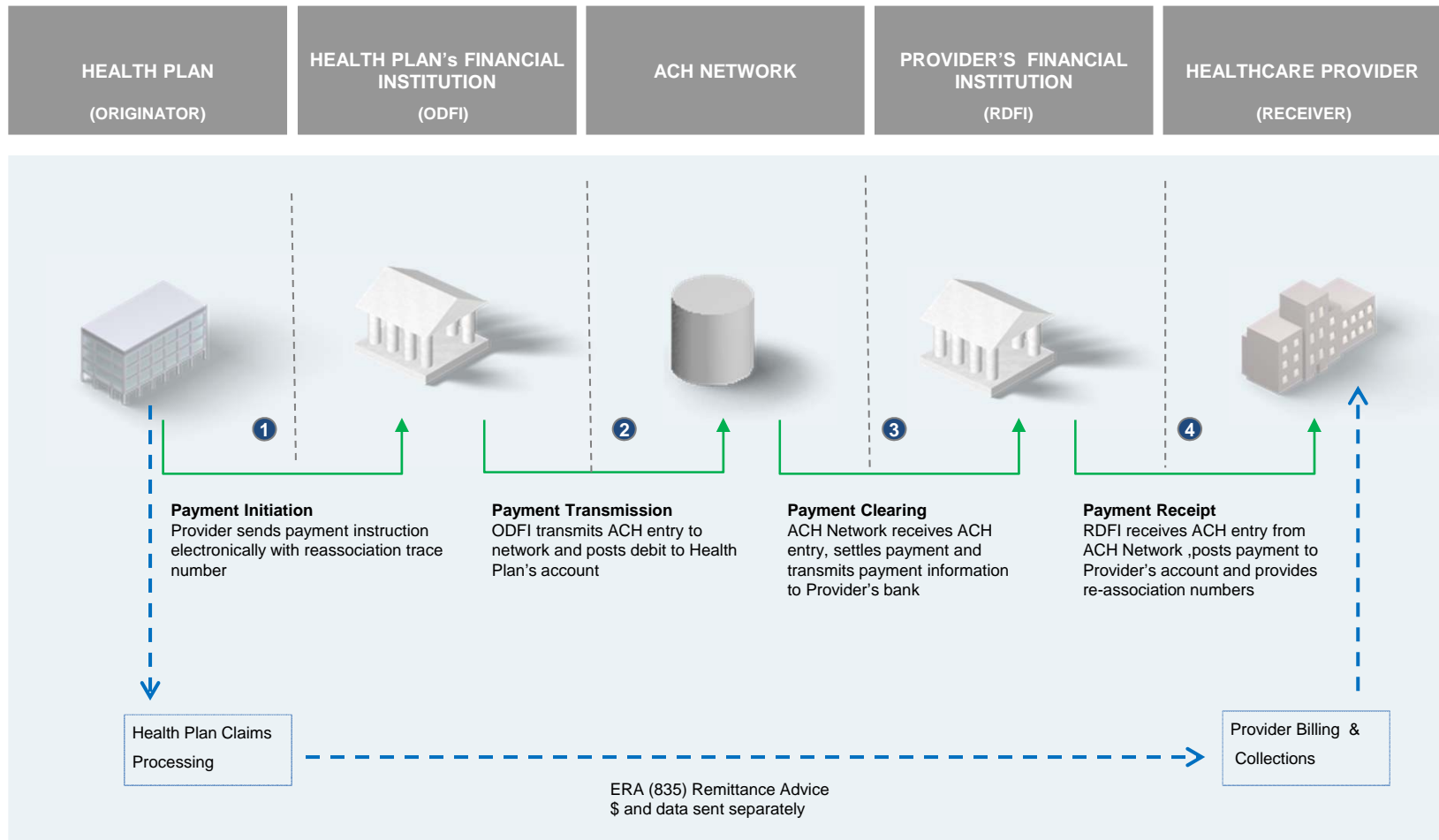
- **PPACA Section 1104 mandates the following:**
 - Adoption of a healthcare EFT standard
 - Development of healthcare operating rules for each of the healthcare EDI standard transactions
 - Rapid adoption of the new operating rules to correct gaps that emerged as the industry adopted HIPAA
- **Requires that all Health Plans certify with HHS that they are compliant with all healthcare operating rules and changes by January 1, 2014**
 - Fines for Health Plans of \$1 per covered life per day for non-compliance
 - Health Plans must be able to deliver EFT & Electronic Remittance Advice (ERA) to the Provider
- **Currently, there is no mandate within PPACA to require movement to electronic transactions for Healthcare Providers**
 - Health Plans can require acceptance of EFT and ERA as part of a provider contract

Progress-to-date

- **Identification of a healthcare EFT standard**
 - NACHA's CCD+ format to be used
 - CCD+ addenda record must contain the TRN Re association Trace Number
- **Healthcare Operating Rules drafted by CAQH CORE and NACHA**
- **Medicare EFT Mandate**
 - January 1, 2014: **ALL** Medicare claims payments must be made by EFT

Sources: The Patient Protection and Affordable Care Act (P.L.111-148 Title 1, Section 1104); U.S. Census Bureau 2011; Kaiser Health Reform; CNN Health

Healthcare EFT and Remittance Flow



Healthcare EFT formatting requirements

Use Existing business ACH format – CCD+ (Corporate Credit or Debit Entry) with specific healthcare data fields

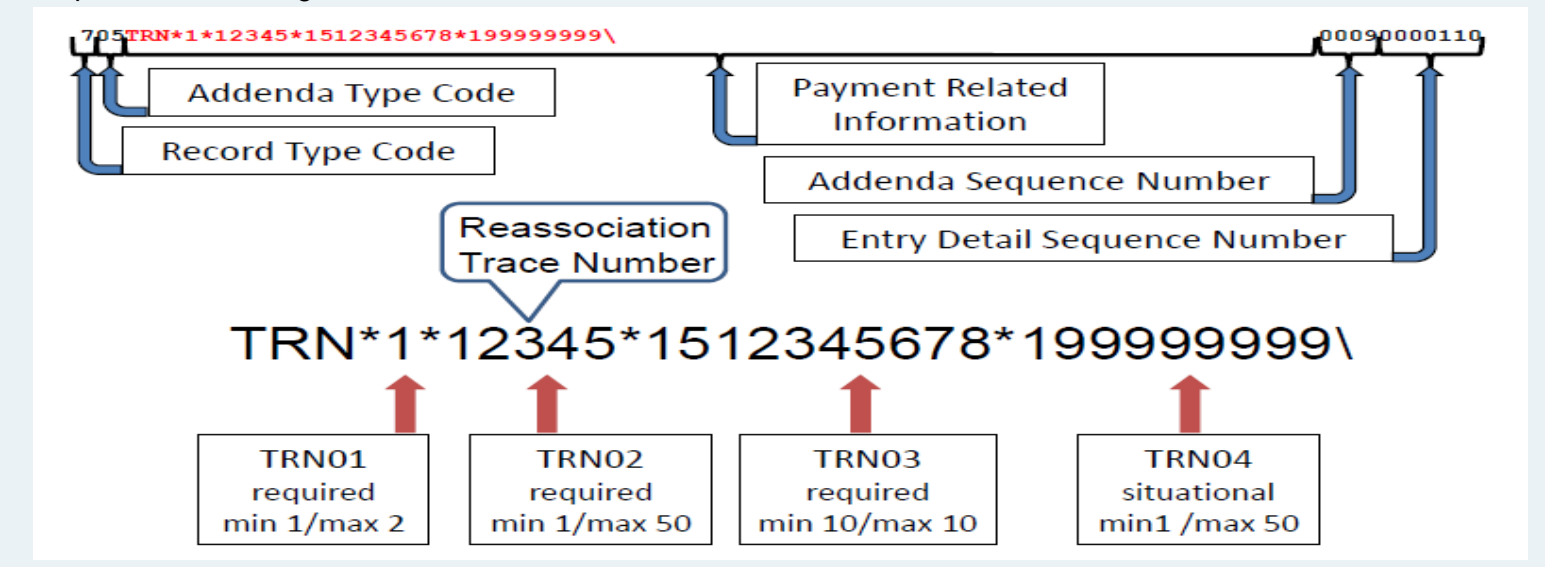
Requirements	Field	Explanation
Unique Identification of Health Care EFT	Company Entry Description Field	<ul style="list-style-type: none"> • Contains description of purpose of entry • Contents usually decided by Originator • Required content for healthcare EFT “HCCLAIMPMT”
Formatting Requirements	Company Name Field	<ul style="list-style-type: none"> • Name of health plan originating entry or name of self-insured organization’s third-party administrator • Standard identification of payer – the name of the health plan as it is known by the provider
	Addenda Record	<ul style="list-style-type: none"> • One addenda record required • Payment Related Information Field must contain one ANSI ASC X12 Version 5010 835 TRN (reassociation trace number) data segment • Used for matching the EFT with an ERA
	New EDI Data Segment Terminator	<ul style="list-style-type: none"> • Provide for the use of a second data segment terminator, the tilde (“~”), to any data segments carried in the Addenda Record of the CCD • Existing ACH format currently defines the backlash (“\”)

Additional Formatting Requirements - CCD+ and Reassociation Number

The addenda record the X12 TRN reassociation trace number used to line the electronic payment with the electronic remittance advice (ERA) and contains:

- Data Segment Identifier—"TRN"
- TRN01 - Trace Type Code (minimum 1/maximum 2) (required field)
- TRN02 - Reference Identification (reassociation number) (minimum 1/maximum 50) (required field)
- TRN03 - Originating Company Identifier (payer identifier) (minimum 10/maximum 10) (required field)
- TRN04—Reference Identification (minimum 1/maximum 50) (situational field)

Sample TRN Data Segment



UnitedHealth Group Progress to Date – Complying with PPACA EFT Requirements and ERA Standards

Key Challenge – reconciling complex technology infrastructure against a provider’s desire for a simple payment process to maximize movement towards payments

Progress to date

- UHG is a market-leading health and well-being enterprise which has grown organically and through acquisitions
- We aggressively integrate new acquisitions and leverage the best technology
- UHG, our Health Benefits platform, paid over \$50 bn. of claims to providers electronically in 2012. We believe this is the largest electronic penetration of any Managed Care Organization
- UHG is compliant under the requirements outlined in the HHS IFR addressing standards for EFT and ERA transactions for health plans transmitting payments to providers
 - ❑ CCD+ ACH Format
 - ❑ Standard use of TRN to associate claim payment with remittance details
 - ❑ Payment timing and ERA delivery synchronized

Remaining Challenges

- UHG’s rapid growth has resulted in a complex technology infrastructure with **multiple claim adjudication platforms and payment applications** that manage payment packaging and mode as well as remittance presentment
 - ❑ These platform support our diverse business segments for commercial, individual, Medicare, Medicaid, etc.. coverage
- Providers are often required to enroll for EFT by UHG platform i.e. multiple enrollments for one payer
- The challenge for UHG is that our providers are looking for simple ways to manage their receivables, view and apply the remittance detail in their interactions with UHG
- They want consolidated payments and uniform presentation of claim detail
- Providers have already signaled that the need for “too many payer sign-up processes” is a reason they are reluctant to adopt EFT/ERA payments

UnitedHealth Group – Established a program to solve identified challenges

Key Objective – without simplification of platforms and enrolment process, expanding provider enrolment in EFT could stagnate

Program requirements and progress for maximizing provider conversion to EFT

Key Requirements

- Enhance our payments landscape by leveraging our “Payment Highway” for all adjudication platforms regardless of business segment
- Provide a single provider touch point for electronic payment enrollment thereby promoting electronic enrollment
- Provide a single portal for remittance presentment to providers
- Eliminates need for redundant upgrades by payment platform
- One stop for all payment processing enhances opportunity to manage provider relationship more comprehensively

Progress

- Our largest commercial claim engine uses this “Payment Highway” for 40% of our total claim volume
- Volume will grow as other claims engines are consolidated and migrate to this “Highway”

UnitedHealth Group's challenges in complying with the Medical Loss Ratio (MLR) requirement of the ACA

Key Challenge – MLR introduced a brand new payment obligation on the Insurance industry with complex rules and a short lead time for developing systems and processes to perform rebate calculation and payment distribution

- Needed to build a brand new application to accommodate all nuances of the rebate calculation by legal entity, market segment (Individual, Small group and Large group), state of issue, insurance product
- Must accommodate special considerations for small plans, new plans, mini-med (low benefit, low cost, extensive restrictions), expatriate and student plans
 - ❑ UHG had over 400 MLR groupings each requiring its own MLR calculation
- Initial requirement's interpretations included the expectation for very high volume payments direct to subscribers as well as policy holders
- HHS requirements were not finalized until late 2011 and early 2012, with payments due by August 1, 2012, resulting in -
 - ❑ Coding and testing timelines confined to a relatively small development window for a new complex process
 - ❑ MLR also required the training and development of a specialized customer service team that could support detailed inquiries on MLR calculations and payout rationales
- Evolving notification requirements for all subscribers and policy holders
- Final HHS specifications mandated payments to the policy holders only
- Regulation allows payment of rebate by premium credit, lump sum check, EFT, lump sum reimbursement to credit card or issued debit card

UnitedHealth Group – developing a solution to provide for MLR payments

Implementation of MLR resulted in selection of a non-optimal payment method, however continuing advancements in payments should provide new options may allow for future conversion to EFT

- All payment options were explored
 - Credit memo option was preferred but presented too many development challenges especially in light of notification requirements
 - EFT option also preferred but policy holder banking data was not readily available
 - Credit card reimbursement not practical as few policy holders use payment cards to remit premiums
 - Debit card option too costly
 - Lump sum check selected due to
 - Ease of implementation using Payment Highway option
 - Coordinated well with written notification requirements
- Selected J.P. Morgan as disbursing bank
 - UHG High volume check issuing bank
 - Compatible with our disbursement control function
 - Excellent teller presentment procedures
- Deployed UHG standard “Reverse Positive Pay” disbursement control
 - Fraud and error detection
 - Interfaces with UHG customized Payee match controls
 - Facilitates maintaining “life of check” detail for customer service inquiries
 - Automatically interfaces to our abandoned property filing process and due diligence
- Next Steps
 - As program matures will continue looking at options that may facilitate EFT payments such as email/mobile payment platforms

Payables best practices – ACA is another driver to re-examining existing payables environment for improvement and conversion to electronic

1 Focus on converting checks to electronic payment methods

- Determine by payment type (payroll, A/P, refunds, etc.) what method provides the optimal cost and efficiency benefits (SUA, Prepaid, ACH, etc.)
- Identify key barriers to meeting optimal payment methods and work with your service providers to overcome them, consider using enrollment/procurement portals and technology platforms to exchange invoice and remittance information
- Establish goals and develop metrics to measure progress
- Incentivize staff and payees to accelerate conversion to chosen payment methods

2 Leverage latest technology advances and services

- Utilize technology that can convert check payments to electronic prior to print, such as image conversion to lockbox for B2B or mobile payments for B2C
- Utilize mixed payments files to minimize connectivity costs and increase payment efficiency
- Effectively utilize online bank portals and data to drive your decisions, manage your payables process, and reduce usage of paper reports

3 Consider outsourcing resource intensive administrative functions

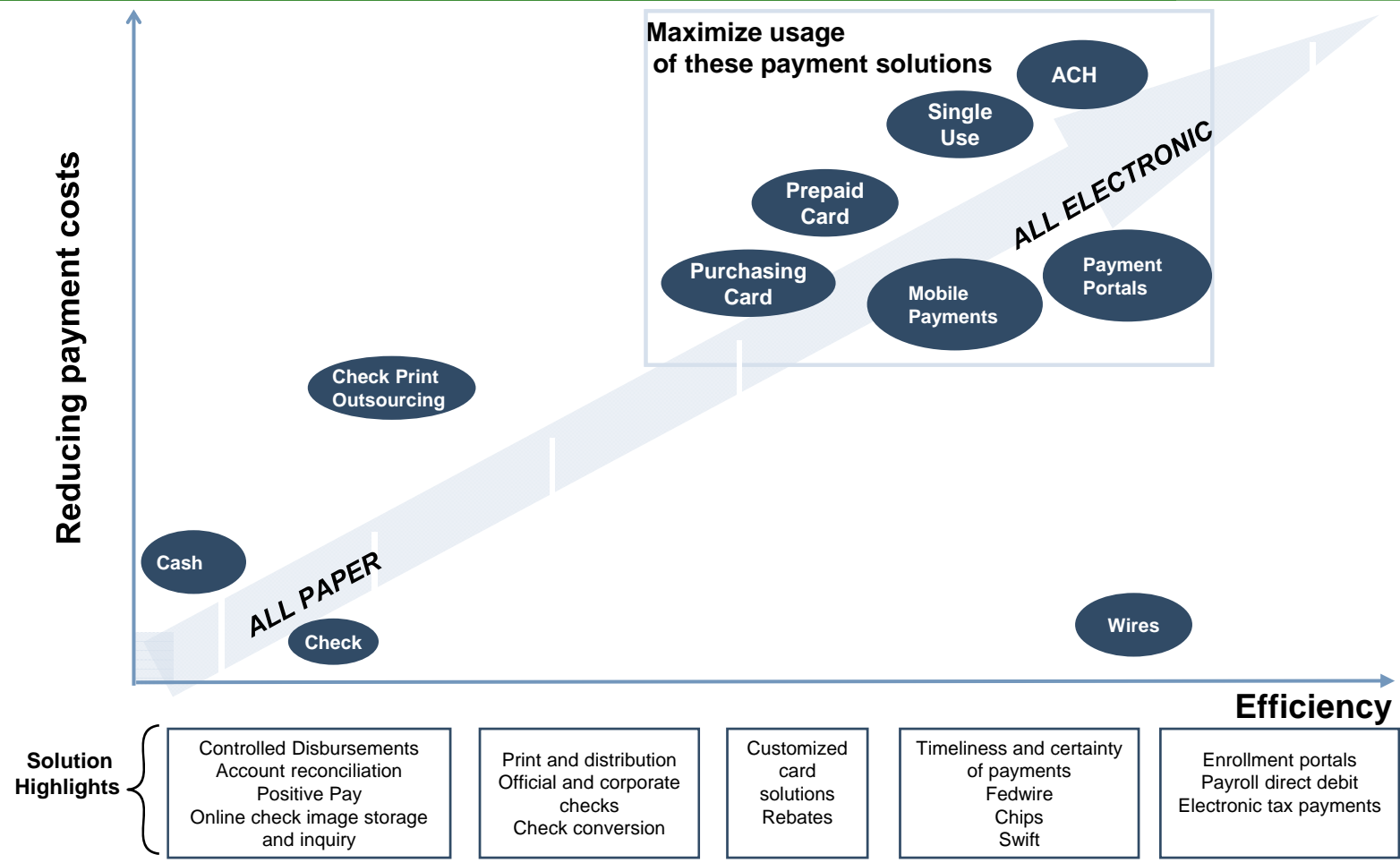
- Outsourcing (internally via shared services centers or through third parties) specific payables functions to take advantage of economies of scale can result in significant cost savings and process efficiencies, specific examples include
 - Check printing and distribution
 - Account reconciliation and exception management
 - Returns processing

Key considerations when implementing best practices



- Have I quantified the cost savings and benefits to make a compelling business case to management?
- Have I identified the key technology platforms needed to facilitate my objectives?
- Are incentives to payees and internal partners sufficient to meet my goals?

Payables management – choosing solutions that reducing payment cost and increase efficiency



Conclusions

Key Takeaways

- The Affordable Care Act's payables mandates coincide with overall market trends towards EFT
 - The challenge for the insurance industry is not necessarily compliance with the requirements but more so in getting providers on-board
 - Simplifying and standardizing the technology involved and the enrollment process can help push through greater adoption
- MLR has introduced a new payment obligations on the industry with complex calculation and payment requirements
 - As with any new payment type, putting a well thought through program together to evaluate options and execute against a structured plan leads to success especially within tight timeframes
- Utilize the ACA as an opportunity to examine your payables processes to identify improvements and best practices