Nine Ways to Reduce Underpayments

Nearly 50 percent of payment discrepancies are due to underpayments, representing $752k in lost revenue for a hospital with an average payor mix, according to HFMA.

What happens to the missing 50 percent?

You've seen it before. A payment comes in. Your staff manually posts the payment and the corresponding contractual allowance. Without a detailed understanding of contracted rates, terms, and conditions, the staff member who posts the payment may or may not get it right.

It's never audited … but it works its way through the system. You end up with a zero balance on the procedure. It falls off everyone's workload.

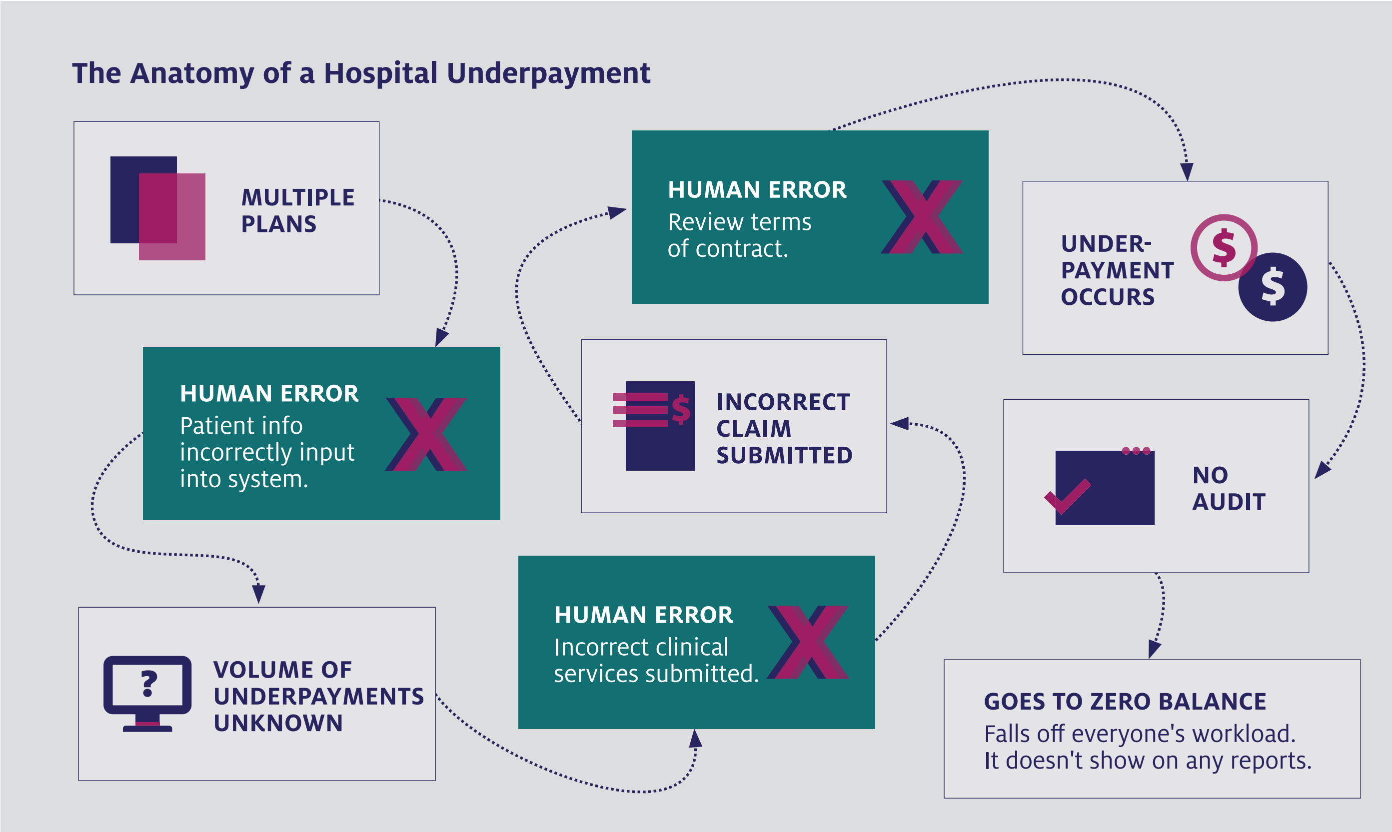
Without you knowing, it's written off.

What does it mean to you?

For the average 350-bed hospital with 40 percent managed care penetration, addressing underpayments alone represents a significant financial opportunity. Estimates indicate that the average institution has an opportunity to reduce underpayments to 2 percent of cases by using an improved revenue capture technique.

Which of these common sources of underpayments does your hospital suffer from?

- Inaccurate or deficient clinical documentation for services
- Missing chargemaster items or incorrect coding for procedures, high-value supplies and pharmaceuticals
- Incorrect claims pricing based upon incorrect contract terms
- Inability to identify accuracies in payments calculated by payors
- Incorrect interpretation of contract terms
- Incorrect network



Follow this checklist to reduce underpayments and improve revenue recovery:

1. **Evaluate reimbursement performance at the account level**
   Determine what may be underpaid or inappropriate and then enlist in a monthly recovery follow-up.
2. **Review areas that are frequently prone to underpayment**
   Areas of focus should include APC based reimbursement, carve-outs, DRG outliers, updated contract rates, split bill opportunities, charge reviews on percent-of-charge reimbursement, and stop-loss terms.
3. **Document payment calculations for line items based upon contract terms**
   When a payor agrees that an underpayment needs to be corrected, check for other claims that may have been underpaid for similar reasons.
4. **Monitor remittance advice immediately after new contracts are established**
   Confirm you are being paid as expected.
5. **Send test claims prior to the effective date of new contracts**
   Ensure that your hospital understands the contract terms and fee schedules prior to the contract effective date.
6. **Analyze recovery trends and payor actions, both regionally and nationally**
   Check to see how your organization compares to these trends.
7. **Prevent future underpayments by performing root cause analysis**
   Identify patterns over a monthly, seasonal, or annual basis to avoid repeating similar issues in the future.
8. **Assign an owner to manage communication and training among key groups**
   Be sure to include clinical coding, patient accounting and the legal department which directly influence payment and negotiate contracts.
9. **Define weaknesses and risks of existing contract terms and conditions**
   Make a point to address areas that leave room for inappropriate discounting and make a point to address these in future contract negotiations.

By implementing an underpayment checklist, you will begin making process improvements that will ultimately accelerate payment and increase your cash on hand.

For more information,
contact nThrive at:
678.323.2500
solutions@nThrive.com
www.nThrive.com/#contact

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