The Hidden Cost of Payment Variance

How to Stop Underpayments From Undermining Your Practice

A riveting ebook by rivet

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Payment Variance Impacts More Than Cash

It can also affect your patient satisfaction scores.

In healthcare, payment variance is the difference between what you expect to receive from a claim and what you actually receive. In most cases, "variance" refers to underpayment, but overpayment happens too.

According to the Medical Group Management Association (MGMA), insurers routinely underpay U.S. healthcare providers by an average of 7–11%.

Mistakes That Cause Underpayment

Becker's Hospital Review says payers and providers are both at fault for mistakes that cause underpayment. For each group, they cite the most common mistakes as:

Payer Mistakes	Payer Mistakes
1. Pricing claims using incorrect contract terms	1. Submitting bills incorrectly and/or without required documentation
2. Calculating allowed amounts incorrectly	2. Taking too long to identify incorrect amounts
3. Interpreting contract terms differently	3. Interpreting contract terms differently

The Hidden Costs

If you’re a provider, finding and correcting these mistakes isn’t easy—or free. MGMA estimates the average cost of reworking an “unclean claim” (any claim with errors) is $25. They also estimate that 50–65% of these claims are never reworked and remain underpaid.

Perhaps even more damaging to your bottom line are patient perception costs. For patients struggling with the lack of transparency in healthcare, getting corrected statements months after treatment may lead to low satisfaction scores and poor social reviews for your practice.

And, if a disgruntled patient walks away for good, you stand to lose over $1 million in lifetime household healthcare expenditures.

The Solution: Take a Proactive Approach to Payment Variance

In this ebook, we’ll show you how to stop underpayments from undermining your practice by:

1. Knowing what payers owe
2. Identifying and resolving underpayments faster
3. Billing patients right the first time

Section 1

Know What Payers Owe

How to avoid mistakes that cause underpayment.

Most underpayments by insurance companies happen when the payer or provider uses the wrong contract terms. While you can't stop payers from adjudicating claims incorrectly, you can eliminate mistakes in your billing office by keeping contracts and fee schedules up to date.

The problem—as every provider knows—is that payer contract terms are always changing. And, frustratingly, these changes can be hard to track when they're announced in "other generally accepted media" such as emails or newsletters.

That's why the first step in eliminating underpayments is adopting a system or process to continually monitor contracts, so you always know:

Why Payers Make Contractual Adjustments

Contractual adjustments can happen for many reasons, but are most often the result of procedure codes and modifiers such as:

- **Multiple Procedure Payment Reduction (MPPR)**. When multiple procedures are performed on the same date of service, it can cut reimbursement for subsequent procedures by as much as 75%.
- **Partial Procedures or Early Termination of Procedures.** When a procedure is cancelled, partially reduced or eliminated, it can impact your expected allowable.
- **Provider Credentials.** When payers are billed for services by advanced care practitioners (ACPs), including nurse practitioners and physician assistants, many states allow a reduced rate for the same allowable.

Being aware of these coding-related clauses in your contracts will help eliminate mistakes when you submit claims. It will also help you determine when you're simply being underpaid and need to file an appeal.

Underpayments by Medicare & Medicaid

The current reimbursement rates for Medicare and Medicaid are set below the actual cost to provide care. As a result, participating providers are forced to accept underpayment as a condition of service. In 2017, combined underpayments from both programs to U.S. hospitals totaled $76.8 billion.

Section 2

Identify & Resolve Underpayments Faster

Keep lost revenue and lost time from compounding.

Once a payer handles your claim, your staff has already invested hours in the billing process—from verifying coverage before treatment to monitoring adjudication after a claim is submitted. Every underpayment you receive represents not only lost revenue but lost time.

Because most states give payers 30–45 days to pay claims, you could wait over a month for payment, only to realize you were underpaid. To keep lost revenue and lost time from compounding, it's critical that you identify and resolve underpayments as quickly as possible.

How to Streamline Your Review & Appeals Processes

1. Set up a cadence for timely review of all payments.

You can't bill patients for their responsibility until you verify that their insurance company has paid the correct amount. That's why you need to review all payments as you receive them. To do so, you need automation tools to cross-check the contract terms, fee schedules, and explanation of benefits against every line item in your claims.

2. Convert 835 remittance files into a readable format.

Leverage your automation system to make reviewing your 835 transaction data easier. The 835 (healthcare claim payment and remittance advice) provides an explanation of benefits, including how much was paid, denied, reduced, bundled, split, covered by other payers (including the patient), and how payment was made.

3. Group procedure codes and modifiers that cause underpayment.

Rather than approaching each case of payment variance as a one-off issue, drill down into your claims data to identify patterns. For example, if you find that claims with certain procedure codes or modifiers are frequently underpaid by one payer, check payments from other payers for the same mistakes.

4. Segment payers and monitor their performance.

Prepare, submit, and review claims from each individual payer in batches. That way, you can identify recurring mistakes—such as mis-credentialed providers or old fee schedules. If a payer routinely underpays, contact your rep to request that mistakes be corrected right away. And, when it's time to renegotiate your contract, leverage this "hassle factor" to make your case for more favorable terms.

5. Submit appeals on time and through the right channels.

Keep track of each payer's timeline and process for appeals so you can respond quickly when your review process uncovers payment variance. If you take too long to identify an underpayment, you risk losing your chance to appeal—and your cash.

Federal ERISA Appeals

ERISA, the acronym for Employee Retirement Income Security Act, is a federal law that protects employer-provided benefits such as healthcare. The gist of the law is that the terms of a patient's policy can't be overridden by the terms of a payer/provider contract.

As a provider, you can use this law (on behalf of your patients) to collect on underpayments. If a payer denies your first appeal, request a copy of the patient's insurance policy and send it to the payer's legal department. Reference ERISA in your appeal letter, indicating that the terms of the patient's policy are protected by federal law.

Section 3

Bill Patients Right the First Time

Confusion and frustration hurt your bottom line.

When payers adjudicate claims incorrectly, your practice and your patients experience a “trickle down effect.” First, the wrong payment is posted to a patient’s account, then the patient is billed for the wrong amount (usually more than they actually owe), then your practice has to send a new bill and explain the mistake.

Even if these errors are corrected quickly, getting multiple billing statements—and learning they were overcharged—can cause confusion, frustration, and dissatisfaction for otherwise happy patients.

> **Fake User Name**
> 3 reviews
>
> I like Dr. Smith and was happy with the treatment I received, but after being overcharged repeatedly, I feel like he's either crooked or incompetent.

The best way to avoid this scenario is to identify underpayments and resolve appeals before you bill.

Appeal Before You Bill

From a collections standpoint, it's best to make billing as simple as possible. Your patients shouldn't have to understand allowables or payment variance just to pay their bill.

The key reason for identifying and resolving underpayments quickly is so you can bill patients right the first time—after you receive the correct insurance adjudication.

Never Ignore an Overpayment

Payment variance goes both ways. Sometimes you're paid less than you're owed, and sometimes more. Either way, incorrect payments are never in your favor and should never be ignored.

If you miss an insurance underpayment that results in overpayment by a patient, it's important to notify the patient right away. Give them the option to apply the overpayment to an open balance or as a credit on future charges. If they decline, you're legally required to send back the overpayment immediately with an explanation of charges.

The same is true when you're overpaid by an insurance company. You may be tempted to allow underpayments and overpayments to cancel each other out, but it doesn't work that way. While different payers have different takeback clauses—and states have their own regulations governing those clauses—healthcare providers aren't legally entitled to keep overpayments.

If you suspect a claim has been overpaid, contact the payer in writing to request that they reprocess the claim and send you an explanation of the payment along with a formal request for refund. Only then should you repay your payer.

Implement Software to Eliminate Underpayments

Rivet is a modern solution that maximizes payments from patients and payers, making it easy to get your practice the money it deserves.

Manually checking hundreds or thousands of claims a day for accuracy isn’t realistic. Automate underpayment detection and have confidence that you're getting paid correctly. Rivet makes it easy to:

- **Know what payers owe.** Continually monitor your contract terms so you can avoid the mistakes that lead to underpayment.
- **Identify and resolve underpayments faster.** Keep lost time and lost revenue from compounding.
- **Bill patients right the first time.** Create a simpler, more accurate billing process to keep confusion and frustration from hurting your bottom line,

Learn more at **RivetHealth.com**