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Optimizing the business of healthcare

ROAD MAP



Road Map

4 Key Steps to Preventing Denials



Revise Your Definition

There's a good reason why Denials Management tops most lists of focus areas when looking to optimize the revenue cycle. According to some estimates, denials cost healthcare organizations nearly 3% of their net revenue annually. In recent years, denials have grown to encompass 15-20% of the billing value of total claims. That can translate to \$6 million for a 200-bed hospital to over \$260 million for an 1100 bed facility¹. In spite of increased attention, however, improving denials management has proven to be difficult.

The inability to define the problem adequately is one reason organizations fail to get a firm handle on denials management. For years, industry leaders have used Net Denials as a Percentage of Net Revenue as the gold standard Key Performance Indicator (KPI). This KPI requires that providers track the total dollars written off due to payer denials that are either not challenged with appeal or have exhausted all avenues for appeal. Most healthcare associations rate 2-4% net denials rate as top performing, 4-6% as very good, and anything greater than that as a significant problem. Within this metric, denials are defined as claims that are justifiably denied by a payer and therefore must be written off.

While technically true, the net denials metric doesn't consider accounts that have been denied partial or full payment but remain on active A/R while the payer's reason for denial is being investigated. Few statistics are available regarding this section of A/R, likely due to the inherent complexity of identifying, segmenting, tracking, and reporting every delay and/or denial for partial and/or full payment. In 2012, Triage, an organization that assists providers in identifying and capturing lost revenue, estimated that anywhere from 30-70% of hospital active A/R is pending response to a payment delay or denial. The same study also revealed that 60-98% of all "denied" claims are eventually paid the full expected payment but the negative cash flow impact isn't captured when using the "net denials" metric.

Using the narrow "net denials" definition also leads to denials management programs that measure effectiveness primarily on net revenue denied, or the net receivables lost due to something the provider did or did not do. These programs can mask a variety of operational deficiencies that result in higher cost and lower reimbursement.

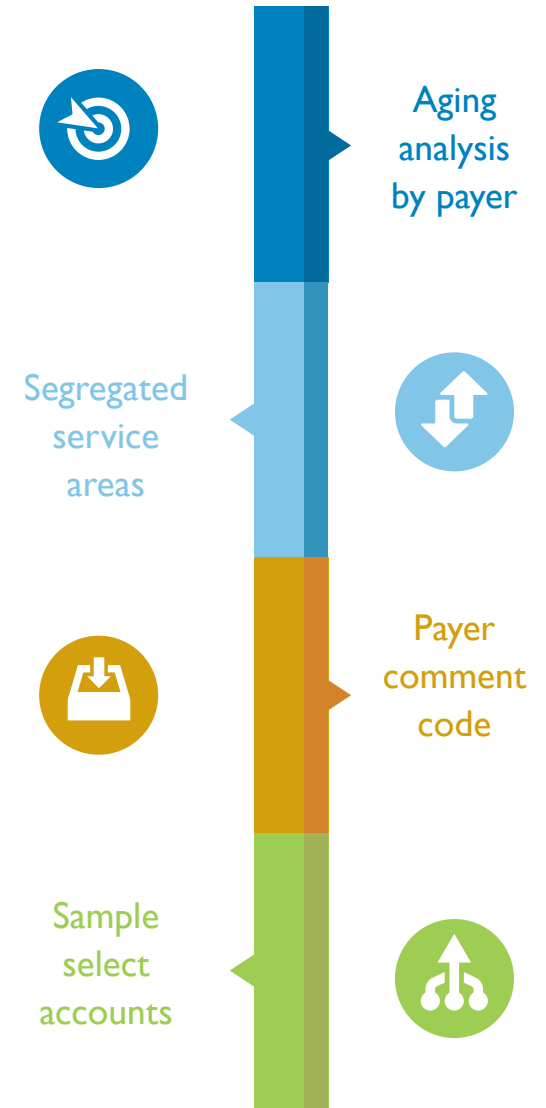


Take a Different View

One way to get a grasp of where you really stand in terms of denials management is to momentarily step away from the net denials metric. Instead, build a model that provides an on-going trend analysis by root cause owner.

- Run an aging analysis by payer selecting accounts that have had any payment and/or adjustments activity after final bill date. Add a filter to the same report to identify accounts where the primary payer has been changed after final bill date.
- Segregate service areas (inpatient, outpatient, ambulatory clinics, specialty units, etc.).
- Sort by payer comment code to group payment delays by reason and priority.
- Sample select accounts to verify suspected trends, root cause, account resolution activity, etc.

Based on the findings of this analysis, summarize the net impact of payment delays and project impact for 3 months, 6 months, 9 months, 12 months for each finding and in total. Using historical, budgeted or projected average daily revenue, compute total days lost on delays/denied payments. Apply the result to your “cost to collect” calculation to project revenue lost in labor cost for re-work and appeals activity, and estimated diminished value from delayed payments. Set priorities by using a SWOT analysis of each finding. Looking at denials in this broader sense can provide a much broader view of the impact of denials mismanagement.





Initiate Corrective Action

Once you've established a baseline, the next step is to make improvements by initiating a corrective action program that addresses your people, process, and technology.



People

Focus on training and education so everyone in the organization understands the depth and impact of the problem and what their role in solving it should be. Specific actions to take include:

- Establish accountability and self-reporting by root cause owner and process owner
- Set a zero to low tolerance for finger pointing and excuses
- Recognize improvement and determine consequences for unacceptable outcomes



Workflow

A thorough process review will help highlight redundancies and time-wasting tasks and will quantify the outcome or performance expectation for each task. The most effective way to improve the workflow process is to eliminate errors that could result in a denial. Key points to include:

- Develop robust pre-visit/visit management process
- Perform pre-registration screening
- Get insurance information during scheduling
- Move back office functions to front of process to improve point of service collections
- Monitor quality in all areas where technical and clinical denials can occur.

- Determine the top five reasons for payment delays and focus quality initiatives to address them
- Establish a payment variance unit that identifies both underpayments and overpayments which could help validate reporting



Technology

Leveraging the increasingly sophisticated software now available to the healthcare industry can help you make significant improvements in denials management. There are several key areas where technology can make an impact:

- Use real-time eligibility systems
- Use the data available on form 835 for capturing and reporting payment delays. The codes should be mapped to identify process owner and grouped into 15-20 most common themes for reason for payment delay.
- The technology for identifying events or cases where the most common delays, such as eligibility (technical) and medical necessity (clinical), exist within most current technology platforms but it is often over-looked and under-utilized. Explore these before buying off the shelf bolt-on applications and services.



Stay in Control

Once you've established a robust denials management program, install appropriate checkpoints to ensure that you remain in control. Schedule regular review sessions to report on the metrics you've established. If the results are outside what you've determined to be appropriate, initiate another round of corrective action to get them back under control.

Consider adopting incentive plans to encourage compliance with and ongoing improvement suggestions to your program. The best ideas sometimes come from those closest to the action who also can have the biggest impact on solving the problem. Tap into that wealth of experience.

Finally, establish regular auditing schedules of all processes as part of your closed loop corrective action process. Regular hands-on reviews are the best way to ensure that your team understands the importance of following the process.

It is estimated that nearly 90% of all denials are preventable, so analyzing root cause and instituting appropriate procedures at the submission stage can yield the best results.²

Sources

^{1,2} Hospital Denials Management...Insource, Outsource or Both, HumanArc White Paper, 2013

Hayes Management Consulting

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