

Hospitals and Physicians

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# The Key to Successful Payer Contracts? Pay Attention.



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**Are your contracts holding your revenues down?**

Declining income and profitability are among the top reasons why hospitals and medical practices may turn to an outside consultant. After all, there are as many ways to improve income and profitability as there are healthcare organizations. But often, we find that the reason behind declining revenues doesn't have to be uncovered – it's right there in plain sight in your payer contracts.

While working with healthcare groups across the country, we have seen payers reduce their fee schedules by 5 to 12%, per market. Occasionally, payers may accomplish these reductions by terminating an older agreement with very favorable terms of reimbursement for the healthcare organization, so that they may enter into a new provider agreement with less favorable terms. On top of that, payer mixes are changing to reflect higher percentages of Medicaid, more self-pay and bad debt, which may be partially attributed to higher deductible health insurance plans and increasing co-insurance/co-payment responsibilities.

We've also seen payers send amendment notices to physician practices and practice employers, indicating their desire to "streamline" or "improve competition" which can indicate an intent to lower the fee schedule.

The challenge is that healthcare organizations may be given as little as 30-45 days to respond to these notices, with failure to respond interpreted as acceptance. And, unfortunately, many healthcare organizations routinely ignore such notices or fail to route them to the appropriate person for action. The opportunity to negotiate more favorable terms is lost and the new, lower fee schedule is implemented.

In other words, if you aren't paying attention to your contracts, you may have foregone revenue.

**The importance of an accurate payer matrix**

I am often astonished to discover physician practices and practice employers that not only don't have ready access to their payers' contracts but also have not completed a payer matrix. A payer matrix is essentially a table that lists key data for each payer, including contact information (phone/fax/email), current and historical reimbursement terms, and key provisions in the written agreement. Without that information complete and readily available, it can be cumbersome to figure out who to contact in the payer organization, and it can be nearly impossible to determine whether your terms are fair and you're getting paid what you should.

We recently worked with one group that thought they had a payer

matrix, but it was incomplete – and it kept them from realizing that they had two significant problems with one particular payer. They were near the end of the fourth year of their four-year contract, which was written such that they received a 3% rate increase each year. But the payer had failed to implement the “year four” increase. The final year of the contract was about to end – and nobody had noticed. Worse, the window for negotiating a new agreement had closed. So, the group would have to go a whole year with no additional increase. We brought the underpayment issue to the payer’s attention and recovered more than \$35,000 in lost revenues. The payer organization was obviously at fault for the underpayment, so they were more inclined to reopen the renegotiation window and a new four-year contract – complete with appropriate increases – was signed.

### **The essential need for analysis and action**

Beyond the up-to-date payer matrix, healthcare organizations also must pay attention to how well payments match their contract terms. Many billing systems have built-in “expected payment” reporting tools, designed to flag when reimbursements are either above or below expectations. Yet, all too many business managers are unaware that they have these tools, or simply do not use them. Either way, if you aren’t seeing

this kind of reporting on at least a quarterly basis, your organization probably isn’t monitoring and recognizing issues that could become serious problems.

If you are using these automated reports, you’re seeing more useful information than most. But let me give you an example of why automated information must be combined with critical analyses and action: During a recent audit for a hospital’s pathology department, we discovered gross underpayment on a code that accounts for 50-60% of the group’s service volume. A particular code, which often must be billed as many as five times to the same patient on the same day, was being recorded in a way that was inconsistent with payer requirements. As a result, only one of these codes was being allowed for payment and entire balances on the residual codes were written off. Surprisingly, the billing staff had been blindly following instructions from the associated Explanation of Benefits (EOB) reports for years without questioning these write-offs. These billing errors and the billing staff’s lack of attention resulted in enormous revenue losses, which most likely will never be recovered, since most payer agreements limit the time during which suspected underpayments can be reported. For this reason, we strongly recommended conducting a review of the top 5-7 commercial payer contracts on a quarterly basis (or

more often) to verify payment accuracy.

Clearly, contract problems can cause direct revenue issues. But they can cause indirect revenue issues, too. We worked with one group that hadn’t negotiated an increase with their largest payer in nine years. That neglect resulted in lost revenue and, since this was the group’s larger payer, revenues remained stagnant (or even declined), which led to destabilization; physicians were leaving and the group was unable to compete effectively for new physicians. Meanwhile, other groups negotiating for rate increases were in a position to be much more competitive employers.

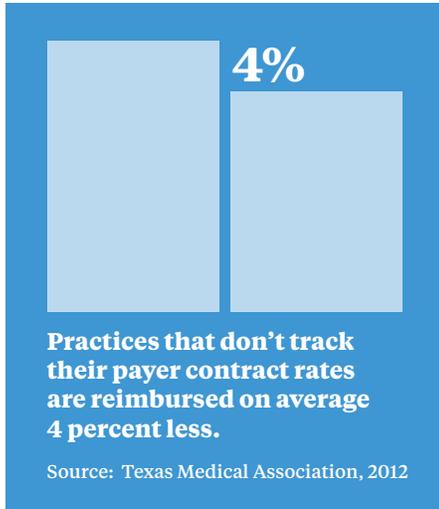
### **Knowing your contracts isn’t that difficult – or is it?**

It actually isn’t difficult to pay attention to contracts, organize key information in a readily accessible way and know what you’re getting paid. Yet so many hospitals and practices don’t do these things – or they do them with insufficient attention. Why?

Our experience has shown that the reasons are all too understandably human. People are often uncomfortable with the whole process. They are afraid to really delve into what they consider to be impenetrable legal language and often very lengthy payer agreements. They don’t have the expertise and skills to

**How to Get the Most from Your Payer Contracts:  
An Eight Point Check List**

- 1. Organize your contracts into a matrix** so that you can easily see contact information, your reimbursement history and key provisions such as termination requirements, your claims filing deadline, and how much time you have to respond to proposed amendments (which may indicate lower fees).
- 2. Schedule reminders for renegotiation**, giving yourself enough time to handle them appropriately. So, say a contract is set to expire on December 31, and there is a 90-day termination provision. That means you should start the renegotiation process in July, so that you can have new terms set by mid-August – before the 90-day termination deadline.
- 3. Examine your payment vouchers and audit your Explanation of Benefits (EOB) documents routinely.** Verify if you're getting paid correctly by looking at your top 5 to 10 payers for payment inconsistencies and keep in mind that if you are not being paid fairly or accurately, the onus is on you to alert the payer and help ensure a correction. During a recent engagement with a radiology practice, we discovered that the practice had been getting paid at much lower rates than their contracts from two different payers stipulated. And, these underpayments had been going on for at least five years.
- 4. Realize that payers are under increased scrutiny and cost pressures.** Like all businesses, payers operate from a position of what's best for the payer. It is, therefore, your responsibility to advocate for what is best for your healthcare organization. If you are unprepared to educate payers about key market issues and be flexible, you may wind up settling for nothing at all. So, when you negotiate, be prepared with solid market data and a firm understanding of what compromises you are willing to accept. The negotiation process may feel painful, but it certainly won't hurt as much as maintaining a bad situation over time.
- 5. Balance aggressive negotiation and the ability to be reasonable.** Don't be afraid to compare similar payers – and tell them if you believe that they are below market for practices like yours. At the same time, you should work to establish relationships with contacts in your payer organizations. Even as companies move to more automation, there is still value in person-to-person interaction. If you are able to make friends within a payer's organization, they may be able to help you. Likewise, be reasonable when you renegotiate. If you insist on terms that are far above market or otherwise excessive, the payer will not consider you to be negotiating in good faith. Offer a compromise and you stand a better chance of achieving results.
- 6. Recognize when reimbursement is tied to the Medicare schedule.** Analyze the best Medicare schedule for your practice and common procedures. Then negotiate with your payers to base reimbursements on the most favorable schedule – even if it is not the most commonly used one.
- 7. Verify termination deadlines – and pay attention to them.** Contract termination can seem like a drastic last resort when a contract is unfavorable. Sometimes, however, it must be done, particularly if a payer refuses to communicate with you. Most contracts include a clause requiring a termination notice of at least 90 days. But if you need any paperwork or information from the payer, they may not release it until it's too late. If this happens, consider bringing in an external resource to help.
- 8. Be prepared for a complex process.** I cannot pretend that the process of evaluating and renegotiating contracts with today's commercial payers is simple or easy. Take a hard look at whether your business office can squeeze it in amongst their day-to-day responsibilities. If your staff has the bandwidth to handle it, that's outstanding. If you don't have the time or experience to handle contract evaluation and negotiation, consider bringing in an outside consultant to manage the process. It will save time – and potentially increase revenue for your practice.



confidently analyze issues related to changes in relative value years, percentages, Relative Value Units (RVUs), etc. And without the skills to perform the analyses, it's difficult to make good decisions. On top of that, most people don't find contract work interesting and compelling. There are usually more immediately pressing tasks to pursue, so contract assessments, analyses and comparisons get pushed to the back of the to-do list. And so, years go by this way.

Fortunately, longstanding patterns of poor attention to contracts can be broken. Schedule time to monitor contracts, seek out

inaccuracies and unfavorable arrangements and take action to correct issues. You'll be more informed and in a much better position to compete and thrive.

Smart professionals will bring in outside expertise to help accurately identify and address issues – before they become problems. In those cases, the transition to the new A/R system is as smooth and seamless as possible – as well as an example of the business and finance leadership's foresight and initiative.

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Saunders specializes in client service for medical groups with a focus on financial and strategic growth. He assists physician groups and hospital administrators with maximizing managed care contract results, determining fair market value stipend and subsidy arrangements, and structuring of hospital, facility, and other professional service arrangements. Saunders also conducts practice reviews, performs financial modeling and has helped practices restructure their non-clinical practice operations. He has over 23 years of experience serving in various physician practice management and operational roles. He has a consistent track record of maximizing revenue opportunities for his clients and has published numerous articles and hosted webinar education sessions for physicians, practice administrators and practice managers.



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