

HEALTH CARE FINANCE AND THE MECHANICS OF INSURANCE AND REIMBURSEMENT

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Dedication

This book is dedicated to the people in my life that unfortunately have passed away, but along their way in life they provided me with insight, understanding, patience, love, and most importantly the ability to know what one receives in life must be shared with others or the tremendous gift they gave me would be lost.

Vincent J. Harrington

Winifred Harrington

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Preface

In our current healthcare delivery model, the healthcare administrator needs to be more adept in managing not only the financial end of the facility such as appropriate debits, credits, ratios, and trial balances, but the reimbursement end that is a feeder to these reports and transactions as well. As a matter of fact, the financial end has become more involved with, and reliant on, the reimbursement process unlike in years past. To add to the confusion, the overall profitability of the healthcare organization rests entirely on their shoulders and is tied to reimbursement and the quality of care provided to the patient. It is imperative that the healthcare administrator know about all of these areas through the education process and from their first job post-graduation be aware of these complex reimbursement issues on day one of their employment and not wait until they can learn on the job.

In my years of teaching at the undergraduate and graduate levels covering healthcare finance and healthcare reimbursement, there are several healthcare finance books that I looked at for the courses I taught and they all focused on accounting and only touched on a few areas of reimbursement. However, with the rapidly changing environment where reimbursement is the driving force of healthcare facilities, we need to give faculty the tools necessary to educate their students and have them ready to make an impact in the field that they have chosen to pursue. The graduates from programs that come out having received a solid and comprehensive education in healthcare finance, along with healthcare reimbursement, will be far more marketable as professionals than those without any formal education in healthcare reimbursement. It is clearer now than ever before that a healthcare facility is not only responsible for quality care, but is fully responsible for the profit or loss on any given patient stay. This responsibility comes from the integration of the Revenue Cycle into the daily management function of the Healthcare Administrator and that of the Health Information Management professional. All departments are not only worried about their annual budget, but they are concerned about driving quality, reducing costs, and improving access for the patients. This is happening because the focus on reimbursement is now the driving force in healthcare facilities; processes are integrated across the continuum of care which makes everyone responsible for the financial success of the facility.

The current topics that a healthcare administrator has to deal with when it comes to reimbursement are the different types of payment arrangements such as block payments, capitation, and Managed Care. Synonymous with reimbursement these days are Diagnosis Related Groups (DRGs) and prospective payment systems for acute, inpatient rehab, skilled nursing facilities, home care, outpatient settings, and ambulatory surgical centers. As if the different payment types were not enough, the healthcare administrator has to deal with readmissions, and case mix index and the Recovery Audit Contractors (RAC) who look for overpayments made to a facility.

■ What the Text Does for the Student

Health Care Finance and the Mechanics of Insurance and Reimbursement introduces reimbursement to the healthcare administrator and provides them a comprehensive outlook on who are the payers in health care, the payment systems in health care, basic coding instruction, revenue cycle management, what fraud and abuse is and how it can have a negative impact on your facility, some key tools that can have a negative impact on your facility if they are not managed daily such as transfer cases and high cost outliers, and tomorrow's trends. Reimbursement has evolved from a process where hospitals and other healthcare providers were paid for what they did for the patient. This type of retrospective payment system, fee-for-service, is one of the main causes of healthcare costs spiraling out of control in the 70s and 80s. Now we have a prospective payment system for many of the types of care such as Inpatient Prospective Payment System (IPPS) and Hospital Outpatient Prospective Payment System (HOPPS). These payment systems allow the healthcare facility to be in full control of their profit or loss on any given patient. Unless the healthcare administrator has a solid foundation of finance and reimbursement, they will not have the necessary skillsets to effectively manage in today's environment.

Other healthcare finance books cover all basic functions of accounting such as business transactions, general ledger, financial statements, depreciation, payroll, expenses, inventories, and interpretation of financial statements. *Health Care Finance and the Mechanics of Insurance and Reimbursement* will not only cover the basic financial accounting process, but it will also cover things like interpretation of financial statements in the healthcare arena, which is crucial for the healthcare administrator as they will need to manage their facilities with these financial statements. Understanding the different ways an insurance company can pay a facility will help the healthcare administrator become more involved in the contract negotiation process and work towards a more favorable contract or better manage the population that is being served.

Along with this, the different types of insurance coverage will be addressed. This will include traditional insurance, managed care, HMOs, Medicaid, and Medicare. Understanding how these payers work is instrumental to the healthcare administrator so that they can better manage their contracts and reimbursement levels so that the facility can remain profitable. This text will help the healthcare manager to better understand Managed Care Organizations, Staff Models, Closed Networks, Exclusive Provider Organizations, and Preferred Provider Organizations just to name a few. Understanding Managed Care Organizations and all of their unique characteristics is critical to the healthcare manager so they can effectively plan budgets, negotiate contracts, and understand the projected utilization versus actual utilization needed to break-even servicing the MCO's patients or to show a profit from a particular payer.

Health Care Finance and the Mechanics of Insurance and Reimbursement not only addresses the basic finance and accounting tools for the healthcare administrator, but the full picture of reimbursement including Charge Description Master (CDM) and Revenue Cycle Management. The CDM is a tool that automatically manages up to 70 percent of the charges in a hospital. The CDM is managed by both the Finance Department and the Health Information Management Department. If this tool is not accurate, it is highly likely that the facility revenue will not be accurate. It can either be understated or overstated. If it is understated then costs need to be cut or programs that are not profitable need to be eliminated. But, without the CDM being accurate, some of the programs could be losing money or their revenue could be understated. With regards to overstating revenue, this usually generates a visit from your payers or the federal government (OIG or CMS) and can lead to charges of fraud, abuse, or both.

Revenue Cycle Management is not a new tool for the healthcare administrator, but a process that has evolved from a fragmented system of individual departments, each managing a single part of the revenue process of a system that has integrated all sections that handle the revenue process into one function called the Revenue Cycle. The revenue for a healthcare facility has evolved from an accounting and finance driven area with cost reports to a revenue cycle process in that insurance companies and other payers reimburse the facility based on the services provided to the patient. It is critical for the Finance Department and Health Information Management to communicate on a daily basis to see about charts that are not coded yet, audits from payers, and case mix index issues. If the healthcare administrator is not well versed in the Revenue Cycle, he or she stands to have a very short career in that healthcare facility.

Finally, the text addresses Electronic Medical Records (EMRs). This is generally a very expensive project to undertake, but it is also another way to get reimbursement from the government that can help to cover the expense of catching up to the electronic age. In *Health Care Finance and the Mechanics of Insurance and Reimbursement* the basics of healthcare finance will be covered along with EHR and Meaningful Use

which will assist the healthcare administrator to not only be up to speed with current topics but able to act on and implement the changes necessary to meet the standards set forth in the recent health reform bill in the Obama Administration.

Now, it was clear to me that if we provide access to the information that includes Health Care Reimbursement to the Health Care Administration student, they will be better equipped to function in the healthcare environment today. This ever-changing environment has shifted from the process-oriented environment of cost reporting to a fully integrated Revenue Cycle Management-focused environment. I had to learn this process on my own, as did many of the current Vice Presidents of Health Care Finance and/or Vice Presidents of Revenue Cycle Management, because it is not offered in many of the Health Care Administration programs. However, there is one thing that none of us can forget. There is a patient in the middle of all of this and we need to keep our facilities providing the highest quality care for the patient, and at the same time understand the revenue streams and remain profitable and able to change with the times. This includes access, technology, reducing costs, and increasing the quality delivered to the patient. And, last but not least, the ability to survive in an era of Pay-for-Performance, Medical Home Models, and Value Based Purchasing where the Health Care Administration student needs to be well versed in all the future trends in health care. By bringing healthcare reimbursement to the forefront, this can have a huge impact in the education process of Health Care Administration programs because after 30 years of the same approach, I think it is time for a change.

Acknowledgments

I really do enjoy teaching and feel that everyone learns differently. I pride myself in taking the time to get to know all the students in the class and to make sure that I figure out how each one learns. This process is accomplished by timely and accurate communication in class through discussions, assignments, and e-mails. I find that my experience in the healthcare arena was started by someone who believed in me and mentored me through my early years. This person is my sister, Ruthann, and without her help I would not be where I am today. So, with that said, I do what I do in the healthcare field and the classroom because I want to give back what was given to me.

Others that were of great help along the way were Dr. Twila Weiszbrod from St. Joseph's College of Maine who is the Program Director for the Healthcare Administration Program. Twila was not only instrumental in supporting me with encouraging dialogue along the way, but she provided me with her insight to the needs for more focus on reimbursement in a healthcare administration program to support the current and future trends in the healthcare market. Her direction and insight were invaluable and I can't thank her enough. And there was a friend by the name of Josh Pechar. He was very helpful in guiding and introducing me to different models in health care such as predictive models and database management. Josh was always there when I needed a question answered or just to listen to me ramble on about what I was writing about.

Most importantly, I acknowledge my wife Kathy and our daughter Michaela. The time spent away from the family to complete this book was significant, and without their support and understanding none of this would be possible. So, I say thank you to Kathy and Michaela. And since the book is now complete, maybe we will stop eating out every night and start cooking again. Just a thought.

Foreword

The provision of healthcare services in the United States has grown increasingly complex over time. The reimbursement for services has become a critical element of care, alongside quality of care. To be effective, healthcare leaders must understand regular accounting and financial principles, as well as the specifics of reimbursement for services in an increasingly convoluted and complex system. It is not enough to be committed to the provision of quality healthcare services, because without being reimbursed for services, a healthcare system cannot survive.

There are many payers for healthcare services and rarely is the payer the one receiving the services. Few patients can or do pay for services privately. Each payer, whether they are a government payer like Medicare, Medicaid, or the Veteran's Administration, or a private payer like Blue Cross, Etna, and Cigna, has specific requirements that must be met in order for the healthcare provider to be paid. Attention to the details of the requirements makes the difference between whether or not a healthcare provider is reimbursed for services already provided. Failure to get it right will result in unpaid bills and financial instability for the organization.

This text combines financial principles that are unique to the healthcare setting, with the mechanics of reimbursement. The revenue cycle is explained in detail and correlated with regular management functions in a healthcare setting. Reimbursement is explained from capturing the charges at the initial point of care, through the claim submission and reconciliation process, to accounting procedures to keep track of revenue and expenses. Types of reimbursement and methods for calculating payments are explained in detail by payer type. Revenue cycle management has become a cornerstone of good healthcare leadership and this text provides everything a leader or aspiring leader will need to know to successfully lead a healthcare department or organization.

Dr. Twila Weiszbrod
Director,
Health Administration Programs
Saint Joseph's College

Foreword

I have been in the healthcare executive role for over 30 years focusing on executive management and finance, along with sales and technology leadership. When Kevin Harrington came to me and discussed the possibilities of writing a book for healthcare administration focusing on healthcare reimbursement I was very intrigued as to what approach he would take to educate the healthcare administration student. When he went over the outline of the book, the focus and forward thinking that was present in the material was clear. The outcome for this is that it would address past elements of health care to come up with an approach that will help the healthcare administrator in today's market enter the field with, what I feel to be, a greater understanding and will be better equipped with knowledge of the current finance and reimbursement systems to help them have a greater and immediate impact in the healthcare facility or field that they manage.

In the past, administrators could come out of college with their degree in management, or if they were fortunate enough, a degree in healthcare administration and go through a training program to bring them up to speed with the current operations of the hospital or other healthcare facility. Now, the new graduate and existing administrators with a bachelor's degree and those pursuing a master's degree, need to have a better understanding of the daily operations of a healthcare facility focusing on healthcare finance and reimbursement starting on day one. This book allows the student, at any level, to advance themselves into areas of importance such as the current activities in accounting, financial reporting, and most importantly Revenue Cycle Management almost immediately.

The information that is delivered in this book should prove to be a great resource for the student and will assist them in increasing their level of understanding in this ever changing healthcare environment that we currently work in and what it is to become in the future.

John L. Connolly
Chief Executive Officer
Anexinet

About the Author

Michael K. Harrington, MSHA, RHIA, CHP, has more than 30 years of experience in health care in areas such as Health Information Management, managing homecare companies on a local and regional level, and consulting in the post-acute sector. He is a leading authority on healthcare reimbursement and Revenue Cycle Management (RCM) and has extensive experience in implementing the RCM model in physician's offices and other healthcare organizations outside of the acute care setting.

After starting out in the healthcare field in a home care company as a coordinator, Harrington quickly advanced into managing home care companies that handled durable medical equipment, specialty home infusion, high-tech respiratory, and specialty biologicals and repositioned these companies by using reimbursement and quality clinical care as the cornerstones to his success. In addition to managing homecare companies, Harrington started to teach and was part of the adjunct faculty at Gwynedd Mercy College, Temple University, and St. Joseph's University in the Philadelphia area. His focus has always been in healthcare reimbursement when teaching, but has instructed in other areas such as Healthcare Policy, Healthcare Ethics, Healthcare Delivery, Computerized Medical Records, and Healthcare Law. Recently Harrington has become part of the full-time faculty at St. Joseph's College Online where he is assisting in the development of the online Health Information Management Program. In addition, Harrington has formed his own consulting firm called Professional Revenue Management Services, LLC, in 2013. He provides healthcare organizations with consulting services focused on healthcare reimbursement, specifically, Revenue Cycle Management services in the physician's office and other healthcare settings.

Harrington earned his bachelor's degree from LaSalle College and his master's degree from Independence University (formerly California College for Health Sciences). Harrington also earned his Registered Health Information Management (RHIA) credentials at Alabama State University. He is an active patient advocate and is a much sought after speaker in the areas of healthcare reimbursement, healthcare finance, and healthcare operations.

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