

Mind the Gap

Underpayment Can Add Up to Big Losses

By Marilyn Happold-Lantham, MBA, FACMPE

FOR THE LAST 12–15 YEARS in the Portland area, physicians have signed contracts with health plans to take discounts on their charges in return for having patients “directed” to their practices. Contracts and contractual adjustments on billed charges are a way of life.

The practice this author manages does 99.5 percent of its business with contracted health plans. Less than 1 percent of gross charges are billed to “indemnity” style plans—those that pay 100 percent of the doctor’s billed charges because they have no contract with the doctor. What most physician practices lack is an estimate of how frequently the health plan pays the doctor according to their contract or conversely, how frequently the doctor is underpaid.

Finding the Gap

It is hard for a practice to determine underpayment totals because many practices contract with between 15 and 20 different health plans. Although most contracts use a similar

methodology (an RBRVS Relative Value Unit multiplied by a dollar conversion factor), the variation between RVUs from year to year and different conversion factors results in a practice being paid 15 or more different amounts for a single CPT code. Even the most competent billing staff would have a difficult time remembering the amount a certain plan pays for a given CPT code. The only alternative a practice has is to audit payments received from the health plans.

Women’s Clinic, PC, an eight physician practice in Portland, began auditing payments from health plans in 2004 using specialized software called Premier DataPlus. The Clinic’s administrator and the physicians were surprised at what the software uncovered. Nearly three to four percent of the all filed claims were not paid according to the contract. Some claims were underpaid by only a few dollars, while others were underpaid by hundreds of dollars.

One practice was able to pay for the audit software with the recovered underpayments.

Billing department staff spent considerable time recovering the amounts that plans should have paid in the first place. Despite this frustration, the Clinic feels its efforts in recovering underpayments from health plans to be highly successful. Not only was the practice able to pay for the audit software with the recovered underpayments, but the knowledge and understanding of contracts and the contracting process has been an invaluable benefit.

The most frequent offenders of underpayment appear to be the Preferred Provider Organizations. Because PPOs often have 100 or even 200 different employees processing payments, it is easy to imagine the challenge of these payers correctly entering fee schedules for each practice into their claims processing systems. The amount the practice was underpaid varied greatly from payer →

to payer and from code to code, and the size of the health plan had no effect on their ability to pay claims correctly. The payer that made the fewest errors over the four years was Medicare.

This distinction is important for specialties such as obstetrics and pediatrics that have less Medicare and more commercial business. These specialties are more likely to be chronically underpaid by the health plans. Networking with other physician practices in Central Oregon and SW Washington that also use payment audit software confirms that underpayment is not an isolated incident with a single practice, or within a particular region.

One might ask, "Why do these underpayments by the health plans occur?" No one in management of the health plans could provide an answer. The practice was initially led to believe the underpayments were just random

The Health Care Finance Committee and OMA staff will continue to monitor underpayment issues with health plans.

If you are experiencing these problems with carriers, contact Reina O'Beck at reina@theOMA.org.

occurrences but the software proved otherwise. The same CPT codes were often repeatedly underpaid by the health plan by the same amount, yet the same plan was paying correctly on the same codes in other instances. One of the most frustrating aspects about auditing payments was the lack of apparent concern on the part of the health plans. Nearly four years after bringing underpayment to the attention of nearly all contracted plans, the underpayments continue. The PPOs do not audit their payers to ensure they are paying physicians correctly. Their opinion is that physicians are responsible for identifying underpayments by PPO payers.

As noted above, doing "spot checks" on a practice's payments are not only very labor intensive, they provide only anecdotal evidence that underpayment is occurring. Even random samples that allow a practice to extrapolate a statistical estimate of the amount of underpayment can do very little to enable the practice to recover the underpayments. The health plans require specific dates of service, EOBs and reprinted claims in order to even consider whether or not the claim has been underpaid. Specialized software and skilled, knowledgeable staff are crucial in determining the extent the practice is being underpaid and are a great investment from which the practice will receive returns. ●

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