



American Association of Healthcare
Administrative Management

**Doing Business
with the VA**

**Managing Your Managed
Care Contracts**

Legal Update

...and much more

Three Rivers Reflections



Managing Your Managed Care Contracts

The average hospital currently participates in 38 managed care contracts. These contracts can significantly impact the cash flow and bottom line of a hospital, yet very few Patient Account Managers or CFO's review them, completely understand them or monitor their performances.

Back to Basics: Why Participate in Managed Care?

Every hospital feels compelled to become a participating provider in the HMO's, PPO's and other Managed Care Organizations (MCO's) that are dominant in its region. The major Payors wield significant bargaining power and it may be difficult (although not impossible) to avoid becoming one of their participating providers on a "take-it-or-leave-it" basis. But there are many MCO's that do not have that kind of power and who may need your hospital in their Network as much or more than you need to be one of their participating hospitals.

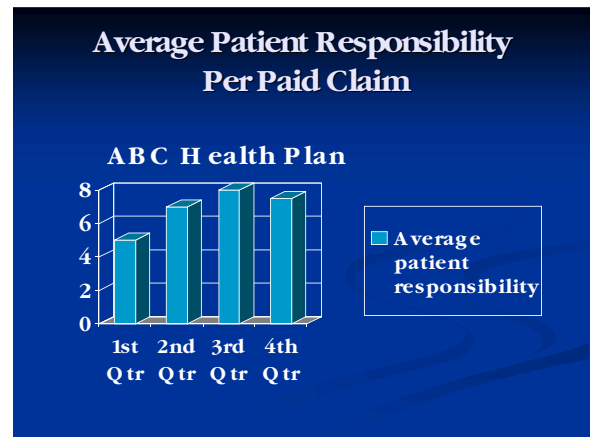
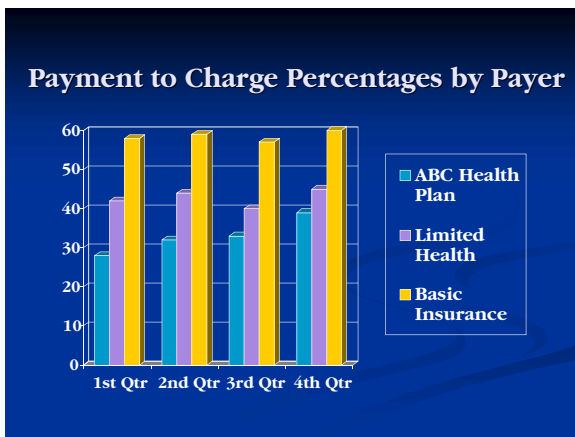
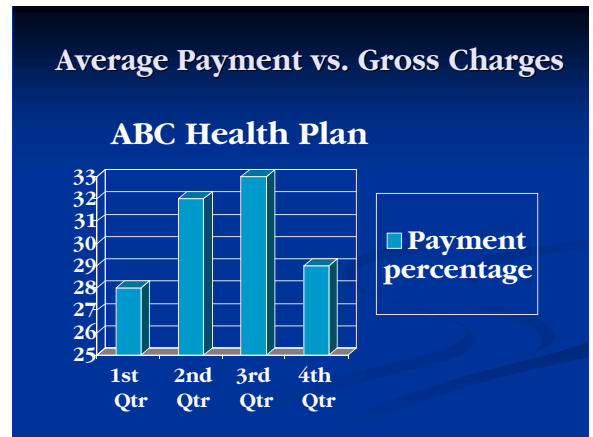
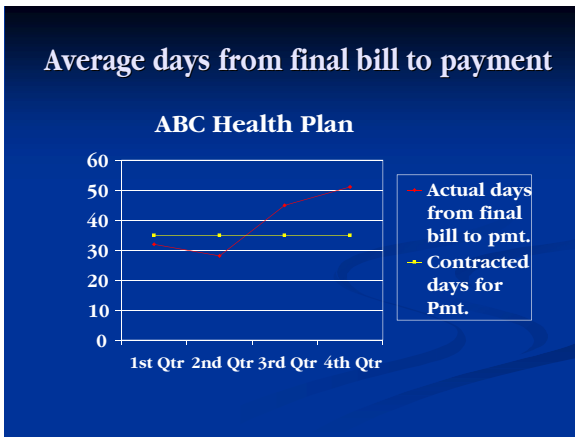
Step back and remind yourself why you would want to enter into managed care contracts in the first place. At the risk of stating the obvious, **profitability** should be the primary reason. Even though the rates may vary significantly among managed care contracts, at the end of the day, every provider contract must pass the same test: Does the net revenue under the contract exceed all direct costs associated with providing care to the patients covered by the contract? Although the amount of profit earned from a contract may vary greatly depending on the contract terms you are in a position to strike with the Payor, you must reap some financial benefit, however slight, or there would be no rational reason for you to enter into or continue to participate in the contract. If you are losing money on every patient, high volumes can not transform the contract into a profitable endeavor! And while it may be reasonable to accept lower margins from an MCO that promises and actually sends significant numbers of patients, it makes no sense to do the same for an MCO that covers only a few patients per year.

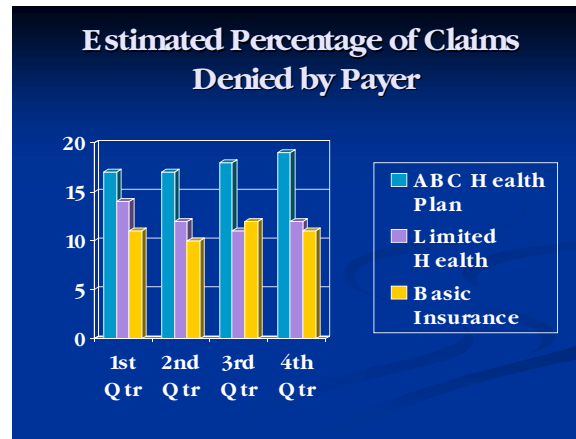
Making Intelligent Decisions.

It is critical to have accurate data to determine if your managed care contracts are profitable and sensible.

The data you need to determine the profitability of any MCO contract is determined by the contract itself. Although this may sound quite obvious, many hospitals do not fully understand the terms of their MCO contracts and may have little idea how those terms affect the net income generated from the contracts. The negotiated rates are the obvious starting point for determining profitability, but hidden costs, excessive administrative burdens, penalties and delays in payment created or sanctioned by the contract can make the **effective rates** much lower than the negotiated rates.

Good managers look at as many contract performance indicators as possible and take a holistic view of MCO contracts to determine their value to the hospital. Therefore, a matrix of **Key Contract Indicators** should be created for each MCO contract. Examples of some Key Contract Indicators are shown on the following graphs:





An Approach to Contract Management

The following steps are essential in implementing and maintaining an effective contract management process:

- Obtain complete copies of all managed care contracts including updates
- Obtain copies of the Payor's current billing guidelines
- Summarize key global terms and rate methodologies
- Create and maintain a central file for all Payor contract information
- Establish key contract indicators for each contract and update on a routine basis
- Study and understand the terms of the contract, especially as to:
 - Authorization process
 - Prospective, concurrent and retrospective reviews
 - Procedures and time limits for bill submissions
 - Rights of MCO to adjust/deny payments
 - Bases for adjusted/denied claims
 - Procedures and time limits for appeals
 - Definitions of Covered Members/Patients
 - Term and termination provisions

Obviously, this process must begin with the contracts. Just gathering all of the MCO contracts and the Payors' published billing guidelines that are typically incorporated into the contracts can be a monumental task. Once this information is available, all key global terms such as initial contract period /renewal, timely billing, rate methodologies, payment terms and appeals can be summarized into an easy-to-read contract matrix. This information can then be maintained in a centralized database for convenient access by authorized staff.

The actual data that you want to include in your Key Contract Indicators can vary, but the data must give you and other managers all the information needed to analyze the net financial benefits derived from the contracts. All costs and factors that affect profitability should be identified and charted. For example, data indicating the levels of denied claims and the reasons for the denied claims can point out unreasonable contract provisions that should be addressed, such as exceedingly short timeframes for bills and appeals.

A review and understanding of the non-payment terms of the MCO contracts is also important. Most managers shy away from this task because the contracts are lengthy documents filled with legal mumbo-jumbo; and for the most part are difficult, if not impossible to fully comprehend. Unfortunately, there are traps for the unwary in many of these contracts that can be dangerous and expensive. Ignorance about the rights of Payors to conduct prospective, concurrent and retrospective reviews, to demand free copies of all types of patient and hospital data and to make adjustments based on a myriad of conditions, many of which are unreasonable and beyond your control, can significantly affect your ability to make a profit. Failure to know how and when to renegotiate a contract can lock you into unfavorable terms for extended periods of time; and loose definitions of "Covered Members" can allow MCO's to "sell" their rights to get your greatly discounted rates to other MCO's who did not negotiate directly with you.

The amount of time spent implementing these recommendations, either through your own labor or through the retention of contract consultants or attorneys, can be a very important and worthwhile investment. The payback is typically many-fold as it will enable you to clearly distinguish the profitable contracts from those which are not even covering related costs.