

Electronic Remittance Advice: A Critical Initiative for Healthcare Payers and Providers

WHITE PAPER



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Overview

Do you have the capability to post thousands of dollars, with 100 percent accuracy, in seconds? Electronic Remittance Advice (ERA), often referred to as 835, reduces manual posting of claim payments and reconciling patient accounts, thereby saving your practice time and money. Most stakeholders agree that standardized remittance advice promises a large return on investment. ERA is recognized by many in the healthcare industry as a business-critical initiative to combat rapidly increasing transaction volumes, high administrative costs, complex regulatory compliance issues, and changing market demands.

Electronic Funds Transfer (EFT) and Electronic Remittance Advice leverage existing technology to transition from paper to electronic processes for both payers and providers, allowing complete and accurate processing of claims, from submission to advice to payment. For maximum results and operational efficiency, EFT and ERA processing should be outsourced to a vendor that has the depth of experience and can offer a comprehensive and intuitive solution that accommodates all stakeholders.

This white paper describes the unique drivers for and substantial benefits of utilizing ERA, as well as explains the process of paper EOB conversion to 835. In addition, the white paper describes the challenges of using a paper-based payment process and charts the typical flow of manual paper claims versus ERA.

Unique Drivers for Adopting Electronic Processes

Both payers and providers realize the cost-saving benefits of an ERA. Many sense an urgency to adopt an ERA solution to improve cash flow. To achieve widespread adoption, both payers and providers need a solution that accommodates their unique needs.

Payers navigate an overwhelming and complex electronic and paper delivery system. Their greatest need is to convert providers from paper remittance to an electronic system. Providers are realizing the benefits of utilizing electronic remittance advice, such as cost savings and the simplification of processes. Providers are slowly beginning to adopt electronic solutions and make the necessary transitions to an electronic system.

Challenges of the current paper-based payment process

The current paper-based payment process presents many challenges for the provider. Significant administrative costs and fees result from fragmented manual processes for posting and reconciling payments. The manual processes behind a paper-based system, such as having employees key information off of paper documents is very inefficient and error-prone. Also, paper presents storage and retrieval challenges, forcing providers to research paper archives in order to manage their secondary claims. In addition, without a central repository of data, providers can't properly analyze their payments, so they aren't effective at managing denied claims. Each payer has its own EOB [explanation of benefits] format and proprietary claim-adjudication reason codes, which makes it difficult to post and reconcile payments. The sheer size of bulk paper remits presents its own challenges. Some facilities may receive a weekly Medicaid check that could be as long as 300 pages, which would take several hours to post. There are also balancing issues with paper remits. If you type \$3.00 instead of \$30.00, you have to check your whole batch to find the error. It's near impossible to derive trends from managing paper documents because insurance companies have different remittance formats, limiting the ability to quickly identify potential problems with billing or accurate claims adjudication within a single payer or across service lines. Some payers may send checks directly to the bank and the paper remittance advices to the hospital, resulting in an extra step of making sure the deposit occurs before the remittance advice is processed or posted. ¹

¹ "Provider Tips for Moving to Electronic Payment Receipt and Reconciliation," *HFMA*, 25 July 2007



According to *The McKinsey Quarterly*, in about 60 percent of all claims payments, the payers print and mail checks to the providers, which manually reconcile the claims and deposit the checks. The average system-wide cost per item is about \$8. With an annual volume of 2.5 billion claims payments, the majority reimbursed by check, the system costs \$15 billion to \$20 billion a year in postage, item processing, and accounting. Increasing the rate of electronic penetration to 90 percent, from the current 40 percent, would save \$6 billion or more across the industry. ²

Provider Benefits for Moving to Electronic Payment Receipt and Reconciliation

Transitioning from paper-based processes to electronic remittance systems has the potential to save the provider as much as \$35 billion and 2.5 billion pieces of paper annually by some estimates. ³ By adopting an electronic system, the challenge of handling the sheer size of bulk paper remits diminishes, along with the high error rate. Posting paper remits is an all-day job for one person in comparison to posting electronic forms that takes maybe an hour of someone's time. Allowances on paper EOBs are not always accurate, nor is the amount of the patient's responsibility. Electronic processes provide the capability to track trends, which can help to identify potential problems with billing or even show how claims are being adjudicated at the line item level.

Figure 1 below: Shows the typical flow of paper claims versus electronic claims.

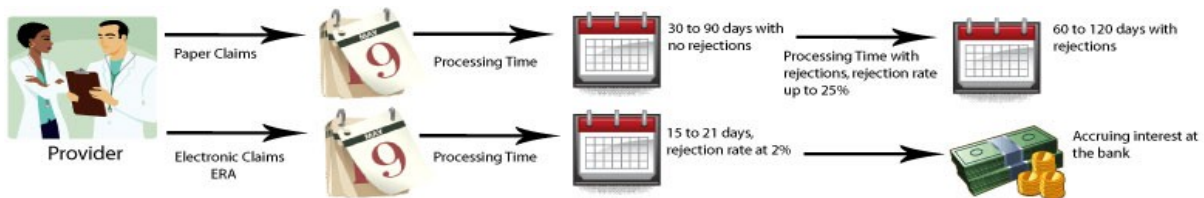


Figure 2 below: GHN believes the benefits of switching to electronic claims greatly outnumber those of paper claims. The comparison below shows the advantages of electronic claims.

Paper Claims	Electronic Claims
Manually keyed producing a high error rate	Reduced adjudication error rate
Up to 25% rejections due to clerical errors	Average rejection rate is under 2%
Cost of claim is around \$7	Follow up time by staff is drastically reduced
Processing time is 30-90 days with no rejections	Total processing time is 15-21 days
Processing time is 60-120 days with rejections	Errors sent back immediately to be corrected

² "Overhauling the US health care payment system," *The McKinsey Quarterly*, June 2007

³ "Provider Tips for Moving to Electronic Payment Receipt and Reconciliation," *HFMA*, 25 July 2007



The true benefits of adopting the use of Electronic Remittance Advice and Electronic Funds Transfer may not be readily apparent to some providers. In fact, in a majority of instances where providers have taken the initiative to implement ERA and EFT in their billing life-cycle, they've realized numerous dividends they had not originally accounted for in their ROI calculation. Time seems to move so quickly in a healthcare environment that a two-to-four day difference in processing time for a paper EOB versus an Electronic Remittance Advice seems to be of little consequence. However, we must be conscientious of the fact that healthcare transactions in any form are far from perfect as we are just beginning to scratch the surface in implementing standardized forms of communication. As a result, the number of billing iterations for a single claim from primary claim submission to secondary claim payment can be numerous. Each claim iteration whether it be for a denial, a request for medical records, or coordination of benefits information, multiplies the effect of the two-to-four day time span. Instead of waiting a few extra days to receive payment and adjudication information, we're looking at anywhere from a twelve to eighteen day gap where time is working against you and your money is not working for you.

But, the real question is not how long you should wait before receiving and processing your cash. The true question we should be asking ourselves is why should we wait at all if we don't absolutely have to wait? As author Jim Collins states in the very first page of his iconic book *Good to Great*, "Good is the enemy of great..." And that is one of the key reasons why we have so little that becomes great." We can remain comfortable in our profitability and adequate standard of healthcare, or we can continuously strive to achieve more not by taking drastic measures or by blindly accepting risk, but by utilizing the proven tools that are available to us.

Electronic Remittance Advice and Electronic Funds Transfer, much like electronic claim processing, have become quite commonplace and easy to implement over the past few years. Most large payers offer providers the opportunity to enroll to receive ERA that can be downloaded by the provider from the payer's site through a Web browser. Even simpler, a provider can very easily contract with a Revenue Cycle Management company that has pre-established connections to thousands of payers, large and small, throughout the United States to manage the entire process for a nominal transaction fee. The implementation is quick and the rewards are large.

In considering the rewards inherent in electronic healthcare transaction processing, let's consider a series of events that have taken place rather recently in Brazil and compare it to the current situation being experienced in the United States. The Brazilian currency, the Real, has experienced erratic fluctuations since 1999 and at various points had inflation as high as 80 percent in a single month. As a result, it became absolutely essential to Brazilians that their cash was transferred into their accounts as soon as possible so they could immediately buy goods. Under such conditions, everyone leaving cash in the wallet or under the mattress is losing money. In response, Brazilian banks drastically increased their use of electronic transaction processing and are now considered among the best banks in the world, processing transactions in a single day, compared to many U.S. banks which take two to three days to process transactions.

While inflation in the United States is no where near that level, we have recently experienced the highest inflation rates in decades along with a Dollar that is falling relative to nearly every foreign currency. The time value of money is a very real phenomenon and the changing economic environment is a substantial incentive to adopt the use of ERA, EFT, and all available electronic transaction processing mechanisms. The credit crunch that has resulted from the mortgage crisis is making it increasingly difficult for providers to obtain funds for reinvestment into their facilities. Decreasing the time it takes to go from claims-to-cash is a boon to providers by making available funds for reinvestment and by increasing creditworthiness in the eyes of lenders.



Shift in Focus to Transaction Automation

The healthcare industry is making solid ground in the shift toward transaction automation and cost reduction, but the adoption rate is slow and the industry still needs to focus on cutting high processing costs. According to the *Metavante Payment Progress Index: Healthcare Edition*, 76 percent of healthcare providers surveyed can receive payment explanation electronically (electronic remittance advice) and 93 percent of those surveyed expect to be able to receive ERAs by 2009.

The banking and payments communities will play a vital role in the paper-to-electronic shift as they focus their attention on facilitating electronic transactions and cost reductions. Over the next two years, payers are expected to increasingly send e-remittances and e-payments. Providers look to invest in e-payment technologies to ensure they have the ability to automatically process ERAs for direct posting to their management systems. 4

EOB Conversion to HIPAA Mandated 835 ERA File

The electronic billing movement is forcing paper-based patient records into extinction. Electronic billing provides substantial benefits, such as reduced paperwork, increased cash flow and reduced claim rejections. The passing of the HIPAA legislation has provided the opportunity to implement electronic remittances in hopes of reducing the large volume that comes with paper processing and increasing return on investment. As we start to see a drastic decline in paper EOBs, the number of ERAs will increase requiring providers to better manage electronic connections to their clearinghouse or to the payer community. To further reduce expenses, providers should look to convert remaining paper EOBs to an 835 ERA file. As a result of providers making the shift to electronic transmission, banks' check and lockbox revenues will decline, thus completing the electronic circle.

Summary

ERA solutions provide substantial benefits to both payers and providers. Providers will reap the benefits from faster turnaround time in the processing of payments. Payers realize reduced operating costs and streamlined processes, compared to managing the manual process of paper remits. To realize maximum bottom-line results, both payers and providers need to adopt electronic remittance solutions.



About the Author

Adam Thornsley is associate vice president of quality initiatives at GHN-Online. Adam's responsibilities include the development of systems and methods that obtain, store, and efficiently disseminate corporate and industry knowledge both internally and externally. In addition, Adam is developing Lean Six Sigma quality initiatives aimed at achieving a state of Zero Defect in all electronic healthcare transactions.

He has an extensive knowledge of volume intensive segments, such as laboratory operations and overall revenue cycle management processes, as well as market trends and changing regulatory requirements.

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About GHN-Online

GHN-Online, Inc., healthcare's leading provider of real-time claims management and end-to-end transaction processing solutions, delivered the industry's first Internet-based pre-adjudicated claims management tools. HIPAA-compliant and enterprise-class, GHN offers the simplest and fastest claims-to-cash solution, anywhere™. With an open architecture that easily integrates all stakeholders in the healthcare reimbursement model, GHN solutions drive a 100 percent claims acceptance rate. GHN's intuitive and format-agnostic capabilities enable instantaneous, complete and accurate electronic claims transactions for thousands of healthcare payers and providers throughout North America. Founded in 1999, GHN-Online is headquartered in Dallas, Texas. For further information contact sales@ghnonline.com or call 214.696.5717.

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