



MANAGED CARE COMPLIANCE SERIES

PART TWO:

U.S. PROMPT PAY REGULATIONS
ON MEDICAL CLAIM PAYMENT

EXECUTIVE SUMMARY

HYGEIA

HEALTHCARE LEADERSHIP, ACCOUNTABILITY AND PROFIT



EXECUTIVE SUMMARY

U.S. Prompt Pay regulations require healthcare Payers to reimburse or deny claims within a state specified time frame or risk penalty fees for late payments. Typically, 45 days is allotted for payment on claims that require no additional information from the healthcare Provider or from a third party. Electronic claims are normally required to be paid within 15-30 days. Penalty fees for late payment can range from 10-18 percent annually, depending on the state.

The U.S. Congress originally enacted the Prompt Payment Act in 1982 to apply to Federal Agencies. Due to health care Provider activism for payment reforms, Prompt Pay laws were extended to health care plans in over forty states in 2001. **Today Prompt Pay laws exist in 47 states and have led to more than \$30 million in fines.**

Provider Concerns Regarding Payment

Prior to late 1990s, Providers had no legislative oversight to help them receive payment on services performed within a specific time frame. While some Payers paid claims within 30 days or less, several were submitting reimbursements on clean claims within 60-120 days. If the Payer returned the claim due to missing information or incorrect submission, it could take longer.

The unpredictable length of the payment process caused numerous Providers to experience cash flow and operational challenges. Many were forced to borrow money to cover operating costs or hire attorneys to secure reimbursements on their behalf. Urged by state medical associations, physicians and hospital chief financial officers began lobbying their state representatives for reform, and often united to file lawsuits against a single insurer or group of insurers.

Action Taken by State Legislators

The State of New York was one of the first states to introduce Prompt Pay legislature. In 1997, Governor George Pataki signed a bill that required insurers to pay claims within 45 days of receipt or face fines of 9% interest on unpaid claims. He also took a tough stance on insurers that repeatedly violated the 45 days time limit by fining them \$100 on each claim that was not paid on time.

Georgia and Texas soon assumed a leadership role in the ongoing Prompt Pay battle. Based on a review of its data, the Georgia Department of Insurance began imposing fines on delinquent Payers in 1999 and increased the number of fines in 2000. In August 2001, The Texas Department of Insurance (TDI) fined 17 HMOs and insurance companies \$9.25 million for violating Prompt Pay rules. This action set in motion

H Y G E I A

HEALTHCARE LEADERSHIP, ACCOUNTABILITY AND PROFIT



numerous restitution payments to Providers, as well as changes to the definition of a clean claim. By July 2002, TDI enforcement had resulted in about \$26.1 million in restitution payments for Providers. At the outset of the issue, both Georgia and Texas enacted some of the most demanding Prompt Pay laws in the U.S. Since then other states have implemented rigorous Prompt Pay rules.

Prompt Pay Penalties

Between 1999 and 2003, insurers across the U.S. paid a collective \$54 million in fines and restitutions to healthcare Providers. Some states such as Texas apply penalties based on billed charges. Other states such as Washington, California and New York employ interest-based penalties. Regardless of these differences, insurance departments in every state are aggressive in enforcing the law when complaints are made.

Industry Activism

In 2002, The Florida Medical Association collaborated with The American Medical Association to launch a Campaign to Promote Timely Payment on behalf of physicians. Florida as well as other states has established review panels for resolving payment disputes and implementing amendments to their original Prompt Pay laws. In addition to tackling payment delays through appeal mechanisms, fines, and lawsuits, states have also begun to tighten statutory language defining a clean claim. These states include Arizona, California, Colorado, Pennsylvania, Tennessee, Texas, Virginia, Washington, New York and New Mexico.

Hygeia Stance on Prompt Pay Issue

As Health Service Intermediary, Hygeia's business protocols fulfill the obligations of our Provider contracts and comply with managed care regulations. To this end, we expect Payer-clients to make reimbursements based on the timeframe outlined in our contracts, and according to prompt pay statutes in the applicable state. Additionally, we educate them about the business risk inherent in non-compliance, which include discount denials, contract terminations and litigation. Because late payments violate contract stipulations and managed care compliance regulations, Payers risk invalidating the applicable discount and the Provider may be entitled to 100% of billed charges. We reinforce the importance of full compliance and this has strengthened our relationships with Providers who recognize and reward our commitment with their most competitive rates. We encourage our Provider-clients to facilitate the flow of information required for our Payer-clients to process claims efficiently, which helps them make payments in a timely manner.