Maryland
Hospital Association

August 3, 2015

Dennis Phelps
Associate Director, Audit and Compliance
Health Services Cost Review Commission
4160 Patterson Ave.
Baltimore, MD 21215

Re: Response to Comments by CareFirst Re: Working Capital

Dear Mr. Phelps:

On behalf of the Maryland Hospital Association's 64 hospital and health system members, I am submitting this letter in response to the HSCRC's request for comments on CareFirst's June 18 letter claiming that "adjusted days" (treating multiple payments on a claim as separate payments for computing processing time) should not be included in the working capital calculation. The letter says that including adjusted days in the calculation would be "too overly burdensome and complex to compute" and "does not have a material impact on working capital." We disagree, and the following responses outline why.

Computing adjusted days is neither burdensome nor complex

The experience of our hospitals is that most payers have long included adjusted days, and both the hospitals and these payers have been able to configure their systems to include adjusted days in their calculations. Algorithms can be created so that each payment on a claim is treated as a separate payment in order to properly calculate average processing time. This invalidates any argument that including adjusted days is too complex or burdensome.

Including adjusted days does impact advanced funding

The CareFirst letter attempts to extrapolate its very limited examples of working capital calculations to all payers to justify its conclusion that including adjusted days always has a non-material impact on those calculations. Our members' experience shows that, in fact, there is a considerable impact on working capital. Each payer has its own claims processing and denial practices; some consistently make partial payments on claims promptly after submission but then wrongfully deny the remainder of the claim and force the provider to go through a lengthy adjudication process, a particular problem with some of Maryland's Medicaid managed care organizations. It is not uncommon for a glitch in a payer's claims processing system to cause an invalid denial of partial charges on claims. While some payers address these glitches quickly, others can take months. For example, one major payer is not processing certain high-dollar radiology charges for a particular product line. Despite intervention from the MHA and the Department of Health & Mental Hygiene, it has been months since this issue was first raised and the glitch is still not fixed. The processing time associated with such practices must be taken into account when computing working capital. If it is not, and if payers are not subject to interest, there is no incentive to process claims or fix problems in a timely manner.

We disagree with the commission's position that advancing working capital relieves a payer of its obligation to pay interest

Hospitals have taken issue with the commission's position that the advance of working capital should relieve a payer of the obligation to pay interest on claims, pursuant to Insurance Article 15-1005(f). The 26 percent annualized interest rate under Insurance Article 15-1005(f) is far higher than a compensatory rate of interest and was clearly meant to penalize payers who wrongfully deny claims. Despite the fact that advanced funding does not make up for the penalty interest a hospital would otherwise be entitled to in the absence of working capital, the commission has maintained that relieving a payer from interest obligations under the above insurance article is justified even when it takes a provider months or years to provide payment for wrongful denials. HSCRC has said that, "if a claim is adjudicated and reimbursement is made in several payments, the working capital calculation should include the amount of each payment and number of days between discharge and receipt of payment for each payment." (See attached December 4, 2012 HSCRC explanation for justification of relieving payers of interest obligation). Logically, **then,** if the commission decides to exclude adjusted days from the calculation, then payers should be required to pay interest pursuant to Insurance Article 15-1005(f). Further, if a payer has not been including adjusted days in its calculation, it should have been paying interest on claims that were not paid in a timely manner, pursuant to Insurance Article 15-1005.

Excluding adjusted days would undermine the intent of the working capital statute

The essential premise of working capital is "time for money." Whether including adjusted days results in a minimal or significant impact on working capital, all time needed to process claims should be captured in the calculation. In addition, hospitals' experience shows that elapsed days for partial payments on claims are not offset by negative days that result from partial reductions in claim payments. In fact, adjustments for elapsed days routinely exceed negative days. For these reasons, we request that the commission reject the arguments raised in the CareFirst letter, and continue including adjusted days in the working capital calculation.

Sincerely,

Michael B. Robbins

Michael B. Robbins
Senior Vice President

Attachment

STATE OF MARYLAND
DEPARTMENT OF HEALTH AND MENTAL HYGIENE

HEALTH SERVICES COST REVIEW COMMISSION
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December 4, 2012

Mr. John Flyger, Esq.
10 S. Adams Street
Rockville, Maryland 20850

Dear Mr. Flyger:

I am writing in response to your letter of November 6, 2012 request in which clarification of the interaction between HSCRC's Current Financing working capital regulations, COMAR 10.37.10.26B, and the interest penalties provided by Insurance Article §15-1005.

Your understanding regarding HSCRC's position that the advance of working capital relieves a payer of the obligation to pay interest on claims pursuant to Insurance Article §15-1005 with the exception of the phrase "in some circumstances" is correct. The calculation of the processing time, which determines the amount of the working capital deposit, should include the number of days from discharge until reimbursement is received by the hospital. If a claim is adjudicated and reimbursement is made in several payments, the working capital calculation should include the amount of each payment and the number of days between discharge and receipt of the payment for each payment.

You state in your letter that you assumed that the payer failed to include in its processing time the time spent in arbitration, but rather included in the calculation the time that it responded to the claim. If this is the case, the working capital deposit should be recalculated to include the time spent in arbitration.

HSCRC's position is unchanged. Payers that meet the criteria in the Current Financing regulation are not subject to interest penalties.

If you have any questions, you may contact me at 410-764-2565.

Sincerely,

Dennis N. Phelps
Associate Director,
Audit & Compliance