



Exploring the Impact of the RAC Program on Hospitals Nationwide

Results of AHA RACTrac Survey, 4th Quarter 2010

February 24, 2011

RAC 101

- Centers for Medicare & Medicaid Services (CMS) Recovery Audit Contractor (RACs) conduct *automated reviews* of Medicare payments to health care providers—using computer software to detect improper payments. RACs also conduct *complex reviews* of provider payments—using human review of medical records and other medical documentation to identify improper payments to providers.
- Improper payments include:
 - incorrect payment amounts;
 - incorrectly coded services (including Medicare Severity diagnosis-related group (MS-DRG) miscoding;
 - non-covered services (including services that are not reasonable and necessary); and
 - duplicate services.
- All four RACs were authorized to begin conducting Medical Necessity Reviews (MNR) in August of 2010.



RACTrac Background

- AHA created *RACTrac*—a free, web-based survey—in response to a lack of data provided by CMS on the impact of the RAC program on America's hospitals.
 - Hospitals use AHA's online survey application, *RACTrac* (accessed at www.aharactrac.com), to submit their data regarding the impact of the RAC program.
 - Survey questions are designed to collect *cumulative* RAC experience data, from the inception of a hospital's RAC activity through the 4th quarter of 2010.
 - Survey registration information and *RACTrac* support can be accessed at ractracsupport@providercs.com or 1-888-722-8712.
- Note: When reviewing charts that reference previous quarter activity, please keep in mind that changes are attributable to changes in RAC activity as well as increases in the number of hospitals submitting data to *RACTrac*.



Executive Summary

- Over 1850 hospitals have participated in *RAC*Trac since we began collecting data in January of 2010.
- Nearly four out of five participating hospitals reported experiencing RAC activity.
- \$86 million in denied claims have been reported since the first quarter of 2010.
- 57% of participating hospitals with complex denials cited medically unnecessary as a reason for denial.
- Nearly half of all hospitals with RAC activity reported receiving at least one underpayment determination.
- 57% of hospitals reported appealing at least one RAC denial.
- Of the appealed claims that have completed the process, 85% were overturned in favor of the provider.
- 76% of participating hospitals report that the RAC program impacted their organization in the first quarter of 2010—whether they experienced RAC reviews or not.



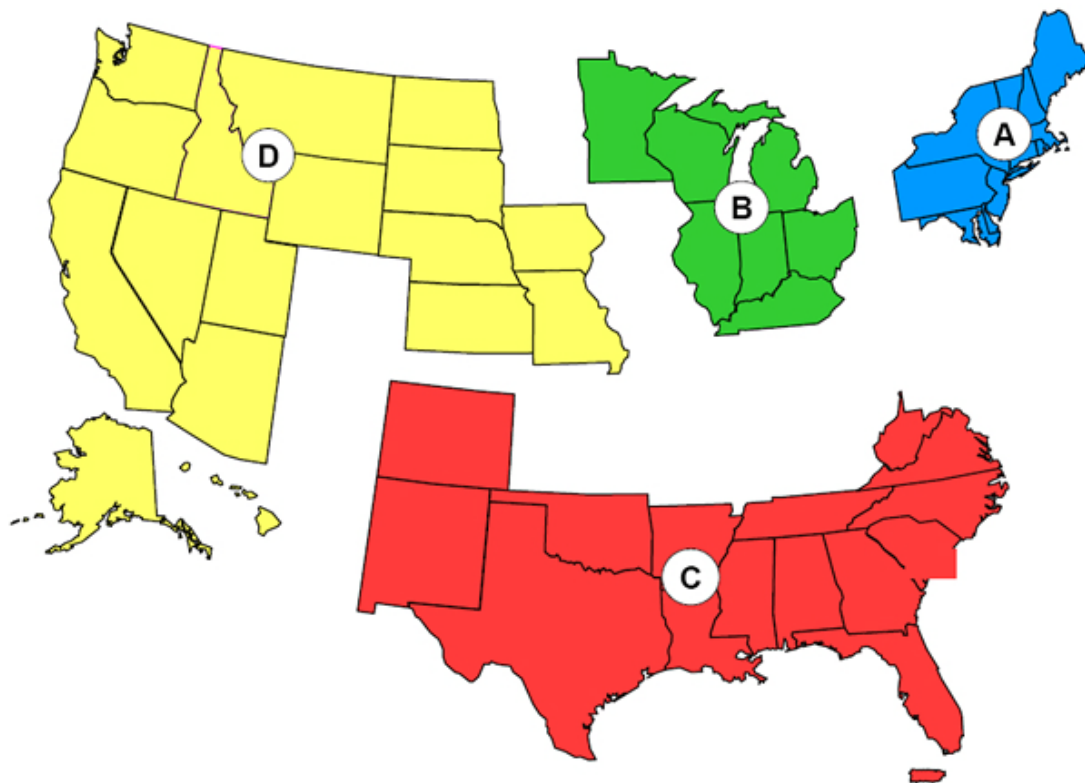


RACTrac Participation

There are four RAC regions nationwide. RAC Region C encompasses 40% of all hospitals in the United States.

Distribution of Hospitals by RAC Region

	Percent of Hospitals Nationwide
Region A	15%
Region B	19%
Region C	40%
Region D	26%

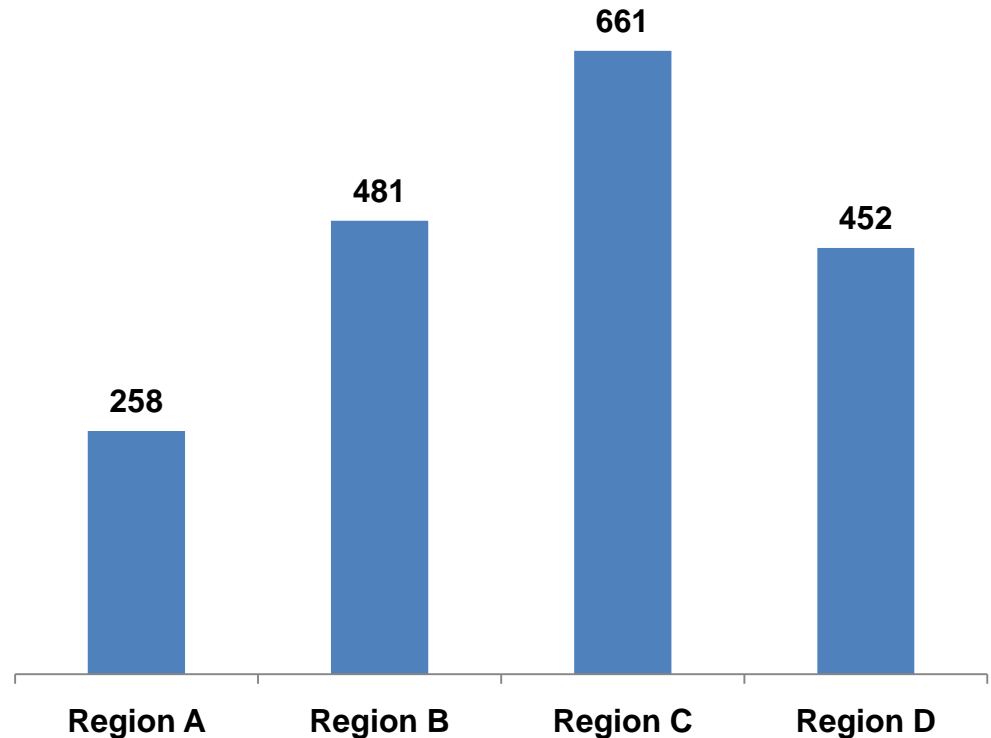


Source: Centers for Medicare and Medicaid Services

Participation in RACTrac was generally consistent with hospital representation in each of the RAC regions.

Hospitals Participating in the *RAC*Trac Survey by RAC Region, through 4th Quarter, 2010

	Percent of Hospitals Nationwide	Percent of Participating Hospitals by Region
Region A	15%	14%
Region B	19%	26%
Region C	40%	36%
Region D	26%	24%



Source: AHA. (February 2011). *RAC*Trac Survey

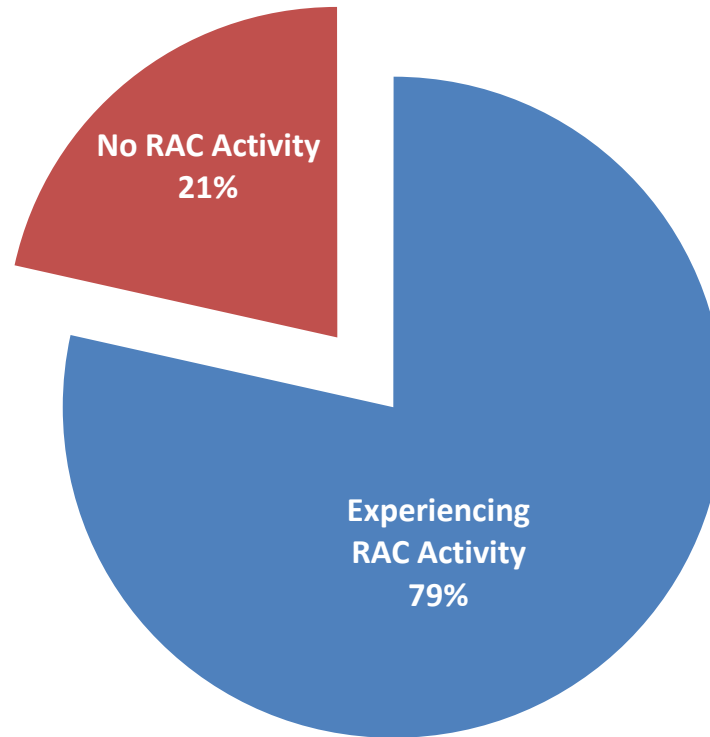
AHA analysis of survey data collected from 1,852 hospitals: 1,454 reporting activity, 398 reporting no activity through December 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.



RAC Activity

Nearly four out of five participating hospitals are experiencing RAC activity.

Percent of Participating Hospitals Experiencing RAC Activity, through 4th Quarter 2010

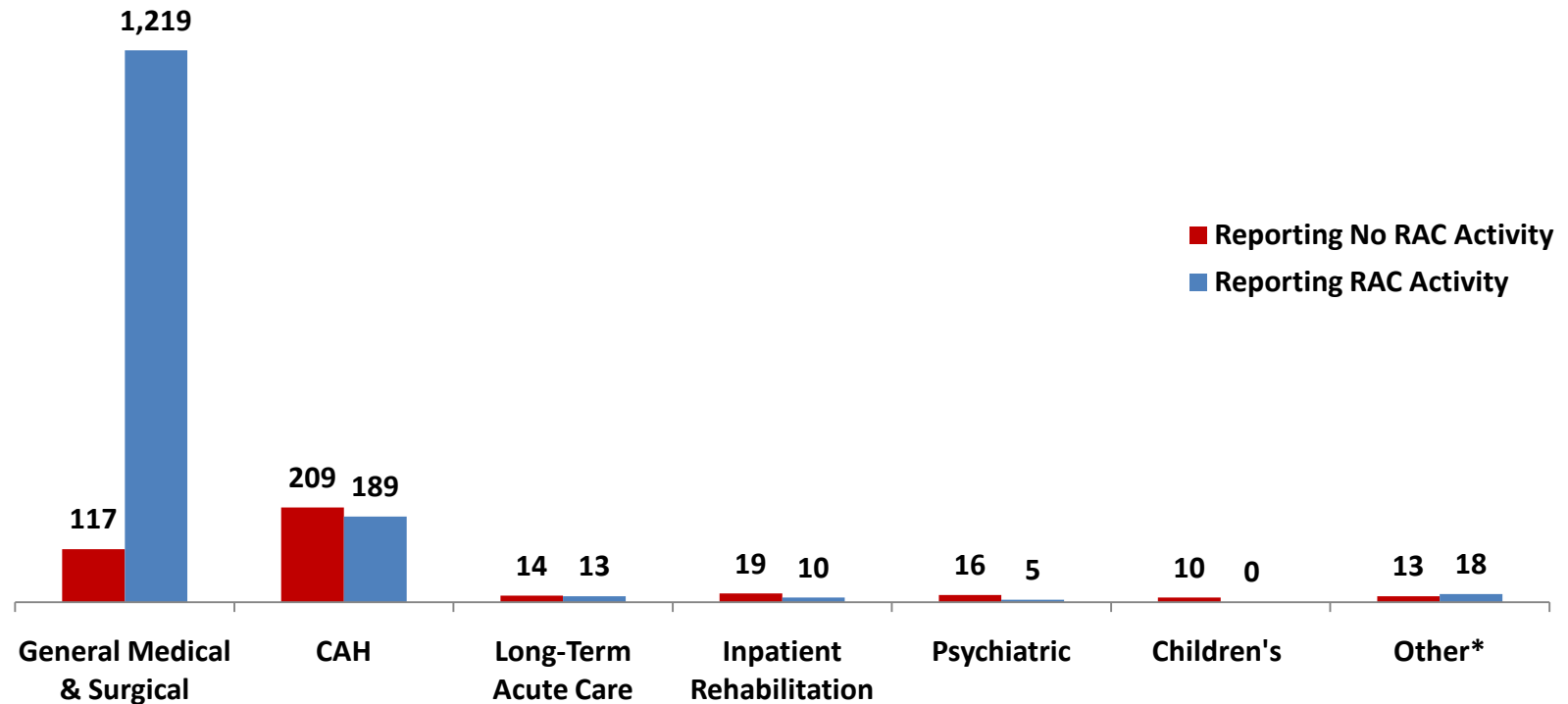


Source: AHA. (February 2011). *RACTrac Survey*

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The majority of hospitals reporting RAC activity were general medical and surgical hospitals.

Number of Hospitals Reporting RAC Activity by Hospital Type, through 4th Quarter 2010



*Other includes: Cancer, Chronic Disease, Alcohol and Other Chemical Dep., Heart, Obstetrics & Gynecology, Orthopedic and Surgical hospitals.

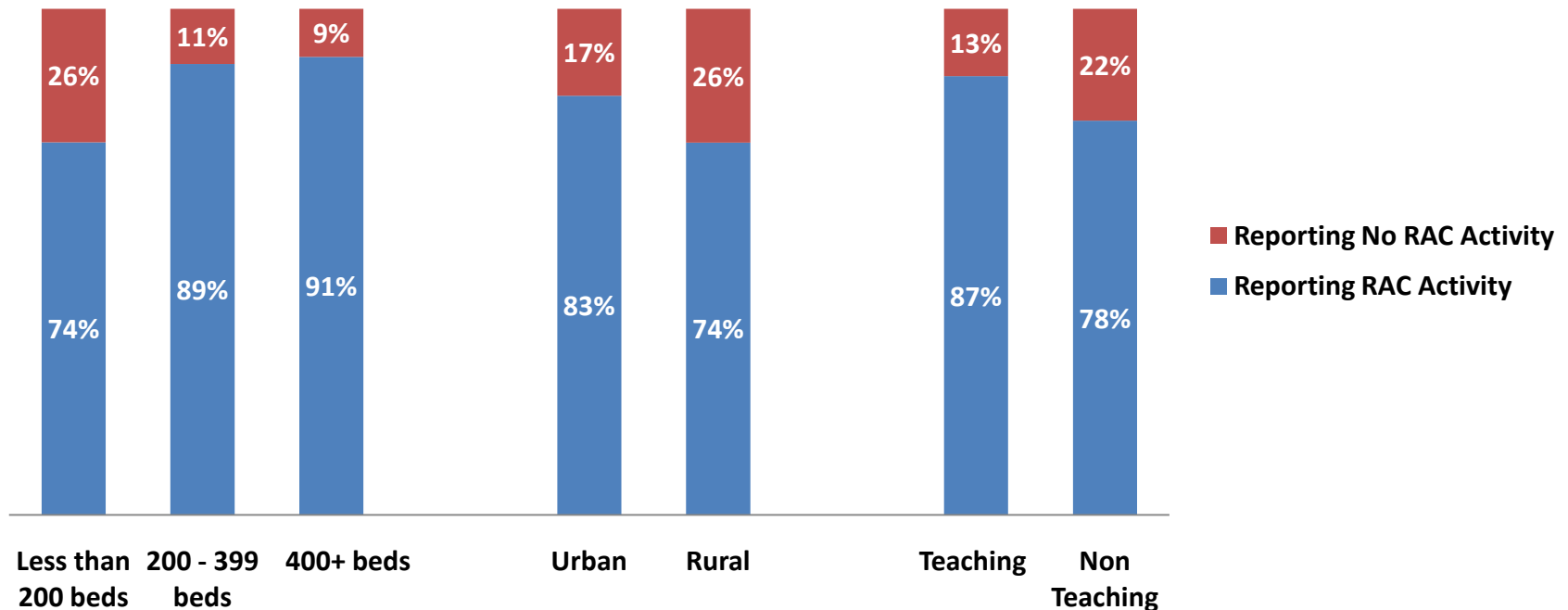
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Different types and sizes of hospitals reported that they were subject to RAC review.

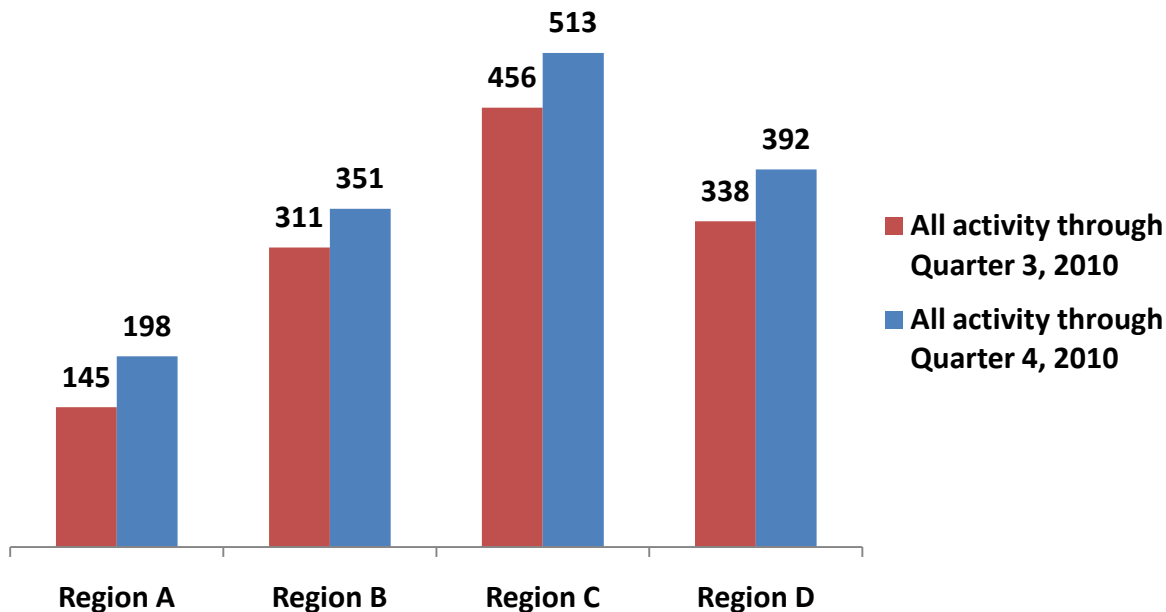
Percent Reporting RAC Activity vs. No RAC Activity by Type of Participating Hospital, through 4th Quarter 2010



Source: AHA. (February 2011). *RACTrac Survey*
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RAC Region C has the highest number of hospitals reporting RAC activity.

Number of Participating Hospitals Reporting RAC Activity by Region, through 4th Quarter 2010



States By RAC Region

Region A: Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont

Region B: Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio, and Wisconsin

Region C: Alabama, Arkansas, Colorado, Florida, Georgia, Louisiana, Mississippi, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia, Puerto Rico, and U.S. Virgin Islands

Region D: Alaska, Arizona, California, Hawaii, Idaho, Iowa, Kansas, Missouri, Montana, North Dakota, Nebraska, Nevada, Oregon, South Dakota, Utah, Washington, Wyoming, Guam, American Samoa, and Northern Marianas

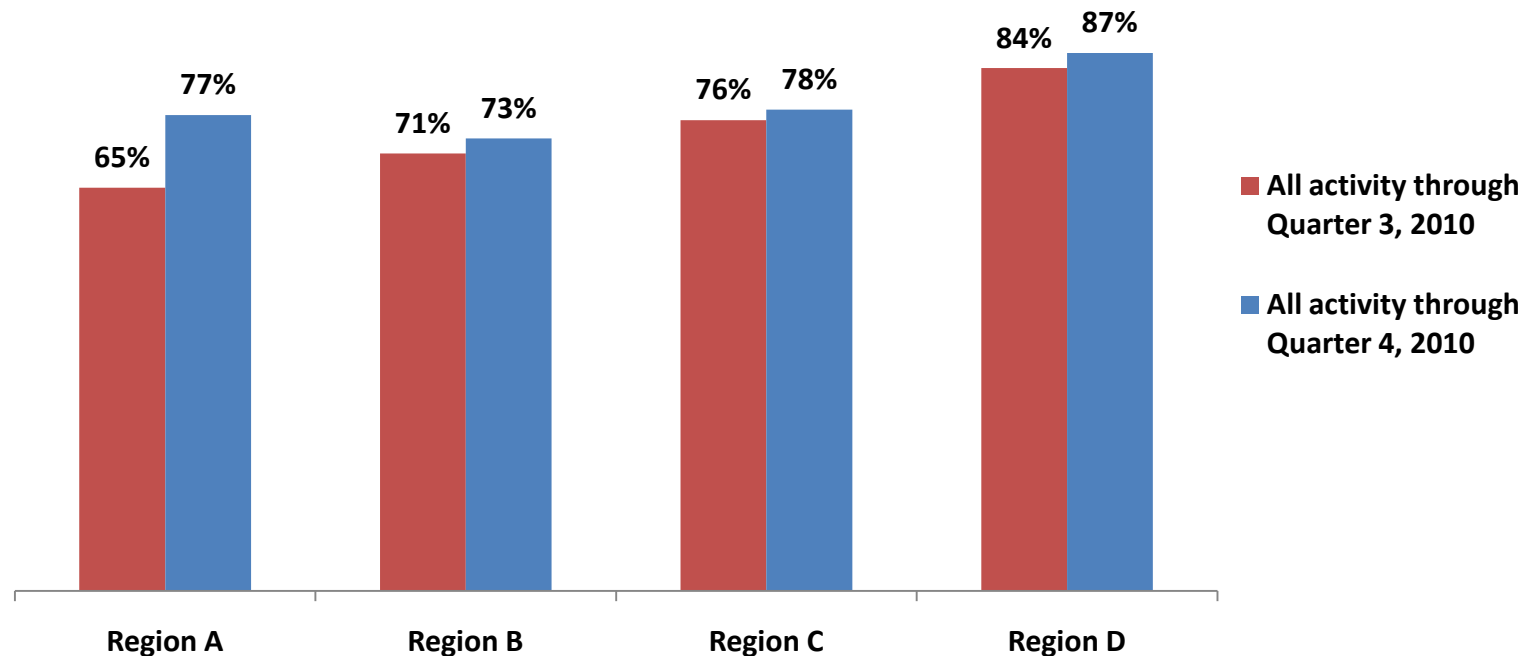


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RAC Region A had a significant increase in participating hospitals reporting RAC activity.

Percent of Participating Hospitals Reporting RAC Activity, by Region, through 4th Quarter, 2010



Source: AHA. (February 2011). *RACTrac Survey*

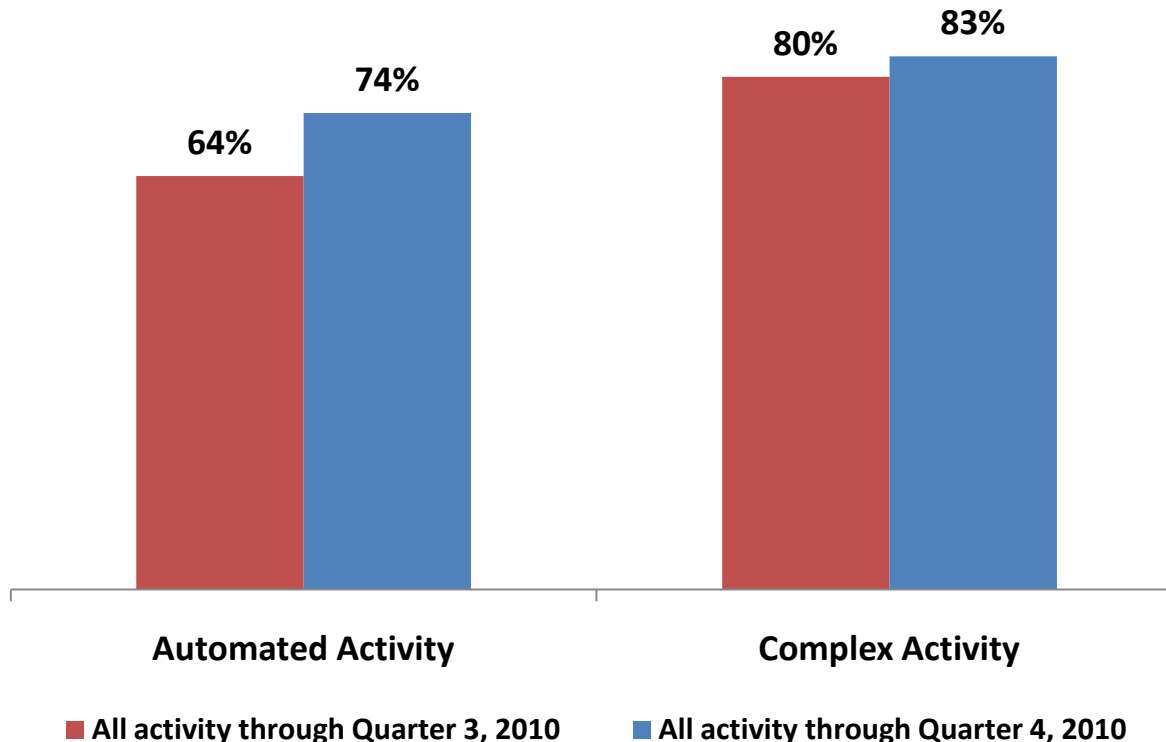
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RAC Reviews

A higher percentage of hospitals reported automated reviews than the previous quarter, but RACs continue to focus their efforts on complex reviews.

Percent of Participating Hospitals with RAC Activity Experiencing Automated and/or Complex RAC Review, through 4th Quarter 2010



Automated Activity: includes all automated reviews, which is a claim determination without a human review of the medical record. RACs use proprietary software that is designed to detect certain types of errors including but not limited to duplicate payments, billing or coding errors. The RAC notifies the provider via a demand letter when an overpayment has been identified through automated review.

Complex Activity: includes all complex reviews, which is a human review and determination of whether or not an improper payment has been identified once the medical record has been received. Upon that determination, a hospital will be notified via a review results letter if an improper payment was found and therefore the associated claim has been "denied".

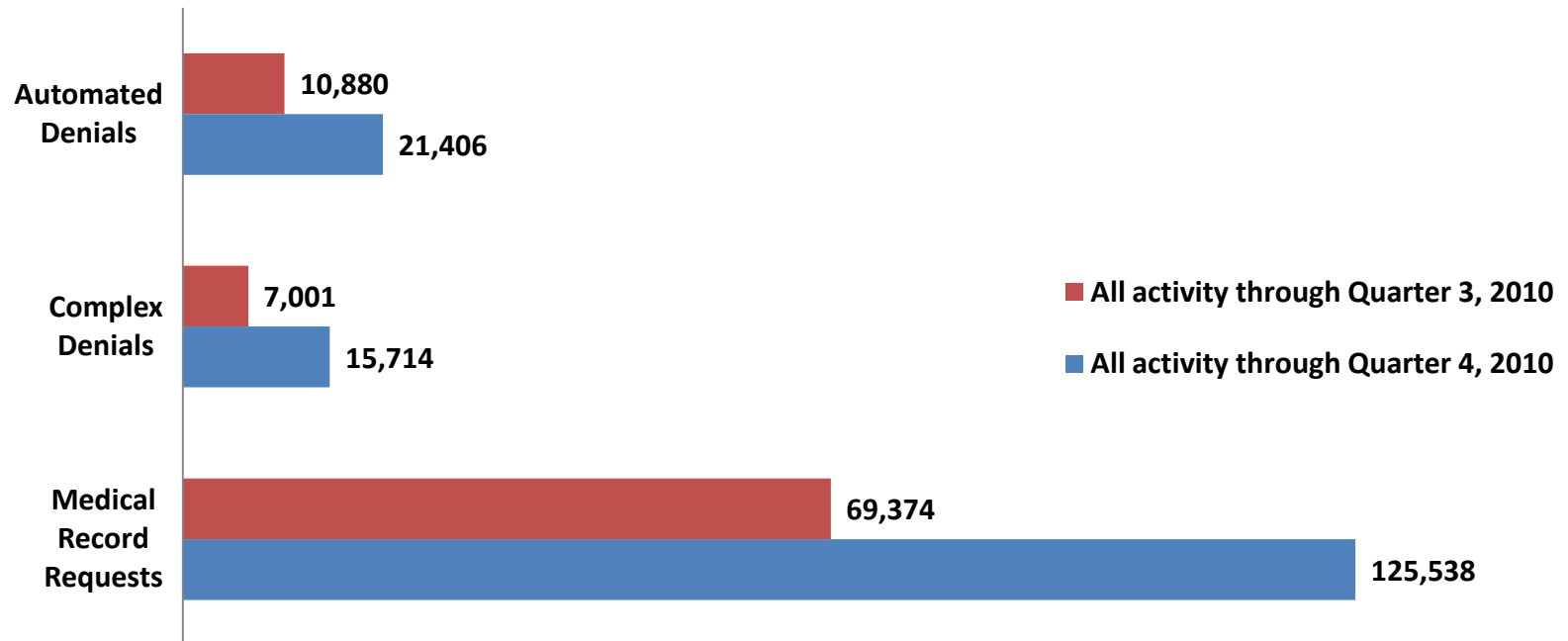


Source: AHA. (February 2011). *RACTrac Survey*

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Reported RAC activity of all types has nearly doubled since last quarter.

Reported Automated Denials, Complex Denials and Medical Records Requests by Participating Hospitals, through 4th Quarter 2010



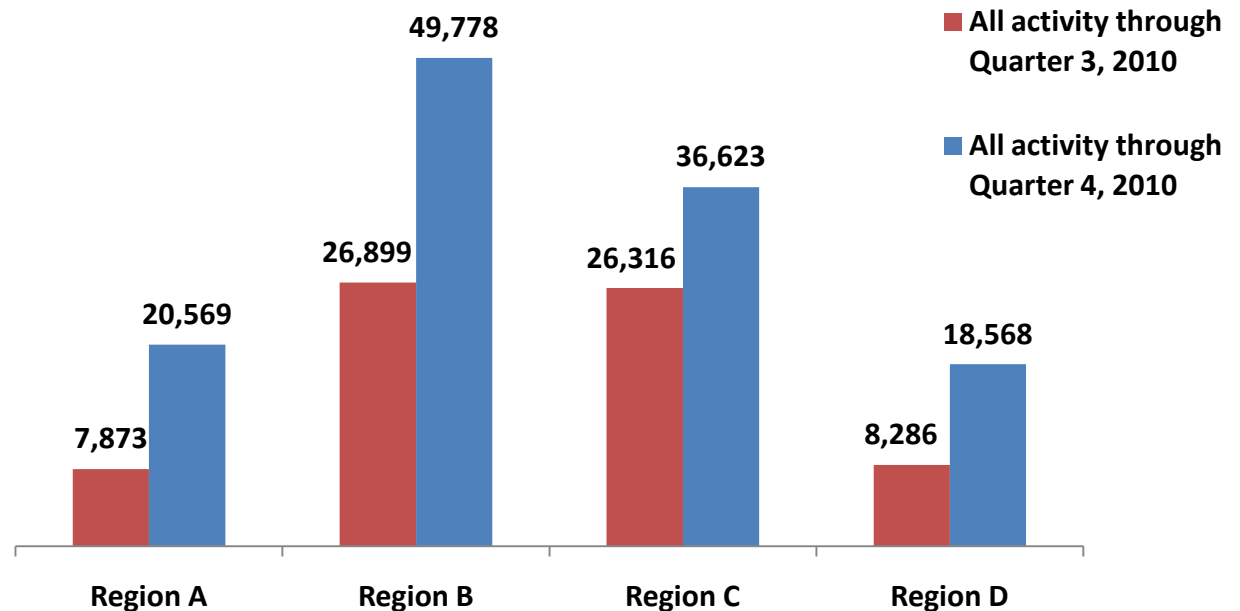
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Region B hospitals are experiencing the greatest volume of medical record requests overall, and per hospital.

Number of Medical Records Requested from Participating Hospitals With Complex Medical Record RAC Activity, through 4th Quarter 2010

Average Number of Medical Record Requests per Reporting Hospital, through Q4, 2010	
Region A	162
Region B	194
Region C	112
Region D	123

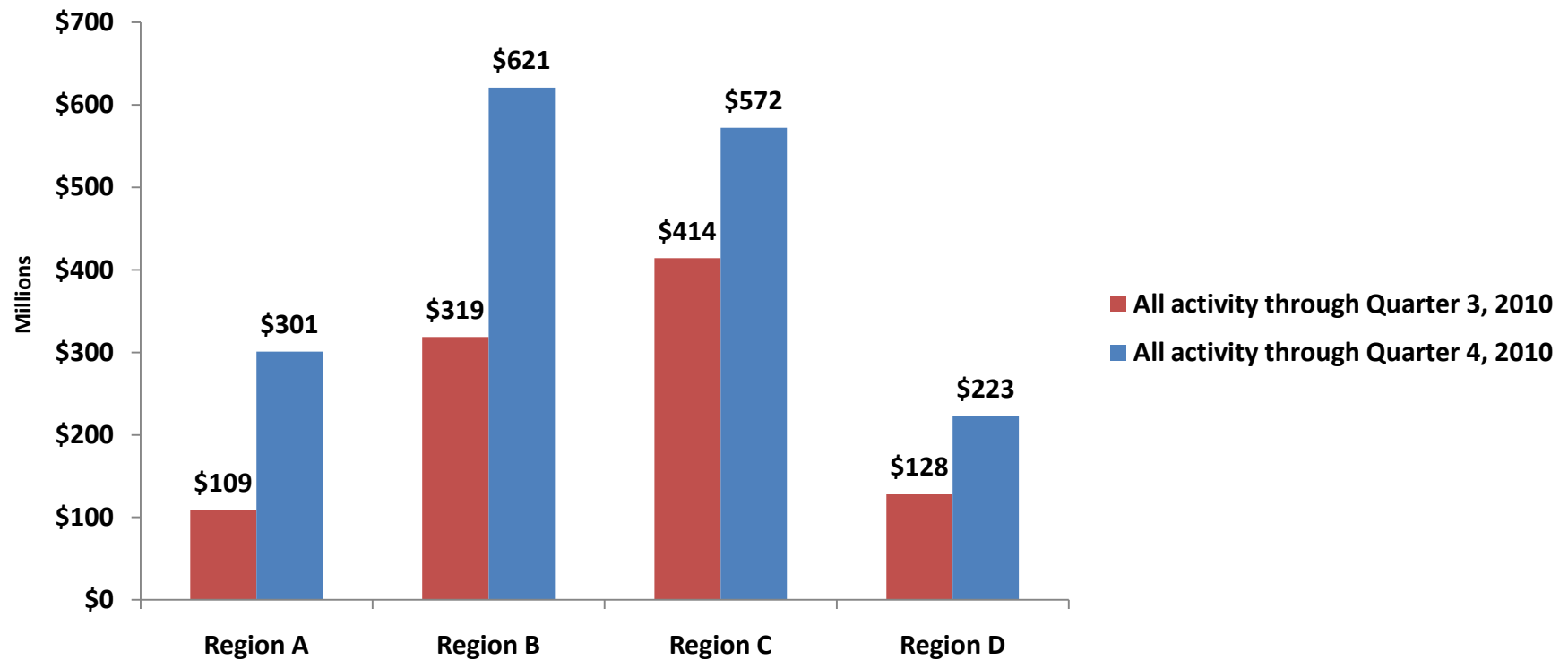


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Among participating hospitals, \$1.7 billion in Medicare payments were targeted for medical record requests through the 4th quarter of 2010.

Medicare Payments Associated with Medical Records Requested from Participating Hospitals, through 4th Quarter 2010, in Millions



Source: AHA. (February 2011). *RACTrac Survey*

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The average value of a medical record requested in a complex review varied slightly across RAC Regions.

Average Value of a Medical Record Requested in a Complex Review Among Hospitals Reporting RAC Activity, through 4th Quarter 2010



Source: AHA. (February 2011). *RACTrac Survey*

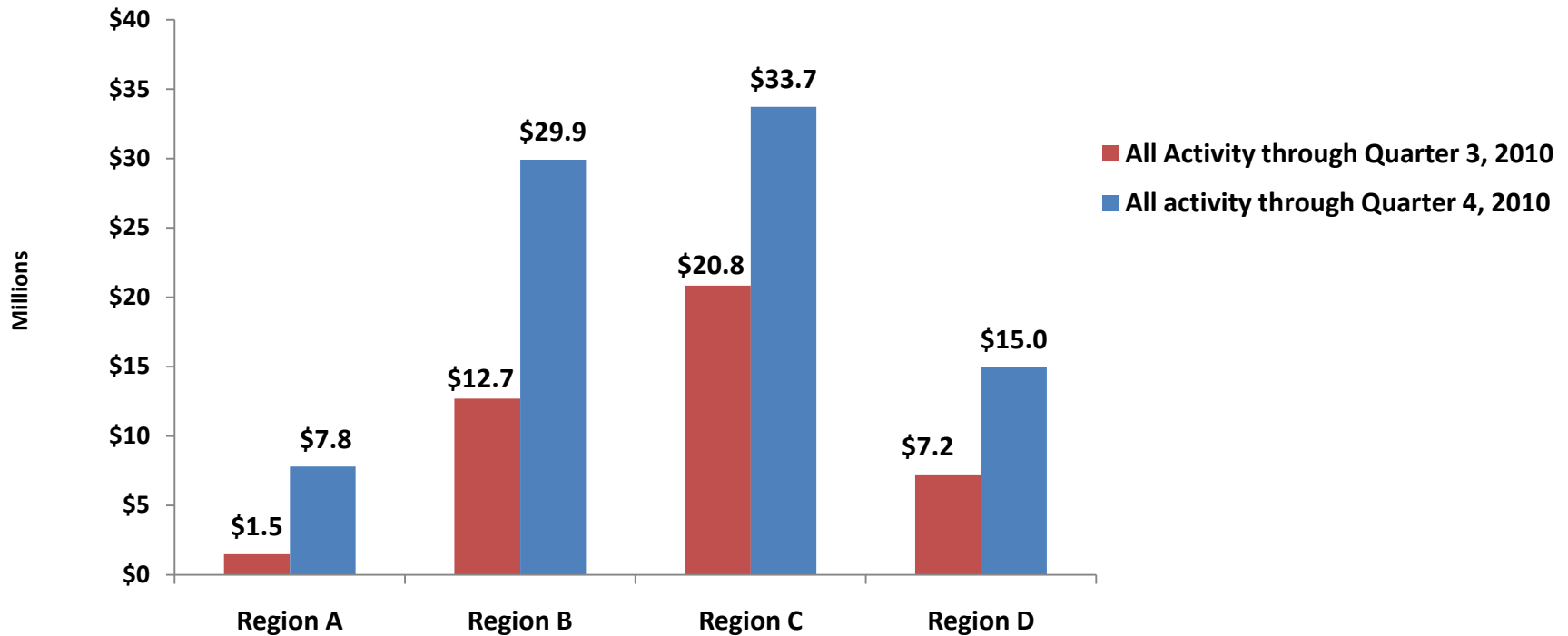
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RAC Denials

\$86 million in denials have been reported, more than double the \$42 million reported last quarter.

Dollar Value of Automated and Complex Denials by RAC Region for Reporting Hospitals, through 4th Quarter 2010, Millions

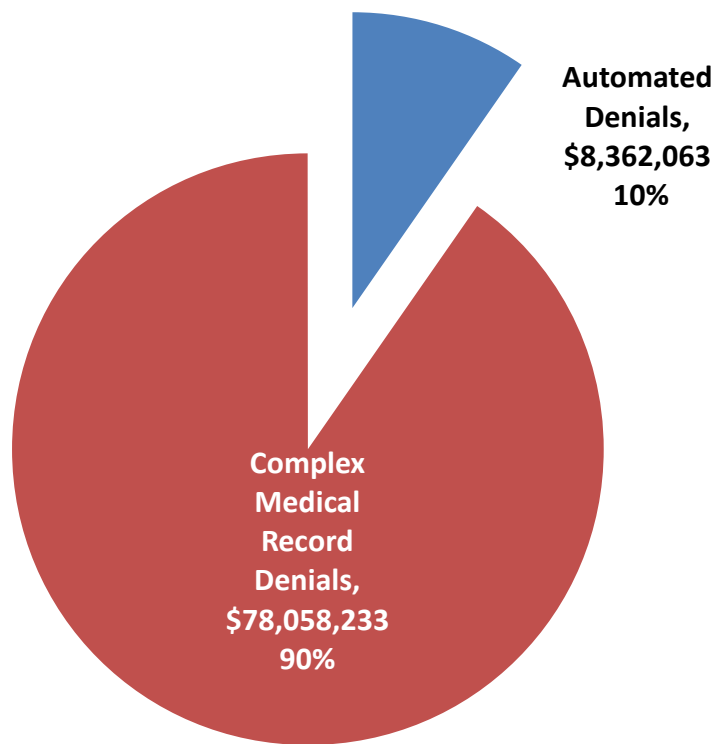


Source: AHA. (February 2011). *RACTrac Survey*

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90% of denied dollars were complex denials totaling over \$78 million dollars.

Percent and Dollar Amounts of Automated Denials Versus Complex Denials for Reporting Hospitals, through 4th Quarter 2010

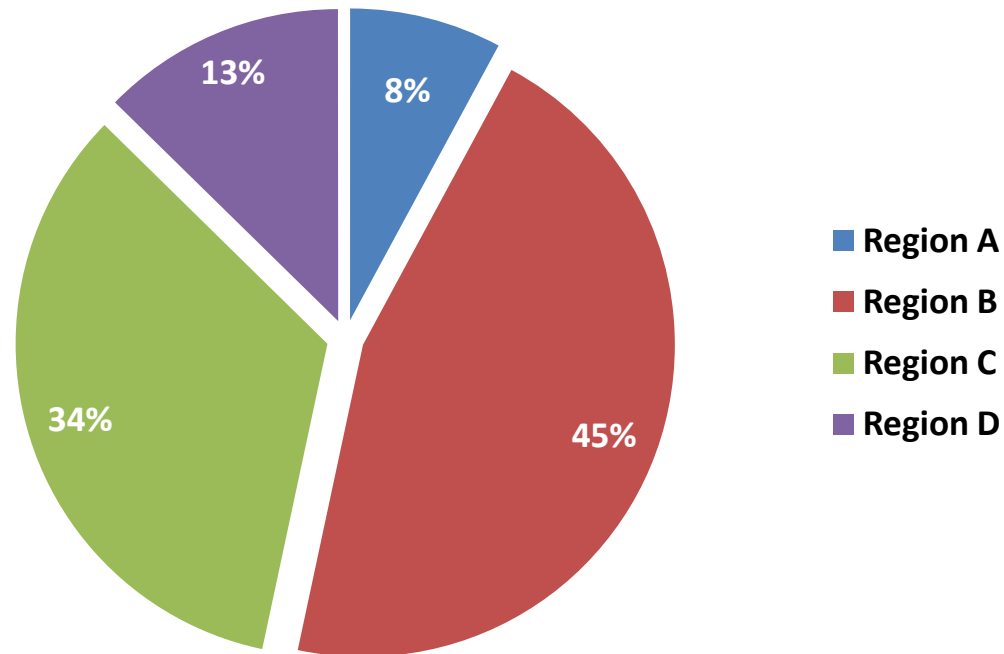


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Regions B and C account for nearly 80% of all reported denials.

Percent of Automated and Complex Denials by RAC Region for Reporting Hospitals, through 4th Quarter 2010



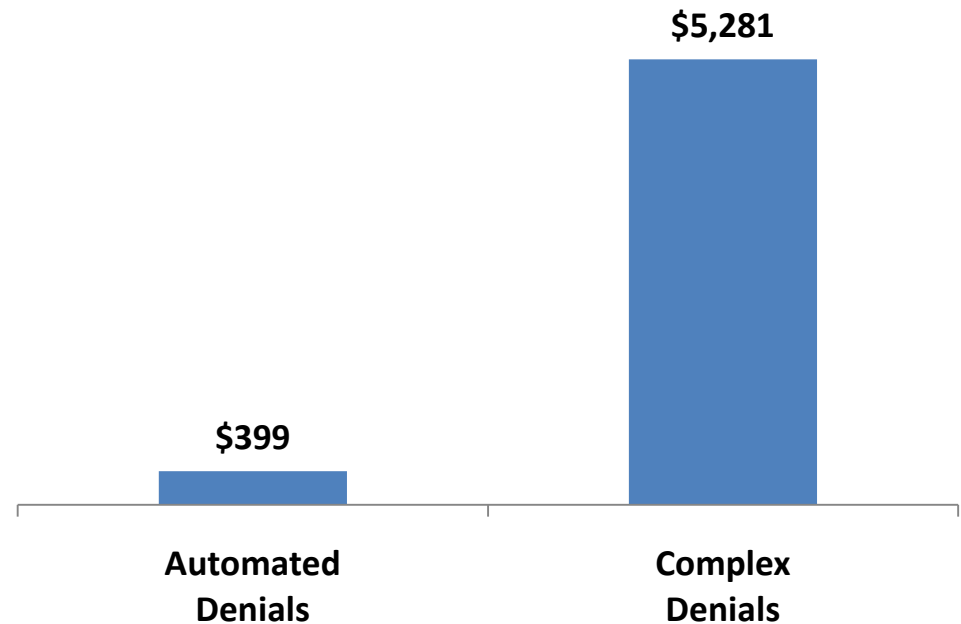
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The average dollar value of an automated denial was \$399 and the average dollar value of a complex denial was \$5,281.

Average Dollar Value of Automated and Complex Denials Among Hospitals Reporting RAC Denials, through 4th Quarter 2010

Average Dollar Amount of Automated and Complex Denials Among Reporting Hospitals, by Region		
RAC Region	Automated Denial	Complex Denial
Region A	\$526	\$4,039
Region B	\$312	\$5,168
Region C	\$408	\$5,342
Region D	\$733	\$6,472



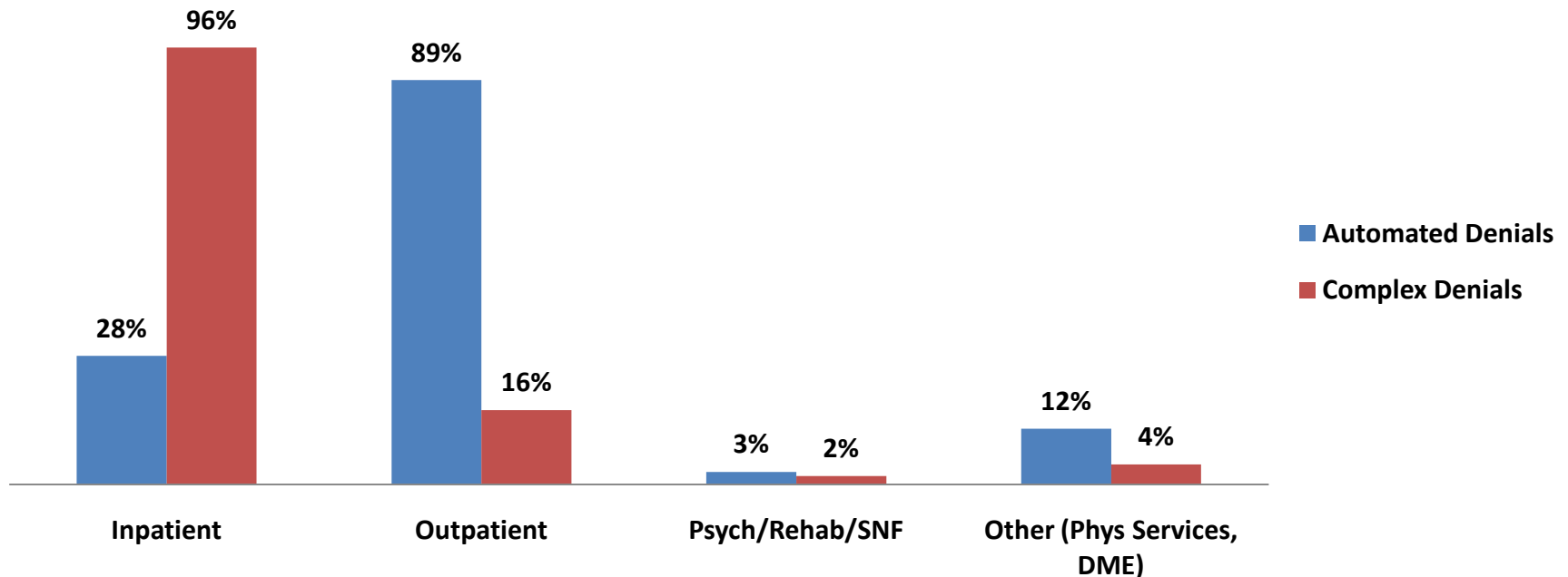
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89% of participating hospitals reported automated denials in the outpatient service area and 96% of participating hospitals reported complex denials in the inpatient service area.

Percent of Participating Medical/Surgical Acute Hospitals with RAC Activity Experiencing Denials by Type of Service, 4th Quarter 2010

Survey participants were asked to select all areas targeted for denials



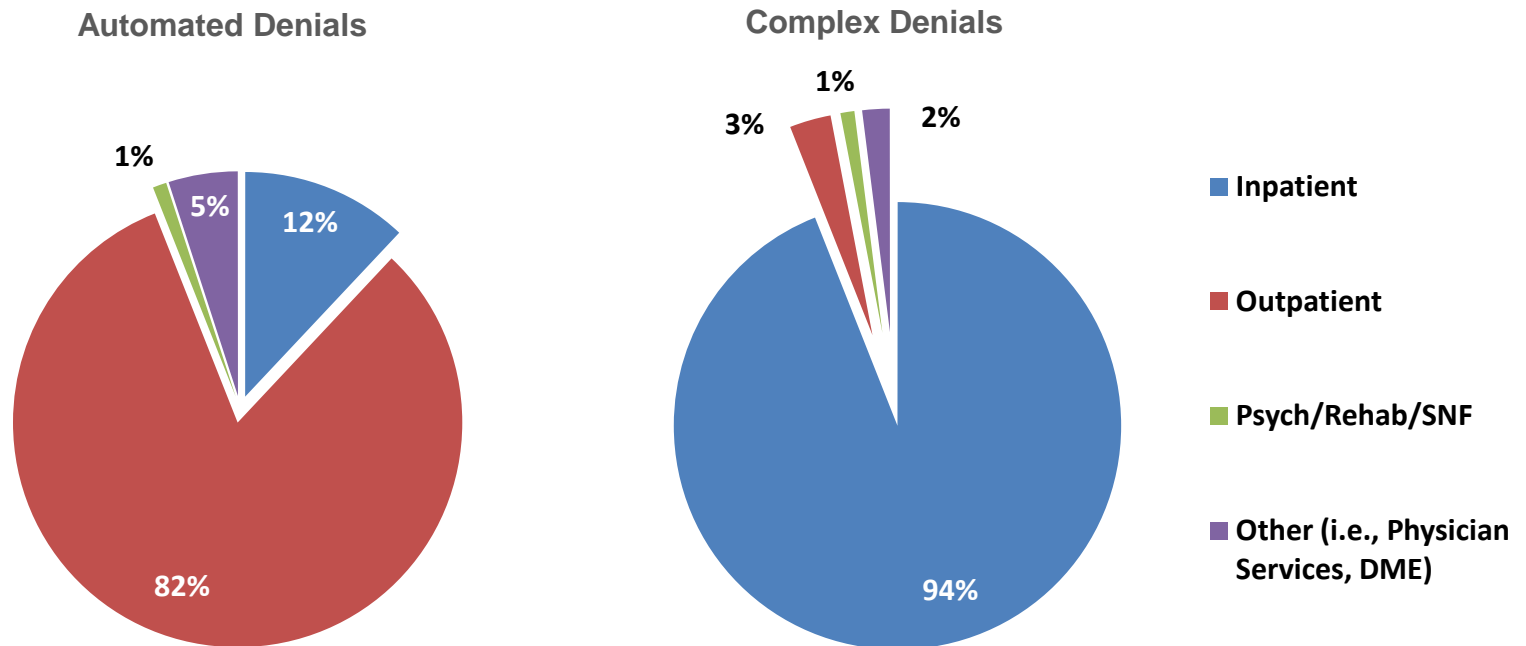
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Outpatient services had the largest financial impact through automated activity while inpatient services had the largest financial impact through complex denials.

Percent of Participating Hospitals by Top Service Area for Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 4th Quarter 2010

Survey participants were asked to rank denials by service, according to dollars impacted.



Source: AHA. (February 2011). RACTrac Survey
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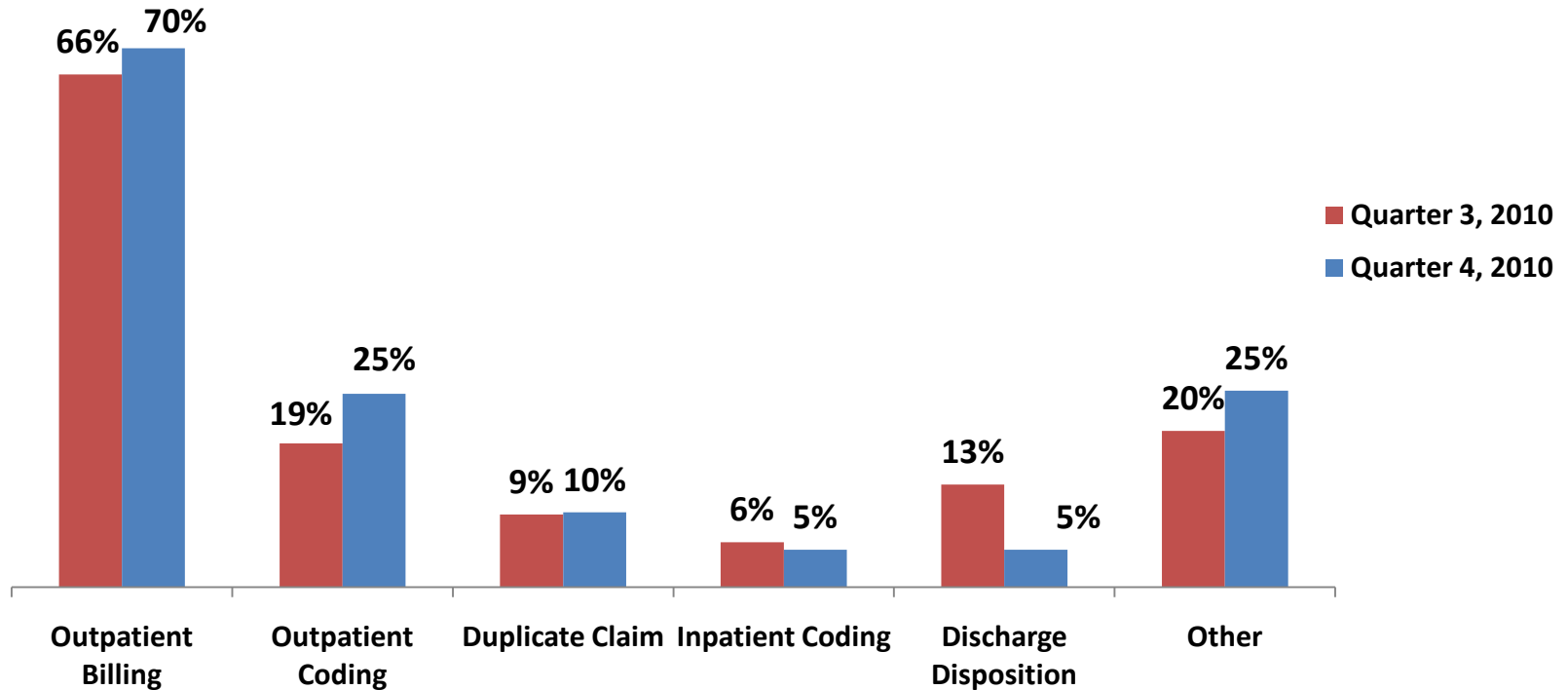


Automated RAC Denials

70% of participating hospitals with automated activity cited outpatient billing as a reason for denial.

Percent of Participating Medical/Surgical Acute Hospitals with RAC Activity Experiencing Automated Denials, by Reason, 3rd and 4th Quarter 2010

Survey participants were asked to select all reasons for denial.



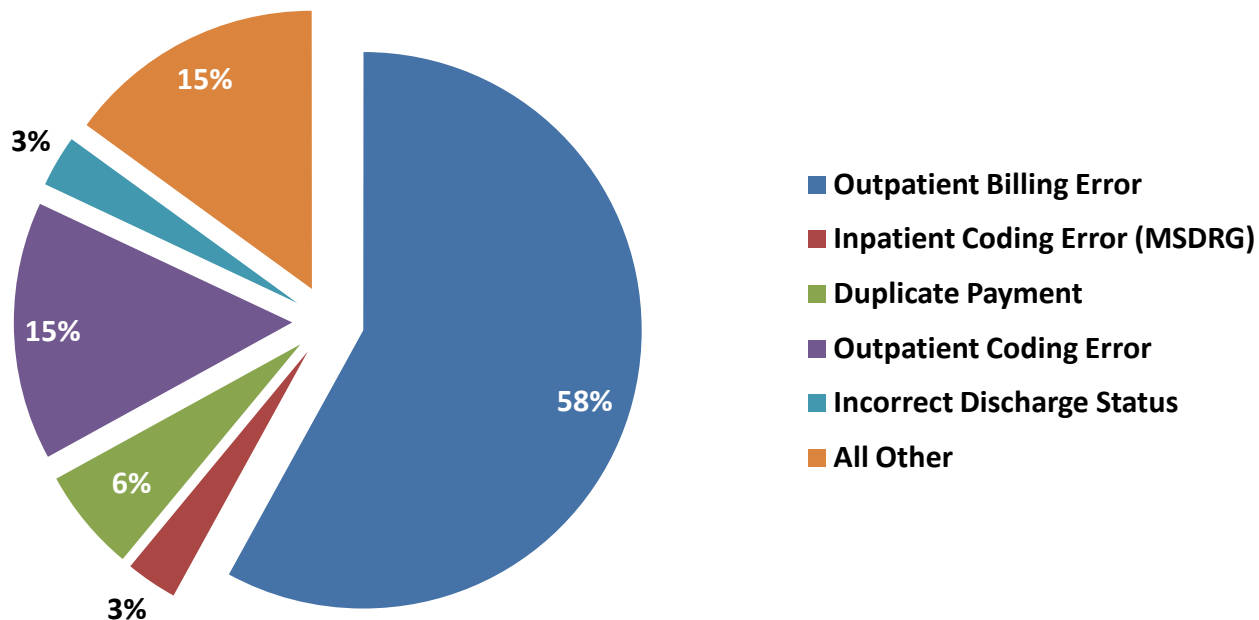
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Automated denials for outpatient billing errors had the largest financial impact on reporting hospitals.

Percent of Participating Hospitals by Top Reason for Automated Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 4th Quarter 2010

Survey participants were asked to rank denials by reason, according to dollars impacted.



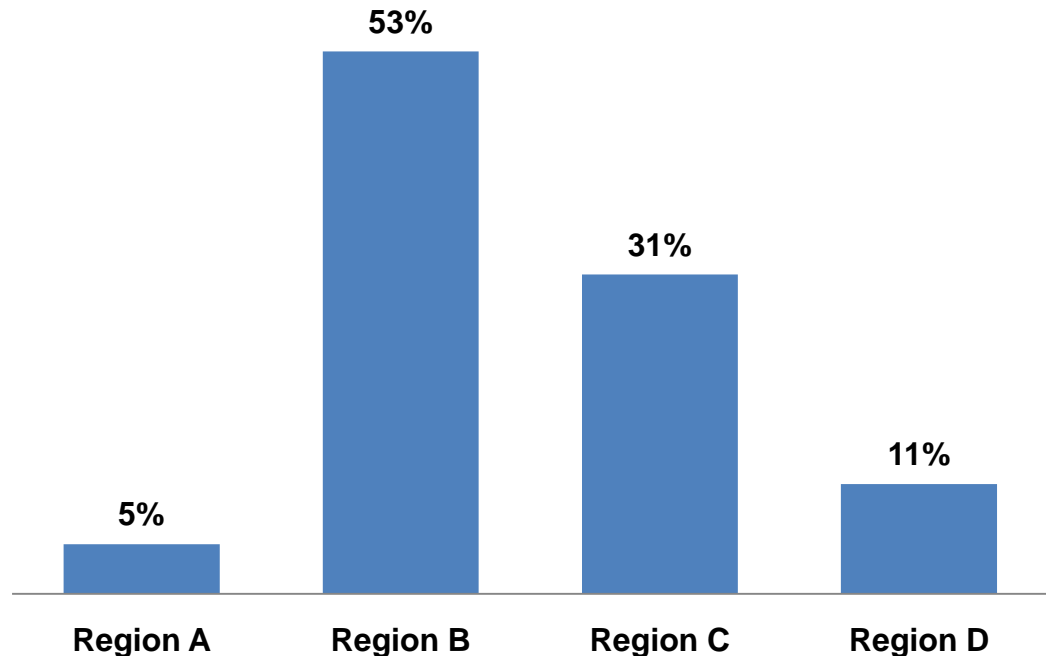
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Region B has experienced 53% of all reported automated denials.

Percent and Number of Reported Automated Denials, by Region, through 4th Quarter 2010

	Total Number of Automated Denials by RAC Region
Region A	1,042
Region B	11,369
Region C	6,695
Region D	2,300

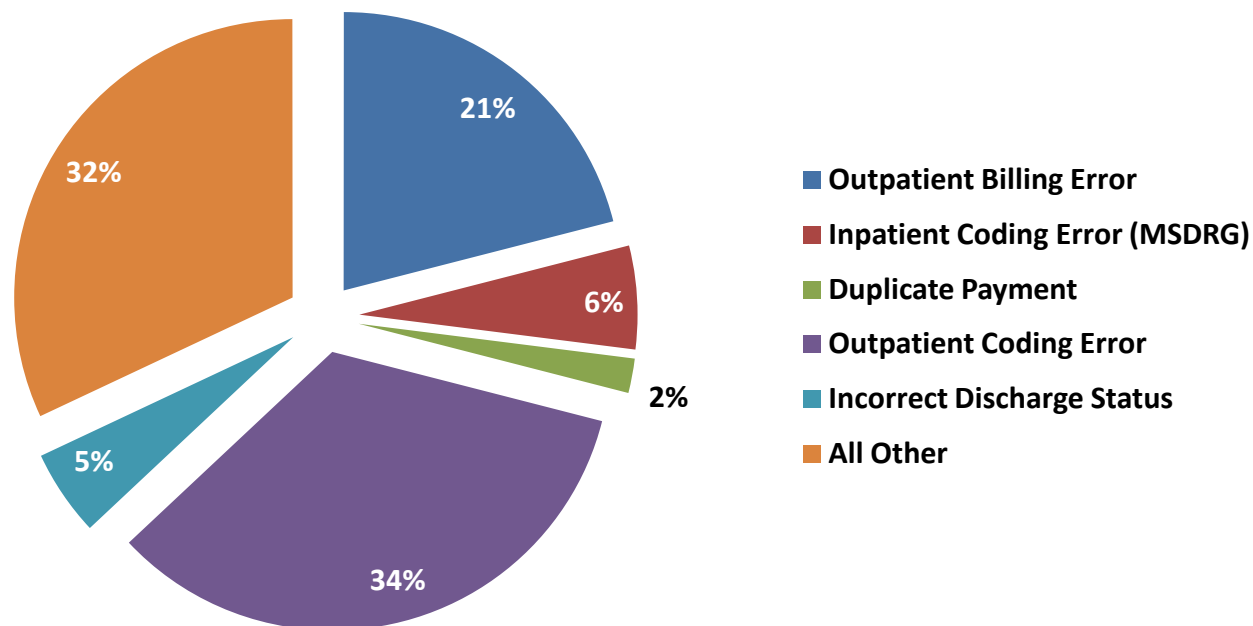


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Region A: Bucking the national trend, only 21% of Region A hospitals ranked outpatient billing errors as the top reason for automated denials.

Percent of Participating Hospitals by Top Reason for Automated Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 4th Quarter 2010, Region A

Survey participants were asked to rank denials by reason, according to dollars impacted.

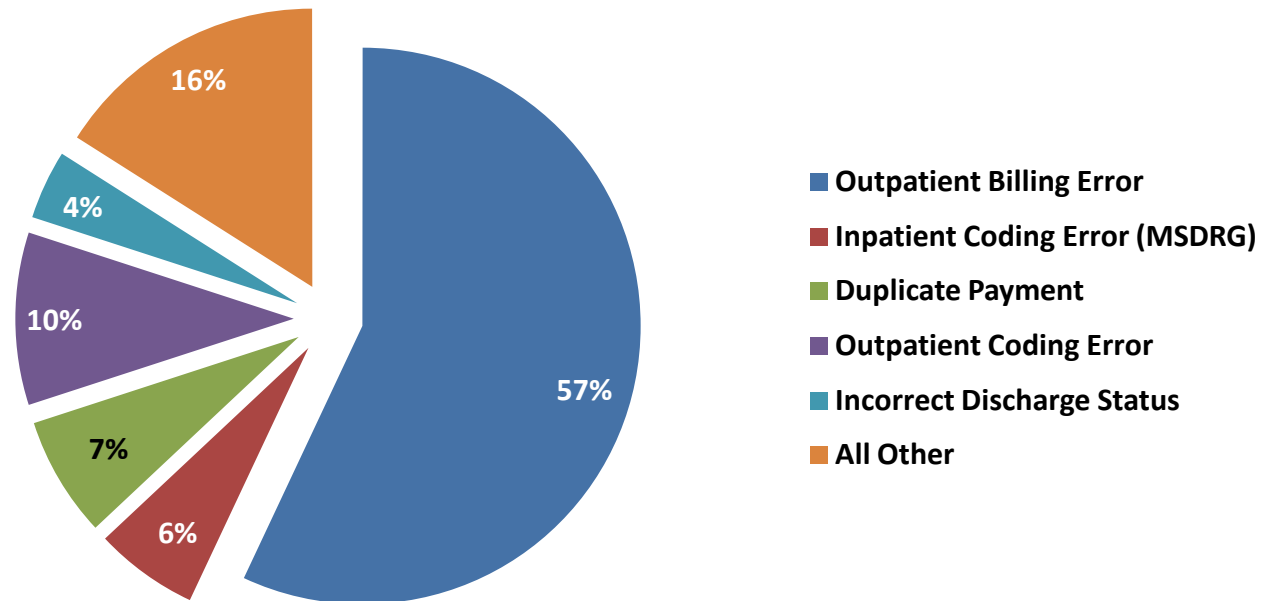


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Region B: With more than half of all automated denial activity, top denial reasons were consistent with national trend.

Percent of Participating Hospitals by Top Reason for Automated Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 4th Quarter 2010, Region B

Survey participants were asked to rank denials by reason, according to dollars impacted.

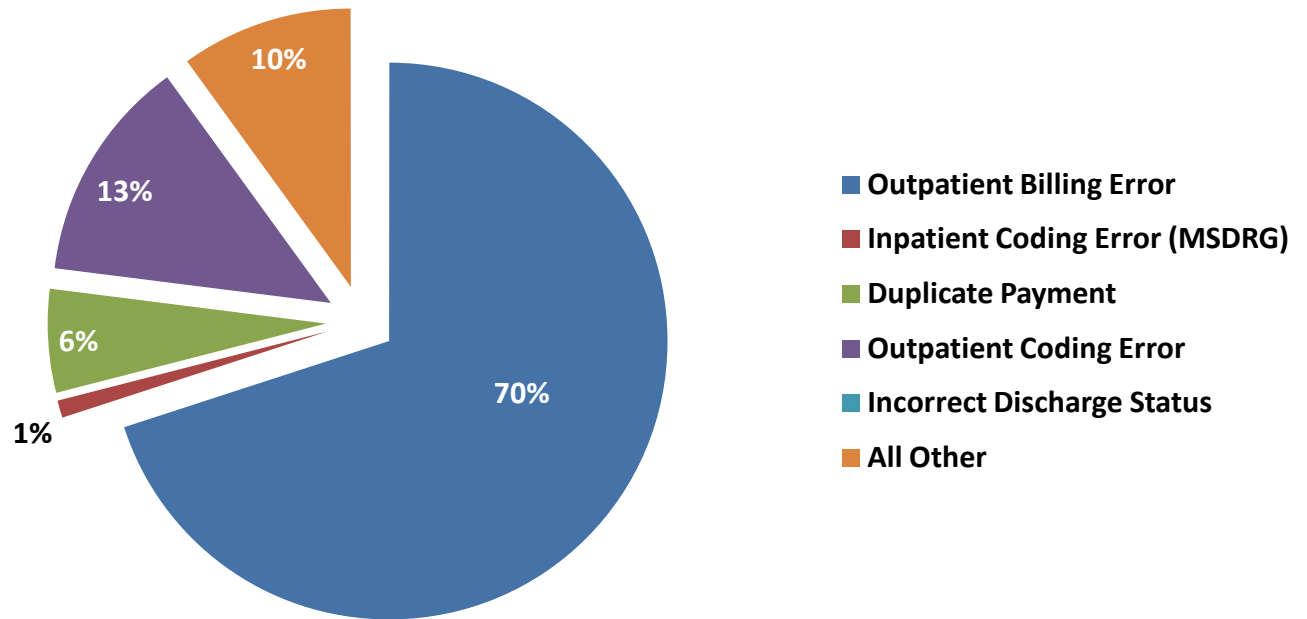


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Region C: 70% of hospitals reported outpatient billing error as the top reason for automated denials.

Percent of Participating Hospitals by Top Reason for Automated Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 4th Quarter 2010, Region C

Survey participants were asked to rank denials by reason, according to dollars impacted.

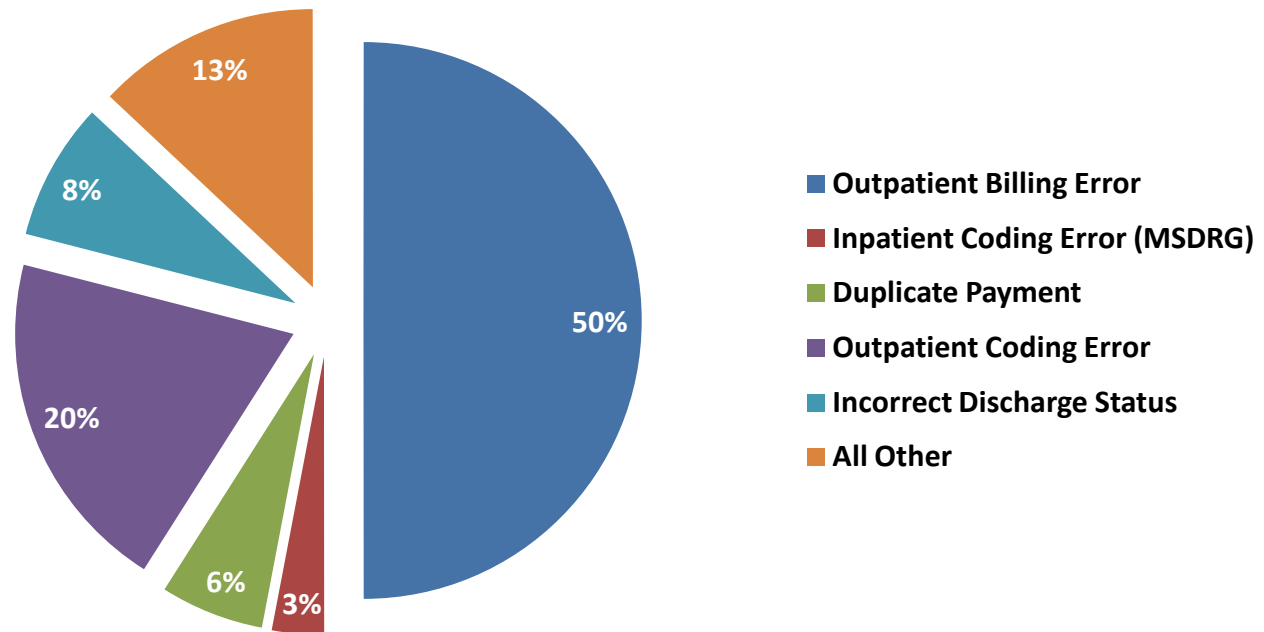


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Region D: 50% of hospitals reported outpatient billing error as the top reason for automated denials.

Percent of Participating Hospitals by Top Reason for Automated Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 4th Quarter 2010, Region D

Survey participants were asked to rank denials by reason, according to dollars impacted.



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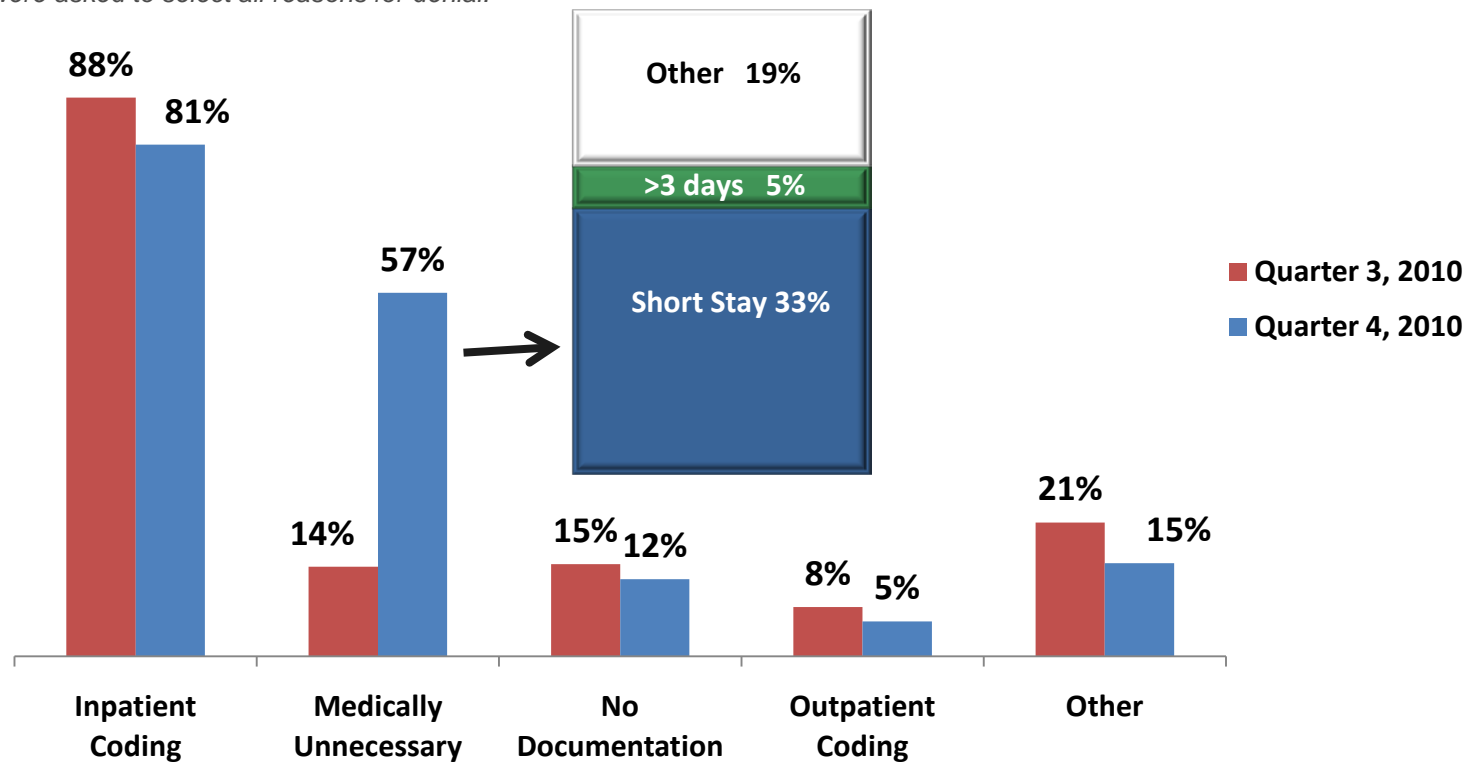


Complex RAC Denials

57% of participating hospitals with complex denials cited medically unnecessary as a reason for denial.

Percent of Participating Medical/Surgical Acute Hospitals with RAC Activity Experiencing Complex Denials by Reason, 3rd and 4th Quarter 2010

Survey participants were asked to select all reasons for denial.



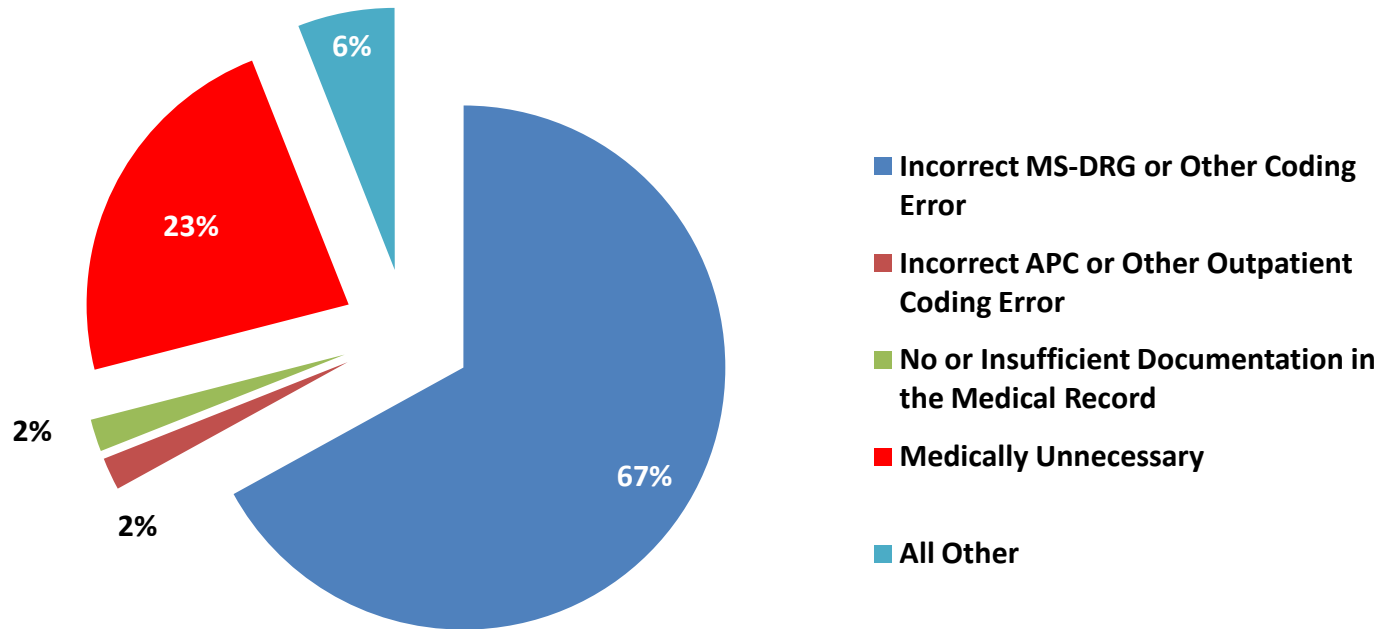
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Incorrect MS-DRG continues to represent the top reason by dollars for complex denials, but 23% of hospitals are now ranking medically unnecessary as the top reason for denial.

Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 4th Quarter 2010

Survey participants were asked to rank denials by reason, according to dollars impacted.

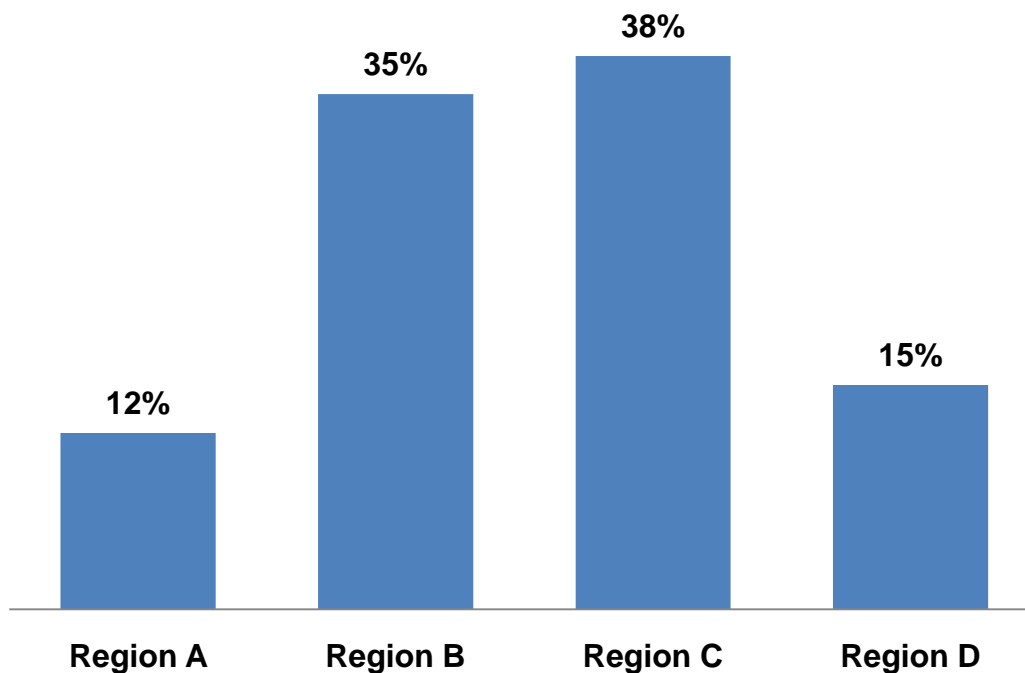


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All regions are now reporting a significant number of complex denials; Region C hospitals reported the most with 38% of all complex denials.

Percent and Number of Reported RAC Complex Denials, by Region, through 4th Quarter 2010

	Total Number of Claims with Overpayment Determination
Region A	1,887
Region B	5,510
Region C	5,919
Region D	2,398

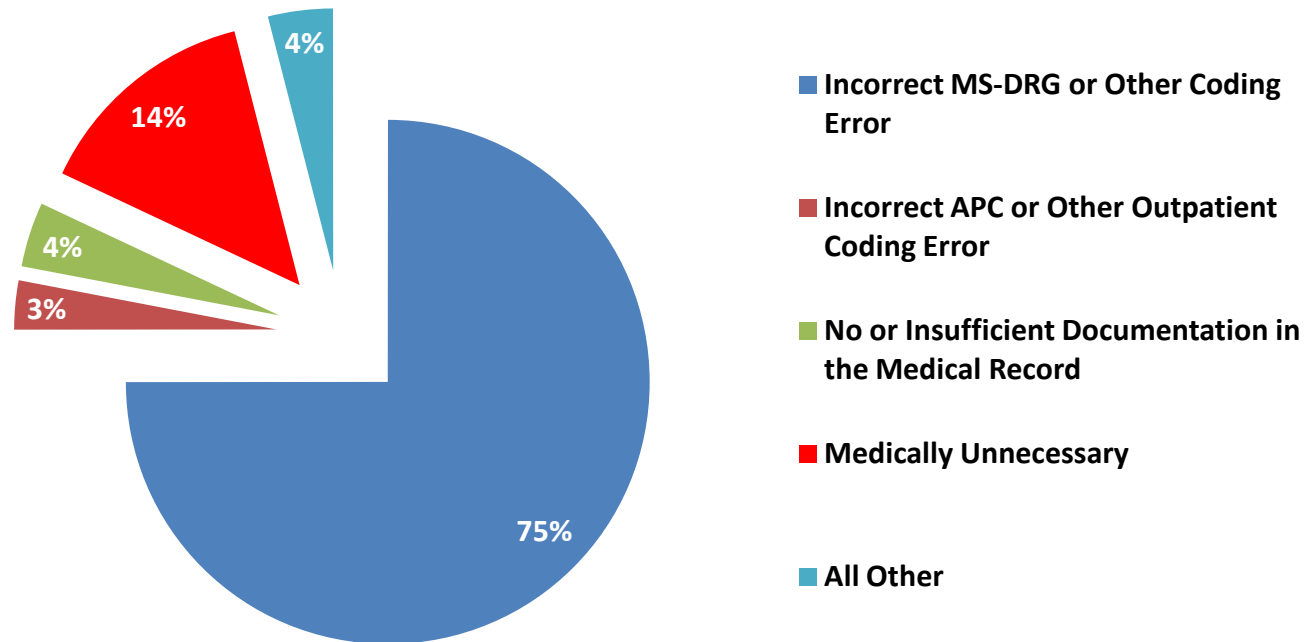


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Region A: Medically Unnecessary was identified by 14% of hospitals as the top reason for complex denials.

Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 4th Quarter 2010, Region A

Survey participants were asked to rank denials by reason, according to dollars impacted.

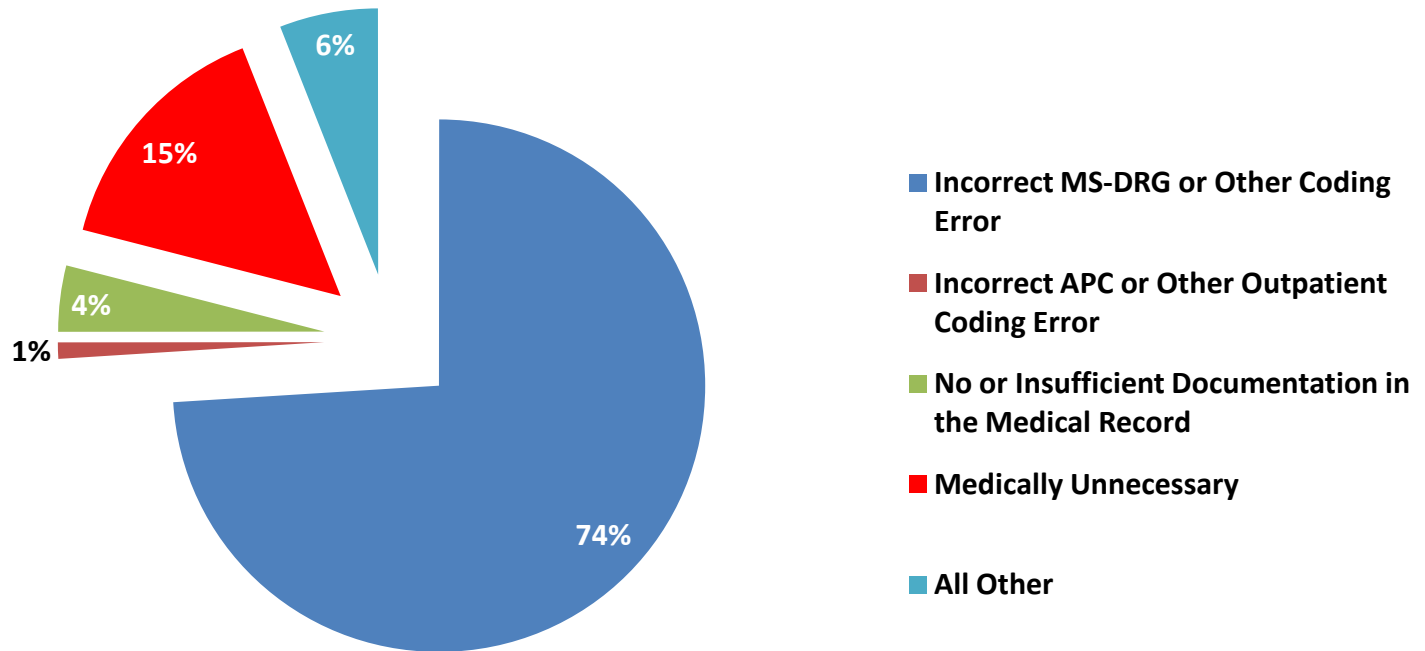


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Region B: Medically Unnecessary was identified by 15% of hospitals as the top reason for complex denials.

Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 4th Quarter 2010, Region B

Survey participants were asked to rank denials by reason, according to dollars impacted.

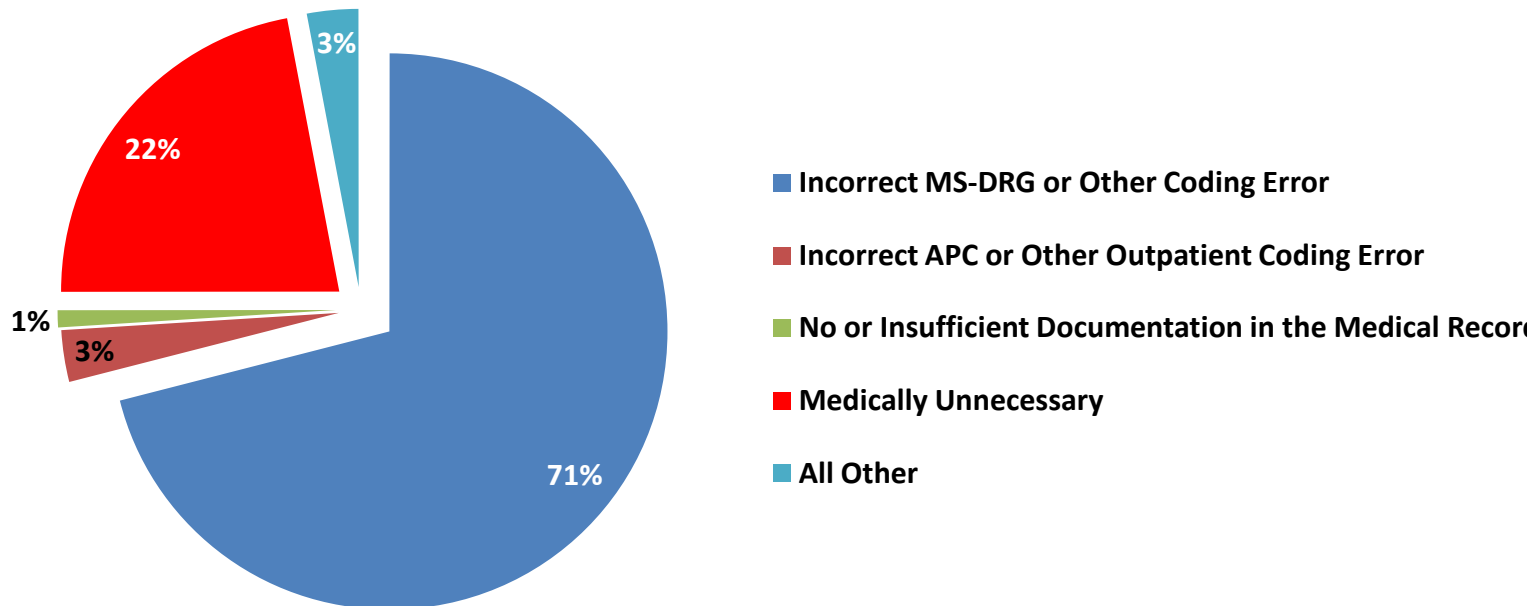


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Region C: Medically Unnecessary was identified by 22% of hospitals as the top reason for complex denials.

Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 4th Quarter 2010, Region C

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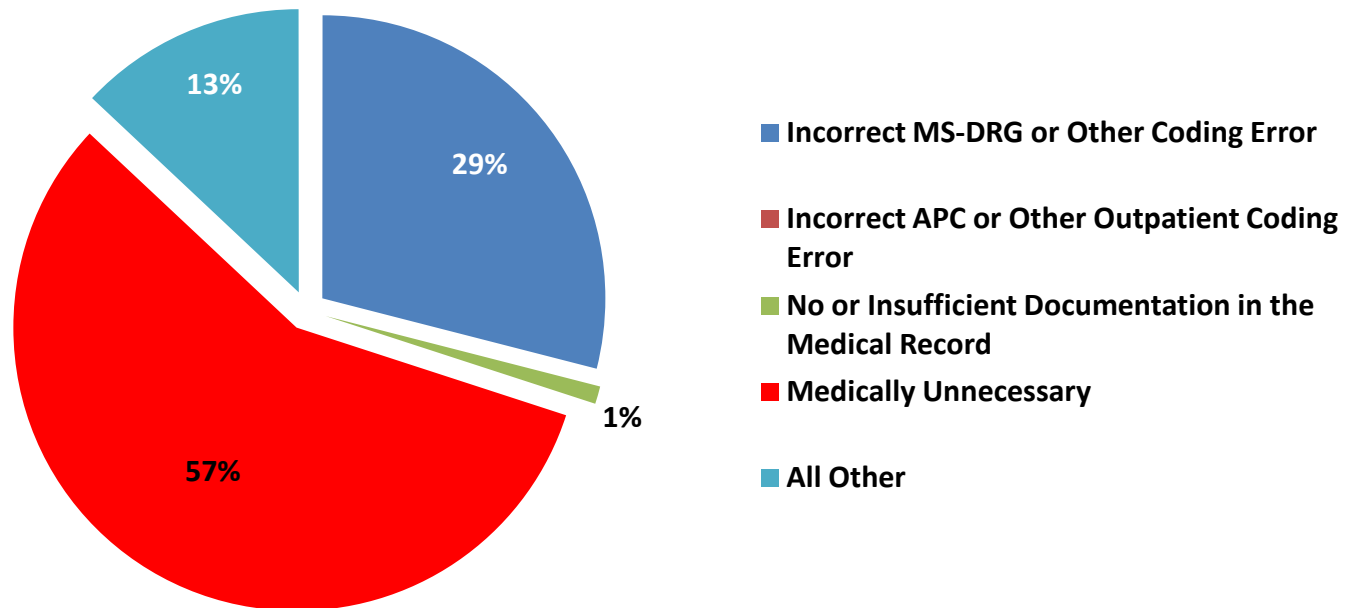


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Region D: Medically Unnecessary was identified by 57% of hospitals as the top reason for complex denials.

Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 4th Quarter 2010, Region D

Survey participants were asked to rank denials by reason, according to dollars impacted.



Source: AHA. (February 2011). RACTrac Survey

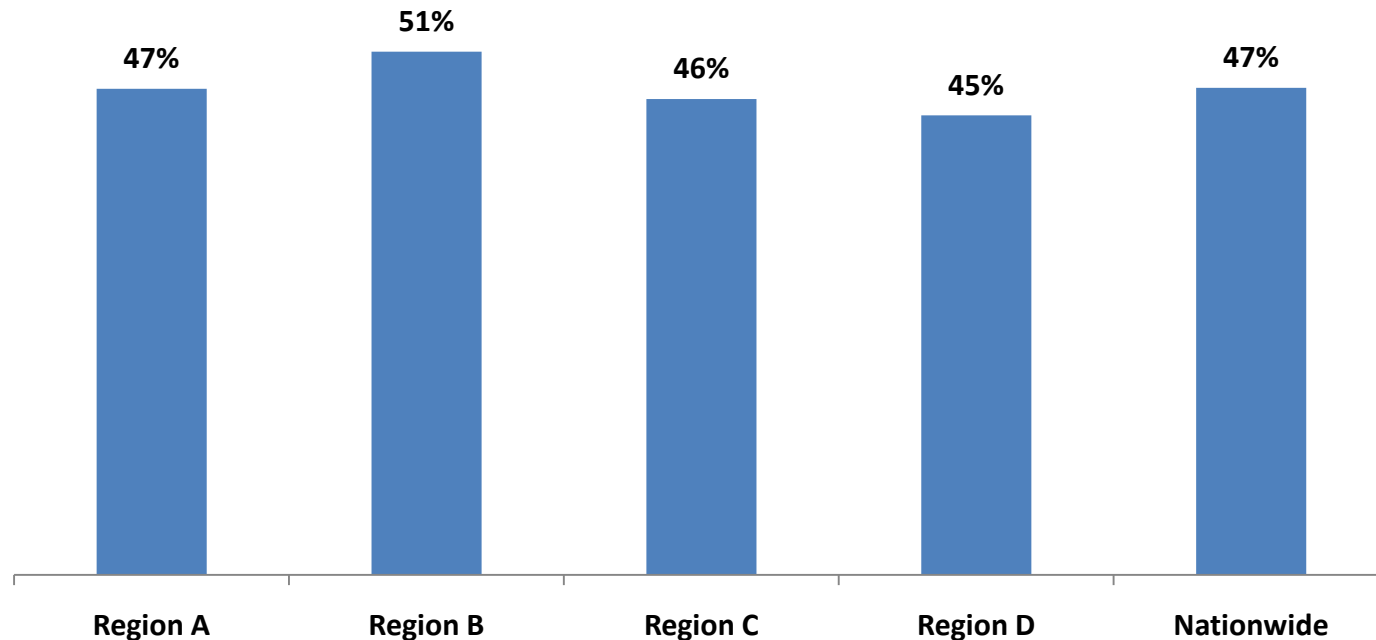
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Underpayments

Nearly half of all hospitals with RAC activity reported receiving at least one underpayment determination.

Percent of Hospitals Reporting Underpayment Determinations, By Region, through 4th Quarter 2010



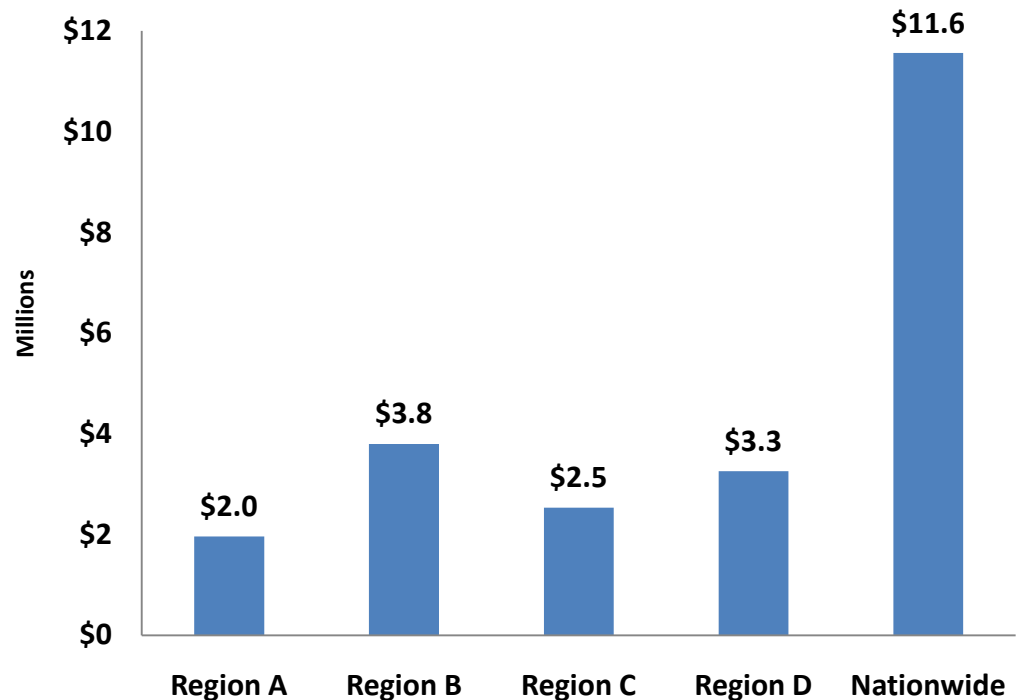
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Hospitals reported RAC identified underpayments totaling \$11.6 million dollars.

Total Dollar Value of Underpayment Determinations, By Region, through 4th Quarter 2010, Millions

	Number of RAC Underpayment Determinations
NATIONWIDE	2,394
Region A	419
Region B	566
Region C	472
Region D	937



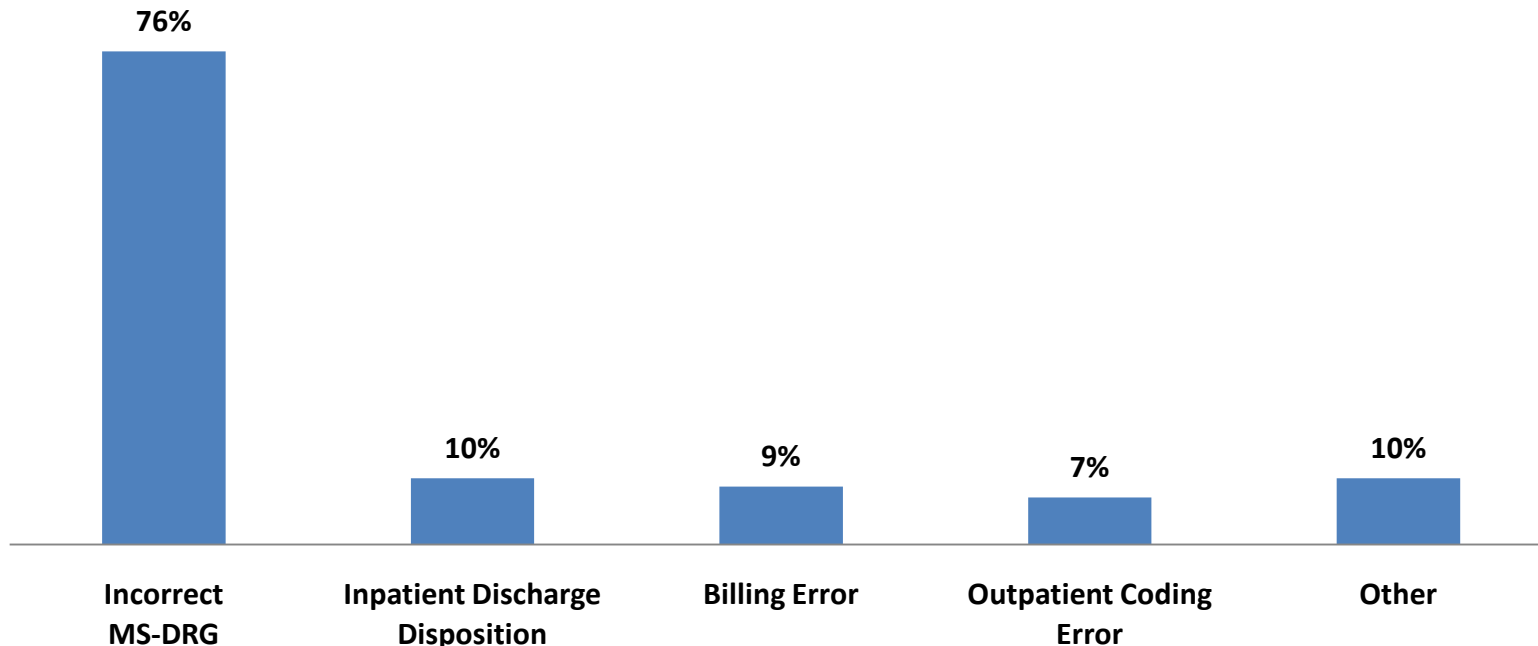
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76% of hospitals with underpayment determinations cited incorrect MS-DRG as a reason for the underpayment.

Percent of Participating Hospitals with RAC Activity Experiencing Underpayments by Reason, 4th Quarter 2010

Survey participants were asked to select all reasons for underpayment.



Source: AHA. (February 2011). *RACTrac Survey*
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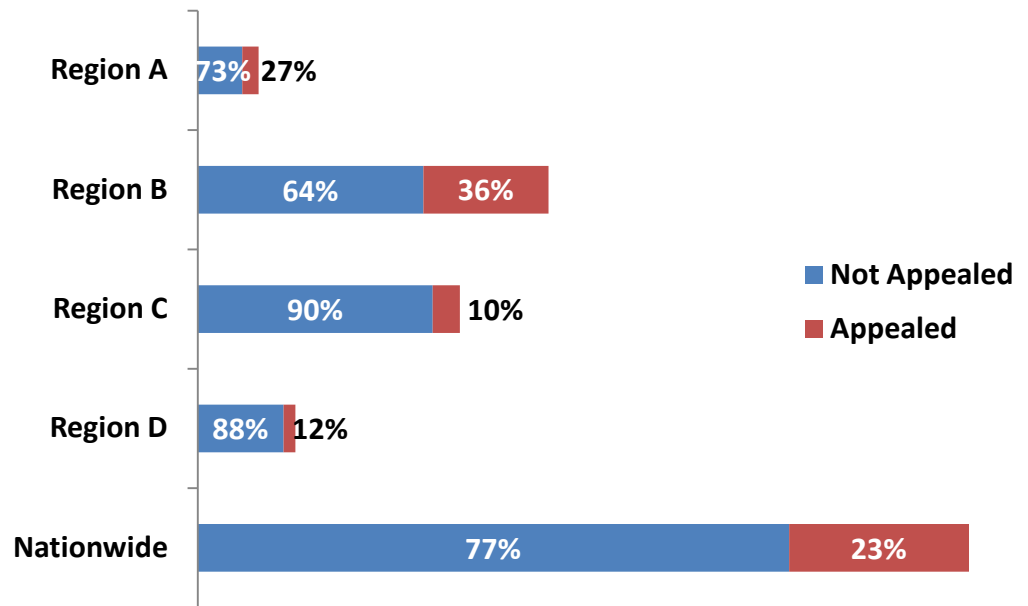


Appeals

Region B appealed 36% of all denials available* for appeal, the national average was 23%.

Total Number of Automated and Complex Denials Appealed by Hospitals with RAC Activity, by Region, through 4th Quarter 2010

	Total Number of Denials Available* for Appeal	Percent of Appealed Denials
NATIONWIDE	37,120	23%
Region A	2,929	27%
Region B	16,879	36%
Region C	12,614	10%
Region D	4,698	12%



* Available for appeal means that the hospital received a demand letter for this claim, either as a result of automated or complex review. Region B appeal activity represents several high volume hospitals whose survey entries have been verified.

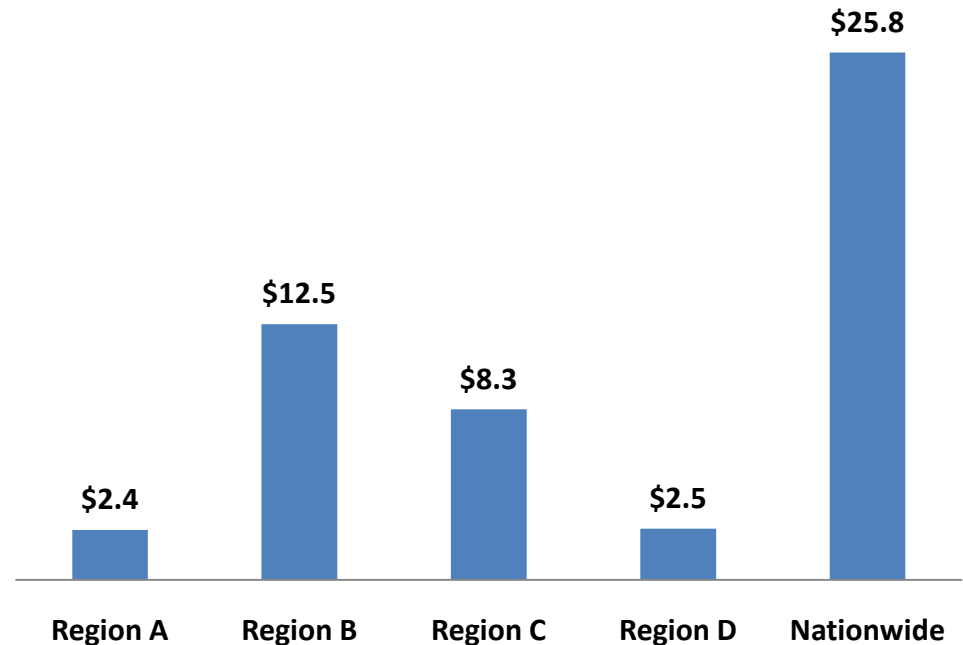
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57% of hospitals reported appealing at least one RAC denial. Hospitals reported appealing denials totaling \$25.8 million.

Total Dollar Value, Percent and Average Number of Appealed Claims for Hospitals with Automated or Complex RAC Denials, through 4th Quarter 2010, Millions

	Percent of Hospitals with Any Appealed Denials	Average Number of Appealed Denials per Hospital
NATIONWIDE	57%	17.2
Region A	50%	12.8
Region B	71%	32.9
Region C	55%	7.5
Region D	46%	6.5



Region B appeal activity represents several high volume hospitals whose survey entries have been verified.



Source: AHA. (February 2011). RACTrac Survey

AHA analysis of survey data collected from 1,852 hospitals: 1,454 reporting activity, 398 reporting no activity through December 2010. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.

Of the claims that have completed the appeals process, 85% were overturned in favor of the provider. 42% of claims are still in the appeals process.

Summary of Appeal Rate and Determinations in Favor of the Provider, for Hospitals with RAC Activity, through 4th Quarter 2010

	Appealed	Percent of Denials Appealed	Number of Claims Pending Appeals Determination	Number of Claims Withdrawn from Appeals Process	Number of Denials Overturned in the Appeals Process	Percent of Completed Appeals Overturned
NATIONWIDE	8,655	23%	3,617	527	4,261	85%
Region A	779	27%	384	211	91	23%
Region B	6,014	36%	2,115	123	3,691	95%
Region C	1,301	10%	809	156	282	57%
Region D	561	12%	309	37	197	78%

Due to survey submission marginal error, total appeals may be slightly greater than the sum of pending/withdrawn/overturned appeals. Region B appeal activity represents several high volume hospitals whose survey entries have been verified.

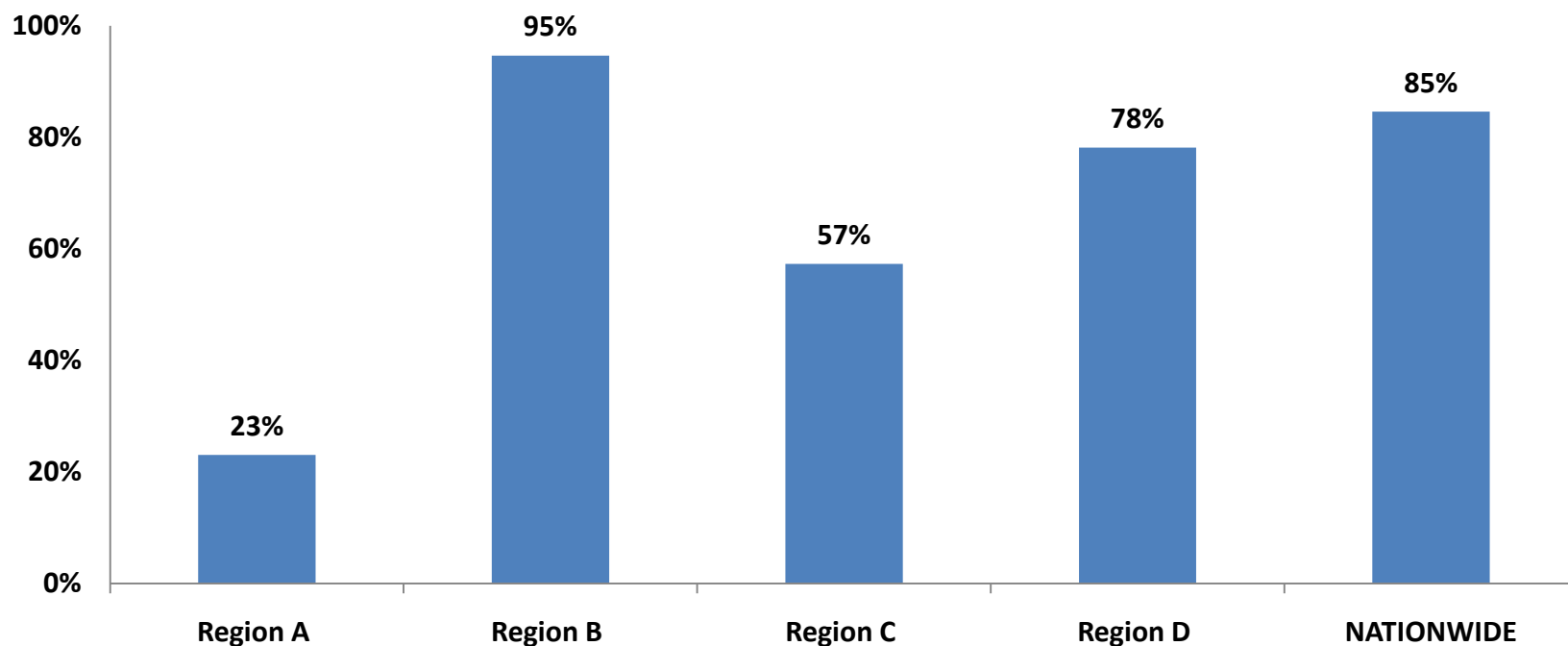


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Region B has the highest overturn rate upon appeal at 95%.

Percent of Completed Appeals with Denials Overturned, by Region, through 4th Quarter 2010



Region B appeal activity represents several high volume hospitals whose survey entries have been verified.

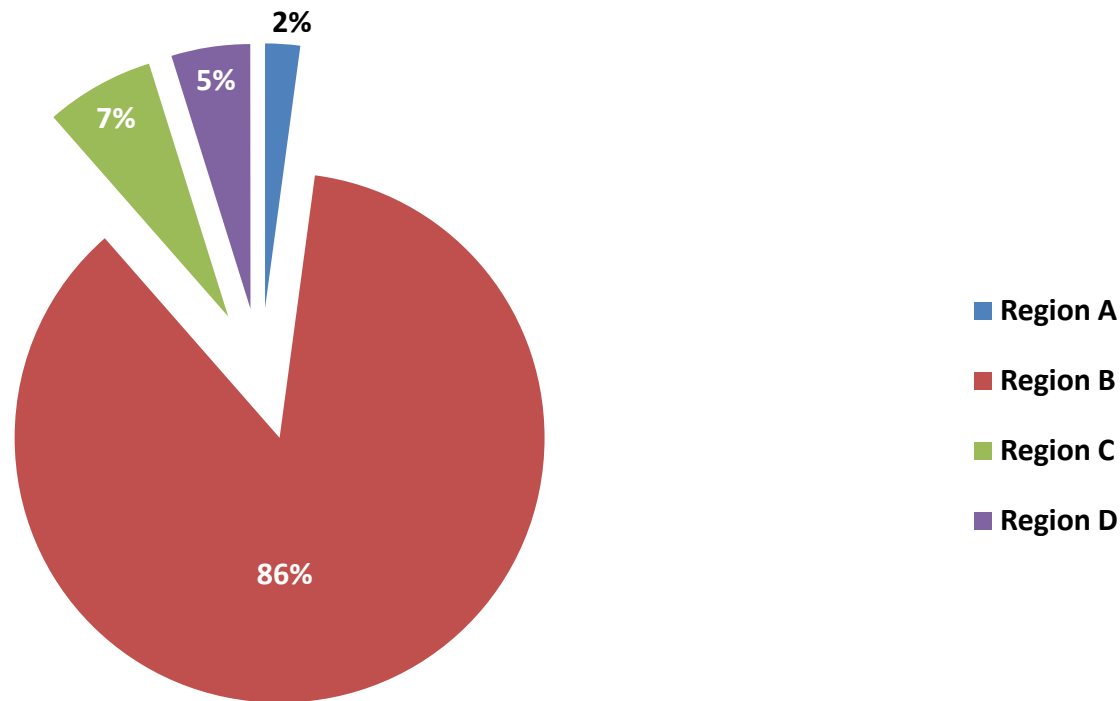


Source: AHA. (February 2011). RACTrac Survey

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Of the claims that have completed the appeals process, 86% of overturned denials were reported in Region B.

Percent of Overturned Denials by Region, through 4th Quarter 2010



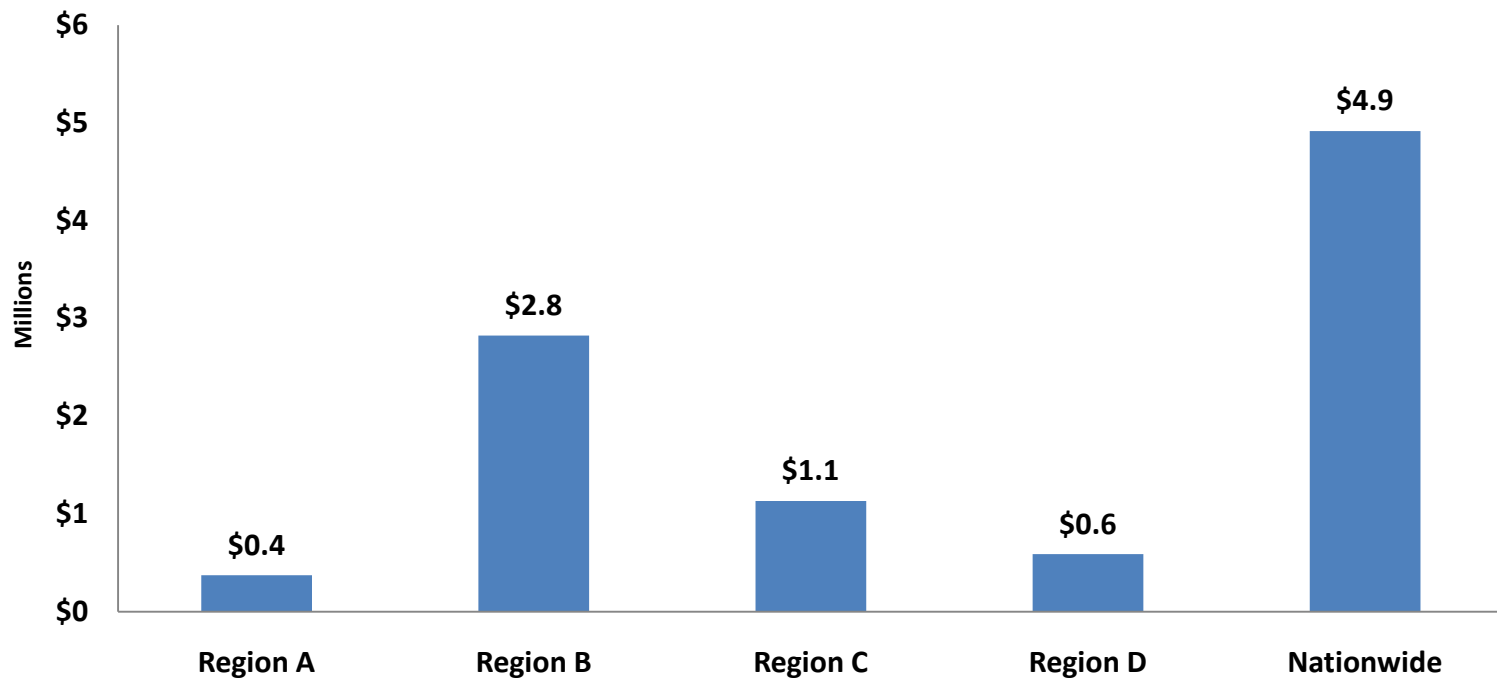
Region B appeal activity represents several high volume hospitals whose survey entries have been verified.

Source: AHA. (February 2011). *RACTrac Survey*
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Hospitals reported a total of \$4.9 million in overturned denials, with \$2.8 million in Region B alone.

Value of Denials Overturned in the Appeals Process, by Region, through 4th Quarter 2010, Millions



Region B appeal activity represents several high volume hospitals whose survey entries have been verified.



Source: AHA. (February 2011). *RACTrac Survey*

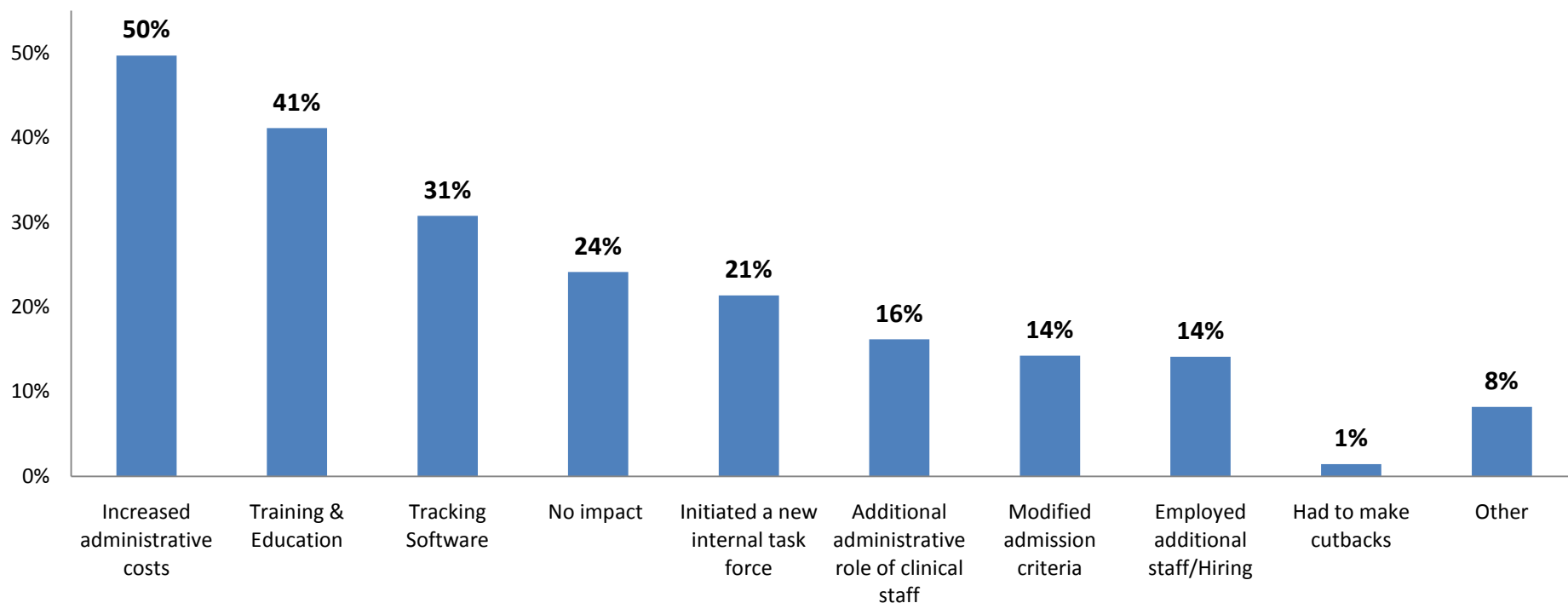
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Administrative Burden

76% of participating hospitals reported that RAC impacted their organization this quarter and 50% reported increased administrative costs.

Impact of RAC on Participating Hospitals* by Type of Impact, 4th Quarter 2010



Includes participating hospitals with and without RAC activity

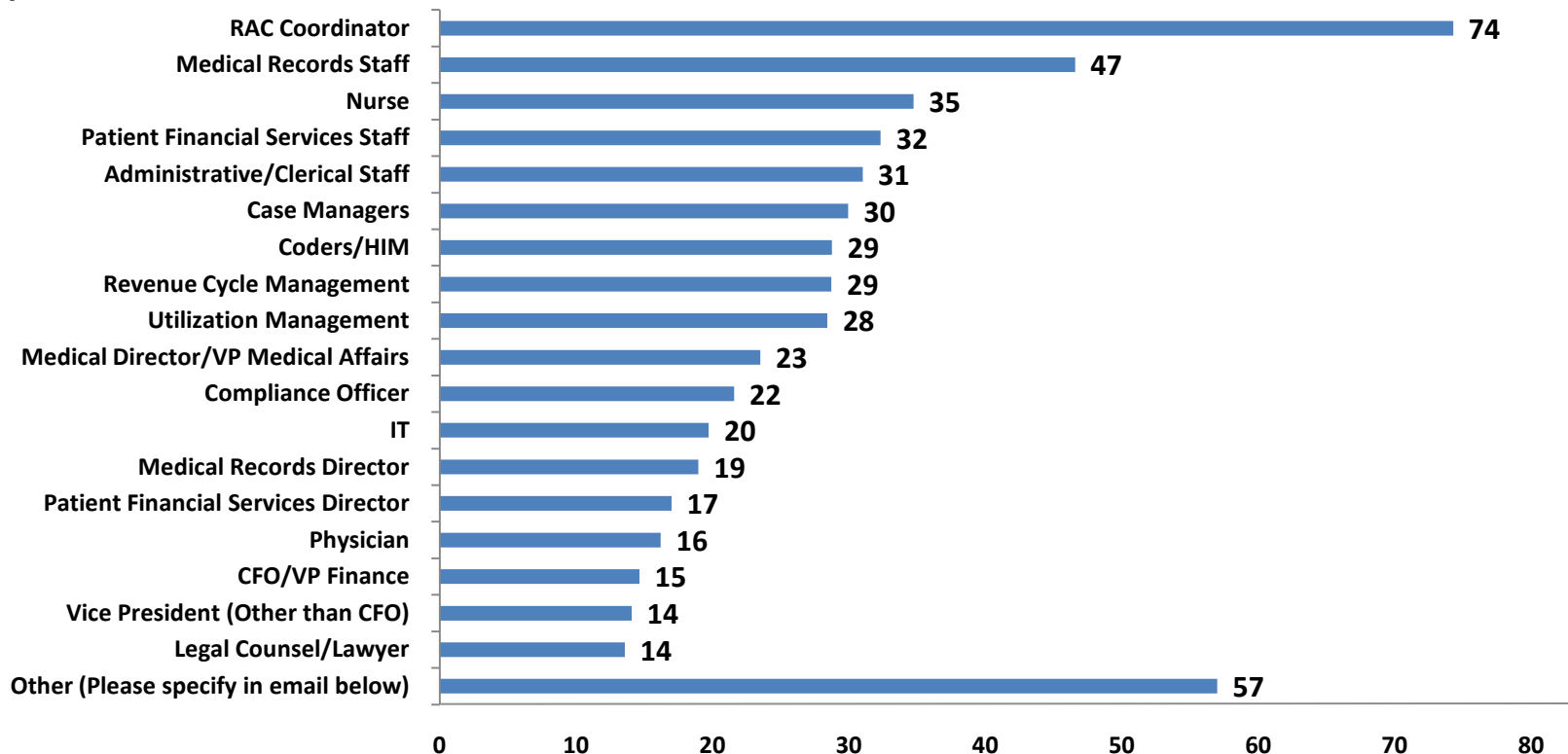
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The administrative burden of RAC is spread across all types of hospital staff. RAC coordinators spent the most time responding to RAC activity

Average Hours of Staff Time Spent Per Participating Hospital* on RAC by Staff Type, 4th Quarter 2010



Includes participating hospitals with and without RAC activity

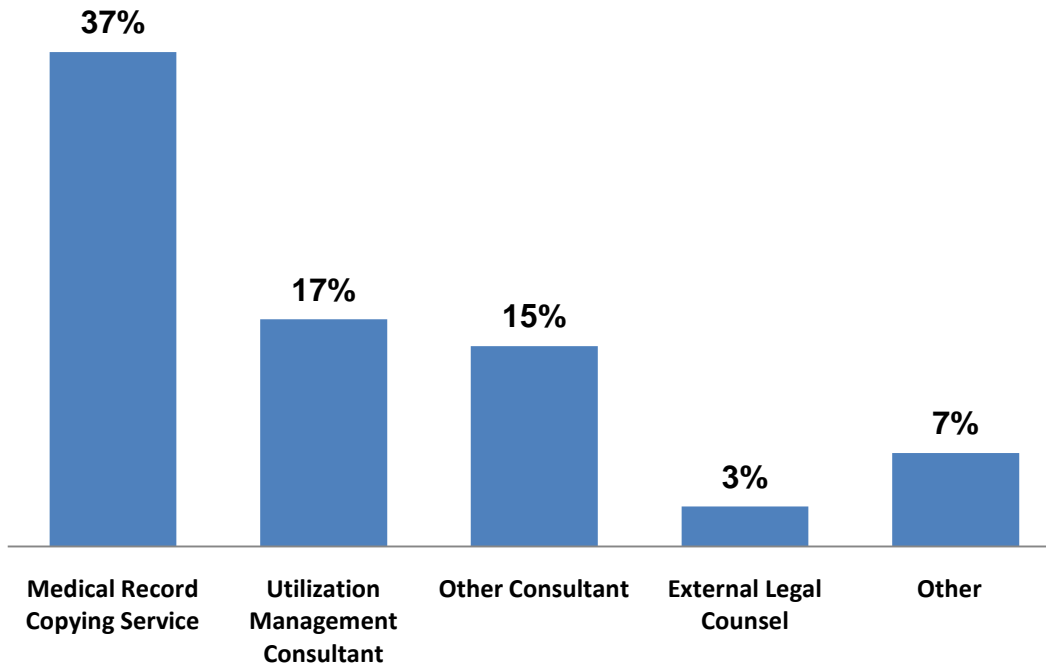
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37% of hospitals using external resources spent money on copying records and nearly a quarter of them hired a utilization management or other consultant.

Percent of Hospitals Using External Resources by Type and Average Dollars Spent *this quarter*, 4th Quarter 2010



Administrative Burden	Average Dollar Amount This Quarter
Medical Record Copying Service	\$2,014
Utilization Management Consultant	\$38,712
Other Consultant	\$19,170
External Legal Counsel	\$2,231
Other	\$2,564

Average dollars spent by hospitals that reported utilizing external resources.



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For more information visit AHA's *RAC*Trac website:

<http://www.aha.org/aha/issues/RAC/ractrac.html>