



# Quarterly RAC Policy and RACTrac Update

1<sup>st</sup> Quarter 2016

June 28, 2016



## RAC Policy Update

*Melissa Jackson, Senior Associate Director*

# Two-midnight Cut Eliminated

- Elimination of 0.2% cut to IPPS rates implemented in FY 2014
- Result of successful challenge in federal court
- Prospective and retrospective elimination provides **\$3.1 Billion to hospitals over 10 years**



Tuesday, April 19, 2016

**CMS RELEASES FY 2017 HOSPITAL INPATIENT PPS PROPOSED RULE**

This bulletin is 5 pages.

The Centers for Medicare & Medicaid Services (CMS) April 18 issued its hospital inpatient prospective payment system (PPS) and long-term care hospital (LTCH) PPS proposed rule for fiscal year (FY) 2017. Select highlights of the proposed rule related to the inpatient PPS follow. Highlights of the proposed rule related to the LTCH PPS are covered in a separate [Special Bulletin](#).

**Inpatient PPS Payment Update:** The proposed rule would increase inpatient PPS rates by 0.85 percent in FY 2017, after accounting for inflation and other adjustments required by law. Specifically, the update includes an initial market-basket update of 2.8 percent, less 0.5 percentage points for productivity, 0.75 percentage points mandated by the Affordable Care Act (ACA) and 1.5 percentage points in response to the American Taxpayer Relief Act of 2012 (ATRA). In addition, CMS proposes a 0.8 percent positive adjustment related to the two-midnight policy. Table 1 below details the factors CMS includes in its estimate.

**Table 1: Impacts of FY 2017 CMS Proposed Policies**

Policy	Average Impact on Payments
Market-basket update	+ 2.8%
Productivity cut mandated by the ACA	- 0.5%
Additional cut mandated by ACA	- 0.75%
Documentation and coding cut for FYs 2010, 2011 and 2012 mandated by ATRA	- 1.5%
Two-midnight policy adjustments	+ 0.8%
<b>Total</b>	<b>+0.85%</b>

The ACA, ATRA and two-midnight policy adjustments would be applied to all hospitals. Additionally, hospitals not submitting quality data would be subject to a one-quarter reduction of the initial market basket (for a new market-basket rate of 2.1 percent), and thus would receive an update of 0.15 percent. Hospitals that were not meaningful users

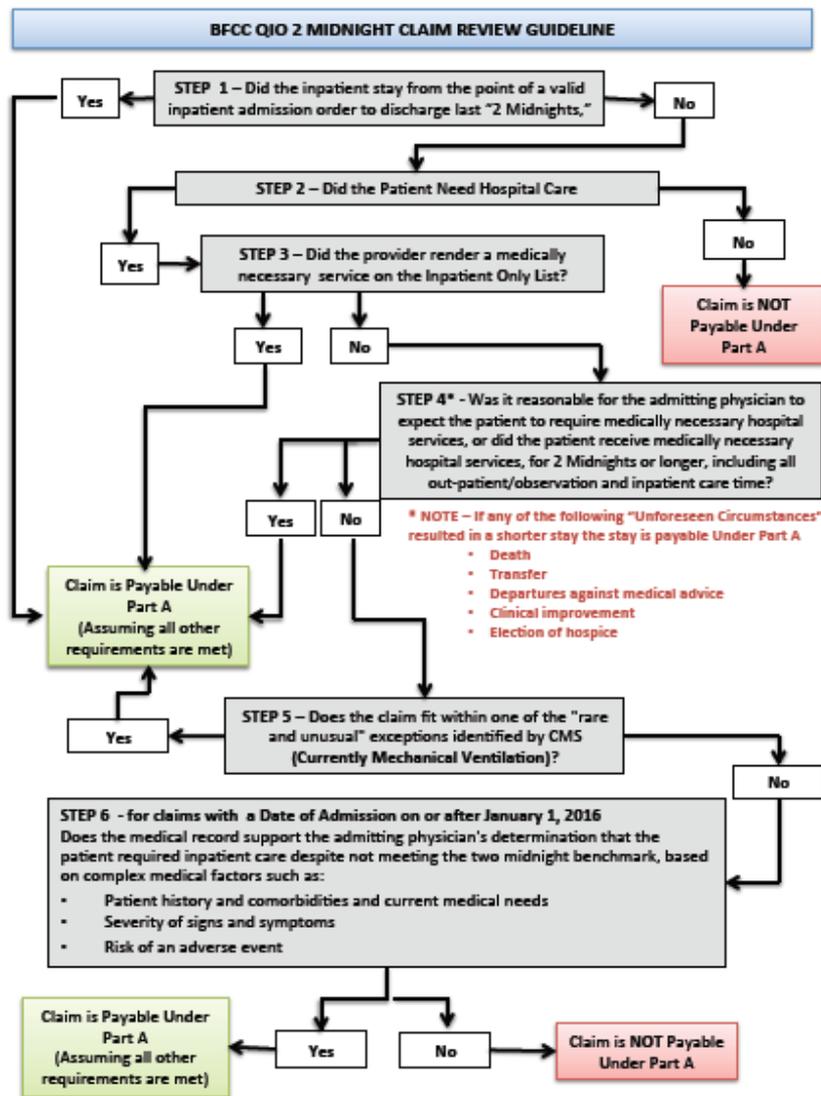
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# Pause in QIO Audits

- **CMS announced temporary pause to two-midnight audits in May**
- **Agency initiated pause to address hospital concerns regarding QIO audit consistency and delay in results, education**
- **Plans to further educate auditors on two-midnight rule; includes re-review of prior denials**
- **Pause predicted to last 60-90 days**



# CMS Claim Review Guideline



# Pending Appeals Regulation

- **Proposed regulation pending that would make changes to ALJ appeal process**
- **Regulation could be released any day; AHA will release regulatory advisory and provide input to HHS**
- **Impact on ALJ delay lawsuit...**



# Medicare Appeals: OMHA Settlement Facilitation Conference



## SETTLEMENT CONFERENCE FACILITATION

Cherise Neville  
Senior Attorney  
Office of Medicare Hearings and Appeals  
Program Evaluation and Policy Division



## What is Settlement Conference Facilitation?

- Settlement Conference Facilitation is an alternative dispute resolution process designed to bring the appellant and the Centers for Medicare & Medicaid Services (CMS) together to discuss the potential of a mutually agreeable resolution for claims appealed to the Administrative Law Judge hearing level.
- If a resolution is reached, the settlement conference facilitator drafts a settlement document to reflect the agreement. As part of the agreement, the request[s] for an Administrative Law Judge hearing for the claims covered by the settlement will be withdrawn and dismissed.



## Who is the Settlement Conference Facilitator?

Settlement conference facilitators are specially trained employees of the Office of Medicare Hearings and Appeals (OMHA), which is a component of the HHS Office of the Secretary, and is organizationally and functionally separate from CMS.



## What Does the Facilitator Do?

- Uses mediation principles to assist the appellant and CMS in working toward a mutually agreeable resolution.
- Does not make official determinations on the merits of the claims at issue and does not serve as a fact finder.
- May help the appellant and CMS see the relative strengths and weaknesses of their positions.



# AHA RAC and Audit Resources

## *AHA is Helping Hospitals Improve Payment Accuracy and Advocating for Needed Improvements to the Medicare RAC Program*

- RAC Updates on latest RAC news and other RAC resources: [www.aha.org/rac](http://www.aha.org/rac)
- AHA RACTrac: [www.aha.org/ractrac](http://www.aha.org/ractrac); [www.aharactrac.com](http://www.aharactrac.com)
- Email RAC Questions: [racinfo@aha.org](mailto:racinfo@aha.org)



**AHA Audit  
Education Series™**



## RAC Trac Results

Michael Ward, *Senior Associate Director*

# Executive Summary

- 2,578 hospitals have participated in RAC TRAC since data collection began in January of 2010. 730 hospitals participated this quarter.
- 60% of reviewed claims in Q1 2016 were found to not have an overpayment.
- 37% of hospitals indicated, for automated denials, that outpatient billing error had the largest financial impact.
- 79% of hospitals received a complex denial based on inpatient coding in Q1 2016.
- Hospitals report appealing 47% of all RAC denials.
- 37% of hospitals report having a denial reversed in the discussion period.
- 43% of all hospitals reported spending more than \$10,000 managing the RAC process during the 1<sup>st</sup> quarter of 2016, 26% spent more than \$25,000 and 8% spent over \$100,000.

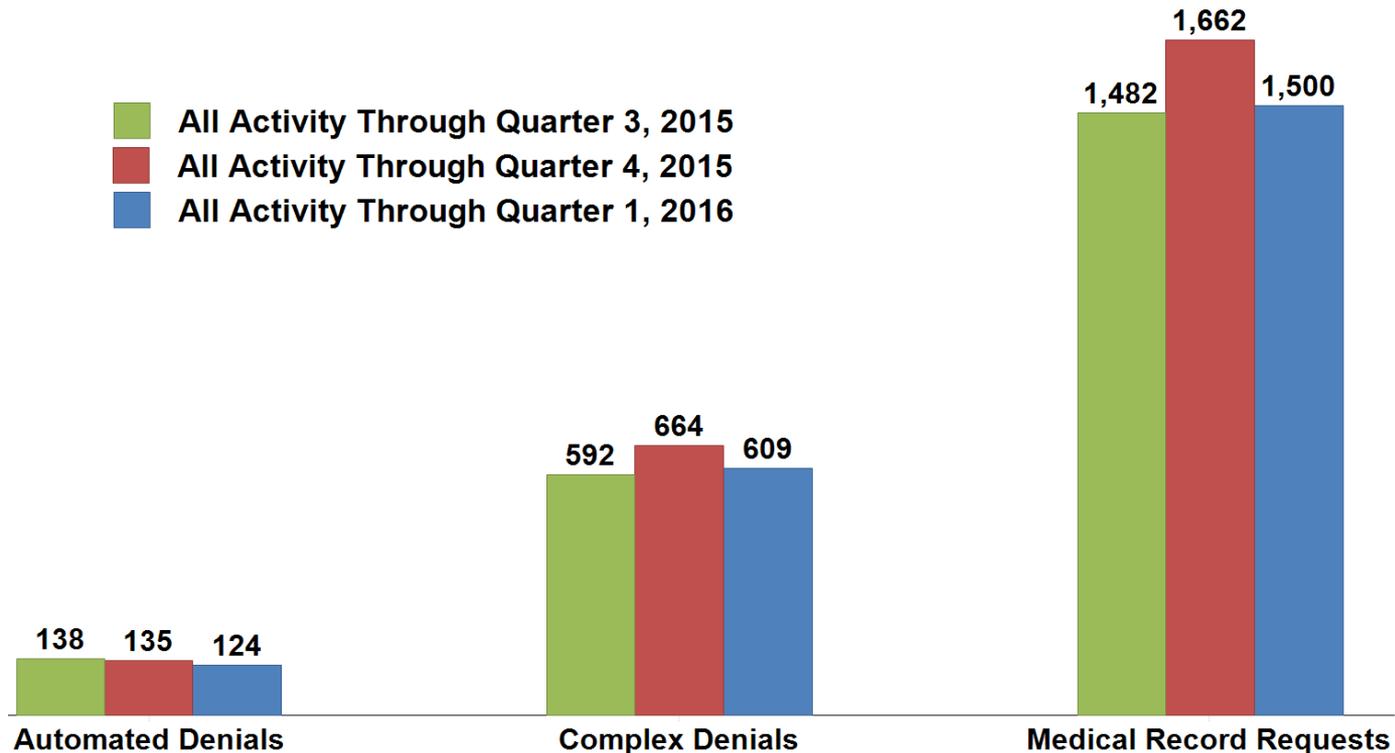




# RAC Reviews

# The average number of medical record requests per hospital has increased since Q3 2015.

## Average Automated Denials, Complex Denials and Medical Records Requests Per Participating Hospital, through 1st Quarter 2016\*



\*Response rates vary by quarter.

Source: AHA. (April 2016). RACTRAC Survey

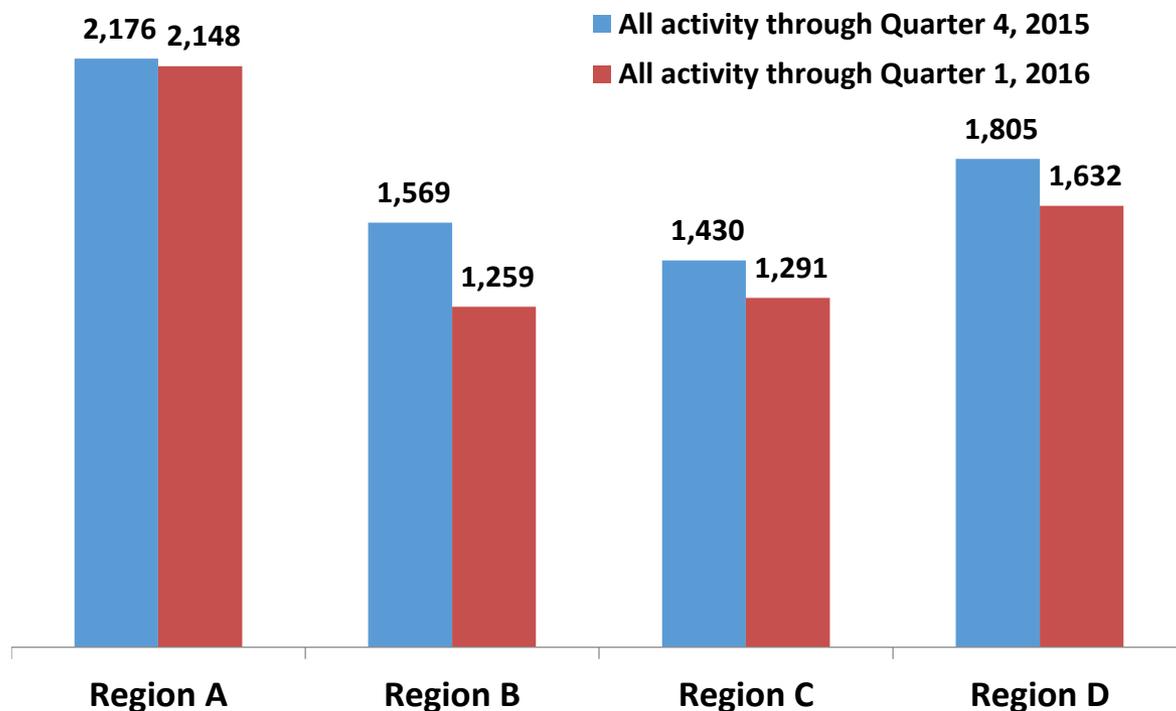
AHA analysis of survey data collected from 2,578 hospitals: 2,316 reporting activity, 262 reporting no activity through March 2016. 730 hospitals participated this quarter. Data were collected from general medical/surgical acute care hospitals (including critical access hospitals and cancer hospitals), long-term acute care hospitals, inpatient rehabilitation hospitals and inpatient psychiatric hospitals.

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# Region A has the highest average number of medical record requests per hospital.

Average Number of Medical Records Requested Per Participating Hospital With Complex Medical Record RAC Activity, through 1st Quarter 2016\*



\*Response rates vary by quarter.

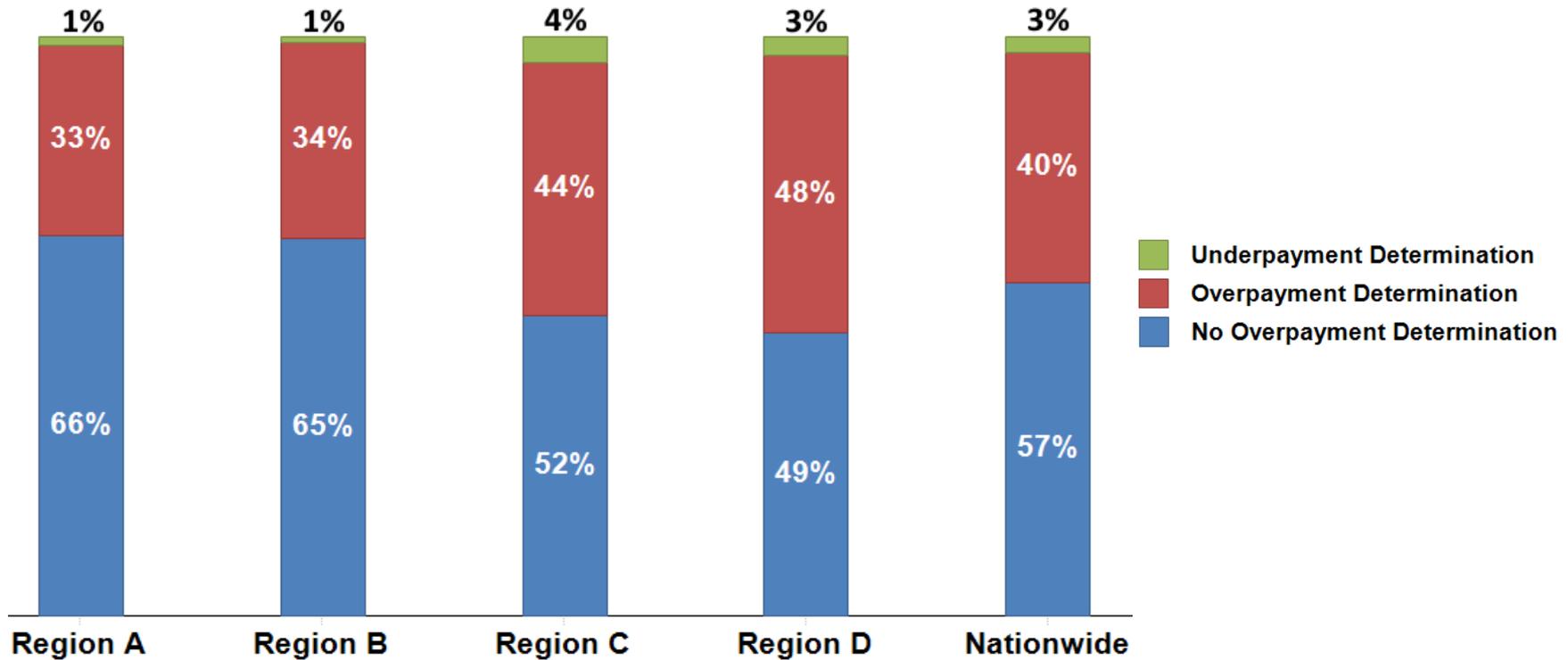
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# 60% of medical records reviewed by RACs did not contain an overpayment.

Percent of Completed Complex Reviews with and without Overpayment or Underpayment Determinations for Participating Hospitals, by Region, through 1st Quarter 2016



Source: AHA. (April 2016). RAC TRAC Survey

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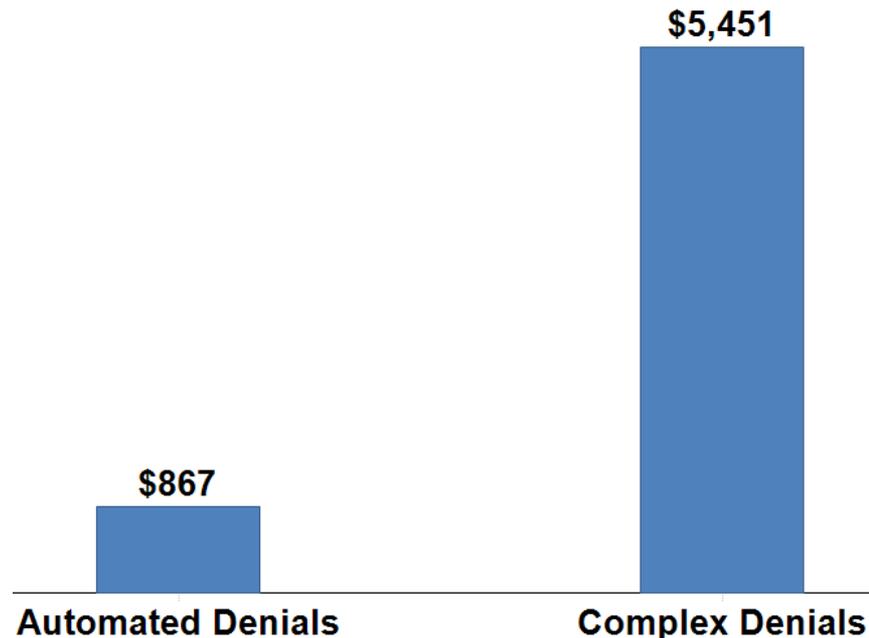


## RAC Denials

The average dollar value of an automated denial was \$867 and the average dollar value of a complex denial was \$5,451.

## Average Dollar Value of Automated and Complex Denials Among Hospitals Reporting RAC Denials, through 1st Quarter 2016

Average Dollar Amount of Automated and Complex Denials Among Reporting Hospitals, by Region		
RAC Region	Automated Denial	Complex Denial
NATIONWIDE	\$867	\$5,451
Region A	\$604	\$5,322
Region B	\$1,756	\$4,562
Region C	\$818	\$5,759
Region D	\$605	\$5,645



Source: AHA. (April 2016). RAC TRAC Survey

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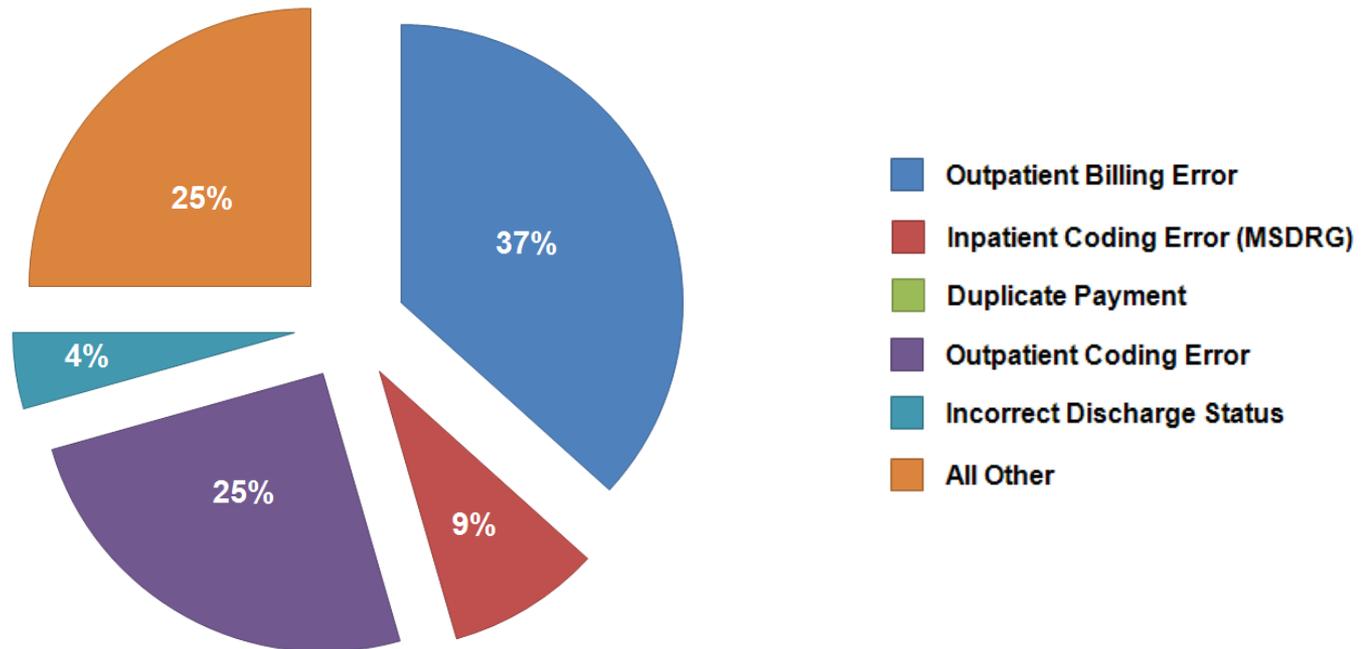


## Automated RAC Denials

# Hospitals report a diverse set of reasons for automated denials, by dollar impact.

## Percent of Participating Hospitals by Top Reason for Automated Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 1st Quarter 2016

*Survey participants were asked to rank denials by reason, according to dollar impact.*



Source: AHA. (April 2016). RAC TRAC Survey

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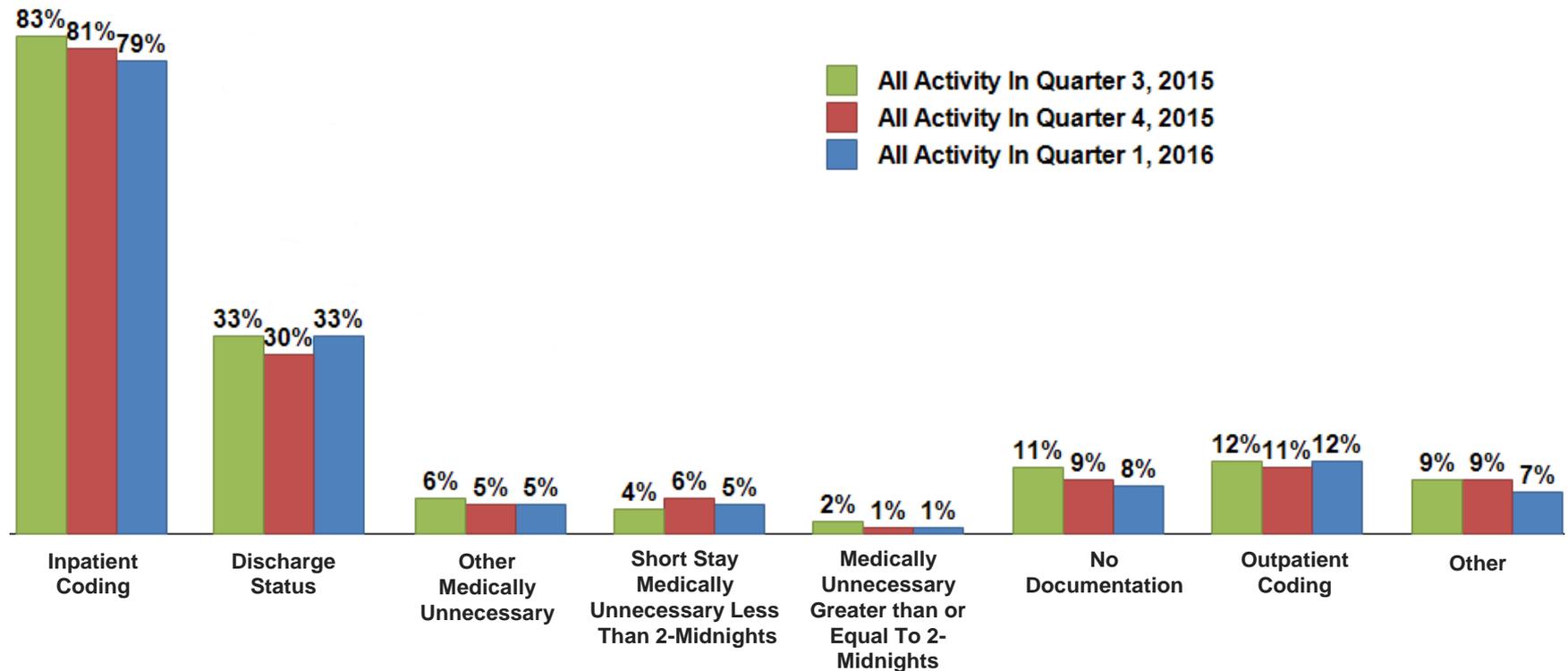


## Complex RAC Denials

# The most commonly cited reason for a complex denial is inpatient coding error.

## Percent of Participating Medical/Surgical Acute Hospitals with RAC Activity Experiencing Complex Denials by Reason, through 1st Quarter 2016

Survey participants were asked to select all reasons for denial.



Source: AHA. (April 2016). RAC TRAC Survey

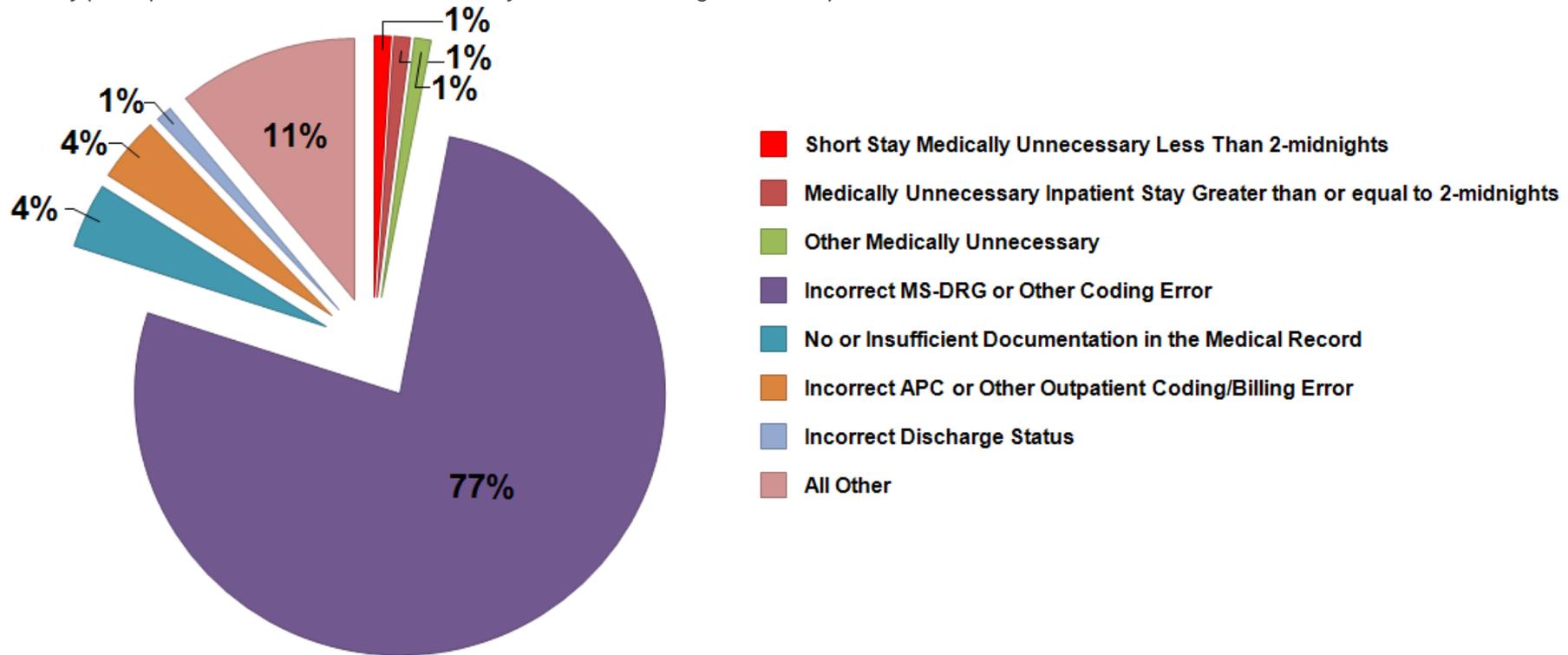
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# Nationally, hospitals reported a high percentage of complex denials due to incorrect MS-DRG or other coding error.

## Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 1st Quarter 2016

Survey participants were asked to rank denials by reason, according to dollar impact.



Source: AHA. (April 2016). RACTRAC Survey

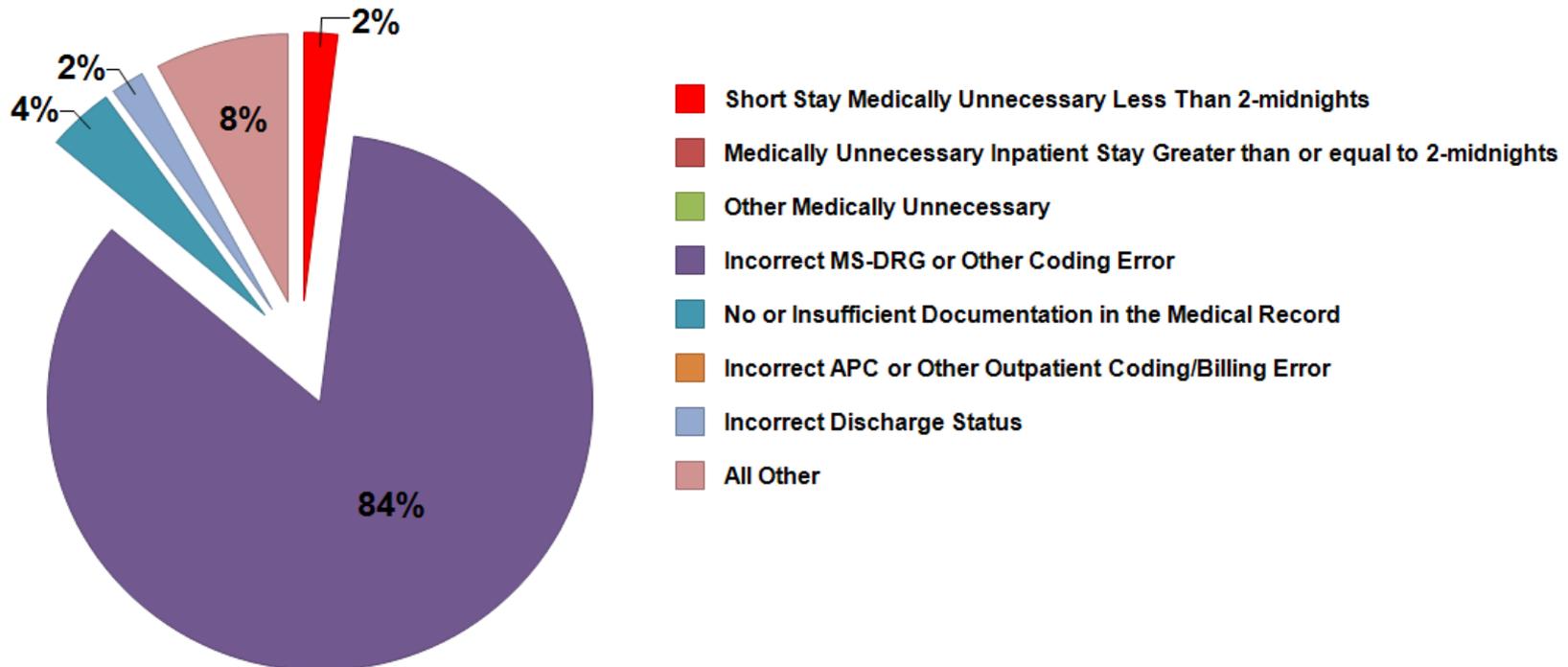
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# Region A: Hospitals reported a very high percentage of denials for incorrect MS-DRG or other coding error.

## Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 1st Quarter 2016, Region A

Survey participants were asked to rank denials by reason, according to dollar impact.



Source: AHA. (April 2016). RACTRAC Survey

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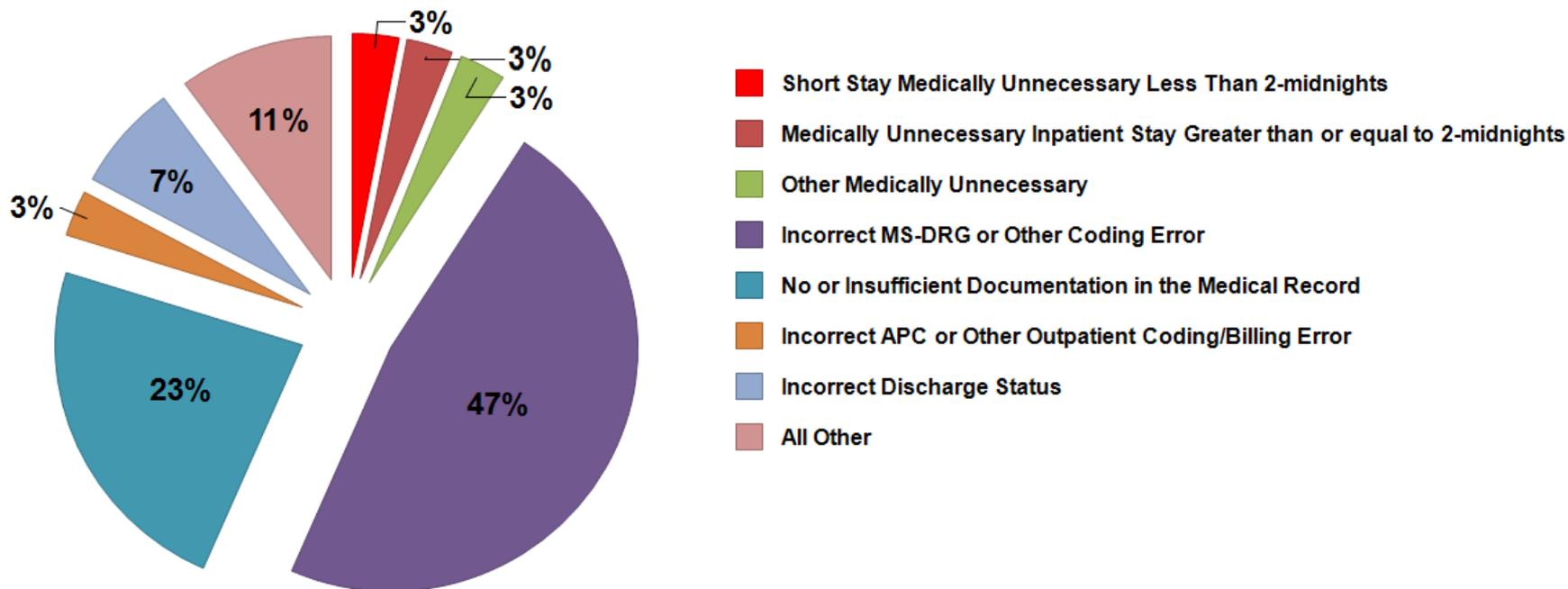
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# Region B: Hospitals reported a significant percentage of denials for incorrect MS-DRG or other coding error.

## Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 1st Quarter 2016, Region B

Survey participants were asked to rank denials by reason, according to dollar impact.



Source: AHA. (April 2016). RACTRAC Survey

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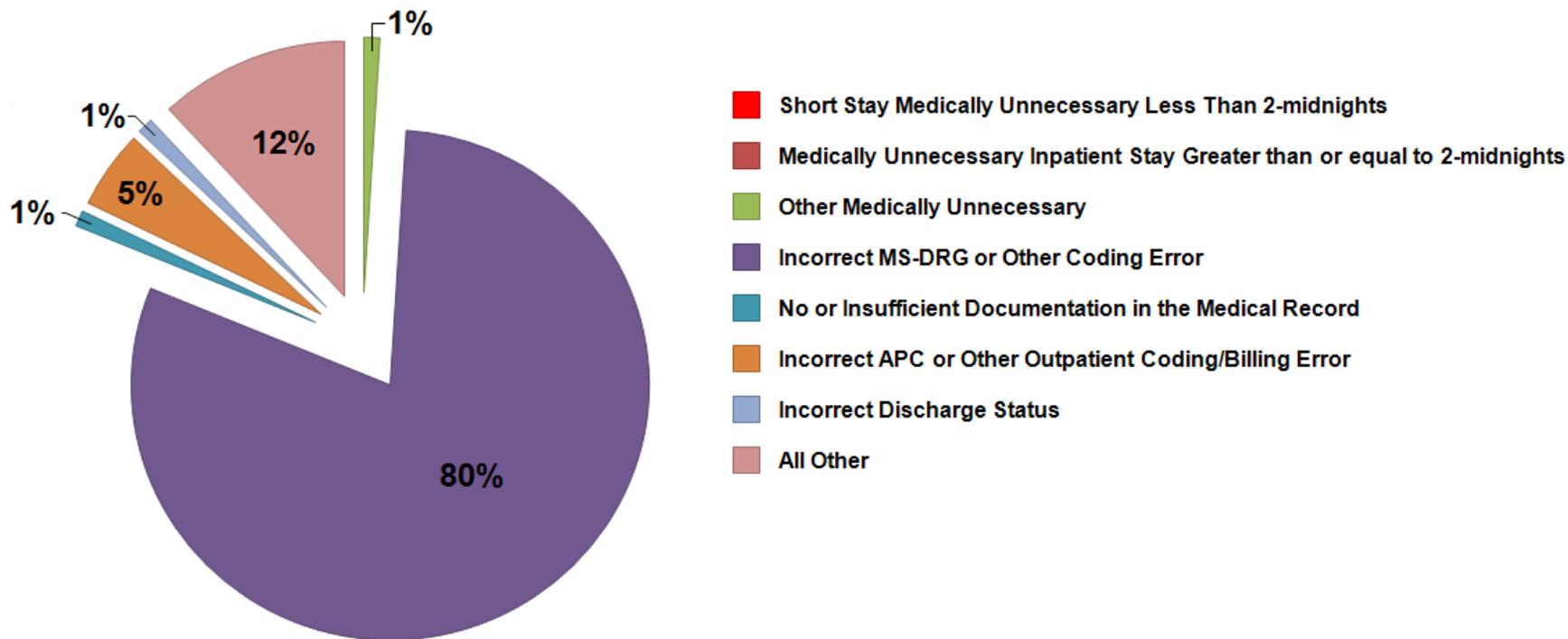
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# Region C: Hospitals reported a very high percentage of denials on incorrect MS-DRG or other coding error.

## Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 1st Quarter 2016, Region C

Survey participants were asked to rank denials by reason, according to dollar impact.



Source: AHA. (April 2016). RACTRAC Survey

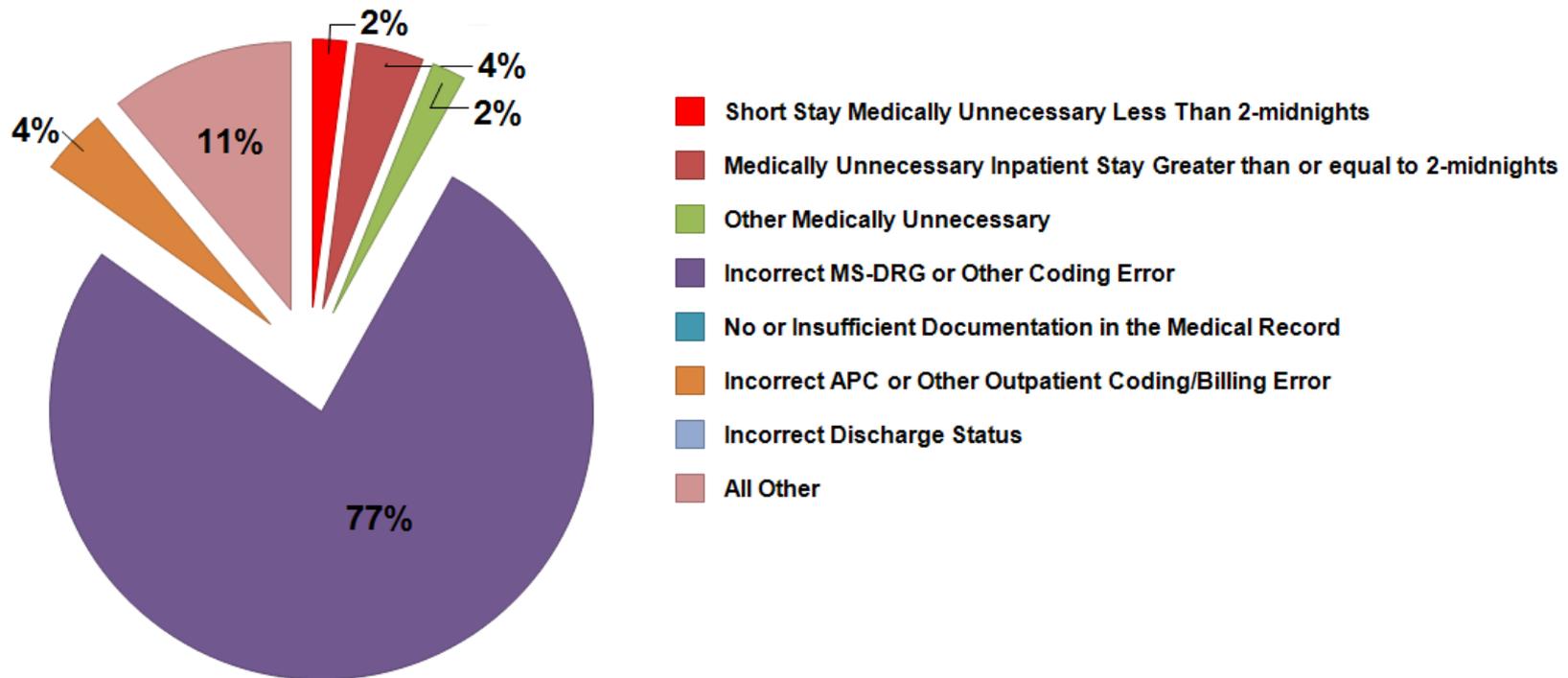
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# Region D: Hospitals reported a very high percentage of denials on incorrect MS-DRG or other coding error.

## Percent of Participating Hospitals by Top Reason for Complex Denials by Dollar Amount for Medical/Surgical Acute Hospitals with RAC Activity, 1st Quarter 2016, Region D

Survey participants were asked to rank denials by reason, according to dollar impact.



Source: AHA. (April 2016). RACTRAC Survey

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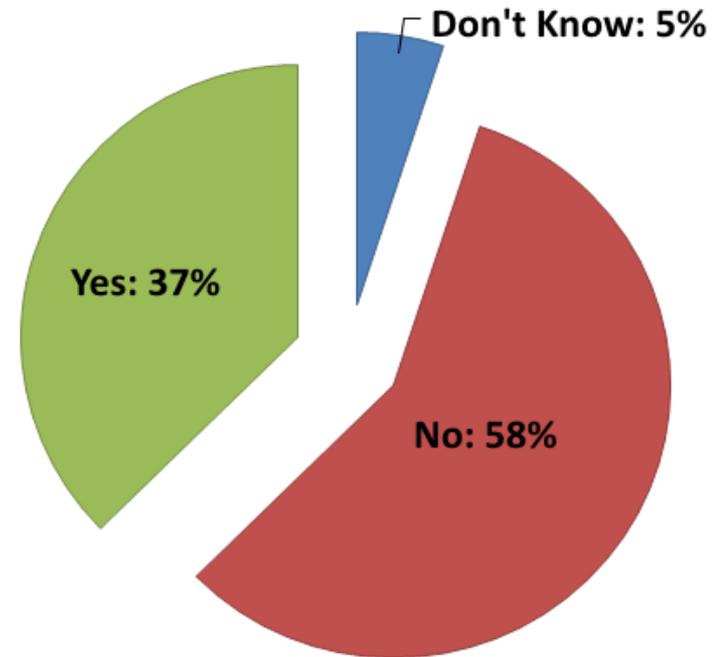
Appeals

# 37% of participating hospitals report having a denial reversed during the discussion period.

## Percent of Participating Hospitals with Denials Reversed During the Discussion Period, National and by Region, 1st Quarter 2016

### Reversed Denials by RAC Region

	Yes	No	Don't Know
Region A	49%	38%	13%
Region B	32%	65%	2%
Region C	39%	57%	4%
Region D	29%	67%	4%



*The discussion period is intended to be a tool that hospitals may use to reverse denials and avoid the formal Medicare appeals process. All RACs are required to allow a **discussion period** in which a hospital may share additional information and discuss the denial with the RAC. During the discussion period a hospital may gain more information from the RAC to better understand the cause for the denial and the RAC may receive additional information from the hospital that could potentially result in the RAC reversing its denial.*

Source: AHA. (April 2016). RACTRAC Survey

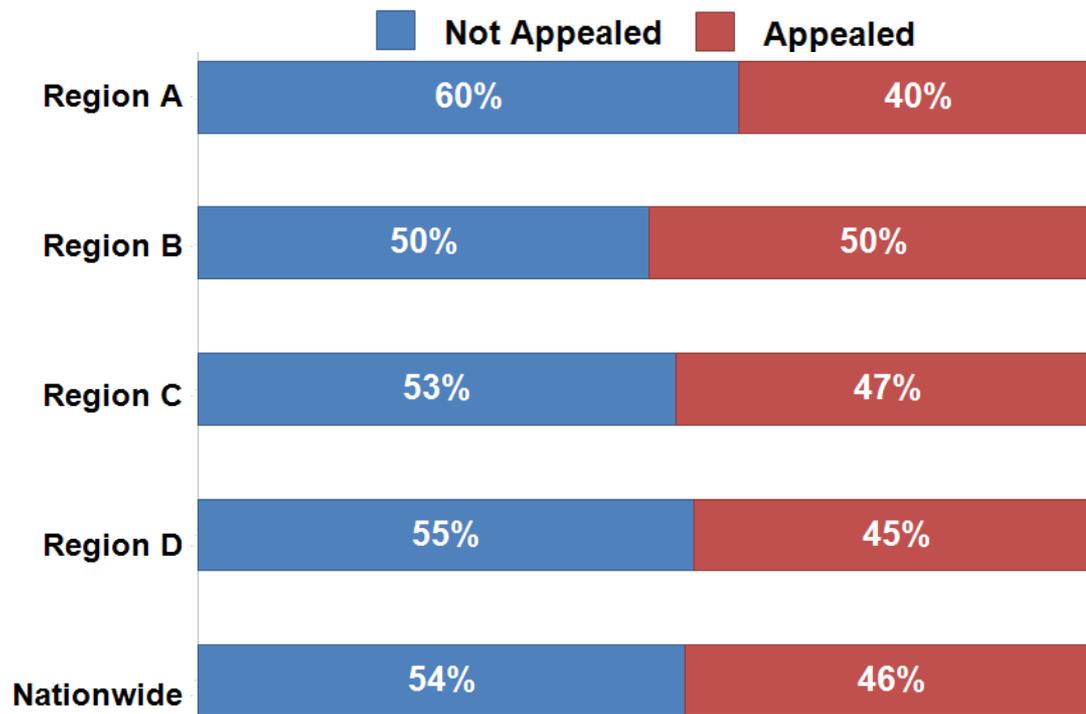
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# Nationwide hospitals report appealing 46% of RAC denials, including half of all denials in Region B.

Total Number and Percent of Automated and Complex Denials Appealed by Hospitals with Automated or Complex RAC Denials, by Region, through 1st Quarter 2016

	Total Number of Denials Available* for Appeal	Total Number of Denials Appealed
Nationwide	359,564	164,484
Region A	65,586	26,509
Region B	52,288	26,150
Region C	155,198	72,614
Region D	86,492	39,211



\* Available for appeal means that the hospital received a demand letter for this claim, as a result of either automated or complex review.

Source: AHA. (April 2016). RACTRAC Survey

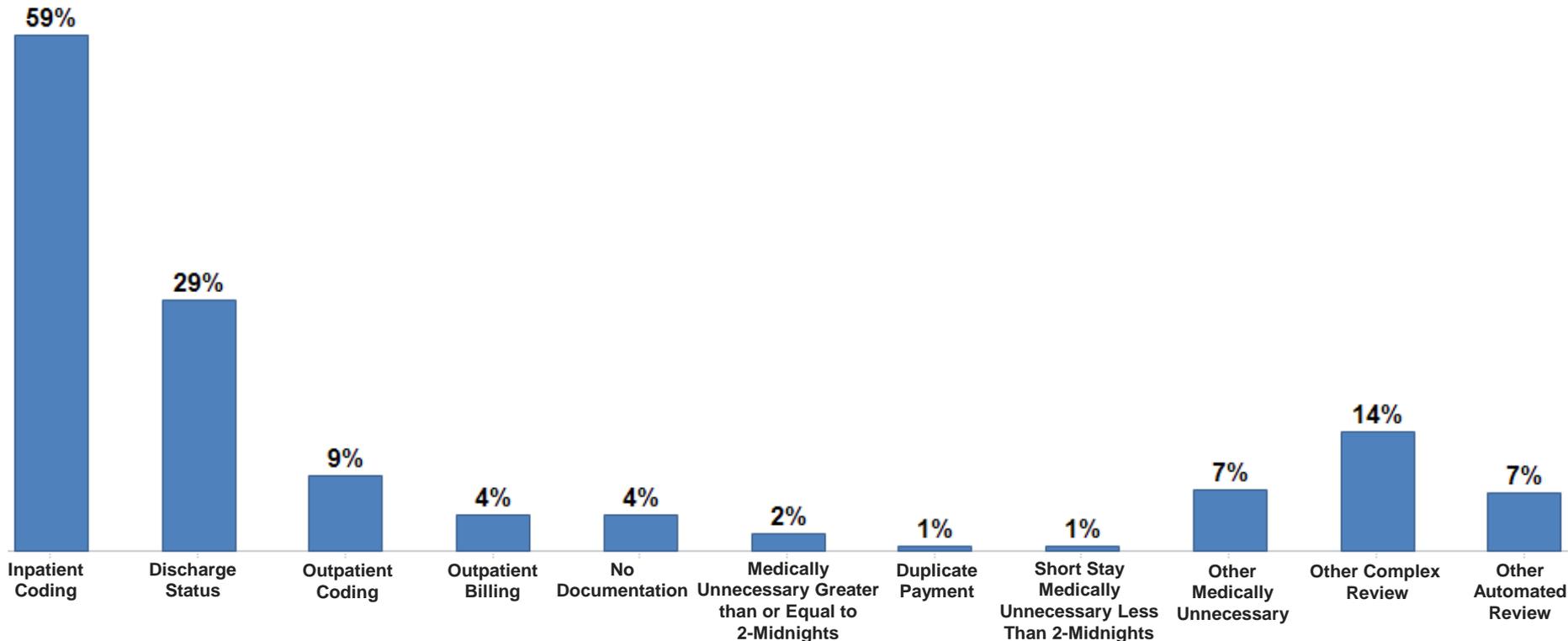
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# 59% of all hospitals filing an appeal of a RAC denial – to any level of the appeals system – during Q1 2016 reported appealing inpatient coding denials.

## Percent of Participating Medical/Surgical Acute Hospitals Reporting RAC Appeals by Denial Reason, 1st Quarter 2016

Survey participants were asked to select all reasons for denial.



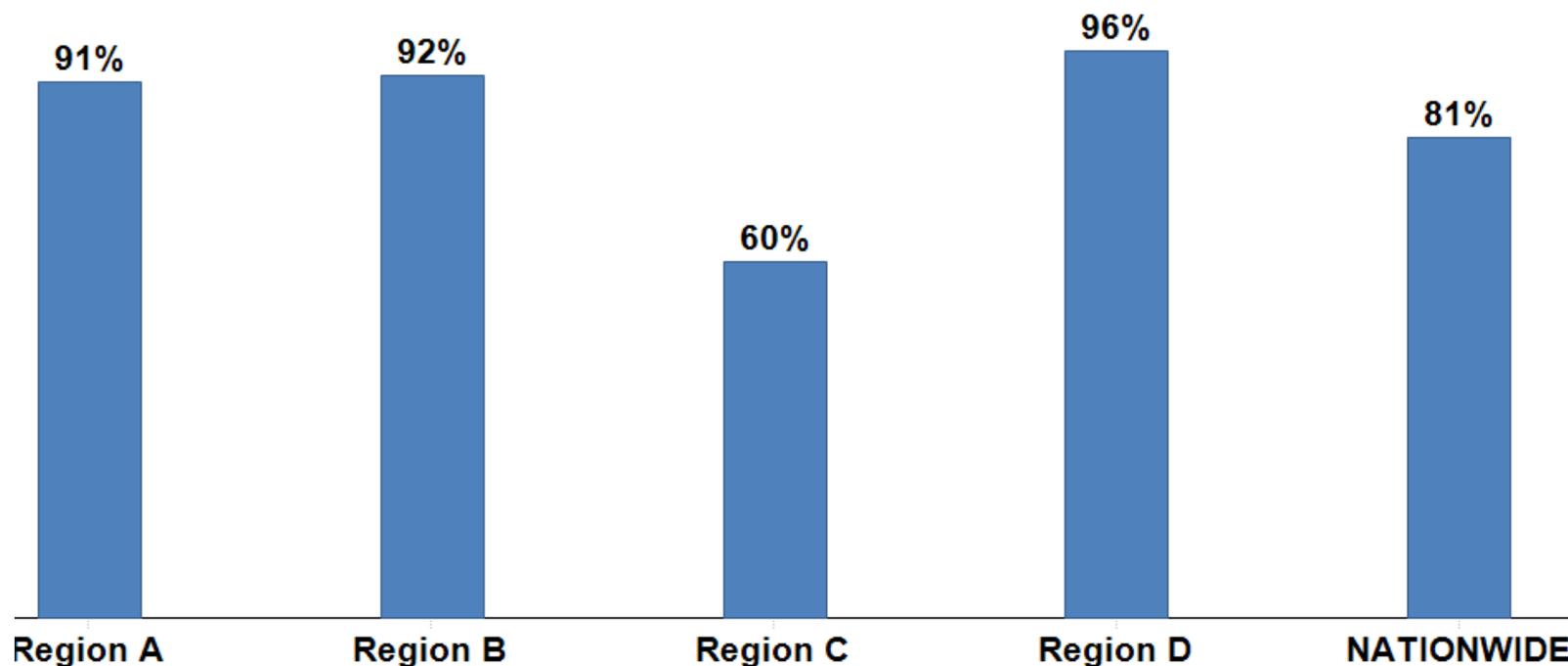
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For more than 81% of claims appealed to the administrative law judge (ALJ), the ALJ has taken longer than the statutory limit of 90 days to provide a determination to the hospital.

Percent of Appeals for which ALJ has taken Longer than the Statutory Maximum of 90 Calendar Days to Issue a Decision, through 1st Quarter 2016



Source: AHA. (April 2016). RAC TRAC Survey

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# For complex denials that are re-billed under Part B, hospitals report receiving 40% of the original Part A reimbursement.

## Summary of Medical Necessity Level of Care Denials Re-billed Under Part B, through 1st Quarter, 2016

Region	Hospital Count	Total # Level of Care Denials Re-billed	Total Part A Denied Amount of Re-billed Claims	Total # Level of Care Denials Re-billed and Reimbursed under Part B	Average Part B Reimbursement	Average Part A Reimbursement	Average % of Part A Denied Amount Reimbursed Under Part B
Nationwide	125	10,982	\$62,148,876	6,958	\$1,961	\$4,854	40%
Region A	25	2,398	\$13,072,569	1,247	\$2,196	\$5,025	44%
Region B	35	2,282	\$11,783,741	1,110	\$1,009	\$4,697	21%
Region C	50	5,670	\$35,246,138	4,063	\$2,180	\$5,036	43%
Region D	15	632	\$2,046,426	538	\$1,722	\$3,414	50%

\*Response rates vary by quarter.

Source: AHA. (April 2016). RACTRAC Survey

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# Of the claims that have completed the appeals process, 59% were overturned in favor of the provider.

## Summary of Appeal Rate and Determinations in Favor of the Provider, for Hospitals with Automated or Complex RAC Denials, through 1st Quarter 2016\*

	Appealed	Percent of Denials Appealed	Number of Denials Awaiting Appeals Determination	Completed Appeals		
				Number of Denials Not Overturned from Appeals Process* (Withdrawn/Not Continued)	Number of Denials Overturned in the Appeals Process	Percent of Appealed Denials Overturned (as a Percent of Total Completed Appeals)
NATIONWIDE	164,484	46%	44,385	37,519	54,325	59%
Region A	26,509	40%	7,120	7,663	8,583	53%
Region B	26,150	50%	5,366	5,696	9,880	63%
Region C	72,614	47%	20,812	16,256	20,220	55%
Region D	39,211	45%	11,087	7,904	15,633	66%

\* May include appeals withdrawn to re-bill.

\*Response rates vary by quarter.

Source: AHA. (April 2016). RACTRAC Survey

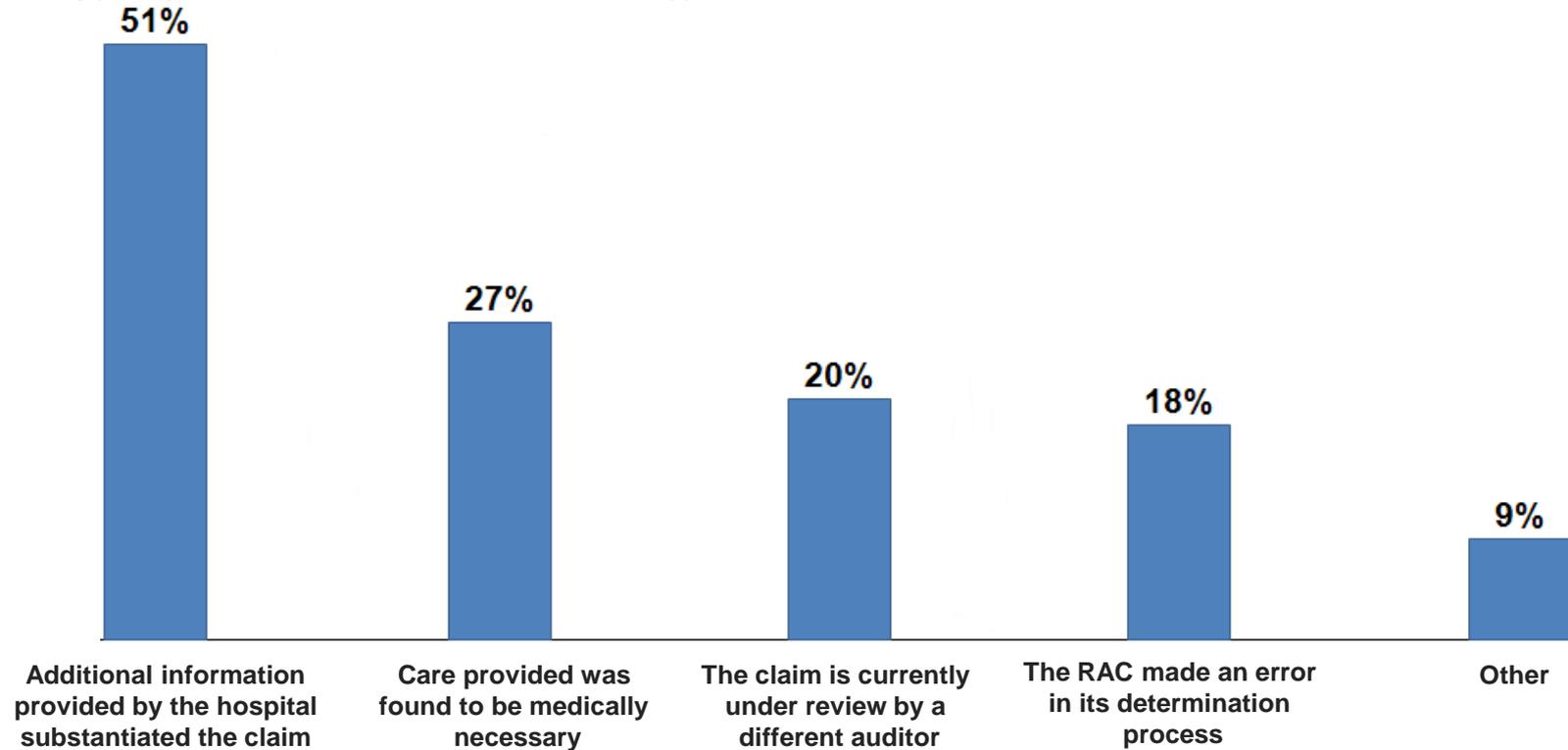
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# 51% of hospitals with a RAC denial overturned had a denial reversed when additional information was provided by the hospital to substantiate the original claim.

## Percent of Participating Hospitals that Had a Denial Overturned by Reason, 1st Quarter 2016

Survey participants were asked to select all reasons for appeal overturn.



Source: AHA. (April 2016). RAC TRAC Survey

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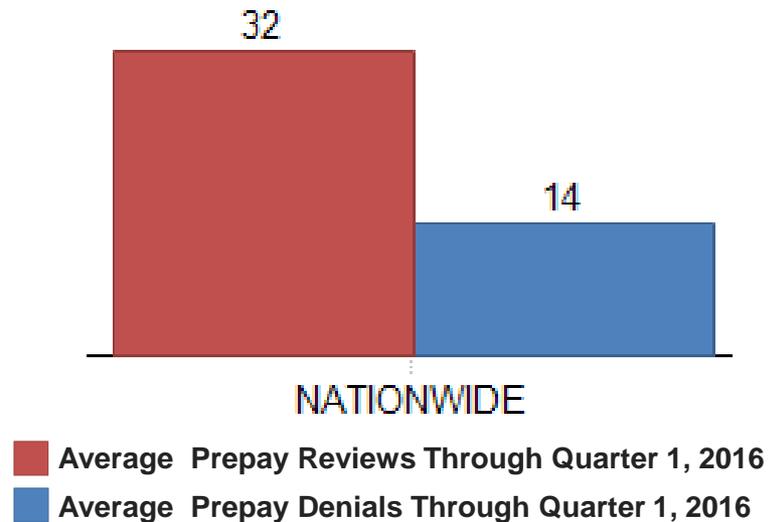


## RAC Pre-payment Reviews

# Hospitals experiencing prepayment denials report higher average dollar amounts associated with reviewed and denied claims, when compared to retrospective denials.

Total Number and Average Dollar Amount of Prepayment Reviews and Denials Reported by Hospitals in the Demonstration States, through 1st Quarter, 2016

	Nationwide
Number Prepay Reviews	2,497
Average Dollar Amount Of Prepay Claims Reviewed	\$6,403
Number Prepay Denials	1,055
Average Dollar Amount Of Prepay Denials	\$5,219



\*Response rates vary by quarter.

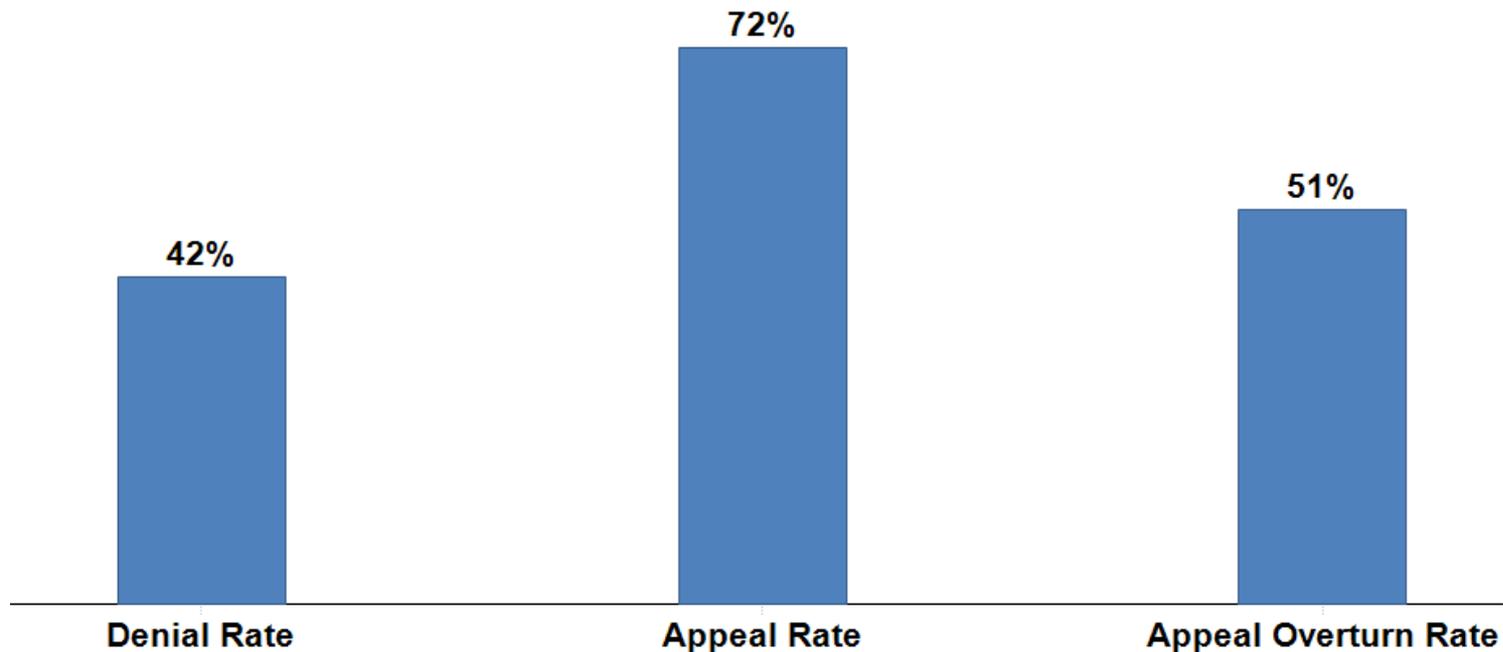
Source: AHA. (April 2016). RAC<sup>TRAC</sup> Survey

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# 42% of prepayment reviews are denied by a RAC and hospitals are appealing 72% of denied claims.

Summary of Denial Rate, Appeal Rate and Determinations in Favor of the Provider, for Hospitals with Reported Prepayment Reviews in the Demonstration States, through 1st Quarter, 2016



\*Response rates vary by quarter.

Source: AHA. (April 2016). RACTRAC Survey

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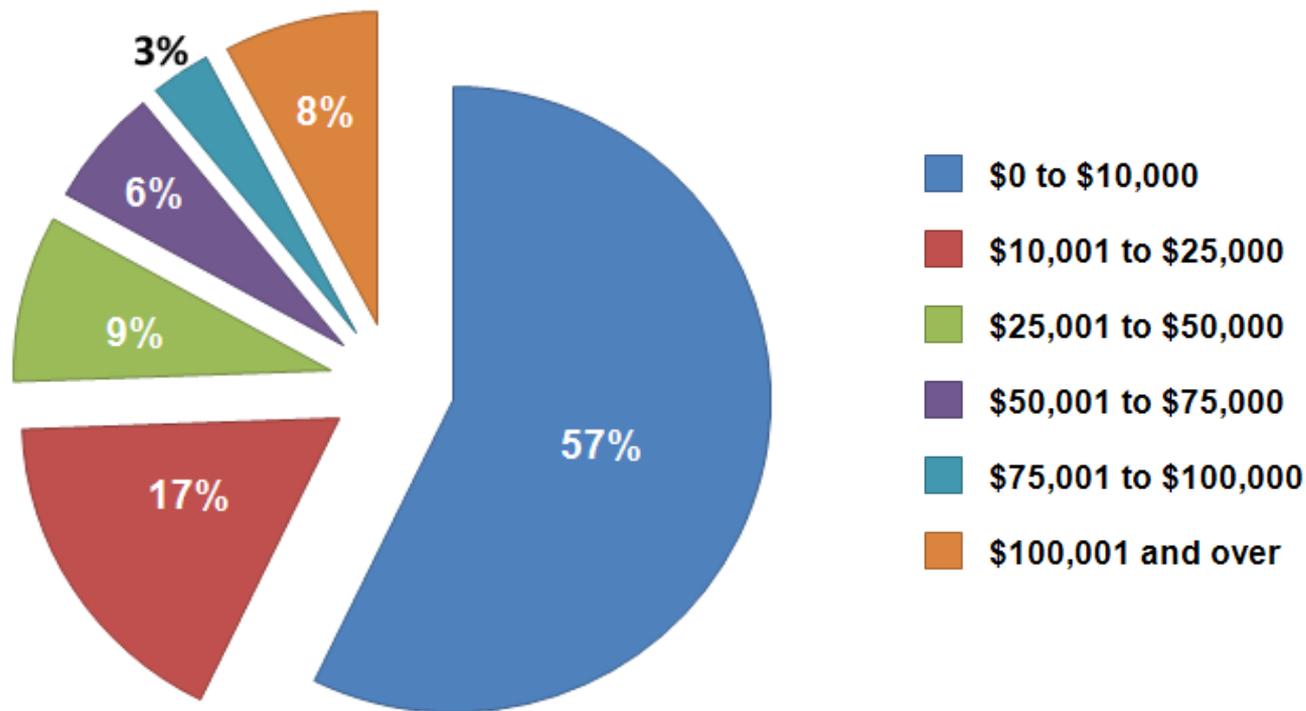




## Administrative Burden

43% of all hospitals reported spending more than \$10,000 managing the RAC process during the 1st quarter of 2016, 26% spent more than \$25,000 and 8% spent over \$100,000.

### Percent of Participating Hospitals\* Reporting Average Cost Dealing with the RAC Program, 1st Quarter 2016



\* Includes participating hospitals with and without RAC activity

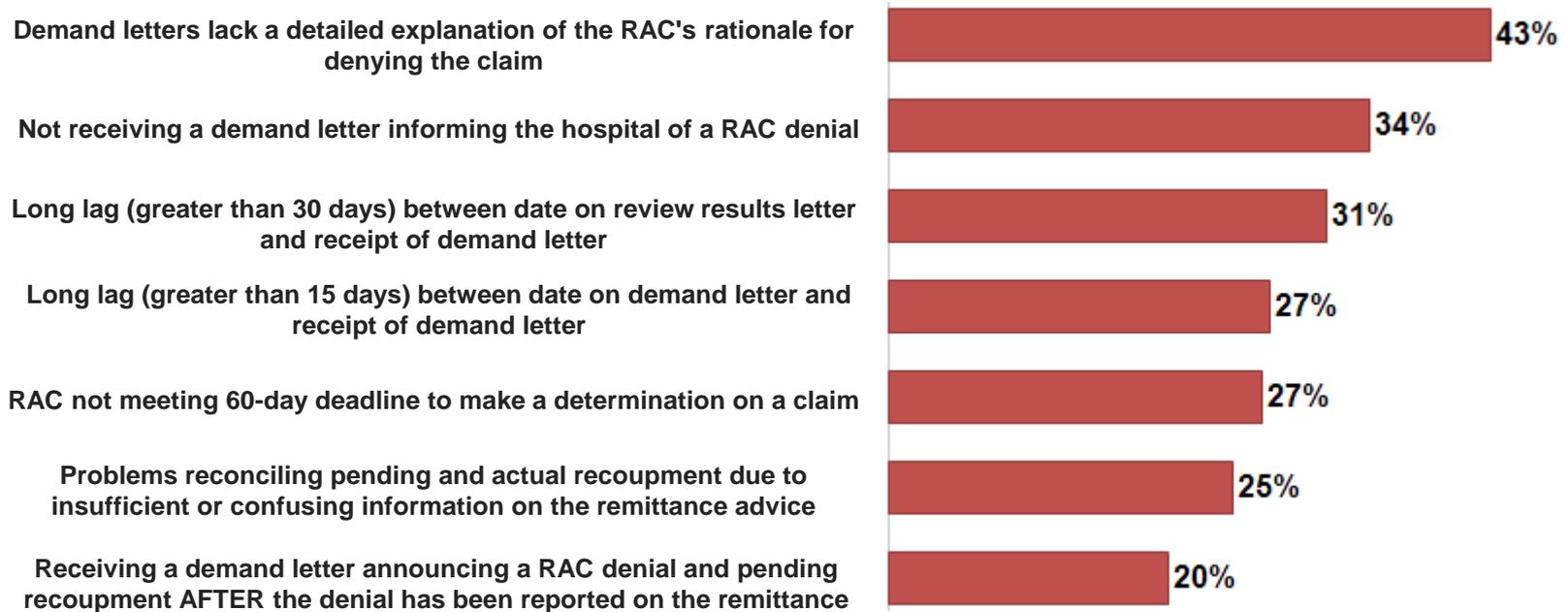
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# Hospitals report widespread RAC process-related issues, including multiple problems with Medicare administrative contractors (MACs) and the demand letter process.

## Percent of Participating Hospitals Reporting RAC Process Issues, by Issue, 1st Quarter 2016



*\* Includes participating hospitals with and without RAC activity*

Source: AHA. (April 2016). RACTRAC Survey

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

<http://www.aha.org/ractrac>