Started in 2010, the national RAC program needs serious reform. Many payment denials are for inpatient care that was medically needed but RACs contend it could have been provided in outpatient settings.

RACs’ excessive rejection of short-stay inpatient claims led physicians to keep many patients in outpatient observation status, even though it may last several days. Pressure from the AHA lawsuit forced CMS to allow hospitals some flexibility to rebill RAC–denied claims going forward. Claims that predated change are not eligible.

AHA, along with four state hospital associations and a number of individual hospitals, sued HHS in April 2014 stating that the two-midnight policy’s arbitrary standards and documentation requirements harm hospitals and patients. They also challenged an unfounded payment cut in the rule.

The “Two-Midnight” Policy

RACs’ overzealous denials broke the system. Because of a massive backlog at the third level of the administrative appeals process, hundreds of thousands of appeals have yet to be assigned to an administrative law judge (ALJ). The delays leave billions of dollars in hospital reimbursement tied up in the appeals system for up to 5 years awaiting final resolution. These dollars are needed to support the continuing delivery of care to patients.

MISMANAGED RACs CAUSE CONFUSION AND DIVERT PATIENT RESOURCES. THAT’S WHY THE AMERICAN HOSPITAL ASSOCIATION SUPPORTS

Medicare Audit Improvement Act, S. 1012/ H.R. 1250

Two-Midnight Rule Coordination and Improvement Act, S. 2082