How a Well-Intentioned Federal Program Has Become a Drain on Hospitals

The national Recovery Audit Contractor (RAC) program began in 2010 with the goal of ensuring accurate payments to Medicare providers. However, 6 years later, the program requires fundamental reform.

Unlawful policy prevents full payment for needed patient care.

- Many denials are for inpatient care (Part A) that was medically necessary, but RACs contend the care could have been provided in the hospital outpatient (Part B) setting.
- Medicare rules prohibit hospitals from rebilling these services for payment under Part B if they are older than 1 year, while RACs can audit medical records up to 3 years old.

This disparity costs hospitals millions and violates CMS’s statutory requirement to pay for all reasonable and necessary care.

RACs are bounty hunters paid a contingency fee based on the money clawed back from denied claims.

For each Medicare claim they deny, RACs receive a commission of 9.0 - 12.5%.

Due to this incentive structure, RACs frequently target high-dollar inpatient claims.

RACs are often inaccurate and inflict avoidable legal and administrative costs on hospitals.

RACs find no overpayment error with 57% of audited claims.

47% of denied claims are appealed.

RAC-denied claims: 43%

58% of hospitals spend $40,000+.

39% of hospitals spend $100,000+.

26% of hospitals spend $200,000+.

9% of hospitals spend $400,000+.

RACs’ errors and inefficiencies force hospitals to redirect resources that could have otherwise been used for patient care.

Annual hospital spending due to RAC process:

CONGRESS – Reform the RAC program now to fix the flawed RAC system.