

Exploring the Impact of the RAC Program on Hospitals Nationwide

Results of AHA RACTRAC Survey, 1st Quarter 2016

June 3, 2016

RAC 101

- Centers for Medicare & Medicaid Services (CMS) Recovery Audit Contractors (RACs) conduct reviews of Medicare payments to health care providers, including:
 - automated reviews that use computer software to detect improper payments
 - complex reviews that utilize human review of medical records and other medical documentation
- 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
- Automated activity includes the traditional automated activity as described above as well as semi-automated review activity. These claims are denied in an automated manner if supporting documentation is not received on a timely basis.



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 <u>www.aharactrac.com</u>), to submit their data regarding the impact of the RAC program.
 - Many survey questions are designed to collect *cumulative* RAC experience data, from the inception of a hospital's RAC activity through the 1st quarter of 2016.
 - Survey registration information and RACTRAC support can be accessed at ractracsupport@providercs.com or 1-888-722-8712.
 - Hospitals submit data to RACTrac through their claim tracking tools
 - 21 external vendors offer an upload function to export a hospital's RAC data to RAC *Trac*, or hospitals can choose to utilize the claim-level tracking tool provided by the AHA.



Executive Summary

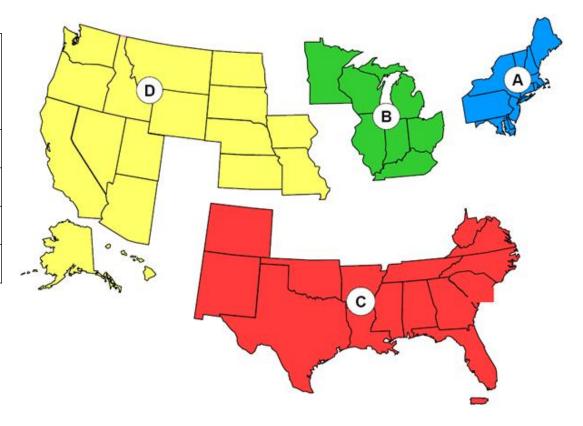
- 2,578 hospitals have participated in RACTRAC since data collection began in January of 2010. 730 hospitals participated this quarter.
- 60% of reviewed claims in Q1 2016 were found to not have an overpayment.
- 37% of hospitals indicated, for automated denials, that outpatient billing error had the 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 1st quarter of 2016, 26% spent more than \$25,000 and 8% spent over \$100,000.



There are four RAC regions nationwide. Participation in RAC TRAC is generally consistent with hospital representation in each of the RAC regions.

Distribution of Hospitals by RAC Region and Hospitals Participating in RAC TRAC by RAC Region, through 1st Quarter 2016.

| | Percent of Hospitals Nationwide | Percent of Participating Hospitals by Region |
|----------|---------------------------------------|---|
| Region A | 15% | 16% |
| Region B | 19% | 23% |
| Region C | 40% | 35% |
| Region D | 26% | 26% |





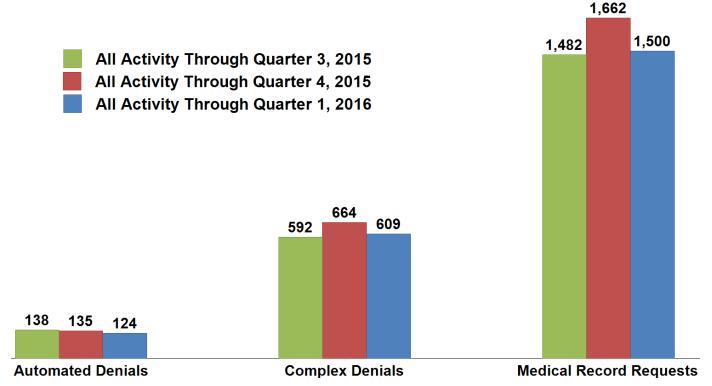
Source: Centers for Medicare and Medicaid Services



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*



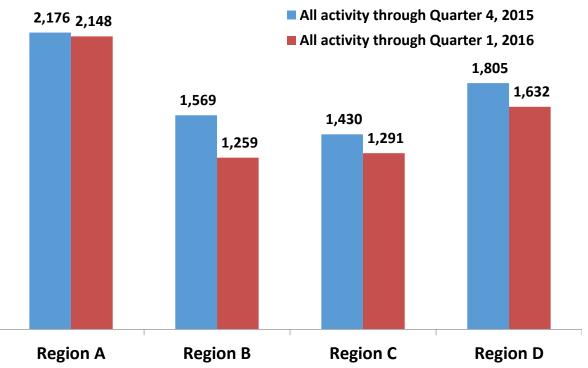


Source: AHA. (April 2016). RACTRAC Survey



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*



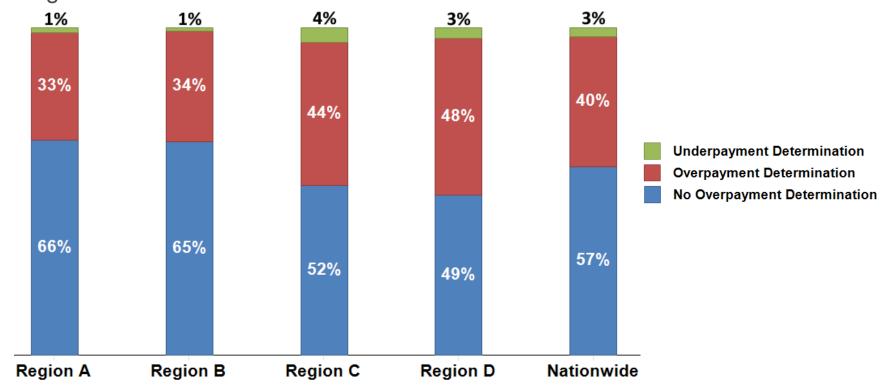


Source: AHA. (April 2016). RACTRAC Survey



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). RACTRAC Survey



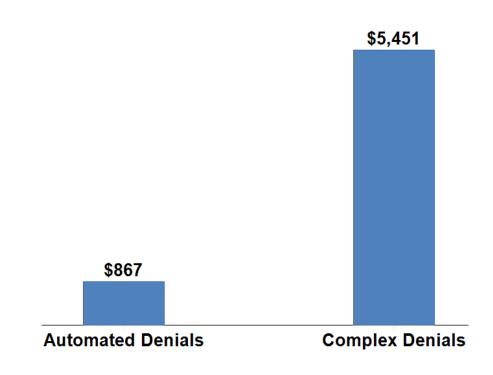
RAC Denials

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 |

| nospitals, 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). RACTRAC Survey

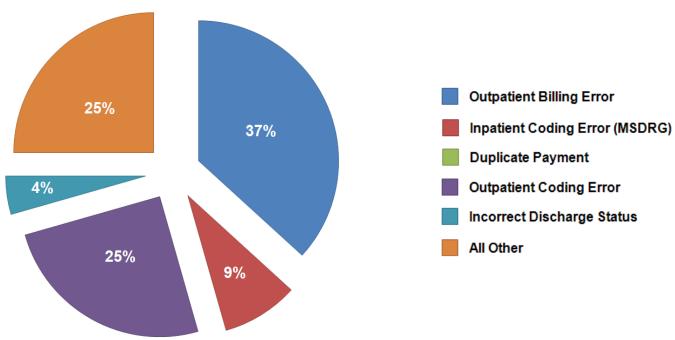


Automated RAC Denials

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). RACTRAC Survey

Region A: There were not enough responses from Region A to report on this question in Q1 2016.

Percent of Participating Hospitals by Top Reason for Automated 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.

- Outpatient Billing Error
- Inpatient Coding Error (MSDRG)
- Duplicate Payment
- Outpatient Coding Error
- Incorrect Discharge Status
- All Other



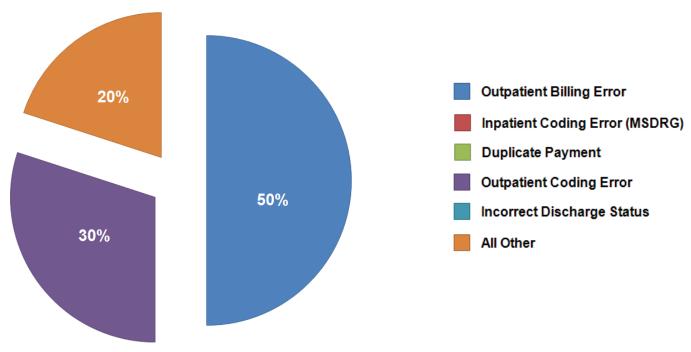
Source: AHA. (April 2016). RACTRAC Survey

^{*} Too few responses to report

Region B: Hospitals reported outpatient billing error as the top reason 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, Region B

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





Source: AHA. (April 2016). RACTRAC Survey

Region C: There were not enough responses from Region C to report on this question in Q1 2016.

Percent of Participating Hospitals by Top Reason for Automated 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.

- Outpatient Billing Error
- Inpatient Coding Error (MSDRG)
- Duplicate Payment
- Outpatient Coding Error
- Incorrect Discharge Status
- All Other



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.

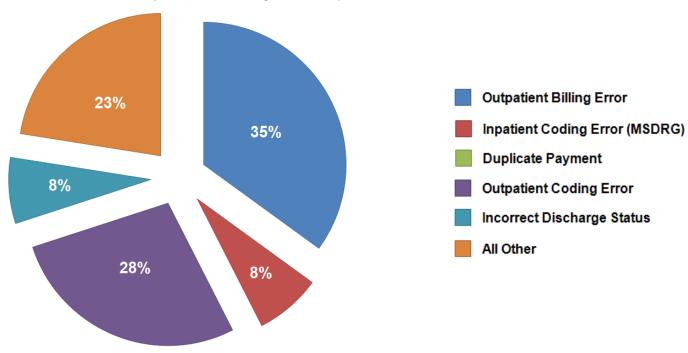
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^{*} Too few responses to report

Region D: Hospitals reported outpatient billing error as the top reason for RAC 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, Region D

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





Source: AHA. (April 2016). RACTRAC Survey

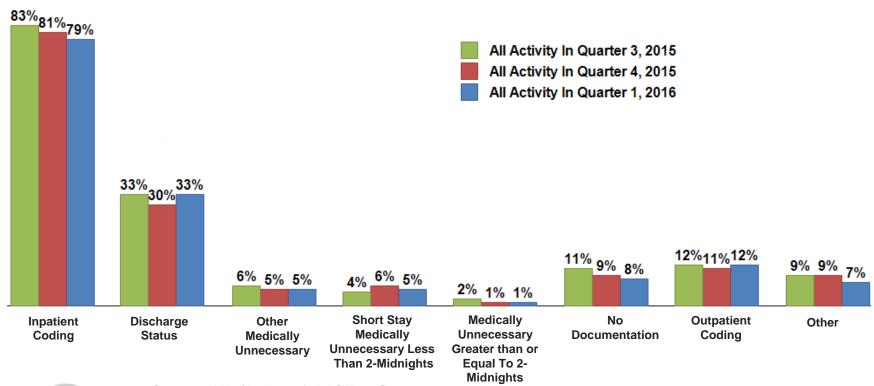


Complex RAC Denials

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.



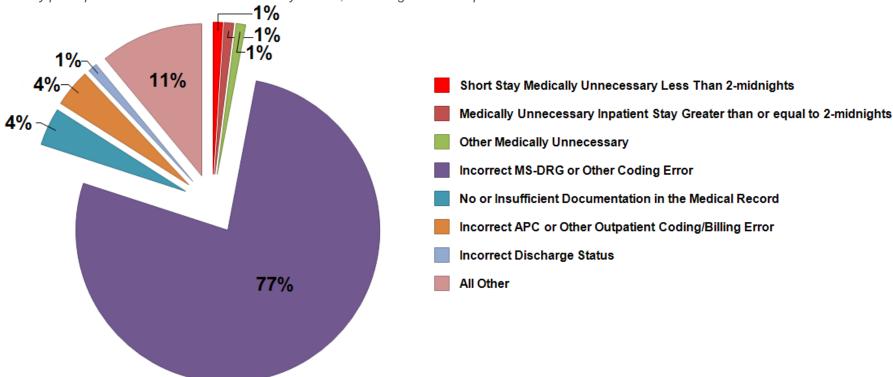


Source: AHA. (April 2016). RACTRAC Survey

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.



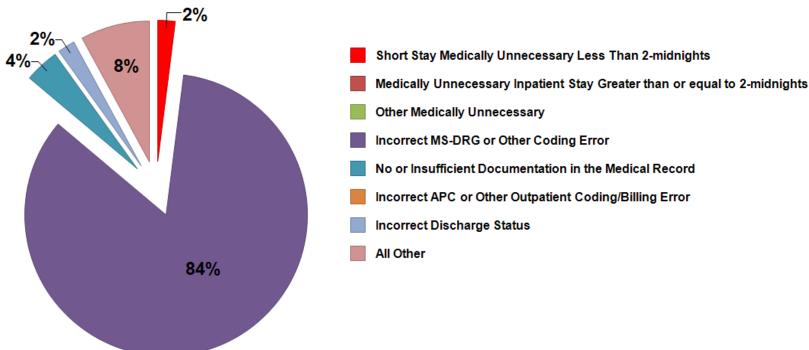


Source: AHA. (April 2016). RACTRAC Survey

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.



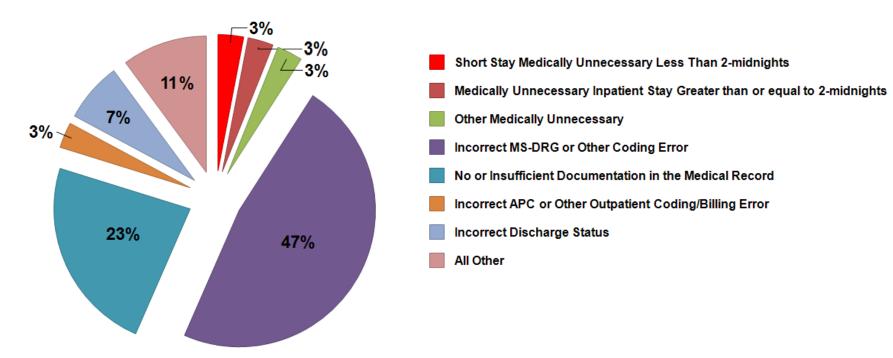


Source: AHA. (April 2016). RACTRAC Survey

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.



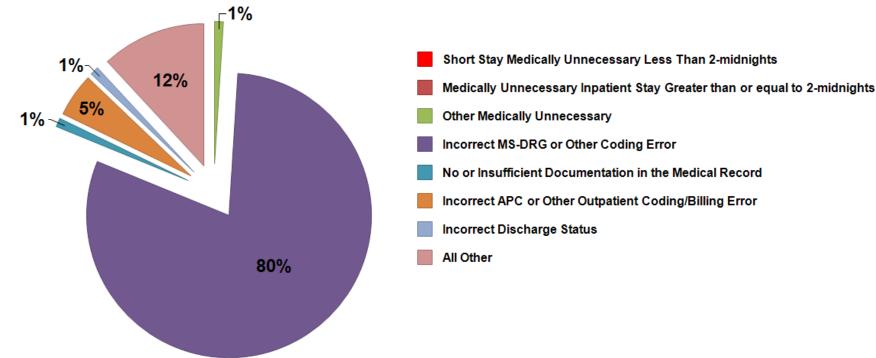


Source: AHA. (April 2016). RACTRAC Survey

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.



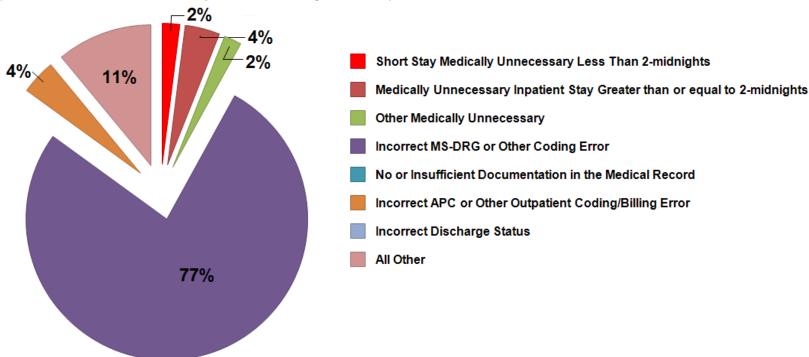


Source: AHA. (April 2016). RACTRAC Survey

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



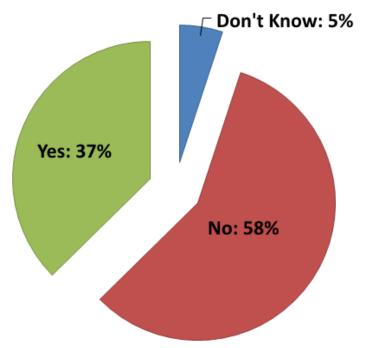
Appeals

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.

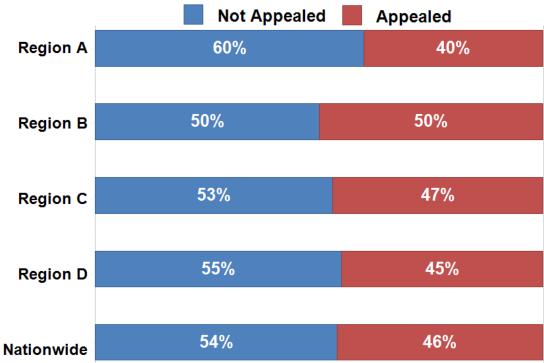


Source: AHA. (April 2016). RACTRAC Survey

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

| Quarter 2010 | | | | |
|--------------|---|--|--|--|
| | 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.

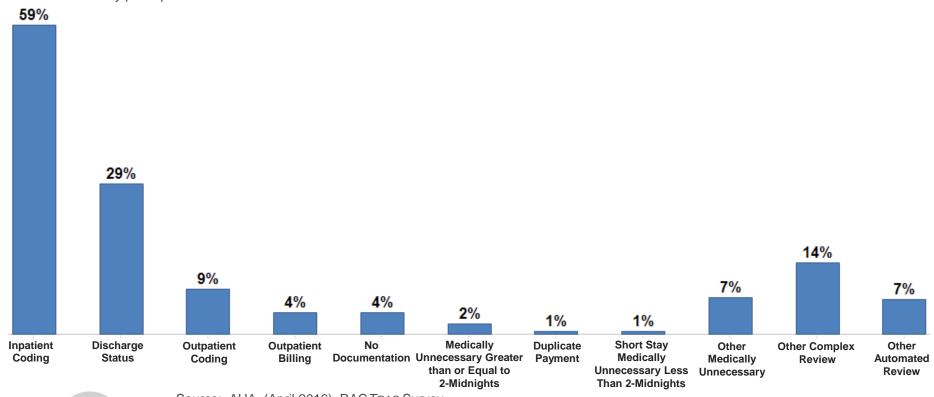


Source: AHA. (April 2016). RACTRAC Survey

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.

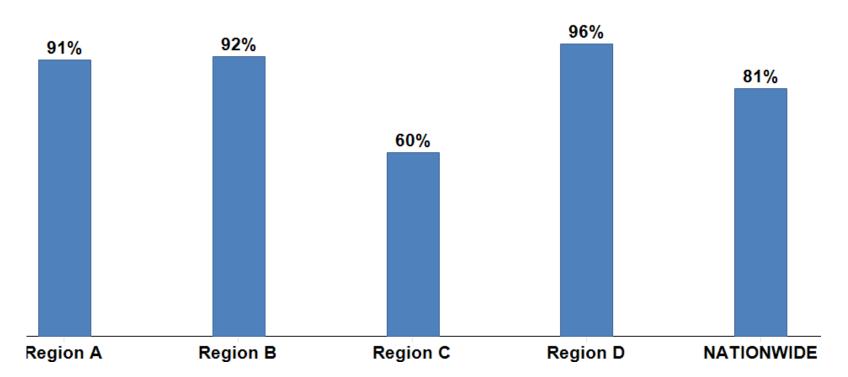




Source: AHA. (April 2016). RACTRAC Survey

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

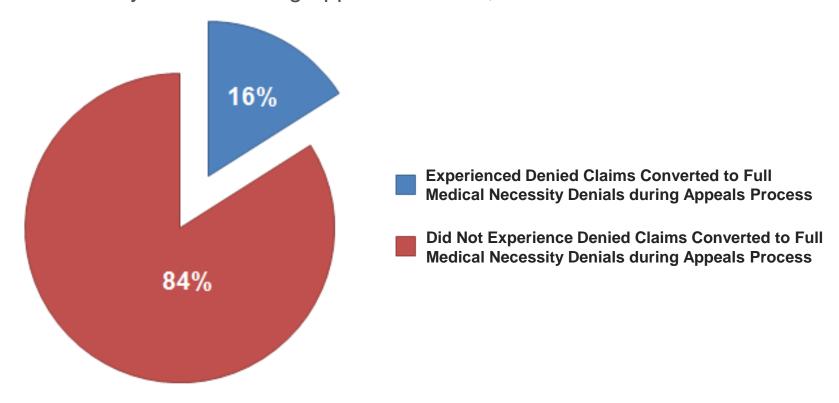




Source: AHA. (April 2016). RACTRAC Survey

16% of reporting hospitals reported having claims denied for DRG validation converted into full medical necessity denials when the determination was appealed.

Percent of Responding Hospitals Experiencing Denied Claims Converted to Full Medical Necessity Denials during Appeals Process, 1st Quarter 2016

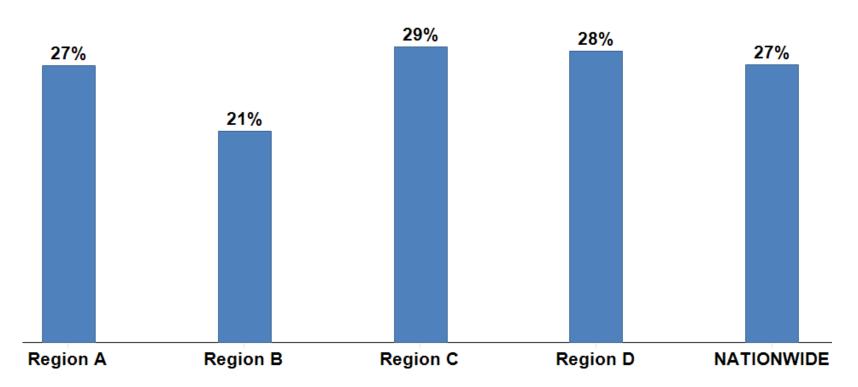


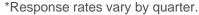


Source: AHA. (April 2016). RACTRAC Survey

27% of all cumulative claims appealed are still sitting in the appeals process.

Percent of Appealed Claims Pending Determination for Participating Hospitals, by Region, through 1st Quarter 2016*





Source: AHA. (April 2016). RACTRAC Survey



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.





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*

| | | | | Completed Appeals | | |
|------------|----------|-----------------------------------|---|--|---|--|
| | Appealed | Percent of Denials Appealed | Number of Denials Awaiting Appeals Determination | 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.



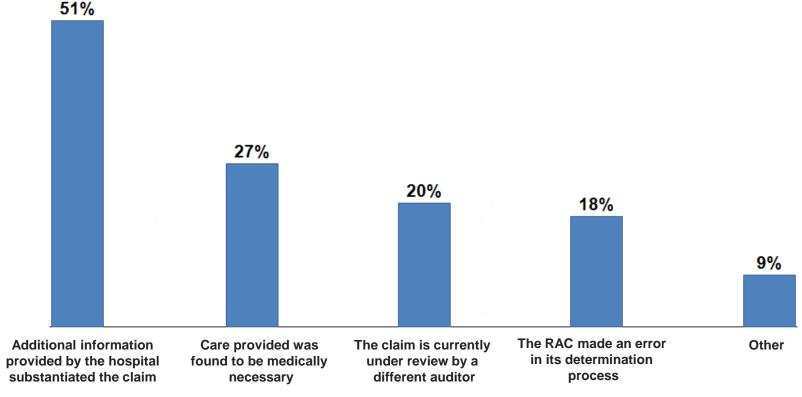
*Response rates vary by quarter.

Source: AHA. (April 2016). RACTRAC Survey

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). RACTRAC Survey

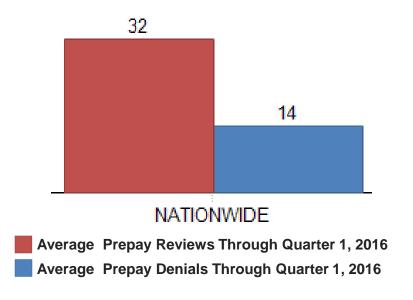


RAC Pre-payment Reviews

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 |



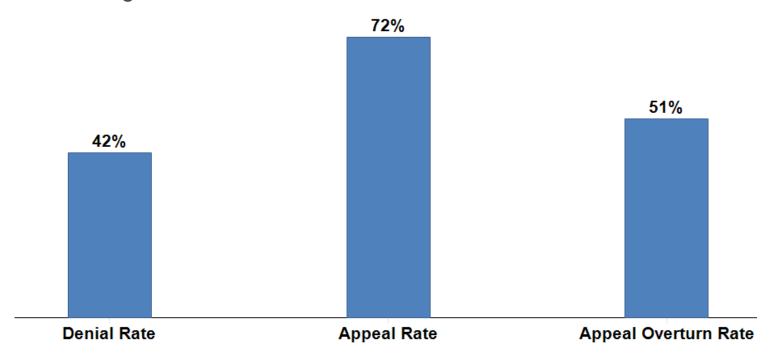


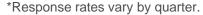
Source: AHA. (April 2016). RACTRAC Survey



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





Source: AHA. (April 2016). RACTRAC Survey

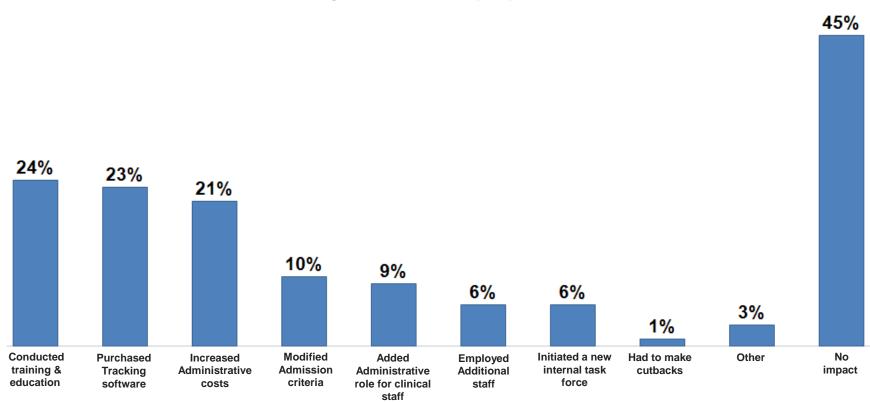




Administrative Burden

Hospitals experience many types of administrative impacts due to RACs.

Impact of RAC on Participating Hospitals* by Type of Impact, 1st Quarter 2016



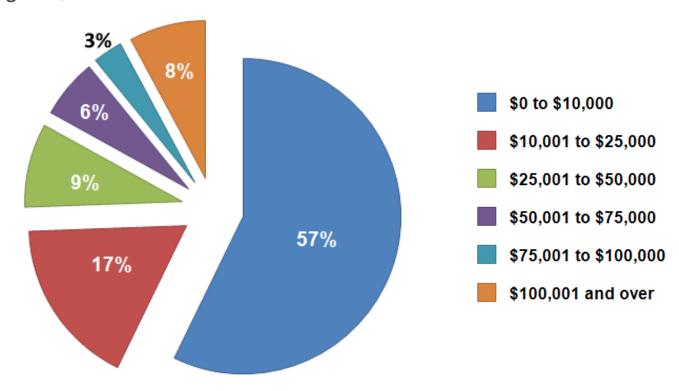
^{*} Includes participating hospitals with and without RAC activity



Source: AHA. (April 2016). RACTRAC Survey

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



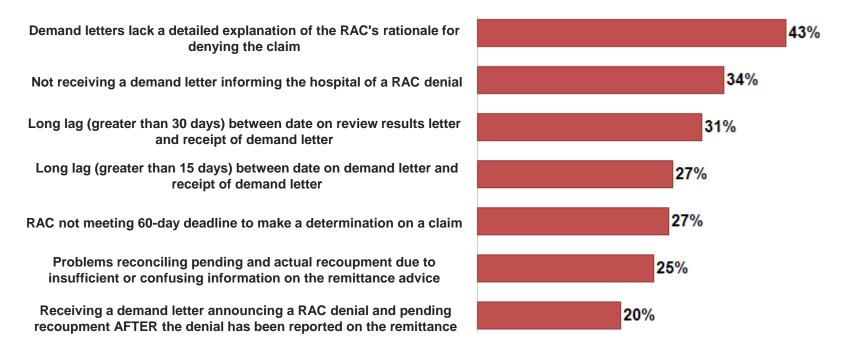
^{*} Includes participating hospitals with and without RAC activity

Source: AHA. (April 2016). RACTRAC Survey



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



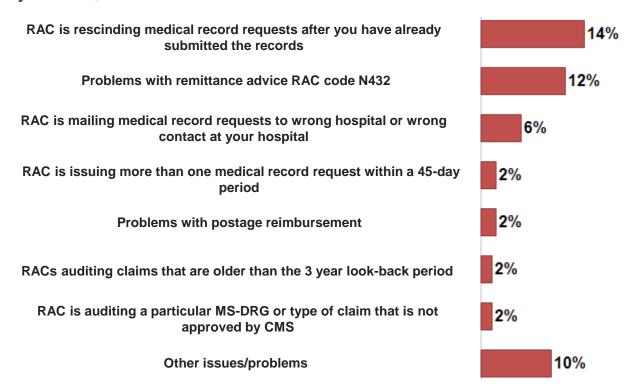


^{*} Includes participating hospitals with and without RAC activity

Source: AHA. (April 2016). RACTRAC Survey

Hospitals continue to report a wide variety of RAC process problems.

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

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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For more information visit AHA's RACTRAC website:

http://www.aha.org/ractrac