DRIVING EFFICIENCY IN HEALTHCARE PAYMENTS

Like many other sectors, the healthcare industry is continually looking for ways to improve efficiency and productivity. Electronic payments can support these goals by reducing costs, improving payments accuracy (resulting in fewer disputes) and optimizing working capital.

According to a recent survey of healthcare firms, the top three factors driving adoption of electronic payments by healthcare firms are reduced overall payment costs (60%), better cash management (60%) and removing some of the paperwork from the AP department (45%).[1]

However, the healthcare industry is seen as laggard in electronic payment adoption. This is due to several factors:

- **Complexity of the healthcare payments environment.** The number of stakeholders (hospitals, individual practitioners, health insurance firms, government agencies, patients) means that payment cycles tend to be much longer than in other industries.
- **Continued reliance on paper-based systems** for healthcare administration in general, and healthcare payments in particular. According to the 2014 CAQH Index, about half of claim payments and remittance advice transactions remain manual. The CAQH Index also found that the average cost to healthcare providers of a manual transaction is more than $5, compared to $1.60 for an electronic transaction.[2]
- **Growing administrative burden from new regulations.** According to a 2014 study, administrative costs account for 25% of U.S. hospital spending, more than twice as much as Canadian hospitals.[3]

ELECTRONIC PAYMENT PROCESSING INCREASES EFFICIENCY IN PROVIDER-PAYER TRANSACTIONS

Many providers (hospitals, medical practices) continue to receive their healthcare claim payments and Explanation of Benefits (EOB) on paper. For a given payment, the paper check comes attached to the EOB in a packet in the mail. The provider must deposit the check in the bank and manually update their Practice Management/ Accounts Receivable System (PMS) with the details from the EOB to update patient accounts. Check payments do not require any type of EDI enrollment with the payer and do not require any additional technology to receive or process. Reconcilement of receivables to bank deposits is also easier because paper EOBs and checks are received together, whereas Electronic Remittance Advices (ERAs) are sent in different files and at different times than the Electronic Funds Transfers (EFTs). Many providers use lockbox services for check processing and key entering of EOB data. A lockbox service can help to simplify the handling of incoming payments for providers, but it is not without its disadvantages. Mailing checks and manually processing them takes time. Manual entry can have a high incidence of errors (and disputes). Also, using a lockbox service to process incoming payments can be costly when compared to electronic processing. However, providers may not have the option to receive ERAs/EFTs from certain types of payers, such as Workers' Compensation, Auto, or Property and Casualty.

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RECEIVING PAYMENTS ELECTRONICALLY

The most common form of electronic payment to providers is EFT. New healthcare regulations mean that EFT payments sent via the ACH network are now considered a HIPAA transaction, and health plans are now required to provide EFT payments if requested by a provider. Since the EFT Standards Final Rule became effective in 2014, EFT payments have increased more than 150%.[4]

Receiving claim payments and remittance advice information electronically increases the speed of payments by eliminating time in the mail as well as the need for manual handling of payments upon receipt. Funds go directly into the provider's bank account the next day after being released by the payer, and remittance advice information can be uploaded directly into the PMS if the provider receives a corresponding ERA. Some providers also opt to take advantage of services such as PNC's Reassociation service, where PNC warehouses ERAs until the matching payments are received and then transmits fully funded ERA files to them. The result is that credits are posted to patient accounts more accurately and faster, especially with Reassociation, because the provider does not need to validate that the payments were received.

Another growing electronic payment type in healthcare is the Virtual Card. With this method, payments for healthcare claims are made to providers via single-use Virtual Cards. Information about card payments are delivered to providers via online display, fax, email or mail, and providers key the card information into their merchant services systems (equipment, software or website used to process patient card payments) to process payments. Payments are then deposited into providers' bank accounts in 1–5 business days.

Since they are a form of electronic payment, Virtual Cards provide many of the same benefits as an EFT payment. Moreover, because Virtual Cards may not require payer enrollment, providers may prefer to receive them for payments from health plans that are not frequently used. Payers enjoy the benefits of providing electronic payments, along with a rebate that often occurs when issuing card payments.

In summary, whether using EFT or Virtual Cards, electronic payments can get funds to providers quicker, at a lower cost and with less risk than paper checks.

To learn more, contact your Treasury Management Officer or visit pnc.com/healthcare.

1 "Healthcare ePayables: Curing Inefficiencies in the Healthcare Payment Market", PayStream Advisors report, reported in "Accounts Payable Automation Is Curing Inefficiencies in Healthcare Payments," Marketwire, July 25, 2013.

2 "$8 Billion Annual Savings Opportunity for U.S. Healthcare With Adoption of Electronic Business Transactions," PR Newswire, March 17, 2015.

3 "A Comparison of Hospital Administrative Costs in Eight Nations: U.S. Costs Exceed All Others by Far," by D.U. Himmelstein, M. Jun, R. Busse et al., *Health Affairs*, 33(9):1586–94, September 2014.

4 "NACHA Announces Healthcare EFT via ACH Volume Exceeds 149 Million Transactions in 2014," PRWeb Newswire, February 12, 2015.

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