GET PAID FAIRLY BY YOUR COMMERCIAL MANAGED CARE PAYERS

By J Pegues, Managing Director

An optimized top line is imperative for the success of your healthcare organization, and ensuring you're being paid fairly is a crucial component. In preparation for negotiations with payers to reach agreement on fair payment for your services, it's important to know how your reimbursement payments compare to what payers pay your competitors. To do so, start off by leveraging competitor benchmarking and make sure you know what your strengths are going into negotiations.

Competitor Benchmarking

An objective, fact-based structure for contract negotiations comes from knowing where your reimbursements put you relative to your competitors and whether your contracts reflect best practices.

Knowing whether you're being paid fairly in each service line is a starting point for contracting. This information allows you to set your strategy by leveraging the information the payer has about your competitors. It also enables you to focus negotiations on areas where the payers know they are paying your competitors more.

To paint this accurate picture of your comparative reimbursements, you need access to a database of reimbursements achieved by your competitors and peers. Most organizations don't have access to the necessary data to create this analysis and will need to partner with a data aggregator to obtain it.

Once you've received the data, you may want to compare your reimbursement both to your competitors in-market and peers out of your market. While this in-depth analysis of thousands — sometimes hundreds of thousands — of lines of data can be complicated and time consuming, partnering with a company with pre-existing models can simplify and speed this important process.

Creating a reimbursement database enables you to:

- Find out if your in-market competitor or your regional peer is getting more than you are from the payers in your market for the same services.
- Look at your true discount rates based on actual payments for inpatient or outpatient services and examine details at the service line or DRG level.

This information provides a factual foundation for contract negotiations and tells you where you have opportunity to increase the payment you receive. For example, Table 1 compares a hospital's reimbursements to the median payments received in their immediate geography. In this case, achieving reimbursement equivalent to the level of the market median in four service lines presents opportunity of over $12 million.

Inpatient Collections *Versus* Benchmark (Table 1)

Product Line	Patient Count	Average Acutal Payment	25th %ile Benchmark Payment	Median Benchmark Payment	75th %ile Benchmark Payment	Relative Position to Benchmark	Financial Opportunity to 50th %ile
Obstetrics	1,161	$5,939	$8,803	$11,127	$13,570	<25th	$6,023,268
Orthopedics	488	$24,192	$22,435	$28,885	$36,581	25-50th	$2,290,184
Back & Spine	301	$38,327	$38,666	$50,339	$66,399	25-50th	$3,615,612
Gynecology	182	$11,876	$11,018	$14,134	$17,989	25-50th	$410,956
TOTAL							**$12,340,020**

Contracting Best Practices

Your organization's managed care contracting team should have a good picture of what your contracts spell out, but they may not be aware if these contracts align to current best practices. To get the most out of your negotiations, you need to be aware of current best practices associated with each clause included in your contracts. A few examples of best practices that you can leverage in your contracting strategy include:

- Making sure your annual charge master increases are calculated on the aggregate for all services
- Having your payers pay your clean claims in 30 days or less
- Requiring 180 days or more standard notice for termination, giving you enough time to prepare for re-negotiation or structuring alternatives

Building and maintaining a best practices knowledge base against which you can compare your contracts gives you an advantage as you head into negotiations. To learn what the current best practices are, it helps to have a national perspective. You may want to consider consulting with peers in other markets or partnering with an organization that works with these types of contracts across the country.

Additionally, you should consider the following when searching for best practices:

- How often should I execute a detailed review of my contracts?
- How do I know I've optimized each clause for my organization?
- What processes should my managed care contracting team follow?

Negotiating from Strength

Once you've done a thorough assessment of whether you are being paid fairly, you can use this information to position yourself to negotiate fair contracts with your payers.

This process starts by having both an enterprise-wide managed care strategy that includes a deliberate plan for how much risk you'll take and when as well as payer-specific strategies for negotiating each managed care contract. These strategies should contain specific objectives — both near- and longer-term — based on not only your vision of where the organization is going but also your current situation with each payer. Additionally, you need a roadmap of your planned, preferred path to achieve those objectives. Your roadmap will take into consideration what your "must haves" are for each round of negotiations.

Negotiations between providers and payers can be adversarial and come down to the last minute with mutual threats of exclusion. To avoid these challenging situations, you want to be armed with as much information as possible about the impact on your financials and operations of each give-and-take scenario. Payers have access to the data they need to negotiate competitively; hospitals traditionally do not. By accessing and analyzing the averages of what similar hospitals get paid, you can put your organization on a level playing field with the payers. Knowing the impacts of the range of likely outcomes of "asks" and "gives" and having these modeled before beginning negotiation will make you more effective in real-time discussion with payers. Prepared in this way, you are better positioned to have more flexibility during negotiation to surface and examine opportunities for collaborations that advance both your and the payer's objectives.

Key Takeaways

As you enter contract negotiations with your payers, preparation is key to a successful outcome. This requires you to:

Think differently.

Thoroughly understand your contracts and those of your competitors so you know whether or not you are being paid fairly.

Plan differently.

Align your payer strategies to the overall organizational strategy and objectives.

Act differently.

Negotiate from a fact base and enter each negotiation with a plan.

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