“The Infamous Lesser of Billed Charges or Payer Allowables”, don’t get bitten by this in your payer agreements...

Written by Steve Selbst, CEO and Co-Owner of Healthcents Inc., www.healthcents.com

In the last 10 years, I have successfully negotiated over 3,000 payer contracts for all sizes and shapes of practices and ASC’s. In doing so, I have come across numerous land mines that, if not understood, can significantly impair your payer contracts’ reimbursements. One of the most common and yet often misunderstood potential landmines is the “lesser of billed charges” language that is found in almost all payer contracts. While the language may vary slightly, the clause is usually worded like this: “health insurance company will pay provider the lesser of its billed charges or its payer allowables for each CPT codes’ reimbursement”. What does this mean exactly? What this means is that, for example, if your payer contracted rate at 100% including patient co-payment is $110 for CPT code 99213, a routine outpatient 15 minute office visit code, but your billed charge is $90 for this code as defined in your chargemaster, you will be paid $90 per office visit rather than $110, your contracted rate. If this problem expands beyond just one CPT Code, perhaps even pervades your entire chargemaster, then you could find that, while you have negotiated a terrific new contract, consistently, your claims are paid at much lower than your contracted rates. That is, you have met the enemy and the enemy is you, ouch! What can you do to protect yourself from this outcome across all of your payer agreements?

First, it is highly recommended that you set your chargemaster at “UCR” (Usual, Customary and Reasonable) levels. In the absence of a specific accounting recommendation, a good starting point is about 250%-300% of Medicare. This approach will insure that your CPT codes are above your payer contracted rates unless you have CPT codes that pay above 250% of Medicare (You are one of the fortunate few, if you do). The point is to pick a reasonable level of billed charges for all of your CPT Codes. This approach has two benefits. It prevents your CPT Codes’ billed charges from being set below payer contracted rates. Secondly, you optimize your cash based business by insuring that you don’t leave money on the table, see figure 1, below. Notice that in the model parameters of this report in figure 1, the lesser of billed charges is set at 50%, rather than 100%. This is done to protect against certain payer contracts that are even more aggressive and specify that fees will be paid at the “lesser of 50% of billed charges” or the payer contracted rates. You can see that, in this scenario, in the far right column titled “Billed charges less payer allowables” there are 13 CPT codes flagged in Red, meaning these codes have payer contracted rates that are less than 50% of billed charges and, need to be adjusted up by the negative dollar values specified in this column to avoid being reimbursed at the 50% of billed charges rate rather than the contracted rates. In this example, the middle columns identify codes, in red, that have billed charges set at less than 300% of Medicare. These codes need to be adjusted up by the amounts specified in the “Difference between Rec. and Actual” column to make sure that they are set at 300% of Medicare, the desired UCR level for each code, in this example. Finally, the column called “Possible Upside” reflects the additional revenue that would flow into the practice as a result of cash paying patients paying for these codes at their proper discounted UCR retail rates, at the 300% of Medicare UCR level vs. the lower current chargemaster rate in the column called billed charge (The current percent of Medicare is listed in the column called “Current % Medicare”.

Figure 1
It is important to periodically audit your chargemaster. Once every six months should be a reasonable time frame to ensure that new codes or changes to Medicare and payer rates for existing codes will be discovered. Too often, practices set their chargemasters and don’t audit them for many years, if ever. Since the “lesser of billed charges” language is present in almost all payer agreements, it is also imperative that you do a comparison, like figure 1, above, to each of your payers. This will insure that you cross reference your charges both to the payer rates of each payer and benchmark as a percentage of Medicare. Also, make sure to verify, with our accountant, that you balance write offs correctly with the UCR threshold that you select for your chargemaster rates.

In summary, an easy way to maximize revenue is to insure that your chargemaster is set at UCR thresholds and that you periodically audit your chargemaster rates, by CPT code, and compare to your contracted rates by payer. Further, it is important that you have a consistent approach to setting your rates at a uniform percentage of Medicare, at least 250%, or higher, to insure that you don’t get bitten by the “lesser of” language. For more information, please contact the author at: Steve Selbst, selbst@healthcents.com or 831-455-2174.