



## **HMS Case Study:**

### **Virginia Medicaid Turns to HMS for Innovative Overpayment Solution**

Since dual-eligibles account for nearly half of its \$5 billion Medicaid budget, the Virginia Department of Medical Assistance Services has long sought innovations to manage the cost of caring for this population. Now, with the help of Health Management Systems, a DMAS revenue maximization vendor, Virginia has changed the way it processes “crossover” claims that are paid jointly by Medicaid and Medicare. As a result, DMAS has recovered \$77 million in Medicaid overpayments – and is reaping further savings each day.

#### **Background**

Under the Balanced Budget Act of 1997, every Medicaid agency is entitled to limit its expenditures for the care of dual-eligible members. Rather than paying the full Medicare coinsurance and deductible amounts for the care of these members, the agency can choose to pay an amount that may be less: what Medicaid would have paid if the recipient did *not* have Medicare or other coverage, minus what Medicare or other insurers have, in fact, already paid.

Taking advantage of this option may require a state to make a small change in its Medicaid State Plan. Once the federal government approves the change, the Medicaid agency is entitled to recover amounts that have been overpaid, according to the new methodology, since the start of that calendar quarter. Going forward, the methodology then provides additional savings.

But this option poses challenges. While it may generate significant savings, just how significant depends upon a state’s Medicaid reimbursement rates and their difference from those of Medicare. In addition, calculating an agency’s overpayments and its new liability under the BBA provision can test the mettle of any Medicaid management information system. And naturally, the provider community may resist the new processing methodology, as well as the recouping of overpayments.

### **Virginia's approach**

Despite these challenges, Virginia was poised in 2002 to take advantage of the cost savings. The Commonwealth's Medicaid payment levels made the approach fiscally attractive, and the State Plan had been revised several years earlier. But since then, attempts to implement the methodology had stalled. And the problem was growing worse, as claims were paid under the old formula, not in accordance with the State Plan – creating potential overpayments.

HMS recognized the opportunity, and worked with DMAS to tackle the challenge of “reprocessing” millions of past Medicaid claims. Rather than burdening the Virginia MMIS, HMS proposed a unique solution: a stand-alone, offline data module that would mirror functions of the MMIS, and calculate the correct Medicaid payments for inpatient and outpatient facility crossover claims since 1999. The new methodology could then be imported into the MMIS, to calculate future payments correctly.

Over the course of six months, HMS and DMAS worked together to create and test the reprocessing module. Protocols were written to reflect the complex pricing formulas for each type of provider and service. The HMS development team devoted grueling weeks to each line of program code and each calculation. And staff from DMAS and HMS road-tested each component of the module in five-hour workgroup sessions. The results of this rigorous process proved that the module functioned with complete accuracy. As HMS Director of Product Development Cynthia Johnson later said, “We got it exactly right – down to the penny.”

### **Working with providers**

Convincing the provider community of the reprocessed claims' validity was the next step. DMAS asked HMS representatives to meet with leaders of the Virginia Hospital and Healthcare Association to explain the new reimbursement methodology, its development, and the requirements of the BBA. HMS provided association representatives with listings of their hospital members' reprocessed claims, easily accessible in a fixed file layout that could be read into any hospital information system. HMS solicited the members' feedback: Was there enough information? Did the listings meet the scrutiny of the providers' own data verification processes? The answer was a unanimous “yes.”

DMAS and HMS also looked beyond the project scope to anticipate the needs of providers. Many crossover claims recouped by DMAS would be eligible for reimbursement under Medicare bad debt provisions, HMS pointed out. These provisions allow providers to receive payment from Medicare for approximately 70 percent of unpaid balances – in this case, the amount recovered by Medicaid. (What’s more, crossover claims for Skilled Nursing Facility care are eligible for 100 percent bad debt reimbursement.) This offsetting reimbursement was an important factor in enlisting the cooperation of providers. HMS eased their potential administrative and financial burden by making sure each file they received contained the information necessary to pursue bad debt claiming.

In addition, DMAS and HMS kept providers informed. HMS published a comprehensive, easy-to-understand “provider’s guide” to the reprocessing project, and customized the guide for both in-state and out-of-state facilities. And HMS’s dedicated Provider Relations Team promised to respond to any inquiry within hours – then kept the promise.

## **Results**

Initially, some members of the provider community refused to accept the claim reprocessing, and filed an administrative appeal with DMAS. Ultimately, however, the appeal was dropped, providers cooperated, and DMAS obtained payment from nearly every one of the 90 facilities that received reprocessed claims. Today, the payments total roughly \$77 million – a recovery rate of 99.6 percent – and it is clear that the scrupulous accuracy and proactive outreach of this collaboration have paid handsome rewards. Just as importantly, the burden on Virginia’s healthcare facilities has been minimized, and providers maintain a positive working relationship with the Commonwealth’s Medicaid agency.

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*Health Management Systems helps Medicaid and other government healthcare programs contain costs, and has active clients in 25 states. For information about HMS, visit [www.hmsy.com](http://www.hmsy.com) or contact HMS at 877-HMS-0184.*