THIRD EDITION

Health Care Finance

AND THE MECHANICS OF INSURANCE AND REIMBURSEMENT

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Dedication

This book is dedicated to the people in my life who, unfortunately, have passed away, but along their way in life, they provided me with insight, understanding, patience, love, and most importantly, the ability to know that what one receives in life must be shared with others, or the tremendous gift they gave me would be lost.

Vincent J. Harrington
Winifred Harrington
George E. Donahue
Marie Donahue
John E. Vaughan
Vincent Harrington, Jr.

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Preface

In our current healthcare delivery model, the healthcare administrator needs to be more adept in managing not only the financial end of the facility, such as appropriate debits, credits, ratios, and trial balances, but also the reimbursement end that is a feeder to these reports and transactions. As a matter of fact, the financial end has become more involved with, and reliant on, the reimbursement process unlike in years past. In addition, the overall profitability of the healthcare organization rests entirely on the administrator's shoulders and is tied to reimbursement and the quality of care provided to the patient. It is imperative that healthcare administrators know about all of these areas through the education process and that from their first job postgraduation, they must be aware of these complex reimbursement issues on day one of their employment and not wait until they can learn on the job.

In my years of teaching healthcare finance and healthcare reimbursement at the undergraduate and graduate levels, I looked at several healthcare finance books for the courses I taught, and they all focused on accounting and only touched on a few areas of reimbursement. However, with the rapidly changing environment where reimbursement is the driving force of healthcare facilities, we need to give faculty the tools necessary to educate their students and prepare them to make an impact in the field that they have chosen to pursue. The graduates who have received a robust and comprehensive education in healthcare finance, along with healthcare reimbursement, will be far more marketable as professionals than those without any formal education in healthcare reimbursement. It is more evident now than ever before that a healthcare facility is not only responsible for quality care but it is also fully responsible for the profit or loss on any given patient stay. This responsibility comes from the integration of the revenue cycle into the daily management function of the healthcare administrator and that of the health information management professional. All departments are not only worried about their annual budget, but they are also concerned about driving quality, reducing costs, and improving access for the patients. This is happening because the focus on reimbursement is now the driving force in healthcare facilities; processes are integrated across the continuum of care, which makes everyone responsible for the financial success of the facility.

The current topics that a healthcare administrator has to deal with when it comes to reimbursement are the different types of payment arrangements, such as block payments, capitation, and managed care. Synonymous with reimbursement these days are diagnosis-related groups and prospective payment systems for acute, inpatient rehabilitation, skilled nursing facilities, home care, outpatient settings, and ambulatory surgical centers. As if the different payment types were not enough, the healthcare administrator has to deal with readmissions, and Case Mix Index and the Recovery Audit Contractors (RAC) who look for overpayments made to a facility.

What the Text Does for the Student

Health Care Finance and the Mechanics of Insurance and Reimbursement introduces reimbursement to healthcare administrators and gives them a comprehensive outlook on who the payers are in health care, the payment systems in health care,

basic coding instruction, revenue cycle management, what fraud and abuse are and how they can have a negative impact on your facility, some essential tools that can have a negative impact on a facility if they are not managed daily such as transfer cases and high cost outliers, and tomorrow's trends. Reimbursement has evolved from a process where hospitals and other healthcare providers were paid for what they did for the patient. This type of retrospective payment system, fee-for-service, is one of the leading causes for healthcare costs spiraling out of control in the 1970s and 1980s. Now, we have a prospective payment system for many of the types of care, such as Inpatient Prospective Payment System (IPPS) and Hospital Outpatient Prospective Payment System (HOPPS). These payment systems allow healthcare facilities to be in full control of their profit or loss on any given patient. Unless healthcare administrators have a solid foundation of finance and reimbursement, they will not have the necessary skill sets to manage effectively in today's environment.

Other healthcare finance books cover all of the basic functions of accounting, such as business transactions, general ledger, financial statements, depreciation, payroll, expenses, inventories, and interpretation of financial statements. *Health Care Finance and the Mechanics of Insurance and Reimbursement* will not only cover the basic financial accounting process, but it will also cover things like the interpretation of financial statements in the healthcare arena, which is crucial for healthcare administrators as they will need to manage their facilities with these financial statements. Understanding the different ways an insurance company can pay a facility will help healthcare administrators become more involved in the contract negotiation process and work toward a more favorable contract or better manage the population that is being served.

Along with this, the different types of insurance coverage will be addressed. This will include traditional insurance, managed care, HMOs, Medicaid, and Medicare. Understanding how these payers work is instrumental to healthcare administrators so that they can better manage their contracts and reimbursement levels and enable their facilities to remain profitable. This text will help the healthcare manager to better understand managed care organizations, staff models, closed networks, exclusive provider organizations, and preferred provider organizations, just to name a few. Understanding managed care organizations and all of their unique characteristics is critical to the healthcare manager, so they can effectively plan budgets, negotiate contracts, and understand the projected utilization versus the actual utilization needed to break even or realize a profit while servicing the managed care organization's patients.

Health Care Finance and the Mechanics of Insurance and Reimbursement addresses not only the basic finance and accounting tools for the healthcare administrator but also the full picture of reimbursement, including charge description master (CDM) and revenue cycle management. The CDM is a tool that automatically manages up to 70% of the charges in a hospital. The CDM is managed by both the finance department and the health information management department. If this tool is not accurate, it is highly likely that the facility revenue will not be accurate. It can either be understated or overstated. If it is understated, then costs need to be cut or programs that are not profitable need to be eliminated. But without the CDM being accurate, some of the programs could be losing money or their revenue could be understated. With regard to overstating revenue, this usually generates a visit from your payers or the federal government (OIG or CMS) and can lead to charges of fraud, abuse, or both.

Revenue cycle management is not a new tool for the healthcare administrator, but a process that has evolved from a fragmented system of individual departments, each managing a single part of the revenue process of a system that has integrated all sections that handle the revenue process, into one function called the revenue cycle. The revenue for a healthcare facility has evolved from an accounting- and finance-driven area with cost reports to a revenue cycle process in which insurance companies and other payers reimburse the facility based on the services provided to the

patient. It is critical for the finance department and health information management to communicate on a daily basis to see about charts that are not coded yet, audits from payers, and Case Mix Index issues. If the healthcare administrator is not well versed in the revenue cycle, he or she stands to have a very short career in that healthcare facility.

Finally, the text addresses electronic medical records (EMRs). This is generally a costly project to undertake, but it is also another way to receive reimbursement from the government that can help to cover the expense of catching up to the electronic age. In *Health Care Finance and the Mechanics of Insurance and Reimbursement*, the basics of healthcare finance will be covered along with electronic health records (EHR) and meaningful use, which will assist the healthcare administrator to not only be up to speed with current topics but also be able to act on and implement the changes necessary to meet the standards set forth in the health reform bill under the Obama Administration.

Now, it was clear to me that if we provide access to the information that includes health care reimbursement to healthcare administration students, they will be better equipped to function in the healthcare environment today. This ever-changing environment has shifted from the process-oriented environment of cost reporting to a fully integrated revenue cycle management-focused environment. I had to learn this process on my own, as did many of the current vice presidents of health care finance and vice presidents of revenue cycle management because it is not offered in many of the healthcare administration programs. However, there is one thing that none of us can forget. There is a patient in the middle of all of this, and we need to keep our facilities providing the highest quality care for the patient, and at the same time understand the revenue streams and remain profitable and be able to change with the times. This includes access, technology, reducing costs, and increasing the quality delivered to the patient. And, last but not least, we must be able to survive in an era of pay-for-performance, medical home models, value-based purchasing, price transparency, the No Surprises Act, the Payment Driven Payment Model (PDPM), and the 21st Century Cures Act where the healthcare administration student needs to be well versed in all future trends in health care. Bringing healthcare reimbursement to the forefront can have a significant impact in the education process of healthcare administration programs because, after 30 years of the same approach, I think it is time for a change.

Acknowledgments

I really do enjoy teaching and feel that everyone learns differently. I pride myself in taking the time to get to know all the students in the class and to make sure that I figure out how each one learns. This process is accomplished by timely and accurate communication in class through discussions, assignments, and emails. I find that my experience in the healthcare arena was started by someone who believed in me and mentored me through my early years. This person is my sister, Ruthann, and without her help, I would not be where I am today. So, with that said, I do what I do in the healthcare field and the classroom because I want to give back what was given to me.

Others who were of great help along the way were Dr. Twila Weiszbrod from St. Joseph's College of Maine, who was the program director for the Healthcare Administration Program. Twila was not only instrumental in supporting me with encouraging dialogue along the way, but she also provided me with her insight into the need for focusing more on reimbursement in a healthcare administration program to support the current and future trends in the healthcare market. Her direction and insight were invaluable, and I can't thank her enough. And my sister Ruthann, who was instrumental in guiding me into health care through medical records as a teenager and ultimately to a teaching role that really opened my eyes to the issues that we face in health care. Her genuine belief in me and guidance helped me to become the person that I am today.

Most importantly, I acknowledge my wife Kathy and our daughter Michaela and our grandchildren Isabelle and Isaiah. The time spent away from the family to complete this book was significant, and without their support and understanding, none of this would be possible. So, I say thank you to Kathy and Michaela and Isabelle and Isaiah. And since the third edition is now complete, maybe this time we will stop eating out every night and start cooking again. Probably not as some things never change.

Foreword

A 40-year progressive career in healthcare accounting, finance, and revenue cycle may have qualified me as a subject-matter expert in one of the most complex ever-changing industries, the world of health care. Notwithstanding, it requires continuous learning and development in order to keep abreast of all that is new in the field of healthcare finance and reimbursement. For this reason, I continue to educate and learn by pursuing professional educational sessions and conferences as well as networking with local and national industry leaders. Serving as an adjunct professor allows me the opportunity to be with those that I will always concede are "smarter than I will ever be": my students. My passion to serve as an educator and mentor is a result of my appreciation for those who have taken the time to develop and teach me over my long career. The author of this book has served as one of those that I hold in highest esteem. He is not only a professional colleague but a fellow high school and college peer, which has transcended into a lifetime friendship spanning five decades.

This third edition of *Health Care Finance and the Mechanics of Insurance and Reimbursement* continues all that was presented in the past editions but with continued refinement of the concepts and principles required for students to excel in their college careers. Educators requiring this book for their students will find subject matter with instructional ease, at the same time assisting the student with career preparation, informed decision-making, and a propensity for advancement. This book will become a "go-to" for the student with a current career in any healthcare setting, whether as a business person or clinician. This book will transfer from backpack to briefcase as a reference tool for consummate students pursuing their goals and aspirations in healthcare.

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About the Author

Michael K. Harrington, MATS, MSHA, RHIA, CHP, has more than 30 years of experience in health care in areas such as health information management, managing homecare companies on a local and regional level, and consulting in the post-acute sector. He is a leading authority on healthcare reimbursement and revenue cycle management (RCM) and has extensive experience in implementing the RCM model in physicians' offices and other healthcare organizations outside of the acute-care setting.

After starting out in the healthcare field in a home care company as a coordinator, Harrington quickly advanced into managing home care companies that handled durable medical equipment, specialty home infusion, high-tech respiratory services, and specialty biologicals and repositioned these companies by using reimbursement and quality clinical care as the cornerstones to his success. In addition to managing home care companies, Harrington started to teach and was part of the adjunct faculty at Gwynedd Mercy College, Temple University, and St. Joseph's University in the Philadelphia area. His focus has always been in healthcare reimbursement when teaching, but he has instructed in other areas, such as healthcare policy, healthcare ethics, healthcare delivery, computerized medical records, and healthcare law. In 2018, Harrington became the Program Director for the Health Administration Program Online at St. Joseph's College, where he is overseeing the Undergrad Health Administration, Master of Health Administration, Bachelor in Health Information Management, Long-Term Care, and Radiology Science programs. In addition, Harrington provides healthcare organizations with consulting services focused on healthcare reimbursement, specifically, revenue cycle management services in physicians' practices and other healthcare settings.

Harrington earned his bachelor's degree from LaSalle College and his master's degree from Independence University (formerly California College for Health Sciences). Harrington also earned his Registered Health Information Management (RHIA) credentials at Alabama State University. He is an active patient advocate and is a much sought-after speaker, on a global basis, in the areas of healthcare reimbursement, healthcare finance, and healthcare operations.

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