

Overcoming Healthcare Electronic Claims Payment/Settlement Hurdles

Early Adopters Pave the Way
to Realize Immediate Benefits



About the Research

Payformance Corporation engaged Porter Research to conduct in-depth interviews with two healthcare payers utilizing its PaySpan® Health* electronic claims settlement solution. The objectives of the research were three fold:

- (1) identify the factors that went into the decision to move from a paper-based to an electronic payment solution and, in particular, the Payformance product;
- (2) discover the specific, realized benefits to each of the organizations from implementation of PaySpan® Health; and
- (3) understand how the use of the Payformance solution will help drive future initiatives at each company.

The selected clients, Centene Corporation and HealthNow New York, are very different from one another in terms of payer type (Medicaid managed care vs. commercial payer), geographic coverage (10 states nationwide vs. 1 state), and length of time with the Payformance product (1 year/still in enterprise-wide rollout vs. 3 years/fully implemented). These distinctions provide unique insight into each client's operations and experiences regarding PaySpan Health, allowing payers considering the Payformance offering to compare/contrast aspects of their own organizations to these two disparate users.

Centene Corporation

Centene Corporation (“Centene”) is a fully integrated multi-state government services managed care company. Centene provides managed care programs and related services to individuals receiving benefits under Medicaid, including SSI (Supplemental Security Income), SCHIP (State Children's Health Insurance Program), ABD (Aged, Blind or Disabled), and SNP (Special Needs Plans). Centene has health plans in Arizona, Florida, Georgia, Indiana, Massachusetts, New Jersey, Ohio, South Carolina, Texas, and Wisconsin. The company's local approach to managing its health plans, including provider and member services, enables it to provide accessible, high quality, culturally-sensitive healthcare services to members. The company combines its local approach with centralized finance, information systems, claims processing and medical management support functions. Centene's headquarters is located in St. Louis, Missouri.

HealthNow New York

HealthNow New York Inc. (“HealthNow”), headquartered in Buffalo, NY, is one of New York State's leading healthcare companies. Its divisions—BlueCross BlueShield of Western New York, BlueShield of Northeastern New York, and Brokerage Concepts Inc. in Pennsylvania—provide access to health care products and services for about 1 million members. The company offers a wide range of Blue Cross and Blue Shield-branded products, including PPO, HMO, POS, and traditional indemnity health plans. HealthNow also provides a full spectrum of healthcare services and innovative funding arrangements, including value-added resources to help its members maintain and improve their health and avoid the pitfalls associated with unhealthy lifestyles. The company serves businesses large and small as well as individuals.

* PaySpan® is a registered trademark of Payformance Corporation

“There are three ways to handle change. You can fight it and die; accept it and survive; or, Lead it and prosper.”

– *Anonymous*

Being a change leader isn't always the easiest course, but for two healthcare payers, the shift from paper-based payment systems to electronic claims settlement has been a “win” on multiple fronts.

Glen Schuster, Senior Vice President and Chief Technology Officer at Centene, a Medicaid managed care payer operating in 10 states, admits his company was somewhat “dragged kicking and screaming” into it. Initially, he was highly skeptical of the Payformance offering; however, his company's two competitors in the Georgia market, Amerigroup and WellCare, were using Payformance and providers were clamoring for Centene to offer electronic funds transfer (EFT) and electronic remittance advice (ERA) through the PaySpan® Health tool as well.

“We had doctors' offices that were getting 18 inch stacks of paper for their EOPs [explanation of payment]. It was just not sustainable.”

– *Glen Schuster, Centene Corporation*

“I kept getting the question, ‘Why aren't you using it?’” Schuster says. Eventually, it started to become a barrier to good relations with providers.

Chris Leardini, VP Controller/Treasurer at HealthNow, a Blue Cross Blue Shield (BCBS) plan serving 675,000 members in Western and Northeastern New York, took the lead at his company in looking

into EFT solutions and was an early adopter of the new technology, implementing PaySpan Health in July 2007. “We knew we were going to be first to market in this space,” he says, and, although they considered developing an in-house system, HealthNow ultimately decided to work with Payformance through a relationship with their bank, PNC.

Leardini was focused initially on the EFT side of the settlement process and wanted to reduce the “exorbitant amount of checks” being cut to pay providers. “We were a purely paper-based, manual, home-grown system EFT shop,” he says. Later he realized the importance of the remittance portion of the settlement process, but at the time he was simply looking at moving provider payments to automated clearing house (ACH).

“We had one provider who was getting over 10 boxes of paper per week... you just look at that on the surface, and you're embarrassed. In this day and age...I just kept saying that just seems so wasteful.”

– *Chris Leardini, HealthNow*

The Claims Cycle – Synchronizing Payment and Remittance Advice

EFT and ERA are the final steps of the healthcare claims cycle. After a healthcare provider submits a claim to the patient's payer, the claim goes through an adjudication process in which the insurer's financial responsibility, based on the member's eligibility, benefits and policy coverage, is determined. Adjudicated claims next move to the settlement portion of the cycle, in which payment, along with the supporting remittance details, are sent to the provider to settle the claim.

While generating and routing the EFT is fairly simple, the challenge is to produce remittance advices that can be readily linked with their corresponding electronic payment(s). In the past, with paper checks and remittance advices, these items would just be put in an envelope and mailed, and the provider would receive both the payment and corresponding remittance details at the same time. With the move to electronic, the remittance advice and the payment traveled separate paths and were not synchronized. Technology is now available that addresses the need to tie EFT and ERA together electronically. In addition, the standardization of EFT and ERA through the HIPAA 835 transaction set gives all parties – payers, providers, and vendors – a common framework for electronic settlement.

“The critical thing is that the EFT and the ERA absolutely have to be in lock step,” says Leardini. “That seems intuitive, but it's not always when you're the payer. I went in concerned only about EFTs and realized the payment and the detail behind the payment always need to be in sync, delivered at the exact same time.” Providers have to be able to reconcile the payments and the associated remittance details to their patient management or practice management accounting systems.

Centene's Schuster says it is also becoming a compliance issue as Georgia, Ohio and other states are legislating that EFT and ERA be generated within a certain period of each other. “Georgia has House Bill 1234 which requires timely correlation between publishing of the remit data along with the payment. They have to be within 24 hours of each other. The Payformance process is easy and seamless. Our providers see the data right away.”

An Internal or Outsourced Technology Solution?

Centene, as part of their corporate philosophy, outsources very few activities. According to Schuster, Centene has its own internal solution for electronic claims settlement and offers both options – Payformance's PaySpan® Health product solution and Centene's in-house service – to providers. “I'd be thrilled if providers used my internal offering, but many prefer a solution which is used by multiple payers. They're happy with the Payformance solution.”

Schuster explains that his company wants to continue to have the internal capability to do electronic claims settlement but also is committed to ensuring that providers have access to the best offerings in the marketplace. “We will keep our internal solution, and we will even offer competing solutions if we find one that has the quality of service of Payformance, which I just haven't found to date.”

While the executives at HealthNow did consider developing an in-house solution, from a business perspective they decided that it wasn't something they wanted to get into because of the myriad of variables involved, including managing changes in bank account information and securing the data. "One of the big things that we knew we were going to drown in was the security, and I'll call it change management, but really more on the application end," says Leardini. "I kept asking the IT people questions like, what would you do if somebody changes their bank account? How are you going to build that in? They're like, well, we'll figure that out. Well, in the meantime, you're going to have a provider screaming at us because they're not being paid. It's all built on the PaySpan front end. Why are we trying to recreate the wheel here?" Leardini says his IT department definitely thought it was achievable, but all parties agree it was a good decision to have this application supported elsewhere.

The PaySpan® Health system allows providers to "self-serve" their own accounts through a secure, Internet portal. The system is not dependent on any one bank, and payments can be designated to one or more bank accounts. Payers are taken out of the enrollment process, and providers, who pay nothing for the service, benefit by directly controlling their sensitive bank account information. Centene's Schuster says, "We have a lot of providers that want EFT, but there are providers out there who are nervous about providing banking information to a payer because they are worried about what we will do with it. There is value in having an intermediary like Payformance hold that banking information."

Breaking Down Barriers to Implementation

Another aspect of the Payformance system that makes implementation of electronic claims settlement easier today is that it does not require either the provider or the payer to purchase additional technology or increase staff. The provider only needs to have Internet access, and the hospital's or physician office's claims management staff can integrate PaySpan® Health into their current patient accounting or practice management systems to improve workflow and operations.

As one of Payformance's first customers in the healthcare payment market, HealthNow's Leardini says the implementation did not go without "hiccups," but, in general, it was a fairly smooth process. Leardini explains that because of his company's maturity in the marketplace and their comfort level with change management and customer service, they were willing to take on the risk of working with a company that was growing as an organization. "It's had its challenges for sure, but we got a considerable amount of value at the end of the day, and value not just for us but for the provider community and ultimately our subscribers in the end," he says.

At Schuster's organization, the implementation process actually uncovered areas for improvement within Centene's internal operations. "We were, in some cases, sending low quality 835 transactions," Schuster says. "In fact we're still finding that, where we'll get a call from Payformance saying, hey, this failed on this edit...those are things we wouldn't have discovered about ourselves."

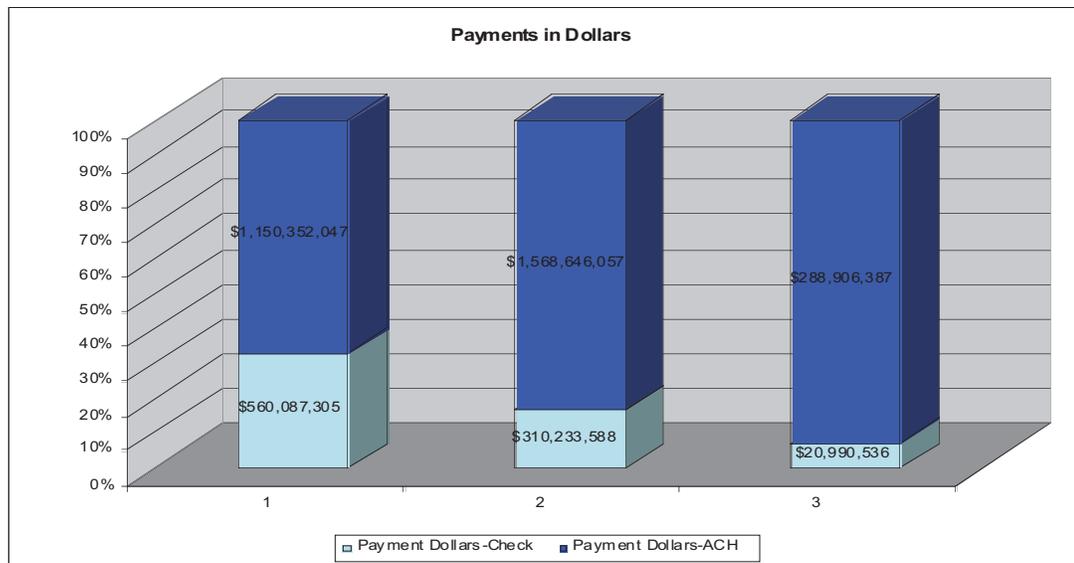
Implementing the PaySpan Health product in March 2009, about two years after HealthNow, Centene was able to take advantage of an established network of providers and payers using the Payformance system. In describing his company’s strategy of rolling out PaySpan® Health in markets with a strong presence of enrolled providers already in place, Schuster says, “It’s easy savings for me, and it’s an easy win.”

An Adoption-Based Pricing Structure

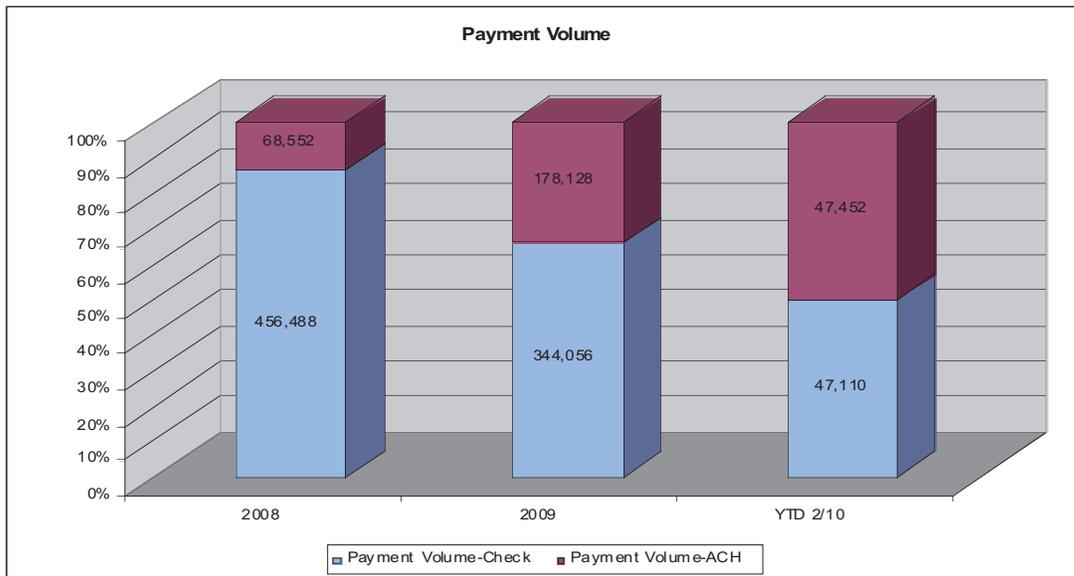
Payformance’s pricing model is based on a per claim charge. Leardini explains, “It’s an adoption-based formula so the more providers who adopted, the better your return was going to be. And certainly it would improve over time.” HealthNow found that breakeven point to be when approximately 50% of the total claims’ volume was electronic. “So once you get past that first hurdle of getting the providers on board, it can be a very compelling business case.”

And that 50% breakeven rate is the percentage of claims’ volume, not the percentage of payment transactions or provider enrollment. That means a payer can very quickly realize financial benefits when a few large, high-volume healthcare centers or physician practices in the market – the types of organizations that typically are the first to adopt this service anyway – enroll with Payformance.

Currently, 95% of HealthNow’s claims run electronically through ACH, 93% of its claims’ volume on a dollar basis is processed electronically, and over 50% of its payment transactions are electronic.



Payment Dollars	2008	2009	YTD 2/10
Payment Dollars - Check	\$560,087,305 33%	\$310,233,588 17%	\$20,990,536 7%
Payment Dollars - ACH	<u>\$1,150,352,047</u> 67%	<u>\$1,568,646,057</u> 83%	<u>\$288,906,387</u> 93%
	\$1,710,439,352	\$1,878,879,645	\$309,896,923



Payment Volume	2008	2009	YTD 2/10
Payment Volume - Check	456,488 87%	344,056 66%	47,110 50%
Payment Volume - ACH	68,552 13%	178,128 34%	47,452 50%
	525,040	522,184	94,562

Leardini contributes much of the success of moving such a high percentage of claims volume to electronic simply to the fact that there are a relatively limited number of providers in the western region of New York that HealthNow serves. There are only four or five major facilities and a few large physician practices, making provider adoption easier than in markets with a more disparate provider mix.

But Centene, which tends to have large provider networks that are very diverse and geographically disparate, has also seen a significant shift to electronic in those states in which it has rolled out the Payformance solution. In one market, Centene has been able to eliminate paper completely for “6% of my total provider base. I find it’s the high volume providers that tend to take the service,” explains Schuster.

With no charge for providers to enroll in PaySpan® Health, payers recognize the advantage and practicality of offering the service for free to their providers. “The primary benefit is on our end. We have the obligation to produce the remittance and the check,” says Leardini. “It’s just easier to gain adoption if you tell them it’s free.”



Provider Enrollment: Optional Service vs. Mandated Policy

Centene and HealthNow have taken different strategies with respect to increasing provider adoption. At Centene, providers are given the option of electronic claims settlement or traditional paper settlement, while HealthNow mandates that its in-network provider community participate in the PaySpan® Health system.

“Providers don’t like to be forced to do things. They like options. My belief is, and our strategy will continue to be, if I allow Payformance to grow organically through providers seeing the value and moving to it, I’m happy to support that... But I don’t want to be put in a position of compelling providers to do that because that makes it a negative. It takes a very positive offering and makes it a negative.”

– Glen Schuster, Centene Corporation

already using the Payformance product, and now is moving into markets that currently are not served by Payformance’s payer clients. The roll out is projected to be complete by October 2010. In most markets, Schuster says, Centene projects that it will realize 100% adoption by providers already using Payformance, plus about another 20% beyond that.

“Texas, for example, is going to be a very interesting test because [in] the east side of Texas, Payformance has a very credible place. But we have a statewide presence in Texas, and [in] the west side of Texas, there are no Payformance providers today. So it will be interesting to see how that goes, but the training regimen [Payformance] provides externally is still very credible,” he says.

“...everybody is a little bit resistant to that kind of change, particularly if it’s pushed upon you...others thanked us for pushing it on them.”

– Chris Leardini, HealthNow

Centene’s Schuster emphasizes that as a Medicaid managed-care company, his organization’s priority is providing good access for members, which means he has to make it as simple as possible for providers to work with Centene. “I’m not a commercial payer. I want to focus on how we’re going to be as administratively easy to deal with as possible.”

Still, Centene does have provider enrollment goals for each market it serves. The organization first rolled out the PaySpan® Health solution in states that have a high concentration of providers

As an early adopter of the Payformance solution, HealthNow basically started from scratch in enrolling providers. Leardini credits an employee of his company, who went from facility to facility, from practice to practice, educating providers on the PaySpan® Health product, with bringing adoption rates up to around the 50% level. In addition, Payformance supported the adoption process by conducting seminars for physician practices' office managers to demonstrate the product and enroll them in the program on site.

After several years of allowing providers to choose whether to receive payments and remittance advice electronically or by paper, HealthNow changed its policy in August 2009 so that in-network providers no longer receive paper vouchers, although they can still receive check payments. "Providers were mostly receptive to it. They definitely saw a benefit."

Provider Satisfaction: Lifting an Administrative Burden, Focusing on Patient Care

While Centene and HealthNow might approach their provider enrollment strategies differently, both are in agreement that the decision to move to electronic claims settlement has been about more than cost savings. They want to bring value to their providers, and they want to take steps to create cultures that allow providers an easy way to interact with their companies from an administrative perspective.

"It's always been a Centene goal to be administratively streamlined and easy to deal with," says Schuster. "The challenge...especially with the Medicaid provider community... they don't expect a lot from a Medicaid payer. Using Payformance we were actually able to see where we can make a real difference for our providers, something they will perceive as valuable that also happens to save us money."

Both companies are fairly fast payers. "We don't want to be sitting on the money. I'd rather work with the provider about improving outcomes and lowering cost than spend time arguing about how fast I pay. I want to pay as fast as I humanly can," says Schuster.

When HealthNow first implemented Payformance's electronic claims solution, they were more internally focused. They knew it was going to be a win for their company because of the cost per claim rates they had in place, but, according to Leardini, they underestimated how providers would embrace this technology. Providers are able to reduce their administrative costs, improve workflow, reconcile their payments faster, and shift their focus to patient care instead dealing with this administrative burden.

Centene witnessed the same phenomenon when they implemented the PaySpan® Health tool. "Providers were thrilled; they found it easy to use," says Schuster. "From a providers' side [implementation] was unbelievably smooth, which is one of the reasons we saw such a rapid uptick in provider satisfaction."

"Payformance really helped us turn a corner in terms of understanding the provider community better," Schuster says. Provider panels conducted by Payformance highlighted several areas of disconnect between Centene and its providers. For example, Centene didn't understand

why providers would protest when told, “We’re sending you an 835; we’re going to shut off the paper.” Schuster adds, “We didn’t understand that the codes coming back on the 835s, especially for claims denials, were inadequate and what we put on the paper was so much more granular, it made it actionable for the provider.”

“Payformance provides a much more usable tool for the provider to understand what their payment is. Actually, that’s another statistic – adjustments have gone down. We’ve seen a reduction in claim adjustments. Now we had lots of initiatives that did that, so I couldn’t isolate it to what Payformance did, but we do think the improved transparency of our payment process has resulted in a reduction of appeals and adjustments.”

– Glen Schuster, Centene Corporation

In particular, providers couldn’t figure out how to resubmit denied claims based on the information and coding on the 835 electronic remittances. “The paper was becoming so bulky ... they wouldn’t even bother [looking at] that...they’d throw away the paper and then just complain. And so it made it a much more transparent process where Payformance allows us to get the granularity of definition of the paper...[providers] can see the cash flow going through, they can get all

the advantages of the electronic transaction downloaded straight into their practice management systems...It was literally like the whole market went quiet. There was a lot of noise in the market, and then everything went quiet, and suddenly we were evaluated on what we wanted to be evaluated on, which was the quality of service [we] provided [and] timeliness of payment. The noise level just went down so dramatically, which gave us a more strategic focus on the marketplace.”

Bringing Transparency to the Claims Settlement Process

The Payformance solution allows transparency so that providers can view the status of a claim and where it is in the payment cycle. HealthNow’s Leardini explains that, from a customer service aspect, data is much more accessible, and, when a provider does call in, the customer service representative can pull up and reference the exact same screen that the provider is looking at.

Schuster agrees, saying, “We have far greater transparency. We’ve also noticed reduction in inbound duplicate claims... what we think is happening, and this is just borne out by some of our discussions with providers, is that because of the easy transparency, the provider can see, okay, they’ve

“Payformance has demonstrated again and again that expertise in engaging the provider community and helping them understand what they are seeing.”

– Glen Schuster, Centene Corporation

got my claim, they've paid my claim, and it's all very easy to find as opposed to being in a paper stack somewhere. Therefore they don't send a claim in multiple times." That, in turn, reduces Centene's clearinghouse costs since each of those duplicate claims has to be processed.

HealthNow uses Payformance's telephone call center to handle administrative inquiries from providers. In addition, HealthNow has outsourced to Payformance any paper checks and remittance documents that need to be generated and mailed. At first, Leardini says, Payformance handled only the electronic settlement items, but then he decided, "That's silly, that's prone to error. We said, why don't we just send an entire file down to Payformance and they can [handle it]...whatever is supposed to be electronic is electronic, whatever is paper is paper. Let them manage it when a provider calls with a problem, or they can't find their voucher. We just gave it all to Payformance and alleviated us from [the] burden of disposition of payments."

Centene's Schuster says call volume from providers has decreased "dramatically" – by 20-30% – with the implementation of PaySpan® Health. In addition, Payformance has been a valued intermediary between Centene and its providers. The transition to the National Provider Identifier (NPI) is one area in which Schuster is especially glad to have Payformance's proficiency and knowledge in guiding providers. "What would kill us, and did kill us, with NPI was that providers are confused by it. So I do expect Payformance to be a buffer for that because they won't call me, they'll call Payformance."

Ending the Paper Chase and Improving ROI

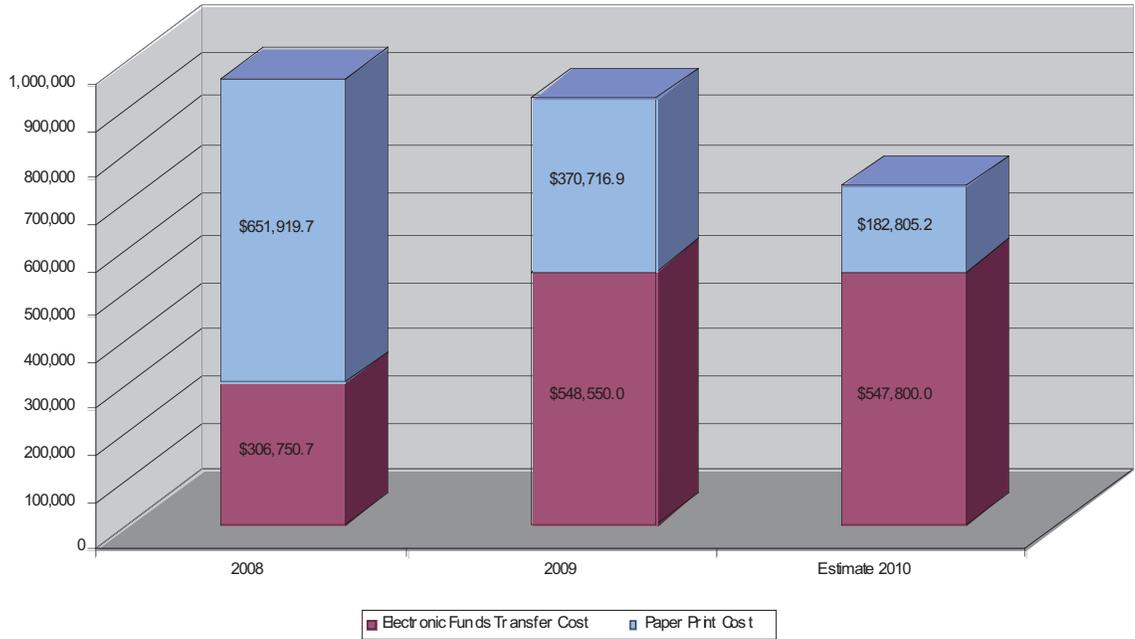
Reducing both the administrative burden and the challenges in accessing data associated with a paper-intensive claims settlement process are not the only benefits of moving to an electronic system. Payers are seeing a return on investment (ROI) in the form of reduced per transaction costs. Centene has seen a savings on paper and postage of \$.04 to \$.06 per claim, depending on the market, by moving to electronic. At HealthNow, the overall per transaction cost has dropped 27% since 2008:

Year	Per Transaction Cost
2008	\$1.83
2009	\$1.77
2010	\$1.33 (est.)

HealthNow is projecting to spend \$730,600 on claims settlement in 2010, a savings of over \$228,000 from its 2008 expense level:

Payment Cost

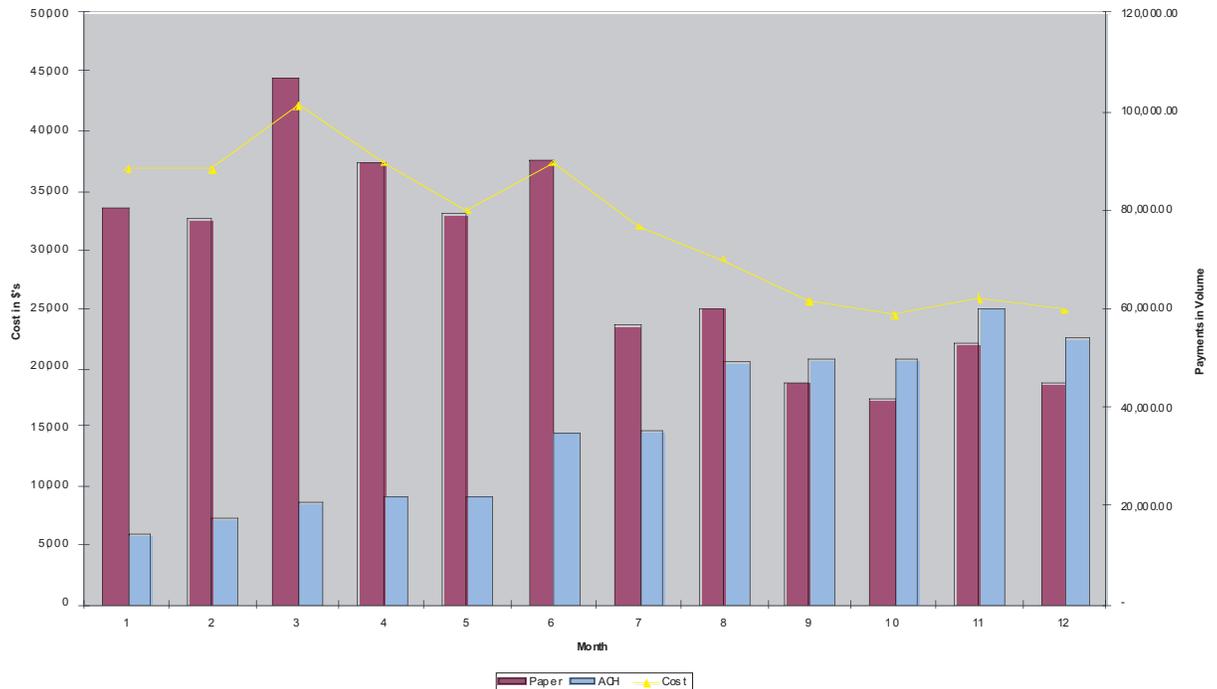
Yearly Cost Comparison



And when HealthNow implemented its mandate in mid-2009 of no longer producing paper vouchers, costs associated with claims payment processing (indicated with the yellow line below) took a significant drop as providers converted to electronic/ACH:

2009 Claims Payments

2009 Check versus ACH with Cost Levels



Even with the reduction in paper and mailing expenses that HealthNow has been able to realize with Payformance, Leardini is quick to come back to the non-monetary advantages of electronic claims settlement including facilitating access to claims data and streamlining administrative processes. “Forget about costs for a second. That’s a nice ancillary benefit, but to lessen the amount of bureaucracy, administrative burden that’s heaped on us, much of it through years and years of similar practices, some of it driven by state or federal mandates on us to produce certain kinds of documentation in a certain amount of time...to the extent that we can lessen that administrative load, that really helps the customer, the group, the subscriber, the patient and really helps the physician focus on care instead of these other burdens.”

Regional Collaborations, Interoperability Initiatives, & Future Opportunities

“The true power of it would be if all payers got on the system regionally so then from a physician or provider perspective you log on once and have all of your payment information rolled up in there. We’re not there yet. But that would be truly powerful,” says Leardini. And from the payer side, the same holds true. The more providers already enrolled on PaySpan Health, the more quickly benefits roll to payers joining Payformance as clients.

Leardini likens the situation to the collaborative initiatives going on elsewhere in the healthcare industry with healthcare information exchanges (HIEs) and regional healthcare information organizations (RHIOs). Localized, market-specific, collaborative approaches to healthcare, including making data transaction systems more integrated and efficient, can help the payer, the provider and, ultimately, the individual subscriber/ patient.

Centene’s Schuster also sees the Payformance product helping his company with future initiatives such as CORE Phase II certification, the Council for Affordable Quality Healthcare’s (CAQH’s) requirement set designed to enhance interoperability between payers and providers, streamline eligibility/benefits/claims data transactions, and reduce the time and resources providers spend on administrative functions.

“I’m looking forward to the next round of functionality [Payformance is] providing,” Schuster says. “I’ve been very frank with them that with the inroads they’ve made in the marketplace, the opportunity for them to capitalize and build upon that is spectacular, and I’m looking forward to being a partner with them as they do that. They’ve got the relationship side of this and the service side of this right...where Payformance has to go, and I’ve encouraged them to, is moving some of the stuff they have to a real-time eligibility and claim status.”

“[Payformance] has been very responsive to anything we raise,” says Leardini. “I would say we’ve played a very active role in the overall development of the product...they look for us to participate and somewhat steer the discussion and help them gain additional perspective. We’ve had a very good partnership and very good relationship.”

“ There is nothing wrong with change, if it is in the right direction. ”

– *Winston Churchill*

Payformance has proven to Centene and HealthNow that change in the right direction can be a resounding “win” for payers and their customers. And these Payformance payer clients appreciate the merits of working with a business partner who values their insights and incorporates their recommendations into the product solution and corporate vision. With a focus on creating trusted client partnerships, Payformance is ready to address new opportunities and challenges as they arise, especially relative to the regulatory, compliance, interoperability, and systems integration requirements emerging with healthcare reform.

“With the passage of Health Reform and the HIT bill, I expect Payformance will continue to simplify integration for my providers,” Schuster says. “Even as my providers take on the enormous challenge of rolling out EMRs across their practices, I will continue to enhance efficiency and transparency utilizing the Payformance tools.”

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About Payformance



Payformance is the leading provider of payment solutions to meet healthcare payment settlement requirements. Far more than ERA and EFT, Payformance focuses purely on healthcare payments and provides every stakeholder in the healthcare industry with comprehensive solutions that reconcile, correlate, and explain their payment information. Payers use the network to reduce administrative and provider support costs. Providers gain a self-service environment to manage electronic payments from multiple payers, access associated electronic remittance advices, and retrieve historical settlement information.

The company's flagship PaySpan® Health product, which essentially automates the last stages of the claims process, is built on a SaaS (Software as a Service) platform that can be easily integrated with existing claims systems. The Payformance Healthcare Payment Exchange lays the foundation for unprecedented healthcare payment interoperability. Based in Jacksonville, Florida, Payformance is majority-owned by venture capital firm ABS Capital Partners. For more information, go to www.payformance.com.

About Porter Research



Porter Research helps its clients become high-performance businesses within their industries by delivering actionable market intelligence and research insight. Porter diligently works to understand and assess each client's unique needs and build a customized business-to-business research program to achieve the desired goals. Combining unparalleled experience, proven methodologies and knowledge-based analysis, Porter provides the unbiased results that clients need to make informed strategic business decisions.

Over the past 20 years, Porter's research team has conducted over 150,000 interviews with executives in the healthcare space. With extensive experience working with Fortune 500 healthcare companies, the Porter executive team has built a significant practice in the healthcare technology, provider, payer and life sciences sectors. The core service lines include Market Needs and Opportunity Analysis, Account Profiling and Lead Generation, Competitive Intelligence, and Customer Experience Research. For more information, go to www.porterresearch.com.

