ACMA Hospital Case Management Research Series

Questions in Case Management

Managing Hospital Denials – A Systematic Review
Report Contents

Executive Summary

Sections:
- Introduction: Managing Hospital Denials
- Managing Hospital Denials: Background
- Managing Hospital Denials: Benchmarks
- Managing Hospital Denials: Role of Case Management
- Managing Hospital Denials: Best Practice

Figures & Tables:
- Table 1: Hospital Denials – Rate Calculation Comparison
- Figure 1: Hospital Denials – National Trends (2007 – 2010)
EXECUTIVE SUMMARY

• Managing hospital denials continues to be of interest to hospital financial executives as a means to reduce loss of revenue.
• Denials are most often categorized as one of the following:
  • Clinical
  • Technical/administrative
  • Underpayments
• Despite the growing interest in reducing denials, there is currently no standard method for calculating denial rates. Some benchmarks are publically available, but they vary by source and year.
• Best practice benchmarks for different denial categories are not currently available.
• Approaches to reducing denials, regardless of how the rate is calculated, often involve case management.
• Case management has been associated with reduction in denials through the following mechanisms:
  • Reducing patient length of stay
  • Conducting concurrent case reviews
  • Providing services in the Emergency Department
  • Determining patient status
• Best practice approaches to hospital denial management include the following elements:
  • Involve stakeholders
  • Define & categorize
  • Measure, monitor & improve
Introduction: Managing Hospital Denials

Research Questions:
1. What are the current rates and best practice approaches to managing hospital denials?

Purpose & Source:
The following report uses recently published research on hospital denials to explore current denial rates and effective practices aimed at reducing denials and increasing hospital revenue. Included articles were retrieved from the Academic Search Complete research database which accesses articles from over 11,500 academic and professional journals.

Methods:
A systematic literature review was conducted on relevant research articles. The literature was searched (using “hospital” and “denial” as key terms) for peer reviewed articles published after January 2000. Reference sections of the identified articles were further searched for additional sources. Articles focusing on current rates of hospital denials, approaches to reducing rates of denials, and articles including best practices and/or key elements of successful denial management programs were given inclusion priority.

Data Sources
This report is comprised of articles found through the Academic Search Complete database.
Journals represented include:
- American Journal of Health-System Pharmacy
- Health Management Technology
- Healthcare Benchmarks and Quality Improvement
- Healthcare Financial Management
- Hospital Case Management
- Journal of Nursing Administration
- Journal of the American Geriatrics Society
- Managed Healthcare Executive
Managing Hospital Denials

BACKGROUND:

Hospital denials, defined as a lack of expected payment from a payer, are increasingly of interest to both hospital clinicians and administrators. Since the Balanced Budget Act of 1997 which resulted in a dramatic reorganization of payment reimbursement for healthcare providers, hospital denials have become a key focal point for many hospital financial executives. Further, in 2000, the Health Care Advisory Board identified the reduction of denials as the area of greatest opportunity within the revenue cycle.

More recently, the creation of CMS’s Recovery Audit Contractors has re-emphasized the importance of a well-developed denial management program. Effective and efficient programs can decrease the likelihood of RAC overpayment findings and potentially assist in filing of appeals if and when such findings occur.

Hospital denials are often grouped according to multiple levels. The first level is type. A denial can be either “hard” or “soft”. A hard denial is one in which revenue is considered lost or written off. Whereas, a soft denial is a temporary state and the revenue has the potential to be recovered. Denials can also be categorized according to the following functional categories:

- Clinical (payer disputes medical necessity, length of stay, or level of care based upon acuity-of-illness or intensity-of-service criteria)
- Technical (payer disputes for provider’s failure to comply with required administrative procedures)
- Underpayment (payer incorrectly pays a claim for less than the amount owed)

References:

Managing Hospital Denials

BENCHMARKS:

Denial rates vary across studies and currently no uniform methodology for measuring denial rates exists. Published rates have been calculated as a proportion of net revenue, gross revenue, total patient visits, and inpatient days \(^7,8,9,10,11,12\)

Further, while executive level performance benchmarks do exist, these vary by date and source (see Table 1). For example, according to the *Health Financial Management Association (HFMA)* in 2004, the target benchmark for denial rate was less than 4% of gross revenue.\(^8\) By 2008, the expected denial rate for top performing institutions was less than 3% of gross revenue.\(^11\) Yet, according to another source, denial rate (as a percentage of net revenue) should be less than 5%.\(^7\)

*Figure 1* contains a graphical representation of national trends in denial rate as a percentage of gross hospital revenue. From this, it appears denial rates are not stable across time even when using the same calculation method. It is also notable that they do not appear to be significantly associated with facility size.

In addition to the variability in rates and calculation methods for overall hospital denial rate, there is a noticeable lack of rate data for denial categories. Due to the scarcity of rate information based upon the nature and type of hospital denials, there exist no established best practice benchmarks for these levels within the current literature.

### Table 1: Hospital Denials – Rate Calculation Comparison

<table>
<thead>
<tr>
<th>Denial Rate</th>
<th>Calculation</th>
<th>Group Represented</th>
<th>Date Published</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;=5%</td>
<td>Net denied revenue/net total revenue</td>
<td>Best practice facilities</td>
<td>2004</td>
<td>Citerone &amp; Phillips</td>
</tr>
<tr>
<td>6 to 15%</td>
<td>Net denied revenue/net total revenue</td>
<td>Good performers</td>
<td>2004</td>
<td>Citerone &amp; Phillips</td>
</tr>
<tr>
<td>16 to 25%</td>
<td>Net denied revenue/net total revenue</td>
<td>Average performers</td>
<td>2004</td>
<td>Citerone &amp; Phillips</td>
</tr>
<tr>
<td>&gt;26%</td>
<td>Net denied revenue/net total revenue</td>
<td>Poor performers</td>
<td>2004</td>
<td>Citerone &amp; Phillips</td>
</tr>
<tr>
<td>&lt;=4%</td>
<td>Gross denied revenue/gross total revenue</td>
<td>Best practice facilities</td>
<td>2004</td>
<td>HFMA</td>
</tr>
<tr>
<td>&lt;=1%</td>
<td>Number of denials/total patient visits</td>
<td>Best practice facilities</td>
<td>2010</td>
<td>Thomas Group</td>
</tr>
<tr>
<td>12 to 15%</td>
<td>Gross denied charges/Gross charges</td>
<td>Average performers</td>
<td>2010</td>
<td>ClaimTrust</td>
</tr>
<tr>
<td>20%</td>
<td>Denied days/total inpatient days</td>
<td>Poor performers</td>
<td>2009</td>
<td>Olaniyan, Brown, &amp; Williams</td>
</tr>
<tr>
<td>&lt;=3%</td>
<td>Gross denied charges/Gross charges</td>
<td>Best practice facilities</td>
<td>2008</td>
<td>Sanderson, Hollweck, &amp; McMillan</td>
</tr>
</tbody>
</table>
Figure 1: Hospital Denials – National Trends (2007 – 2010)

Managing Hospital Denials

ROLE of CASE MANAGEMENT:

Not surprisingly, case management has been consistently associated with improving denial rates in many facilities. Both direct and indirect involvement of case management staff in the denial management process, from ensuring complete and accurate documentation of patient stays to reducing overall length of stay as a means to reduce related clinical denials, has been found to positively impact overall hospital denial rates. The methods by which case managers have affected denials most often are as follows:

- Reducing patient length of stay (reduce denials related to length of stay)
- Conducting concurrent case reviews (reduce denials related to medical necessity & level of care – respond to denials while patient is still admitted)
- Providing services in the Emergency Department (increase throughput and reduce denials related to medical necessity & level of care)
- Determining patient status (reduce denials related to inappropriate status)

References:

Managing Hospital Denials

BEST PRACTICE:

Review of the current literature provides some best practice guidelines for successful hospital denial management programs. Below is a brief outline of key components.

Involves stakeholders

Many studies describe the importance of involving representatives from departments within the hospital which have an impact on the denial and recovery process in the program. Not surprisingly, case management representatives should be included in effective denial management teams.1,2,9,10,13

Define & categorize

Creating standard definitions of denial rate calculations, denial types, and functional categories is also crucial to an effective denial management program. Further, the creation of hierarchical categories can aid in the discovery of root causes and allow for multi-level reporting.1,2,7,10,12

Measure, monitor, & improve

Consistent measurement, monitoring, and reporting of denials allows the organization to establish performance improvement goals and accountabilities. These processes support data-driven decision making and facilitate proactive denial prevention and claims recovery strategies.1,2,7,9,10,11,12,13
Compare is a group of services developed by ACMA to provide benchmarking and best-practice identification and education. Compare offers subscription benchmarking for some of the most important metrics in efficient health care delivery: avoidable delays, readmissions, and denials. These are often measures which intersect the work of case managers; as metrics for departmental performance and as daily management challenges.

One of the Compare benchmarks is Compare DM, which benchmarks denials. This system uses standardized tracking of both clinical and technical denials. Benchmarking illuminates how you compare to peer hospitals regarding number of denials; days questioned, denied and recovered; and charges questioned, denied and recovered.

For more information, please contact Randall Archer at rarcher@acmaweb.org or 501 907-2262.