

# DEALING WITH DENIALS

**90% of inpatient denials  
are preventable.  
So why do they keep happening?**

A compendium of research compiled by



The headlines continue to show the financial difficulties facing hospitals. Administrators are being forced to make difficult decisions amid sometimes overwhelming circumstances to earn profits or just break even. The challenges are many, including staff shortages, increased patient acuity, and longer average lengths of stay due to delayed care during the pandemic.<sup>1</sup> On top of those staffing and patient issues, add a steady increase in inpatient denials from insurance companies and you have the perfect storm for a revenue cycle disaster. Some hospitals are reporting operating losses in the hundreds of millions of dollars,<sup>2</sup> while others from Iowa to North Carolina are laying off hundreds of workers in order to increase revenue.<sup>3</sup>

But the news is not all bad. There is a way to increase revenue that doesn't rely on the pandemic ending or the economy improving. The way is to use proven strategies to reverse the trend of increasing denial rates.

**Ultimately hospitals and other healthcare providers can no longer ignore the impact inpatient denials can have on their cash flow.** Ninety percent of all denials are preventable, so why aren't more denials being prevented?<sup>4</sup> If an organization takes a focused and unremitting approach to tackling this problem, it can see improvements in lowering denials and increasing overturned denials. This approach requires persistence and commitment to proper documentation, plus a clear utilization review strategy together with a team approach. The result will help support the financial health and future sustainability of the organization.

Read on for an in-depth look at the causes of inpatient denials - and what healthcare organizations can do to keep them from happening.



# Denials by the numbers

The American Medical Association (AMA) estimates claims processing inefficiencies cost between \$21 billion and \$210 billion per year.<sup>4</sup>

## 23%

Average denial rate **annual increase** since 2016 <sup>5</sup>

## \$262 billion

Amount of denied claims (out of \$3 trillion in total claims) submitted by healthcare organizations annually<sup>4</sup>



## 11%

Current national denial rate -- which exceeds the 10% critical "Danger Zone"<sup>5</sup>

## \$5 million

Average denials cost per provider<sup>4</sup>



## 30%

Estimated percent of claims that are **denied or ignored** on first submission<sup>7</sup>

## ~\$90 million

Estimated dollar amount if an average 300-bed hospital has 30% of its claims either denied or ignored<sup>8</sup>

## 65%

Percent of denied claims never resubmitted<sup>4</sup>



## These numbers = money in limbo

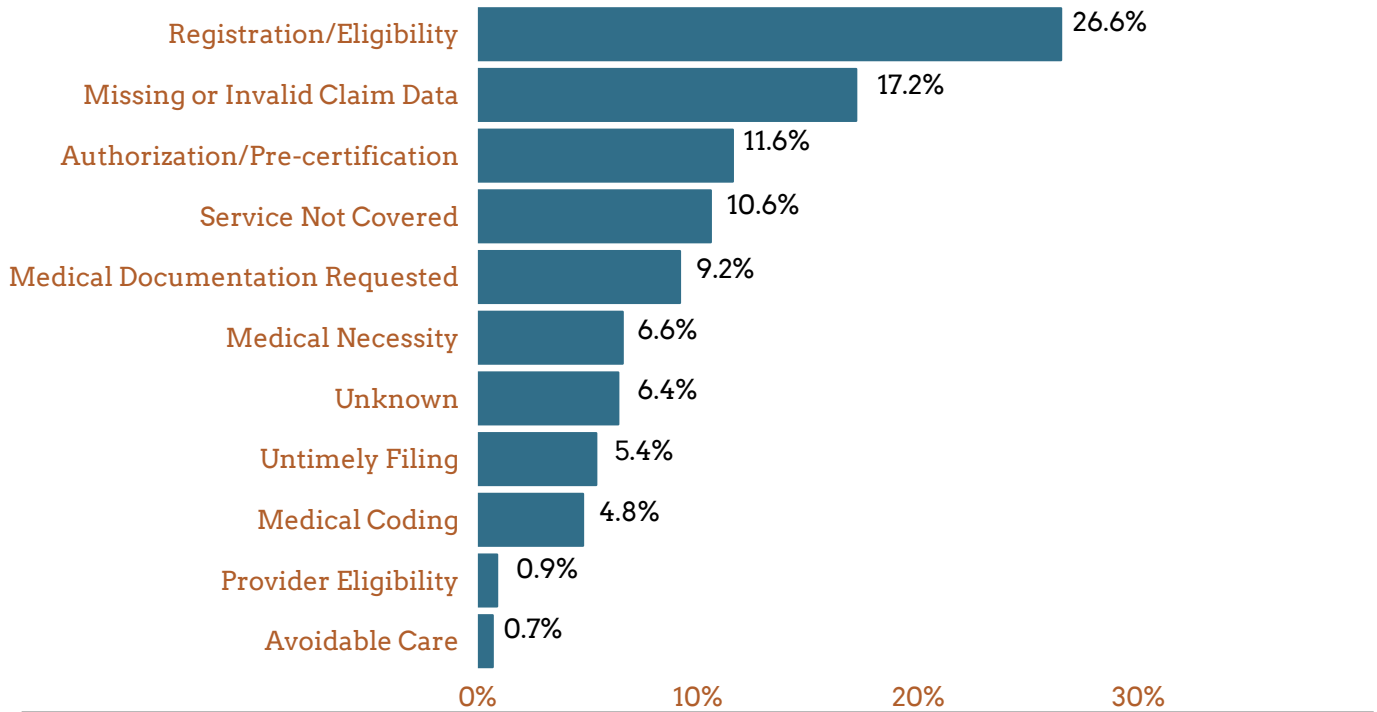
Prevention tactics can save money upfront and accelerate time to reimbursement.

# Root Causes

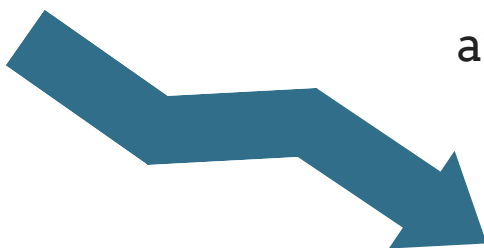
To better understand how to slow down this source of leaking revenue, it's critical to look at the most common causes for denials.

According to the Change Healthcare 2020 Revenue Cycle Denials Index report, the top denial causes have remained constant since 2016. Registration/eligibility top the list at nearly 27% of denials.<sup>5</sup>

The breakdown of denial causes is illustrated in the graphic below compiled from the report.



A May 2021 the Healthcare Financial Management Association (HFMA) report<sup>4</sup> showed disparate disjointed systems, processes, and workflows add to the problems with patient accounting systems (PAS) and electronic health records (EHR) not talking to each other. Upgrades, healthcare mergers, or other changes can create further complication, all causing billing and authorization errors as well as a backlog in accounts receivable (A/R). This backlog makes it more difficult for health systems to absorb the cost of denials, therefore hospitals need "to collect on every dollar owed."<sup>4</sup>



Median success rate for appealing a private plan inpatient denial dropped from **56% to 45%** over the past two years. For Medicaid the drop was **51% to 41%**<sup>4</sup>

# 10 causes for denials

FROM THE JOURNAL OF AHIMA  
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1. Prior authorization errors
2. Missing or incorrect information
3. Medical necessity requirements not met
4. Procedure not covered by payer
5. Provider out of network
6. Duplicate claims
7. Coordination of benefits
8. Bundling
9. Services already included in payment of another service or procedure
10. Exceeded timely filing limit

Numbers **one through five** fall into what one might consider front-end processes that occur prior to or at the beginning of the service. Optimizing front-end processes means aligning information gathering and access to all systems.

**Six through nine** are in the middle of the payment process where coding and billing are critical.

**Ten** shows a transition to the back-end processes. That is where the outcomes of untimely filing and actual denials occur, prompting the need for effective systems to file appeals and managing, at times, ballooning A/R systems.



# The Solution: Moving Toward Denial Prevention

It's clear from the literature that the majority of denials have causes that are potentially preventable. In addition, the resulting losses from denials are not always recoverable. The Change Healthcare report states that "86% of denials are potentially avoidable; nearly a quarter (24%) of these are not recoverable. An HMFA article concurs that "ninety percent of all denials are preventable ... one-third of those denials represent missed opportunities for prevention, and the lost revenue cannot be recovered." The good news is in addition to that, "two-thirds of those preventable denials can be successfully appealed."<sup>4</sup>

To address the denial issue, start by building an engaged team with effective leadership. Once the team is in place the proper data must be collected to unmask the root causes for denials. In doing this, the team can focus on the areas that have the most "bang for the buck." This should be followed by a plan to target individual areas and identify what and who is needed for successful implementation. Systems to measure the change process and its outcome are critical.

# KEYS to successful denial prevention

CONIFER HEALTH SOLUTIONS<sup>6</sup>

1. **Identify your leaders** – An executive sponsor such as a CFO or COO who understands the benefits of a denials management program can be a champion and advocate for resources needed to implement such a program. Organizations should consider creating the role of a Denials Prevention Manager with payer and revenue cycle knowledge.
2. **Set your goals**- Breaking things down by function within the revenue cycle is more manageable in goal setting. You can put a directed plan in place, determine accountability and monitor results. Analyze the data associated with your denial history. The registration process is where hospitals are most vulnerable, impacting the top four denials categories: authorization, medical necessity, coding, and eligibility. On the back end you will need to look at the appeals process for addressing denials when they continue to occur.
3. **Establish a contract management strategy**- Review denials with your contract team to help understand how contracts impact denials. Use this information in evaluating and revising payer strategies. Meet with payers to develop an effective escalation/mediation process.
4. **Develop an analytics-based program**- Dig into the denials data and break it down to identify problem areas as well as the potential departments, procedures and payers involved.
5. **Remember education is key**- Build awareness and buy-in across your organization, including with physicians. Develop an education campaign that clearly communicates your goals, the shared benefits of denials prevention, and the role that different departments play in the program's continued success.



**Most critical is once you have a program, keep the momentum going. You should meet regularly and evaluate the data to measure the results of your initiatives and adjusting processes as needed.**

# Best practices to combat denials

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**When it comes to effective denials management, knowledge is power. To gain and act on that knowledge, several best practices can be implemented to stay organized and informed on the root causes and impacts.**

- Know the stats on your denial rates and dollar figures.
- Keep the process organized with a denial management process.
- Identify trends in your denials.
- Act quickly, preferably address denials within a week.
- Establish a team of experts to put solutions in place.
- Collaborate with payers.
- Quality over quantity when deciding which claims to address.
- Track your progress.
- Conduct performance audits for every step in the process.
- Verify patient information.
- Learn from previous rejections what can be fixed.
- Meet deadlines.
- Know the clearinghouse.
- Understand claim formats.
- Conduct regular follow-ups for every denied claim.
- Follow a decision tree approach.

# Denials Reduction: 5 Tips

CHANGE HEALTHCARE <sup>5</sup>

**Determine where denials are originating and their root causes.** Are most denials originating in your patient access and registration departments? Are denials occurring because of insufficient documentation, or due to billing or coding errors?

**Prioritize remediation based on where and what actions will have the greatest impact.** For example, do you need to focus on the front-end, mid-cycle, back-end, or all three? Within those realms, do you need to work with a certain physician or a specific payer? Prioritization is crucial to ensuring your efforts generate the greatest return.

**Consolidate revenue cycle technology with a single “end-to-end” vendor.** Difficulty in reducing denials or rising denials rates can be a warning sign that legacy or inadequate technology and services, or a mashup of point solutions, are being used to manage the revenue cycle. There is a growing industry effort to consolidate end-to-end technology solutions with a single vendor to optimize financial performance, improve operational effectiveness, and ease maintenance and grades.

**Benefit from advanced analytics and AI.** Many providers have limited or no access to analytics and AI, while payers continue to invest in these technologies. This can place providers at a disadvantage, as payers’ ability to accurately detect claim issues increases, while providers’ ability to prevent and address denials is stagnant or wanes. To level the playing field, providers must invest in these technologies to identify where denials are originating so root problems can be addressed; to prioritize appeals; and to drive efficiencies.

**Choose the right partner.**

# Conclusion

Armed with a greater understanding of the reality of the denial issue as well as its increasing incidence, root causes and potential solutions, organizations can seize the opportunity to make denial prevention and appeals a priority. Failing to do so allows potential revenue to continue to fall through the cracks. Fortunately, in today's environment, successful strategies are available and no organization can afford to ignore the opportunity to preserve every critical dollar.



## SOURCES

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