Procedure to Renegotiate Managed Care Contracts

Step 1
Locate all of the practice’s managed care contracts, provider manuals and fee schedules.

Step 2
Analyze 1-4 weeks of write-offs to determine:
  a. Are the correct amounts being collected per the contracted fee schedules?
  b. Is the staff writing off amounts not subject to contractual discounts*. (non-contracted over-UCR amounts, deductibles, co-payments, etc)

Step 3
Determine the gross collection ratio for each contracted managed care organization** (MCO.) Divide the total billing to each MCO into the amount received for a representative time period (3 months – 1 year.) A more sophisticated method would be to find the actual fees received for each CPT code billed.

Step 4
For each MCO, determine if there are any extra costs to do business with the MCO above and beyond filing a claim and receiving prompt payment. This would include staff time to obtain referrals and authorizations, refile lost claims, refile improperly paid claims, frequent appeals, time lost due to untimely payment and bad debt associated with large deductibles and co-payments imposed by the MCO.

Step 5
Deduct costs from Step 4 from the receipts calculated in Step 3.

Step 6
Using either gross collection ratio or contractual allowances on individual procedures construct a spreadsheet to compare the MCO fee schedules. For example:

<table>
<thead>
<tr>
<th>MCO</th>
<th>Gross Collection Ratio</th>
<th>% of Non-Government Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue</td>
<td>38%</td>
<td>32%</td>
</tr>
<tr>
<td>Red</td>
<td>46%</td>
<td>8%</td>
</tr>
<tr>
<td>Green</td>
<td>63%</td>
<td>2%</td>
</tr>
<tr>
<td>Purple</td>
<td>51%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Step 7
Determine which MCO’s do not have acceptable fee schedules. This will be clear from examining the chart above.
**Step 8**

Determine if there are any actions the practice could take to increase the reimbursement of the lowest paying MCO’s. You want to make sure there are no weaknesses in your collection activities before you ask for increased reimbursement. For example you could file electronically through a clearing house, file directly through the MCO’s web site, collect co-payments and deductibles up front to minimize bad debt, meet with the MCO provider representatives to resolve claims issue, etc.

**Step 9**

For the low paying MCO’s, determine if failure to adhere to contract terms has reduced reimbursement; for example, not paying for modifiers if payment for modifiers is specifically required by the contract. If this is the case, the MCO should be challenged to pay correctly and pay for past discrepancies, with interest.

**Step 10**

Prepare a list of grievances, if any, with the specifics of the MCO’s contractual breeches, unacceptable payment policies and failures of its payment systems. All contractual and procedural problems should be aired before fee schedule negotiations.

**Step 11**

If areas of concern are uncovered in Steps 9 and 10, send a list of these problems to the MCO with a deadline for responding favorably to your correspondence.

**Step 12**

If you determine that the MCO’s fee schedule is below the level you desire and positive responses to Steps 9-11 will not bring payment up to your requirements, contact the MCO with a request for an increase in your fee schedule. Your request should include the past 5 or 10 years of fee schedule increases from the MCO, if any, and perhaps a few basic reasons why you need an increase. You should set a reasonable deadline for the MCO’s response. The deadline should be before the notification period required for you to terminate the contract. If the MCO agrees to a reasonable increase, get the offer in writing and, if necessary, work on the terms of new contract that will be in effect at the end of the current contract period. Otherwise, proceed to Step 13.

**Step 13**

It may take many months to correspond and meet with the MCO before favorable terms are negotiated. And, you may be working on 5-10 different MCO negotiations simultaneously. So, you should establish a file for each MCO along with a tickler system to keep track of progress or lack thereof. Time is on the side of the MCO, so it will be up to you to drive the process to completion. The MCO may be negotiating with hundreds of healthcare providers, and may not consider your situation a priority.

**Step 14**

If the MCO stalls, does not respond, or responds with a zero offer, you must consider your options to advance the process. There are a number of techniques that you may use depending on the size of your practice, your market power and your perceived value to the MCO.

**Step 15**

In Step 14, you may find that you cannot negotiate favorable terms at the present time and will continue your contract unchanged. At this time, you should decide how long you will wait before reopening negotiations and plan how you may cause your situation to be changed in the future. For example, you may shift your focus
away from patients of this MCO and may be in a better situation to cancel your contact and lose fewer patients in the future.

Step 16

If you decide to continue the process after an unfavorable response from the MCO and you are willing to risk a loss of patients, formally notify the MCO that you are terminating the contract at the end of the required notification period (usually 90 days). Perhaps the MCO’s policy is to consider serious negotiation only in cases where it perceives a real possibility that providers will leave its network. There is a strong possibility that you will receive no response from the MCO or that the MCO will not disagree with your departure from its network. You should invoke your contingency plan, notifying patients, referring doctors, affiliated hospitals, employers and the press, if necessary, about your contract termination.

Step 17

The MCO may wait until near or after the last day of your contract and then try to open negotiations. You may be asked to honor the existing contract terms and fee schedule with a verbal agreement or a “letter of intent.” You must determine if this is merely a ploy to delay action by you until the MCO works itself into a stronger bargaining position against you. It may be wise to judge the MCO’s future actions by its past history. If you decide to continue to negotiate under an informal agreement, you should definitely limit the agreement to a short period of time.

Step 18

At this point, you are either out of contract and the MCO is still willing to talk about getting you back in the network, or you are working under a temporary “contract extension.”

Often, this is where the first serious negotiation by the MCO takes place. If the MCO didn’t want your practice’s participation in its network, you would not have gotten to this point. Likewise, if this MCO were not important to you, you would have already walked away from the contract.

Step 19

This is the point of no return! Let’s hope all the members of your practice are behind you, no matter how the contract negotiation turns out. If the MCO finally agrees to your terms or a compromise is made, make notes as to how the process can be improved next time.

Step 20

The MCO did not relent and you are out of network. If you ever expect to get the MCO’s patients back at a higher rate in the future, you should make a plan to do so now. You should monitor the actions of this MCO in the local market. At some point, you may be in a better position to negotiate more favorable terms. Perhaps this MCO is in the process of losing many providers other than you, and will change its strategy to include better terms for providers.

* Some practices, in order to attract patients who are “network shopping” agree to discounts with MCO’s with which they are not contracted. Also, with all the potential confusion associated with networks with similar names, “silent PPO’s”, repricers, out-of-network negotiators and third party administrators, office staff frequently erroneously write off amounts unwittingly.

** We will use the term Managed Care Organization (MCO) to identify any non-government insurer or network or any other entity with which you contract to discount your fees.