Why You Should Care About Your Workers' Compensation Claims

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EXECUTIVE SUMMARY

Workers' Compensation (WC) claims, while often representing a small percentage of total revenue for most health systems, pose unique challenges and opportunities that revenue cycle management (RCM) executives cannot afford to overlook. This document outlines why effective management of WC claims is crucial for financial stability, patient satisfaction, and strong employer relationships.

Key Points

Financial Impact and High Denial Rates:

WC claims, particularly those arising from workplace accidents like motor vehicle incidents, can average costs exceeding $90,000 per injury. Missteps in registration, eligibility verification, and prior authorization processes can lead to significant payment denials. Effective management can reduce denial rates from over 15% to below 2%, potentially saving millions of dollars annually.

Actionable Strategies for Improvement:

> **Enhance Front-End Processes:** Implementing proactive eligibility verification and prior authorization can drastically reduce denials.

> **Optimize Technology Use:** Maximizing electronic data interchange for claim submissions and using advanced RCM solutions can improve tracking and reduce errors.

> **Adopt Specialized RCM Partners:** Engaging firms with expertise in WC claims can offer tailored solutions that traditional RCM vendors may lack.

Impact on Patient and Employer Relationships:

Poor management of WC claims can negatively impact patient satisfaction and damage relationships with large employers, who are key stakeholders. Efficient WC claims processing not only ensures timely reimbursement but also strengthens partnerships with employers, leading to increased patient retention and referrals.

Market Trends and Future Outlook:

A growing number of health systems are moving towards specialized RCM firms for handling complex claims, driven by concerns over data security, high denial rates, and the increasing complexity of claims. This shift highlights the need for healthcare organizations to reassess their WC claims management strategies.

Common Challenges in WC Claims Management:
Common issues include manual processes, incomplete front-end workflows, and EDI claim submission rates. Addressing these challenges with targeted strategies can significantly improve the efficiency and accuracy of WC claims management.

CONCLUSION

Effective WC claims management is essential for maintaining financial health, enhancing patient satisfaction, and building robust employer relationships. By implementing the strategies outlined in this document, healthcare providers can improve revenue cycle performance, reduce costs, and achieve better patient outcomes.

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Introduction

Many providers underestimate the financial impact of Workers' Compensation (WC) claims, often overlooking the correlation between the patient experience for Workers' Compensation and the fact that these patients are, in some cases, employees of large employers. Despite accounting for a smaller percentage of overall revenue, these claims often require manual outreach to be collected and can have a significant financial impact. Missteps during registration, eligibility verification, and prior authorization processes often lead to payment denials for this financial class.

Workers' Compensation may represent less than 2% of total revenue for most health systems, but it's crucial for revenue cycle management (RCM) executives to prioritize this area. A report by Becker's Hospital Review highlights the fluctuating operating margins for health systems over the past year, ranging from -1.2% to as high as 5.5%. These variations demonstrate how even small percentages of revenue can make a substantial difference, especially in a climate where increased patient volumes are offset by high labor and supply costs (Madeline Ashley and Alan Condon, Becker's, April 10, 2024).

Effectively managing WC claims requires specialized knowledge and processes beyond traditional RCM methods. This article explores the importance of prioritizing Workers' Compensation claims and outlines strategies for optimizing their management.

High Dollar Value of Workers' Compensation Claims

Workers' Compensation claims often arise from workplace accidents, with motor vehicle accidents being the most frequent, averaging over $90,000 per injury. These patients typically present through emergency rooms at nearby hospitals. The average cost for WC claims across all accident types in 2020-2021 was $41,757, according to the National Council on Compensation Insurance's (NCCI) database.

Data from hospitals, health systems, and ambulatory surgery centers (ASCs) show that individual claims average approximately $4,000 per encounter for non-ambulatory services. Even minor errors in verifying eligibility or obtaining prior authorizations can significantly increase denials and reduce reimbursement.

Common denial reasons include:

- Lack of authorization on file

- Missing required documentation

- Patient ineligibility on the date of service

- Late claim submission beyond filing limits

These denial types are common across all payers, but their root causes can vary. Proper metrics and benchmarks allow for quick identification of performance issues. Poor management and communication, missing steps, and failure to measure key metrics result in untimely revenue loss and cash flow problems. It's essential to measure and benchmark WC metrics differently from other revenue cycle areas to avoid having billing issues go unnoticed.

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Maintaining Profitability

While Workers' Compensation claims typically account for less than 2% of total revenue, their high value and slim margins mean they should not be overlooked. Efficient front-end processes enhance financial stability, creating savings that can be utilized elsewhere. For a health system with $1 billion in revenue, Workers' Compensation claims could total roughly $20 million. Underperforming organizations often see more than a 10% improvement in net collections, translating to about $2 million annually in this example.

Denial management is challenging, but proactive eligibility verification and prior authorization can significantly reduce denial rates. A recent audit of more than 320,000 WC claims in the Unified Health Services ecosystem demonstrated that not performing eligibility verification and obtaining prior authorization before submitting the claim to the payer has significant implications.

> In fact, the sample of claims where eligibility and prior authorizations were not completed resulted in a denial rate of 15.15%, compared to those where patients were confirmed to be eligible and authorized today, which had a denial rate of 1.88%. To highlight the significance of this difference, for every 1,000 claims, at an average value of $4,500 per claim, these improvements could **save approximately $597,000**.

In speaking with a sample of RCM executives, we asked them what they could do with this amount of savings, and the feedback ranged from investing in technology to avoiding planned layoffs.

Improving Patient Experience by Reducing Administrative Errors

Revenue Cycle Management can directly affect a patient's healing process. Imagine being in a serious accident and mistakenly receiving a large bill while you're still in the process of recovery. This could lead to confusion, stress, and dissatisfaction, as you can imagine.

Ensuring proper steps in the revenue cycle right after patient registration is crucial. Performing eligibility verification, benefit checks, and prior authorization on every patient before submitting the claim to the payer can dramatically improve first-pass claim submission rates, reduce denials, and lower the costs associated with rework. Providers should aim for a first-pass rate exceeding 95%.

Although most clearinghouses accept EDI claims with attachments electronically, clearinghouses often still print and mail EOBs due to a lack of connectivity between the clearinghouse and payer. The EDI connect rate should typically range from 65% to 75%, varying by state. Increasing EDI rates may require optimizing connections through multiple clearinghouses. We frankly think this should happen as a risk mitigation strategy, but the increased number of connections creates a multitude of benefits.

Impact on Relationships With Large Employers

An often-overlooked aspect of Workers' Compensation claims is their impact on relationships with large employers and the satisfaction of the patient across other financial classes. Patients with WC claims are employed by businesses of all sizes, including major commercial payers. A negative experience with WC claims reflects poorly on overall patient satisfaction and can lead to decreased referrals and patient attrition.

Efficient handling of WC claims ensures timely reimbursement and strengthens partnerships with large employers, which can positively impact patient outcomes, satisfaction, and revenue growth for the provider.

Positive Employer Relationships and Employee Satisfaction

Accurate and efficient claims processing reflects positively on both the employer and healthcare provider, enhancing employee satisfaction and reducing stress. Effective claims management minimizes financial uncertainties for patients, aiding their healing process and improving health outcomes.

Common Billing Problems With Workers' Compensation & Strategies for Success

To effectively manage Workers' Compensation claims, it's critical to analyze them separately from other data. Using relevant metrics and benchmarks provides insight that might otherwise go unnoticed. Common problems and their impacts include:

Manual Processes and Paper EOBs: Many claims are processed manually, leading to delays and errors due to insufficient information.

Incomplete Front-End Workflows: Without electronic claims submission, key metrics like claim receipt acknowledgments and eligibility verification are often unavailable, complicating the workflow. Retro authorizations are time-consuming and frequently unsuccessful.

High Denial Rates: Failing to check eligibility, verify benefits, and obtain prior authorizations can result in denial rates as high as 30% to 40%.

EDI Claims Submission Rate: Maximizing electronic claim submissions is crucial. Achieving EDI rates over 75% is possible and can significantly enhance tracking and management, but it may require multiple clearinghouses.

Contract Compliance: Ensuring payments align with state fee schedules or network PPO fee schedules rather than a percentage of charges is essential. A robust contract management solution can audit payments and provide feedback on erroneous discounts taken.

Current Market Trends and Provider Actions

A recent Black Book research project highlights a shift toward adopting specialty RCM firms for managing complex claims, including motor vehicle accidents, out-of-state Medicaid, and WC claims. Nearly 5,000 financial managers are seeking alternative methods to process these claims due to concerns about data security, high denial rates, reduced revenue, and the risks associated with centralized operations.
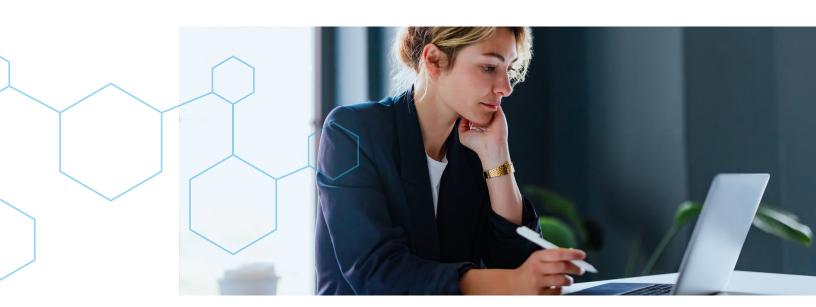
> The survey also shows that **over two-thirds of participants are currently exploring new solutions for processing complex claims**. For example, 84% of community hospitals (150-400 beds) plan to move to specialty RCM vendors, as hard-to-process claims now account for 36% of their claims workload.
>
> Integrated delivery networks (IDNs) and health systems report that 27% of their claims workload is complex, necessitating specialized RCM partners. Additionally, 80% of major health systems and 95% of physician practices lack the resources to manage these claims internally, prompting a shift to specialty RCM partners. Post-acute providers are also following this trend, with 91% planning to engage specialty RCM partners by Q1 2025.

Challenges Faced by Traditional RCM Vendors

Traditional RCM vendors often struggle with WC claims due to reliance on automated solutions designed for standard claims processing. WC claims are often handled manually, involving unique payers not governed by standard payment rules under the Affordable Care Act. This leads to higher extended payment lags, increased denials, and frequent underpayments.

The cost structures of traditional RCM vendors do not lend themselves well to accommodate the detailed manual work required to get paid on WC claims. Since outsourcing contracts typically operate on a contingency fee, vendors are paid a percentage of collections regardless of the cost to collect, making WC claims less profitable.

Choosing the Right Specialty RCM Partner

The Black Book survey identified key performance indicators (KPIs) providers consider when selecting a specialty RCM partner. These include vendor trust, accountability, data security, process efficiency, AR reduction/ROI, innovative technology, intelligent automation tools, and expertise in claims systems and payer rules. Providers need to understand their performance metrics and compare them to industry benchmarks to choose the right partner.

Key metrics to track for Workers' Compensation claims include:

FIRST PASS RATE	**95%**
DAYS IN AR:	**33**
CLAIMS & ATTACHMENTS SUBMISSION RATE:	**>75% ELECTRONICALLY**
DAYS TO VERIFY BENEFITS:	**≤5 DAYS**
DAYS TO RECEIVE AUTHORIZATION:	**≤8 DAYS**
DAYS TO BILL:	**≤12 DAYS**
CONTRACT COMPLIANCE:	**>95% OF THE EXPECTED ALLOWED**
DENIAL RATE:	**EQUAL TO OR < 1.88% OF CLAIMS LINES**

Tracking these specific metrics allows healthcare providers to benchmark their performance and identify areas where process improvement needs to be made rapidly.

Leveraging Technology and Expertise

Automating claim submissions, payment processing, and documentation can reduce errors and improve efficiency. Maximizing electronic claim submissions (EDI) enhances tracking and management. Open communication lines with payers and employers can minimize disputes and clarify expectations. Regular staff training on WC regulations and processes reduces compliance risks and boosts efficiency.

> **Engaging specialized service providers with deep knowledge of WC claims can improve key metrics and benchmark results. Providers should consider partnering with firms like Unified Health Services (UHS), which offers personalized solutions backed by more than 27 years of experience.**

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Conclusion

Effective management of Workers' Compensation claims is essential for financial stability, strong employer relationships, and a positive patient experience. By implementing the strategies outlined above, healthcare providers can ensure accurate and timely payments, leading to better patient outcomes and stronger business relationships.

For more insights and detailed strategies, visit our blog at uhsweb.com/blog.

ABOUT THE AUTHOR

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ABOUT UNIFIED HEALTH SERVICES (UHS)

Founded in 1997, UHS specializes in providing day-one revenue cycle management services using advanced technology, industry expertise, and innovative solutions. We focus on delivering personalized options to meet client needs, with a successful track record spanning more than 27 years. For more information, visit our website at www.uhsweb.com.

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