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Terminating a Managed Care Payer: Negotiation Tactic or Business Decision?

BY MARISA A. MOLITOR

Can't get patient claims paid by insurers on a timely basis? Don't like the rate increase or new payment methodology proposed by one of your managed care payers? Having difficulty getting a payer contract negotiation started or finished?

These are all common issues hospitals and their managed care directors face. So what can be done? Managed care staff may feel like sending payers termination letters, but that might not be the best solution. Before deciding to terminate a payer, there are several steps that managed care directors should take to make sure they are making a business decision in the best interest of their organization.

First, fully evaluate the hospital's managed care contract portfolio. This helps determine if the organization can afford to continue doing business with a payer under the current or proposed relationship. It uncovers contracts that are losing money, contracts with a disproportionate ratio between volume and discount, and contracts with operational issues that have not been resolved after lengthy discussions. In this evaluation, rank all contracts according to volume and reimbursement dollars. This will determine gaps between payers, and identify payers with a high discount and low volume relative to the others.

Next, it is important to recognize in advance the effects of a contract termination, and the new obstacles such action may create. For instance, some payers' contracts may have unique consequences to termination. If there are multiple contracts with a payer for different products, a termination of one contract may lead reimbursement to run through another contract even though you may expect to receive billed charges.

Some payers use wrap around networks to take the discount. In addition, some payers have benefit designs that make a larger portion of the bill the patient's responsibility. Many of these effects are hidden and are difficult to fully assess until they occur. This creates challenges for hospitals and physicians. A final consequence to consider is where the business could go if the contract is terminated: Can the organization afford to shift the business to another contract?

Internal and external political implications of contract termination are also important to take into account. Internally, make sure that hospital administration is on board with a termination decision and that they feel the organization can sustain a loss in cash flow. Also, it is imperative to think through physician implications such as roadblocks created by a large associated physician group that does not wish to terminate a payer. Externally, consider the primary employer groups in the institution's geographic area. For example, do representatives from these employers sit on the hospital board?

Finally and most importantly, note that termination is not a tool to use in a negotiation because it can backfire. Only send a termination letter if, after doing all the analysis outlined above, termination is deemed a better decision than continuing the relationship. Many times termination letters are sent as a tactic to get the attention of a payer or to gain an advantage in negotiation. Then as the termination date gets closer, if termination is not a truly viable option, the provider feels pressure to extend or rescind the termination to continue negotiating with the payer. The hospital then loses credibility if terms are not ultimately met, and the termination is reinstated.

At times, terminating a managed care payer may make sense for a hospital, but be sure all the termination "homework" is done in advance. To avoid making emotional decisions, create a plan to fully evaluate the implications and to protect the institution from obstacles and consequences. And be firm in your decision once made. This is the formula for a successful termination.

Marisa A. Molitor is a Consultant for The Tintari Group, Inc. This Chicagoland-based firm provides revenue cycle and managed care consulting services to healthcare institutions. Ms. Molitore can be reached toll free at 877-TINTARI (846-8274) or through the firm's website www.TintariGroup.com.