VIRTUAL CARDS:
Healthcare's New Electronic Payment Revolution
Healthcare is truly an 800-pound gorilla. Accounting for approximately one-sixth of the entire U.S. economy, industry spending totals more than $2.5 trillion annually, according to the Centers for Medicare and Medicaid Services’ (CMS) National Health Expenditure Data. It comes as no surprise that many of these costs could be eliminated: Research from Thomson Reuters indicates that up to $800 billion, or about 30 percent of these annual healthcare expenditures, are lost to wasteful, redundant or ineffective practices.

How do we strip these unnecessary costs from the healthcare system? There are myriad answers, but one sticks out more than others: Eliminate paper checks and their associated inefficiencies. Despite a push toward electronic methods of payment from healthcare reform and other industry factors, providers are hesitant to move away from the workflows with which they have become comfortable, choosing instead to endure the cost of processing check payments. Another method exists, however, which allows providers to keep their current processes in place. Virtual payments made via credit card networks leverage existing technology and workflows to complete healthcare transactions while incorporating a cost offset not available through paper checks from which both payers and providers can benefit.

NEW EFT/ERA MANDATE CARRIES WEIGHT

The federal government has long been working to help the industry break its dependence on checks for claims reimbursement, including provisions that were written into the Health Insurance Portability and Accountability Act (HIPAA) designed to promote more electronic funds transfer/electronic remittance advice (EFT/ERA) transactions between payers and providers. However, the rules turned out to be relatively weak and didn’t inspire much progress in the industry. In fact, according to the Council for Affordable Quality Healthcare’s (CAQH) Healthcare Efficiency Index, only 10 percent of payments are sent electronically to providers today.

Major change is on the horizon thanks to mandates included within the Patient Protection and Affordable Care Act (PPACA), which created formal operating rules and technical standards around EFT/ERA. The provisions require health plans to transmit EFT and ERA files to any provider organization that requests these electronic transactions beginning on Jan. 1, 2014. CAQH helped create the new provisions, which enable providers to submit transactions from the system of their choice and quickly receive a standardized response. This will make it easier for healthcare organizations that are prepared to utilize software services to match payments with remittance advice information and post the data to patient accounts on a more timely basis.

The rules establish that if a provider organization requests an automated clearing house (ACH) payment, payers must comply and provide the payment via the requested method or face penalties. Although providers are not required to accept electronic payments from health plans, they are not completely immune from electronic payment transactions: Medicare payments will be distributed via EFT beginning in 2014.

Like other transaction methods, ACH does away with paper checks and minimizes many administrative hassles for providers that are ready to accept electronic transactions. But
while ACH is specifically mentioned in PPACA, it’s not the only electronic transaction medium available to health plans and provider organizations. Virtual credit cards are increasingly being recognized as a convenient way to leverage infrastructure (credit card networks) and technologies (point-of-service (POS) terminals) with which providers are already very familiar and more prepared to utilize today.

VIRTUAL PAYMENTS PRESENT A VIABLE OPTION

A virtual credit transaction begins when a health plan issues a unique, one-time-use virtual card number to a provider along with an explanation of payment (EOP) via paper or portal services, currently the most common methods by which providers receive this information. The hospital or doctor’s office simply processes the payment through its POS device, with the funds electronically routed to an existing bank account. This eliminates the burdens associated with manual check-cashing while providing the comfort of processing payments as setup by their existing technologies today.

Unlike some other methods of reimbursement, virtual payments are settled quickly, which helps improve cash flow for both the payer and the provider. When combined with EOP information and security measures common to traditional credit cards, virtual transactions are highly accurate and serve to reduce incorrect or unwarranted payments, including those due to fraud, abuse and misuse. Safety is further enhanced because payers and providers are not required to divulge any sensitive financial information, such as a bank account number that would be required for check-based direct deposit transactions. And if there are payment discrepancies, health plans and providers simply need to work with the virtual card processing firm to resolve the dispute. Some of these card issuers will even take on the complete financial burden until the issue is settled, lifting the weight off the shoulders of all parties involved.

VIRTUAL PAYMENTS HOLD MANY ADVANTAGES

In spite of ACH’s healthcare reform backing, it has its share of challenges. Namely, healthcare organizations must enroll with each health plan before they can conduct ACH transactions, a time- and resource-consuming proposition. They must also actively manage each payer relationship, which could total into the hundreds. Further, providers may experience diminishing returns by having to complete the enrollment process with some payers from which they only receive a small number of reimbursements.

Healthcare organizations have also expressed concerns about ACH because they are required to supply health plans with their bank account information so the direct deposit can be made. Considering the high number of health plans with which a provider interacts, many facilities would rather not distribute this sensitive financial information so widely. And ACH technology is not yet conducive to real-time payments.

In the virtual payment environment, on the other hand, provider organizations need only to establish a single account with the card merchant and not separate accounts for each health plan. And unlike ACH, virtual payments do not require additional information or consent from providers.
An additional benefit of virtual payments is the ease with which the reconciliation process can be resolved. With purely electronic delivery, the ACH and 835 EDI transaction is the only standard in healthcare that is delivered in a bifurcated manner on different days. The CAQH CORE operating rules provide for a three day gap to stay compliant, resulting in staff spending time ensuring the payment is matched to the correct ERA record. However, in virtual payments delivered via paper or portal, providers have a single transaction source, and all reconciliation and funding activities are managed by their internal workflow, allowing them to remain proactive with regard to their accounting practices.

Another issue that providers constantly struggle with is how to manage overpayments they receive from health plans. With checks and ACH, no simple method of returning funds exists, so providers are forced to get creative in how they manage the books. Often times, future patient balances are zeroed out to make up the difference, or the plan in question will short pay the provider on future reimbursements. With virtual payments, providers can simply refund overpayments using the same technology that is already in place that allows the initial transaction to occur.

Payers appreciate the flexibility of virtual credit cards, particularly how the transactions add transparency in the claims management and remittance process. Virtual payment solutions also often include robust analytics that offer health plans insights into the way that providers handle healthcare payments. And since payers can receive a rebate as a percent of the credit card transaction volume, the costs can be offset by supporting providers’ choice to receive virtual payments and explanation of benefits (EOB) delivery rather than facing the subsequent challenges of ACH delivery.

ENSURING ERISA COMPLIANCE

Healthcare plans considering operating in a virtual environment must familiarize themselves with the Employee Retirement Income Security Act of 1974 (ERISA). Designed to protect company investment plans and other retirement savings in private industry, ERISA sets minimum standards of conduct for fiduciaries who manage employee benefit plans and their assets.

The law requires all covered employee benefit plans to hold plan assets—including employee and employer contributions, COBRA premiums and retiree premiums—separate from other assets, ensuring they are protected from creditors, investment managers or advisers. It’s designed to ensure that even if the plan becomes insolvent, money will still be available to pay benefits.

Unfortunately, the law doesn’t provide clear guidance around credit card issuance and its authorization status, or essentially when the provider payment is ultimately extinguished. Some fear that the Department of Labor (DOL) could classify these “funds in transit” as plan assets when an employer (or TPA) uses salary reductions or other financial sources that fall into this category to fund the card payment. Electronic transaction solution providers that overlook ERISA rules place fiduciaries at risk of stiff penalties—up to $100,000 in fines and/or up to 10 years in prison.

Virtual payments allow providers to remain proactive with regard to their accounting practices.
Employers must carefully evaluate each solution in the market, partnering with a company that understands ERISA's nuances. They should look for a virtual payment solution that has safeguards in place, including “post authorization funding” options to address the unique payment reconciliation needs. This will enable employers and TPAs to initiate card transactions immediately but delay funding until the virtual payment has been authorized by the provider. As such, funds are distributed only as providers request claim payment, giving employers greater control over cash flow while better ensuring compliance with ERISA’s plan asset trust requirement.

THE FUTURE OF VIRTUAL CARDS

Widespread electronic claim payments have eluded the healthcare industry because methods such as ACH require providers and payers to expend a great deal of energy and resources to initiate and maintain enrollment and support systems that deliver a bifurcated data stream across multiple industry players. As electronic payment technologies improve, however, healthcare providers will likely be drawn to methods, including virtual transactions, which speed adjudications and payments while keeping administrative hassles to a minimum. Payers should be aware, however, that not all virtual card solutions are created equal.

Health plans must carefully evaluate and select a solution that is compliant with regulations governing the way in which funds are to be handled. They should also seek out a partner like Comdata, which has a track record of simplifying the payment process. With tools such as analytics building into their technology, they are helping health plans streamline electronic reimbursements by removing unnecessary costs, speeding reimbursement delivery and improving transaction accuracy. Comdata also employs advanced fraud detection services and comprehensive dispute management should any issues arise. The company’s healthcare-focused processing engine addresses, and is compliant with, regulations establishing payer fiduciary rules.

In the midst of industry challenges, such as preparing for healthcare reform, responding to economic pressures and facing down increasing competition, it’s increasingly important for health plans to create efficiencies and keep expenses in check. Fortunately, the current healthcare system offers many opportunities to do so with the help of virtual cards and other electronic claims reimbursement technologies. As payers leverage these tools to convert more claims payments from paper to electronic, they are not only serving their own interests well, they are adding value to the entire healthcare industry.