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Non-reconciliation of third party claims: How much are we losing?

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There is an assumption made by pharmacists that when a third-party company electronically accepts a prescription for reimbursement at a specific dollar amount, the pharmacist will receive a check for that same amount. This seems to be a reasonable assumption, but is it true? Through a study funded by the National Community Pharmacists Association Foundation, researchers at the University of Arkansas for Medical Sciences (UAMS) College of Pharmacy decided to find out.

Eight independent pharmacies in central Arkansas were recruited to participate in the study. These pharmacist owners serve as clinical preceptors for senior pharmacy students enrolled in a Doctor of Pharmacy curriculum at the UAMS College of Pharmacy. Students aided in the reconciliation process and data evaluation. During the first month of the study, one of these pharmacies was sold to a local chain and, thereafter no data was available. Due to this, the pharmacy was dropped from the study. The study evaluated all insurance reimbursement checks received at each pharmacy during a three-month period. When a reimbursement check was received by the pharmacy, the researchers retrieved prescription records for the period covered by the check. The pharmacy figures for amount accepted by insurance company as payable (i.e. approved amount), plus any co-pay from patient was compared to the amount actually paid by the insurance company. When discrepancies were noted the researcher recorded the company name, date, and any dollar differences. If claims were denied or returned as pending, the reason for the denial or pending status, if stated, was recorded. Additionally, researchers kept records on the time involved in performing the reconciliation, the average days from billing to reimbursement and the total number of prescriptions billed to each insurance company during the

period of the study. At now time during the study was patient confidentiality breached. The researchers collected no patient-specific data.

Descriptive statistics (e.g., mean and standard deviation) were calculated for all cost information. Claims from 20 insurance companies were reviewed at the seven study pharmacies. The total number of insurance claims reviewed was 21,068. The total number of claims with a difference between approved amount and amount paid was 206 (i.e., approximately 1%). There was a great deal of variation in the dollar amounts of the differences, which ranged from $53.99 in the pharmacy's favor to a $359.30 loss to the pharmacy. However, on average, the pharmacies lost $20.68 ± $6.15 (95% CI) each time a difference occurred (Table 1).

Payors rarely offered explanations for the differences. Out of 206 differences examined, reasons were given in only 12 cases (5.8%). When explanations were offered, they typically could be placed in one of four categories: a) patient not covered; b) a pharmacy adjustment; c) an online claim charge; and d) P.O.S. transaction fee. Obviously, depending on the reason for the difference, some of these claims could have been resubmitted for payment or billed to the patient. Whether or not the pharmacies re-billed the claims or received any monies due was outside the scope of this study.

Students and the authors spent a total of 24.5 hours over the course of three months performing reconciliation activities at the seven pharmacies. This translates to each pharmacy needing to spend approximately 1.17 hours or 1 hour and 10 minutes each month performing reconciliation activities. In Arkansas, the average technician is paid between $8.00 and $10.00 per hour. So,

the average cost per month to perform reconciliation on claim reimbursement would be $9.35 to $11.67 for a total cost per year of $112 to $140. This is a very conservative estimate of time and cost because a.) information collected for this survey was in excess of the information that would normally considered during a routine reconciliation; b.) once the person assigned the job of reconciliation learned the process, less time would be required; and c.) some idle time exists for present employees that could be used performing reconciliation instead of hiring another person.

The payors for whom the pharmacies processed the highest volume of claims during the study period (number of claims $\geq$ 200) were ranked according to average number of days between date of service and date of reimbursement, average difference (loss) to the pharmacy, and percent difference between number of claims billed and number of claims reflecting a difference. Rejected claims were not evaluated. Also, no adjustments made to the pharmacy's check for reasons other than differences described in this paper were included in this data. The data is presented in Table 2. Under the category of Percent Differences, two pharmacy benefit managers (PBMs) have a rank of 1 because neither of them was found to have claims where discrepancies occurred. However, both of these companies had relatively few claims examined. PBMs ranked 4 and 5 had very similar percentages of difference, but the PBM ranked number 4 only had 614 claims examined and the average loss on each one was $29.81. The PBM ranked 5 had 3768 claims examined and the average loss on each one was $2.47. Obviously, the information presented about the PBM across all categories should be considered in making a decision concerning the acceptability of any particular company's insurance card.

To estimate the expected total cost in claim differences for the average pharmacy, three primary assumptions were made:

1) Cost per difference ranges from $14.53 to $26.83 (i.e., $20.68 ± $6.15) based on the 95% confidence interval for average difference.
2) Based on information gathered from the 1999 NCPA-Searle Digest the average percentage of 3rd party claims ranges from 64% to 79%. An average pharmacy fills approximately 138.6 prescriptions per day. Thus, from 88.7 to 109.5 prescriptions a day, are paid by a third party based on a 280 day-year.
3) Differences in the paid versus claim amounts occur in 0.98% of claims based on the figures presented above.

Based on these assumptions it was determined that an average independent pharmacy can expect to lose approximately $6,623 dollars a year from differences in claims, or approximately $0.14 per third-party prescription. Additionally, the sensitivity analysis revealed the average "best case" scenario is a loss of $3, 537 ($0.14 per prescription), and the average "worst case" scenario is $8,061 ($0.26 per prescription).

To roughly estimate the loss for a particular pharmacy based on the above results; we can use the following equation:

LOSS = 20.68 * (Claim Difference Rate) * (3rd Party Percentage) * (Prescriptions Filled Per Year)

For instance, if an independent pharmacy fills 40,000 prescriptions a year, 70% of the prescriptions are 3rd party claims. If the pharmacy estimates from their records that approximately 1% of the claims are paid a different amount than billed, then the pharmacy is losing approximately $5,790 a year ($20.68 * (.01) * (.70) * (40,000)=$5,790).

Limitations:

The study took place over a period when many companies were making changes in their software in anticipation of year 2000 problems, so maybe this played a role in the average length of time between billing and payment (range 22-77 days). Also, one of the pharmacies submits its prescriptions in batches and this would contribute to a longer period of time between his date of service and date of payment.

Conclusion: Does it pay a pharmacist to reconcile third party claim statements?

It is important to realize that the percentage of claim differences plays the most important role in calculating these expectations. In the example above, if the pharmacy has a low percentage of claim differences (e.g., pharmacy 7 at 0.05%) then the fictional pharmacy in the example above may only lose $290 a year. Therefore, it may not make sense for the pharmacy to reconcile each claim. However, if the pharmacy has a high percentage of claim differences (e.g., pharmacy 5 at 5.96%), then the same pharmacy may be losing as much as $34,510!

Author's note: At the beginning of the study period, only two of the seven pharmacists were reconciling their third party reimbursement statements. After participating in the study, six of seven pharmacists now perform claim reconciliation every month.

Table 1: Summary Statistics

Statistic	Pharmacy 1	Pharmacy 2	Pharmacy 3	Pharmacy 4	Pharmacy 5	Pharmacy 6	Pharmacy 7	Overall
Total Claims	3106	1195	4195	4109	2147	2221	4093	21068
Differences (%)	29 (0.93%)	9 (0.75%)	11 (0.26%)	11 (0.27%)	128 (5.96%)	16 (0.72%)	2 (0.05%)	206 (0.98%)
Sum of Difference	$475.78	$44.26	$441.27	$778.97	$2,372.21	$133.2	$13.94	$4,259.63
Average Differences (SD)	$16.41 ($16.93)	$4.92 ($20.85)	$40.12 ($67.76)	$70.82 ($142.69)	$18.53 ($30.17)	$8.33 ($8.15)	$6.97 ($18.38)	$20.68 ($45.04)
Range Difference	$0.21 to $67.25	(-$47.63) to $23.11	$0.82 to 224.67	$0.25 to $359.30	($-53.99) to $170.35	$1.14 to $31.12	(-$6.03) to $19.97	(-$53.99) to $359.35
Average Reimbursement Time (in Days)	48.5	36.1	26.6	38.4	42.7	33.7	5.5	41.1

*Negatives indicate differences in pharmacy's favor

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2: Third Party Rankings

Payor	Total reconciled	Total Differences	Percent Differences	Percent Rank	Average Days to Payment	Days Rank	Average Difference Amount	Amount Rank
#1	4632	3	0.0006	3	34	4	$ 10.63	2
#2	552	4	0.0072	6	34	4	12.19	3
#3	637	0	0.0000	1	*		**	
#4	223	0	0.0000	1	*		**	
#5	205	2	0.0098	8	22	1	39.66	9
#6	240	14	0.0583	11	77	9	14.16	4
#7	3768	13	0.0035	5	33	2	2.47	1
#8	6635	61	0.0092	7	37	7	25.09	7
#9	1803	58	0.0322	9	34	3	19.04	5
#10	268	10	0.0373	10	44	8	19.94	6
#11	614	2	0.0033	4	35	6	29.81	8

* NOTE: Days to Payment were only collected for claims when differences existed.

** NOTE: Since no differences were noted, this difference amount cannot be estimated.