Tale of Two Transactions: *Health Care Payment and Remittance Advice (835)* meets the Automatic Clearing House (ACH) *Electronic Funds Transfer (EFT)*

I. Charge to the NCVHS Committee

II. How *Health Care Payment and Remittance Advice* and *Money* are transmitted

III. What problems would Standards and Operating Rules solve?

Centers for Medicare & Medicaid Services (CMS)
Office of eHealth Standards and Services
December 2, 2010
I. Charge to the NCVHS (this go-round)

1. Recommend a standard for Electronic Funds Transfer (EFT)

2. Recommend operating rule for Electronic Funds Transfer transaction

3. Recommend operating rule for the Claim Payment and Remittance Advice Standard Transaction (835)
Sec. 1173
(a) Standards to Enable Electronic Exchange –
(1) In general – The Secretary shall adopt standards for transactions, and data elements for such transactions, to enable health information to be exchanged electronically, that are appropriate for... (A) financial and administrative transactions...
(2) Transactions. – The Transactions referred to in paragraph (1)(A) are transactions with respect to the following:
   (A) Health claims or equivalent encounter information
   (B) Health claims attachments.
   (C) Enrollment and disenrollment in a health plan.
   (D) Eligibility for a health plan.
   (E) Health care payment and remittance advice
   (F) Health plan premium payments.
   (G) First report of injury.
   (H) Health claim status.
   (I) Referral certification and authorization.
   (J) Electronic funds transfers.

Affordable Care Act adds: “…the Secretary shall adopt a single set of operating rules for each transaction… the set of operating rules for electronic funds transfers and health care payment and remittance advice shall… allow for automated reconciliation of the electronic payment with the remittance advice.”
II. How Money (funds) and Health Care Payment and Remittance Advice are transmitted

In the health care world, for the most part, the actual money or funds are sent separately from the Health Care Payment and Remittance Advice.

• The transfer of funds (by paper check or EFT) is a financial transaction.

• The transmittal of Health Care Payment and Remittance Advice information is a health care transaction, the electronic version of which is standardized under HIPAA.
How HEALTH CARE PAYMENT AND REMITTANCE ADVICE is transferred
(This is a health care transaction)

This transaction is conducted by mail or electronically.

The plan sends the provider the health care payment and remittance advice that gives both Payment data and Remittance Advice (explains why the amount paid may be different from what the Provider billed).

Mailed paper

Plan → Provider

Electronic

Plan → Provider

The HIPAA standard for claim payment and electronic remittance advice is called the “X12 835”

OR

Certain electronic health care transactions are regulated by HIPAA
How *MONEY* is Transferred
(These are **financial** transactions)

The transfer of funds is carried out in a number of ways, usually separate from the *Healthcare Payment and Remittance Advice*. When electronic transactions are used, the transaction is between the health plan and a bank.

An Electronic Funds Transfer (EFT) is any transfer of funds that is *initiated through electronic means* for the purpose of ordering, instructing or authorizing a financial institution to debit or credit an account.
In general, the **EFT** is the whole transaction, from a payment authorization from the payer (plan) to the deposit notice to the payee (provider). The EFT is primarily a transfer of funds, though the transaction can carry data that explains those funds. The EFT transaction is the electronic format and content in use by payers today to initiate an EFT payment to a provider. However, there is no adopted HIPAA standard yet. A standard and an operating rule are needed to broaden standard use of the EFT transaction.

- The **Automated Clearing House (ACH) Network** is a processing and delivery system for EFTs utilizing nationwide telecommunications networks. It includes the legal agreements between all participants.
- The **National Automated Clearing House Association (NACHA)** is the non-profit organization responsible for administration, development, and enforcement of the rules and management practices for the ACH network.

**HIPAA EFT Transaction (i.e., EFT specific to healthcare transactions):**

“the mechanism that payers use to instruct one [bank] to move money from one account to another account...”

NACHA maintains the rules for the ACH Network. The rules are high level and provide for a lot of flexibility.
III. What problem(s) need to be solved?

HIPAA provides a foundation for the electronic exchange of payment information, but the existing standards and industry practices do not yet mitigate the paper based systems or the need for significant manual efforts.
Re-Association

Regardless of the way the *Money* and *Health Care Payment and Remittance Advice* are sent, ultimately, the remittance advice must be reconciled (re-associated) with the payment.

The best way to re-associate the remittance data with the money is to use an EFT format that combines the data with the dollars in the same transaction (CCD+ or CTX). NACHA Rules and HIPAA’s X12 835 standard allow this to happen, but it is not clearly mandated and not occurring on a wide scale.

Automated re-association is where administrative simplification and cost savings will happen – as recognized by Affordable Care Act.
In order to “allow for automatic reconciliation of the electronic payment with the remittance advice,” as the Affordable Care Act requires, it will be necessary to include some or all of the payment and remittance advice data in an EFT. Therefore, some data that may be considered protected health information may travel through at least one financial institution.

**Sidebar: Privacy Issues**

**HIPAA Privacy Rule**: The HIPAA Privacy Rule foresaw the use of EFT to transmit data (as well as dollars) and speaks directly to the issues surrounding the transmittal of health care information with an EFT through financial institutions:

- **EFT with minimal data (CCD+)**: When the Payment and Remittance Advice and the EFT are traveling separately, no diagnostic or treatment information is necessary in the EFT. The only information that must necessarily be included in the EFT in order to facilitate re-association is the same information that is necessary on a paper check; i.e., a trace number (like a check number), the name and address of the plan and provider, the tax id of the plan, the amount, etc. The Privacy Rule found that this information can be lawfully disclosed to a bank.

- **EFT with entire 835**: When the entire Payment and Remittance Advice (835) is enveloped in an EFT (as may happen in a CTX format), then the Privacy Rule requires that the 835 be encrypted.

- **“Medical Banking”**: When a financial institution provides additional services in addition to traditional banking, such as health claims management and billing support, then the Privacy Rule acknowledges this and provides guidance, noting that financial institutions may be business associates or covered entities if they meet the definitions of those terms.
How the Electronic Funds Transfer Standards and Operating Rule could address industry challenges

EFT Standard

EFT Standard will probably be directed at the format and content that a plan must use to initiate an EFT payment. Ideally, the Standard should make payment through EFT more attractive to plans and providers.

EFT Operating Rule

EFT Operating Rules will probably be directed at making automatic re-association easier and more efficient.

Health Care Payment & Remittance Advice Operating Rule

Health Care Payment & Remittance Advice Operating Rules will probably be directed at requiring more consistent implementation and use of the 835 between trading partners. This might include reducing the degree of optionality and mandating consistent use of codes (CARCs and RARCs).
Some considerations and issues for discussion

• The intersection of HIPAA Standard and NACHA rules (health care transaction standards vs. financial rules and laws).
• Financial institutions may become business associates and perhaps covered entities if certain approaches are used and must comply with certain provisions of HIPAA.
• Potential EFT enrollment obstacles for providers.
• Health Plans’ separate legacy systems for claims processing and remittance advice.
Appendix A: Contents of the X12 Electronic Health Care Payment and Remittance Advice

There are two parts to the X12 835 transaction: *Health Care Payment* data and *Remittance Advice* data.

**Health Care Payment data**

Information about payee, payer, the amount, and identifying information of the payment, like Trace Number. Can also authorize an Electronic Funds Transfer (EFT). Contained in Table 1: “Header” level

**Remittance Advice data**

Two levels of adjustments

- Individual claim-specific adjustments, explanation of benefit information (EOB). Contained in Table 2: “Detail” level

- Provider level adjustments. Contained in Table 3: “Provider Level Adjustment Segment (PLB)” or “Summary”
Appendix B: Section 1179

“To the extent that an entity is engaged in **activities of a financial institution**... or is engaged in authorizing, processing, clearing, settling, billing, transferring, reconciling, or collecting payments, **for a financial institution**, this part, and any standard adopted under this part, shall not apply to the entity with respect to such activities, including the following:

(1) The use or disclosure of information by the entity for authorizing, processing, clearing, settling, billing, transferring, reconciling or collecting, a payment for, or related to, health plan premiums or health care, where such payment is made by any means, including a credit, debit, or other payment card, an account, check, or **electronic funds transfer**.

(2) The request for, or the use or disclosure of, information by the entity with respect to a payment described in paragraph (1)—

(A) for transferring receivables;  
(B) for auditing;  
(C) in connection with—

"(i) a customer dispute; or  
"(ii) an inquiry from, or to, a customer;  

"(D) in a communication to a customer of the entity regarding the customer's transactions, payment card, account, check, or electronic funds transfer;  
"(E) for reporting to consumer reporting agencies; or  
"(F) for complying with—

"(i) a civil or criminal subpoena; or  
"(ii) a Federal or State law regulating the entity.".
Appendix C: CCD+ Format

- EFT Authorization
  - Plan
  - Plan’s Bank
  - Provider’s Bank
  - Provider

- EFT
- Data & Dollars

835 travels separately while abbreviated 835 is sent in EFT addenda

EFT addenda has abbreviated 835

835 is automatically re-associated with the EFT transaction
Appendix D: CTX Format

No need for 835 to travel separately.

EFT addenda has complete 835 in addenda record

835 is contained in the EFT transaction so no re-association necessary.
• Special thanks to staff from NACHA and The Clearinghouse for their expertise and assistance in educating the OESS team on this subject.

• Additional thanks to Margret A for her assistance in documenting the challenges and “the problems we need to solve.”