Coded Division of Financial Responsibility Tool for Health Plan–Provider Contracting

ADMINISTRATIVE SIMPLIFICATION

Under capitated contracts, health plans and providers designate which party is financially responsible for specific patient services under different circumstances. For example, does the financial responsibility for the services of an anesthesiologist rendered in an inpatient hospital setting come out of the physician organization’s capitated payment or is it the responsibility of the health plan? Often, the details of financial responsibility are insufficiently spelled out in capitated contracts, and different health plans use different DOFR formats.

As part of an administrative simplification initiative, IHA assembled industry stakeholders—health plans physician organizations, hospitals and others—to develop a coded DOFR template for use in capitated contracts between health plans and providers. Initially released in 2012, the IHA coded DOFR provides a framework for plans and providers to determine financial responsibility for services. Since the initial launch, IHA has updated the coded DOFR annually, most recently in 2015, to incorporate coding changes.

Although the coded DOFR does not assign risk, the tool gives plans and providers a uniform starting point for capitated payment contract negotiations at a coded level, rather than the broader service categories used in most contracts. The tool can help diminish payment ambiguities between parties and reduce the likelihood of claims bouncing from organization to organization, which can increase administrative costs and lead to consumer frustration with health plans and providers.

WHO BENEFITS?

Ultimately, health care consumers potentially can benefit in two major ways from a streamlined system to determine the division of financial responsibility between health plans and providers: lower administrative costs and less back and forth sorting out payment disputes. For health plans, using a standardized template to determine risk assignment can help them meet Affordable Care Act requirements to keep administrative expenses at or below 20 percent of premiums in the individual and small-group insurance markets and 15 percent of premiums in the large-group market. And, hospitals and physician organizations can benefit from reductions in both administrative burdens associated with managing multiple risk contracts and the costs associated with misdirected claims resulting from insufficiently defined lines of financial responsibility. The coded DOFR also alleviates what many contracting and financial managers call “DOFR creep”—when ambiguous contract language results in transferring more financial risk than planned. Additionally, health plans and providers can potentially improve member and patient satisfaction ratings by reducing administrative problems related to disputed claims.

Fact Sheet January 2016

Coded Division of Financial Responsibility

California health plans are leaders in delegating financial risk for the cost and quality of patient care to physicians and hospitals. Instead of relying on piecemeal fee–for–service payment, California health plans typically share financial risk with providers in commercial HMO/POS products and Medicare Advantage through capitation, or fixed prospective per-member, per-month payments that cover all contracted services. Capitated contracts include provisions—known as the division of financial responsibility (DOFR)—that identify whether the health plan or the provider is financially responsible for particular service categories, such as hospital care or physician professional services. About 15,000 distinct procedure and billing codes underlie these broad service categories. Historically, the DOFR between plans and providers has been defined at relatively high levels and not at the individual coded service level, leading to different interpretations and payment delays and denials. Recognizing the need for an industry–wide solution to the problem, the Integrated Healthcare Association (IHA) in 2011 took the lead in developing a coded DOFR tool that tracks broad service categories to the thousands of individual service codes. Using a standardized format, the IHA-developed coded DOFR tool can help plans and providers clarify gray areas, create administrative efficiencies and reduce claims “ping pong” by clearly identifying which contracted party is at risk for particular services.
LOOKING AHEAD
Adoption of the coded DOFR in delegated risk contracting arrangements has been slow in part because health plan legacy information systems make large-scale changes difficult and expensive. However, as health care spending continues to grow at a faster rate than the overall economy, interest is increasing in other payment reforms that put providers at financial risk for the cost and quality of patient care, such as accountable care organizations (ACOs). Providers negotiating their first risk agreements for commercial ACO, Medicare ACOs and Medicare Advantage can use the coded DOFR to make “apples-to-apples” comparisons among similar service categories in multiple health plan agreements.

As of early 2016, IHA donated the intellectual property related to the coded DOFR to the Industry Collaboration Effort (ICE), a nonprofit health care industry stakeholder organization that mobilizes volunteers to develop educational and best-practice materials designed to streamline, simplify and standardize regulatory policies and procedures governing the provision of health care services.

ABOUT IHA
Based in Oakland, Calif., the nonprofit Integrated Healthcare Association (IHA) convenes diverse stakeholders—including physicians, hospitals and health systems, purchasers and health plans—committed to high-value, integrated care that improves quality and affordability for patients across California and the nation.