

# How to Avoid Payer Contract Landmines: Lesser Of Billed Charges



## How to avoid payer contract landmines

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*The experienced and talented staff at Healthcents have negotiated thousands of payer contracts over the years, covering all types and sizes of practices, ASC's, and ancillary providers including DME companies. This experience has opened our eyes to several "landmines" that can significantly impact payer contracts' reimbursements. Today, with this first article we are introducing a new series across social media and in our blog to help you navigate your way to better contracts and more revenue. We call this new series "Payer Contract Landmines".*

The first landmine we will explore is the infamous "lesser of billed charges" language found in nearly all payer contracts. The language may vary from time to time, but this is one of the most common and misunderstood clauses we run into, and it will often look like this: "health insurance company will pay provider the lesser of its billed charges or its payer allowable for each CPT code's' reimbursement."

***What does this mean, exactly? Let's see an example...***

Let's say that your payer contracted rate at 100%, including patient co-payment is \$110, for CPT code 99213, a routine 15 minute outpatient office visit code. Your chargemaster, list of billed charges, defines your billed charge as \$90, so you will be paid \$90 per office visit rather than \$110, your contracted rate. If this problem expands beyond just one CPT Code, or perhaps even pervades your entire chargemaster, then

you could find that while you have negotiated a terrific new contract, your claims are consistently paid at much lower than your contracted rates.

***So, how do we prevent that from happening?***

We first recommend that you set your chargemaster to “UCR” (Usual, Customary and Reasonable) levels. In the absence of a specific accounting recommendation, a good starting point is about 250%-300% of Local CMS Medicare rates. This approach will ensure that your CPT codes are above your payer contracted rates unless you have CPT codes that pay above 250% of Medicare (You are one of the fortunate few, if you do). The point is to pick a reasonable level of billed charges for all of your CPT Codes. This approach has two benefits:

1. It prevents your CPT Codes’ billed charges from being set below payer contracted rates.
2. You optimize your cash-based business by insuring that you don’t leave money on the table.

Take a look at figure 1, below. Notice that in the model parameters of this report in figure 1, the lesser of billed charges is set at 50%, rather than 100%. This is done to protect against certain payer contracts that are even more aggressive and specify that fees will be paid at the “lesser of 50% of billed charges” or the payer contracted rates. You can see that, in this scenario, in the far right column titled “Billed charges less payer allowables” there are 13 CPT codes flagged in Red, meaning these codes have payer contracted rates that are less than 50% of billed charges and, need to be adjusted up by the negative dollar values specified in this column to avoid being reimbursed at the 50% of billed charges rate rather than the contracted rates. In this example, the middle columns identify codes, in red, that have billed charges set at less than 300% of Medicare. These codes need to be adjusted up by the amounts specified in the “Difference between Rec. and Actual” column to make sure that they are set at 300% of Medicare, the desired UCR level for each code, in this example.

Finally, the column called “Possible Upside” reflects the additional revenue that would flow into the practice as a result of cash-paying patients paying for these codes at their proper discounted UCR retail rates, at the 300% of Medicare UCR level vs. the lower current chargemaster rate in the column called billed charge (The current percent of Medicare is listed in the column called “Current % Medicare” Figure 1).

**ASC Bill Charges Modeler for Payer Payer 2**  
Medicare Year: 2012

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**Model Parameters**

Lesser of Bill Charge Language:

Out of Network Volume:

Bill Charges as % of Medicare:

Out of Network Discount:

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Possible Out of Network  
Upside of Adjustment

\$14,569

Proc	Units	Bill Charge	Medicare Payment	Sec'd BillCharge	Diff Between Sec. and Actual	Possible Upside	Current % Medicare	Payer Rate	Bill Charges Less Payer Allowable
37288	8	\$2,803.50	\$2,377.09	\$7,331.26	\$4,327.76	\$1,394.88	118%	\$973.80	\$427.95
35040	8	\$2,943.00	\$1,701.53	\$5,034.58	\$1,061.58	\$979.71	120%	\$788.80	\$281.70
52648	5	\$2,871.00	\$2,386.97	\$7,100.92	\$4,229.92	\$845.98	121%	\$973.80	\$461.70
32310	21	\$1,084.50	\$903.78	\$2,711.31	\$1,628.85	\$1,368.53	120%	\$337.50	\$304.75
30590	31	\$4,950.00	\$2,661.35	\$8,074.09	\$1,124.05	\$5,873.83	184%	\$1,305.00	\$1,170.00
34130	11	\$1,467.00	\$1,219.36	\$3,838.09	\$2,191.09	\$964.08	120%	\$1,219.36	\$-485.86
34081	4	\$1,467.00	\$1,219.36	\$3,838.09	\$2,191.09	\$350.38	120%	\$1,219.36	\$-485.86
35400	3	\$1,467.00	\$1,219.36	\$3,838.09	\$2,191.09	\$262.93	120%	\$1,219.36	\$-485.86
52353	9	\$2,308.50	\$1,915.26	\$5,743.77	\$1,457.27	\$1,237.42	121%	\$1,915.26	\$-781.01
32951	4	\$1,629.00	\$1,337.81	\$4,073.42	\$2,464.42	\$391.11	120%	\$1,337.81	\$-543.31
32944	3	\$1,629.00	\$1,337.81	\$4,073.42	\$2,464.42	\$293.33	120%	\$1,337.81	\$-543.31
52281	4	\$1,084.50	\$903.78	\$2,711.31	\$1,628.85	\$390.30	120%	\$903.78	\$-911.58
32276	3	\$1,629.00	\$1,337.81	\$4,073.42	\$2,464.42	\$293.33	120%	\$1,337.81	\$-543.31
32235	4	\$1,629.00	\$1,337.81	\$4,073.42	\$2,464.42	\$391.11	120%	\$1,337.81	\$-543.31
32234	3	\$1,629.00	\$1,337.81	\$4,073.42	\$2,464.42	\$293.33	120%	\$1,337.81	\$-543.31
32224	3	\$1,629.00	\$1,337.81	\$4,073.42	\$2,464.42	\$293.33	120%	\$1,337.81	\$-543.31
32204	8	\$1,629.00	\$1,337.81	\$4,073.42	\$2,464.42	\$782.21	120%	\$1,337.81	\$-543.31
51715	3	\$2,488.50	\$1,869.78	\$5,009.33	\$1,539.81	\$304.78	148%	\$1,869.78	\$-433.00

It is important to periodically audit your chargemaster, we recommend once every six months as a reasonable time frame to ensure that new codes or changes to Medicare and payer rates for existing codes will be discovered. Too often, practices set their chargemasters and don't audit them for many years, if ever. Since the "lesser of billed charges" language is present in almost all payer agreements, it is also imperative that you do a comparison, similar to what we did in figure 1, to each of your payers. This will ensure that you cross reference your charges, both to the payer rates of each payer, and benchmark as a percentage of Medicare. Also, make sure to verify, with your accountant, that you balance write offs correctly with the UCR threshold that you select for your chargemaster rates.

***Does this overwhelm you?***

We have found that an easy way to maximize revenue is to ensure that your chargemaster is set at UCR thresholds, and that you periodically audit your rates by CPT code, comparing them by payer. It's vitally important that you have a consistent approach to setting your rates at a uniform percentage of Medicare, at least 250% or higher, to ensure that you don't get bitten by the "lesser of" language. If you are feeling

overwhelmed and unsure of how to safely navigate this clause to best maximize your revenue, let us help you. We can take the stress out of payer contract negotiations, and maximize your profits!

To further assist you in your contracting efforts, please click our [free whitepaper link here](#) about 3 techniques to analyze and increase your reimbursements. You have nothing to lose, it is free and will help you. If you would like to discuss your payer contracts, please send me an email and I'll be happy to assist. For more information, please contact: Steve Selbst, [selbst@healthcents.com](mailto:selbst@healthcents.com) or 831-455-2174. For general information or questions, please phone us at 1-800-497-4970 or send an email anytime to [info@healthcents.com](mailto:info@healthcents.com). We look forward to hearing from you and are glad to provide information that helps you as a provider to run a more profitable practice / company.