

# HIPAA

**The Basics of EDI and HIPAA for Clinicians,  
Healthcare Executives and Trustees,  
Compliance Officers, Privacy Officers and Legal  
Counsel**

**Jim Moynihan**  
McLure-Moynihan Inc.  
[www.mmiec.com](http://www.mmiec.com)

October 30, 2002

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# HIPAA

- About MMI:
- Incorporated in 1993
- Offices in CA, PA and OR
- HIPAA Ecommerce Consulting and Software
- Chosen by NACHA/ABA to write the NACHA/ABA White Paper and present it to DHHS
- Implemented most HIPAA transactions with Providers and Health Plans.
- About Jim Moynihan
- Co-founded MMI in 1993,
- Fifteen years in banking Former Co-Chair-X12 Payment Work Group and Medical Stop Loss Work Group
- MBA Rutgers University

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## What is HIPAA?

- HIPAA is a **Compliance Initiative** ... but not much like "Fraud and Abuse."
- HIPAA is an **IT Initiative** ... but bigger and more beneficial than "Y2K."
- HIPAA is all about Standards:
  - Standards for automating the business process of claims administration.
  - Standards for the security and confidentiality of health information.

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JPL.

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## Mars Climate Observer



R.I.P. \$125 Million

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## “Administrative Simplification”

- New England Journal of Medicine article claims 19-24% of US healthcare costs are administrative.
- Government response
- Private Sector recommendations in 1993:
  - Automate the claims process:
    - Standardize employer-health plan data exchanges
    - Standardize payer-provider data exchanges
    - Uniform code sets
    - National Identifiers
  - National preemption of complex state laws:
    - Signatures
    - Security

... And then came privacy.

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## What is a Covered Entity?

**45 CFR Sec. 160.103**

“Covered entity means one of the following: (1) A health plan. (2) A health care clearinghouse. (3) A health care provider who transmits any health information in electronic form in connection with a transaction covered by this subchapter.”

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## What is a Business Associate?

**45 CFR Sec. 160.103**

“a person who ...

- ... Performs [for a covered entity], or assists [a covered entity] in the performance of ... a function or activity involving the use or disclosure of individually identifiable health information, including claims processing or administration, data analysis, processing or administration, utilization review, quality assurance, billing, benefit management, practice management, and repricing; or
- ... Any other function ... regulated by this subchapter; or
- ... provides ... legal, actuarial, accounting, consulting, data aggregation ... management, administrative, accreditation, or financial services ... to [a] covered entity ... [that ] involves the disclosure [of] individually identifiable health information ...

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## What is A Clearinghouse?

- Section 160.103

Health Care Clearinghouse means a public or private entity that does either of the following (Entities, including but not limited to billing services, repricing companies, community health management information systems or community health information systems, and “value-added” networks and switches are health care clearinghouses for purposes of this subchapter if they perform these functions.):

- Processes or facilitates the processing of information received from another entity in a nonstandard format or containing nonstandard data content into standard data elements or a standard transaction.
- Receives a standard transaction from another entity and processes or facilitates the processing of information into nonstandard format or nonstandard data content for a receiving entity.

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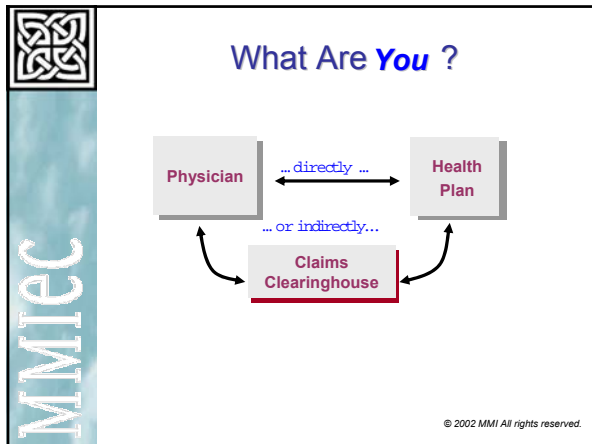
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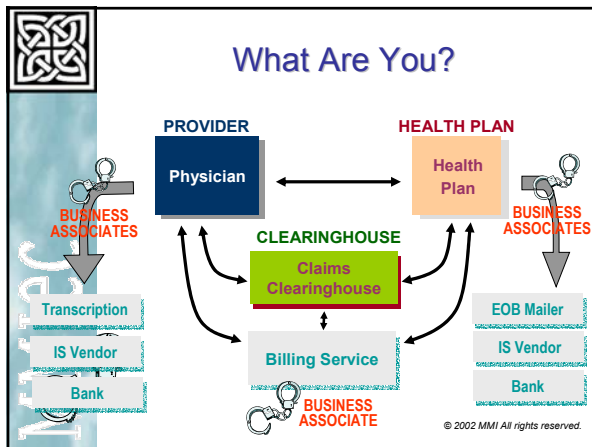
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- 
- Who must comply?**
- “Covered Entities”:
    - All qualified health plans: insurers, Medicare, Medicaid, ERISA plans, etc.
    - Providers who conduct “standard transactions” electronically
    - Healthcare clearinghouses
  - Indirectly covered:
    - Employers
    - Business Associates: vendors, administrators, etc.
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## Penalties

Monetary Penalty	Term of Imprisonment	Offense
\$100	N/A	Single violation of a provision
Up to \$25,000	N/A	Multiple violations of an identical requirement or prohibition made during a calendar year
Up to \$50,000	Up to one year	Wrongful disclosure of individually identifiable health information
Up to \$100,000	Up to five years	Wrongful disclosure of individually identifiable health information committed under false pretenses
Up to \$250,000	Up to 10 years	Wrongful disclosure of individually identifiable health information committed under false pretenses with intent to sell, transfer, or use for commercial advantage, personal gain, or malicious harm

**Failure to implement transaction sets can result in fines up to \$225,000 per year (\$25,000 per requirement, times nine transactions)**

**Failure to implement privacy and security measures can result in jail time**

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## 1996-2002 Waiting for Rules

- DHHS charged National Committee on Vital Health Statistics (NCVHS) to hold hearings on:
  - Transaction Standards
  - Code Sets
  - Identifiers
- HHS Final and Proposed Rules
  - Security Proposed Rule August 1998
  - Final Rule on Transaction Sets and Code Sets issued August 2000, effective October 2002, extension available until October 2003
  - Final Rule on Privacy issued April 2001, effective April, 2003
  - Further Final Rule on Privacy issued August 14, also effective April, 2003
  - Final Rules on Identifiers rolling out *now*
  - Final Rules on Security *expected* late 2002

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## Transaction Standards Compliance

- Health Plans *must* support all “standard transactions” electronically.
- Providers may continue to do business on paper or by telephone or use a clearinghouse if they chose to do business electronically and do not want to support the standard.
- The Compliance Extension Plan extends the deadline for Transactions and Code Sets and has no impact on Privacy.

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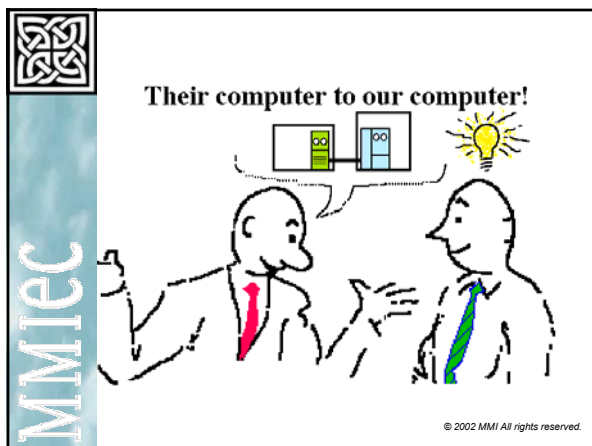
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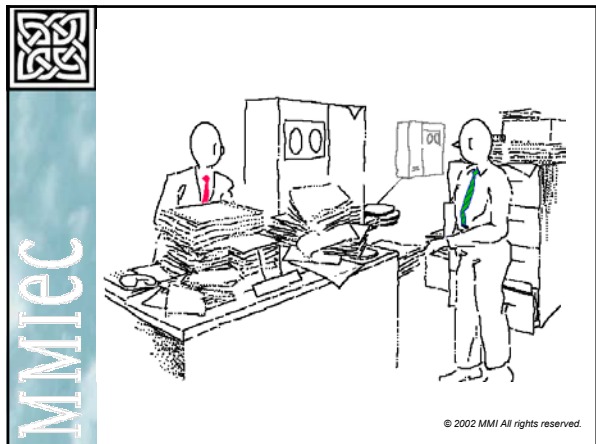
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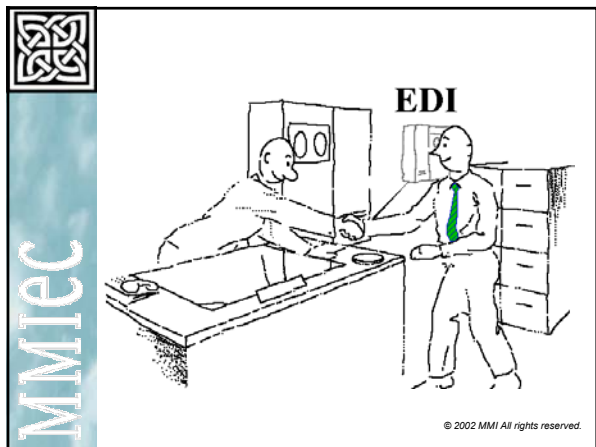
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**What Took So Long?**

- Primitive networks.
- Lack of electronic format standards.
- Expensive hardware and software.
- Lack of consensus among trading partners.

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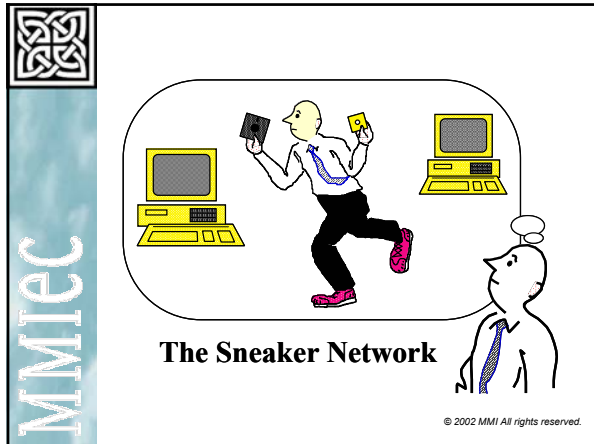
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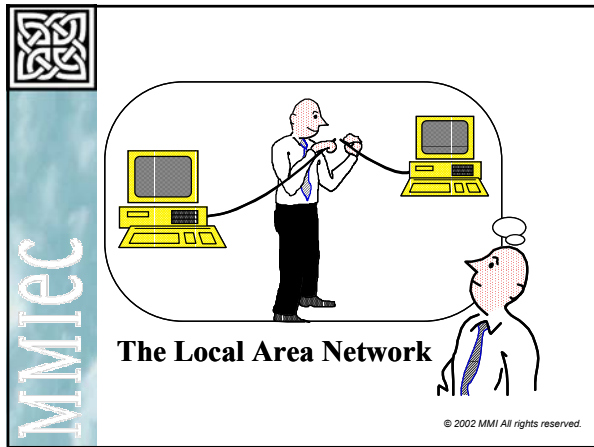
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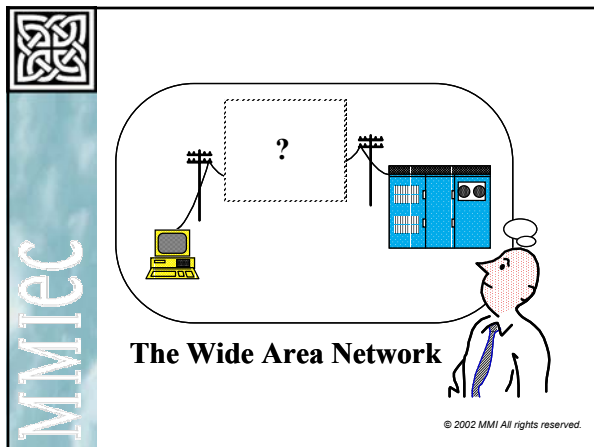
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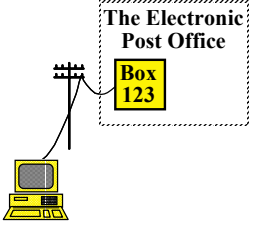
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**The Electronic Post Office**  
Box 123

**Electronic Mail Boxes**

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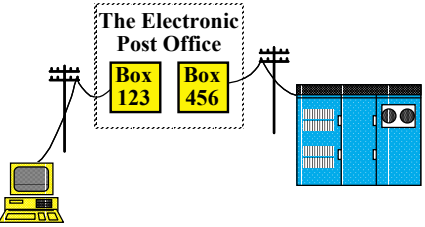
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**The Electronic Post Office**  
Box 123 Box 456

**... And Other Mail Boxes**

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**Value Added Networks**

- VAN's offer store and forward mail box services.
- VANs support numerous communications interfaces, security, 24 hour support and an audit trail.

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## The Internet

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- A Public Packet Network that looks free!
  - But there is no support, no security, no audit trail.
  - Despite shortcomings, the Internet and its protocols appear to be the dominant network of the future.
- Is the “web-enabled” solution a reversion to 1970’s “bulletin board” business processes?

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## Let’s Define Our Terms

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- **Electronic Data Interchange:**
  - The exchange of computer-processable data in a standardized format between two enterprises.
- **Electronic Commerce:**
  - Any use of a variety of technologies that eliminate paper and substitute electronic alternatives for data collection and exchange. Options include Interactive Voice Response, Fax, Email, Imaging, Swipe Cards and multiple Web-based Internet tools.

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## EDI and EC: A Place for Both

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- **EDI**
  - Standards-based data exchange - the foundation of quality transaction processing.
  - System to system exchanges of highly *structured* data.
- **Electronic Commerce:**
  - Multiple ways to communicate unstructured data.
  - People-to-system or people-to-people exchanges.

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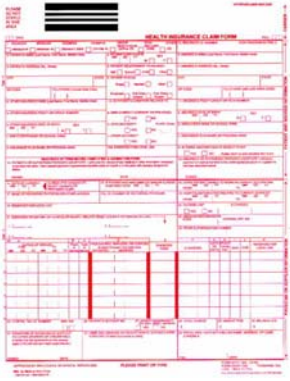
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### Eliminating Paperwork

Our offices all work with standard forms.

We need to obtain information from the electronic equivalent of a standard form.

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### EDI Standards = Paper Forms

Paper records use **forms** to organize information.  
Electronic commerce uses **standard transactions**.

Invoice = 810  
Purchase Order = 850  
Payment & Remittance = 835  
Healthcare Claim = 837

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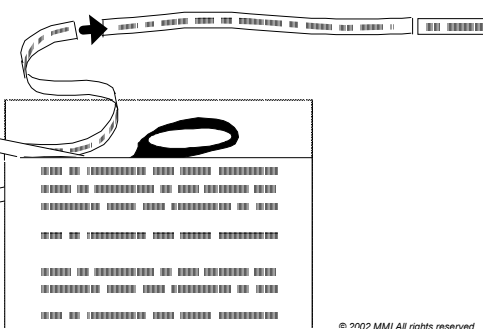
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### EDI uses standard formats rather than standard forms...



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... which means strings of text  
(called Data Segments with  
Data Elements) ...

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Segment Type:  
Individual Name

Last Name

Middle Initial

Insured

Person

First Name

NM1\*IL\*1\*Clinton\*Hillary\*R~

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... including National Identifiers ...

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- Patient ID
  - No NCVHS recommendation
- Provider ID
  - CMS-maintained Provider ID# recommended
- Payer ID/ Health Plan ID
  - CMS-maintained database needs funding to become operational - Rule expected 2002
- Employer ID
  - Tax ID # - final as of July 2002, effective July 2004

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... And nationally standardized  
medical code sets.

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- ICD-9 - CM Diagnosis and Procedure
- NDC - National Drug Codes
- CPT and HCPCS Codes
- ADA Dental Codes
- **NO LOCAL CODES!**

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### How Does It Get There? EDI

Electronic Data Interchange is the computer-to-computer exchange of routine business data using established standards.

Medical Practice

Health Plan

Map and Translate to ASC X12

E-mail / VAN / VPN

Map and Translate from ASC X12

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### Moving Money and Data at the Same Time

abc@pfizer.com  
**AB46278**  
 Four days

Trade payments generally do two things: they transfer value from payer to payee, and provide the remittance information needed to relieve the related receivable.

First, let's talk about the payments.

- HIPAA claim payments and premium payments clear thru banks.
- Bank networks for Electronic Funds Transfer (EFT) are secure, widely used and familiar – like direct deposit.

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### Moving Money and Data at the Same Time

abc@pfizer.com  
**PO46278**  
 5000 units

Trade payments generally do two things: they transfer value from payer to payee, and provide the remittance information needed to relieve the related receivable.

Second, let's look at the remittance advice data.

- Now that you have the money, what's it for?
- RA data can be tucked into the same data package as the payment.
- Or RA data can be sent separately on a non-bank network.

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Funds Transfer Systems

- Fedwire
- Automated Clearinghouse

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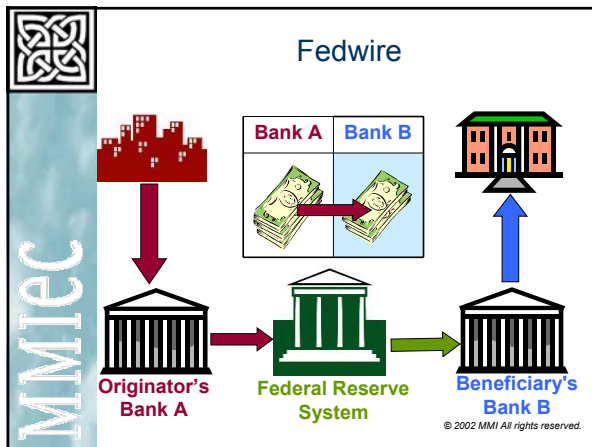
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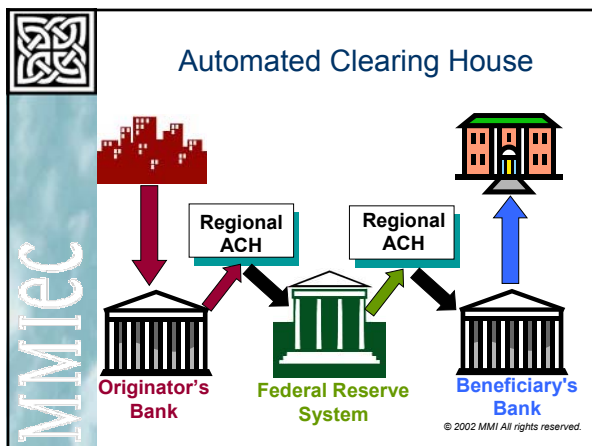
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### Fedwire vs. ACH

- Fedwire
  - Immediate funds transfer.
  - Limited data carrying capability.
  - Expensive to send and receive.
- ACH
  - Good funds arrive the day after payment origination.
  - Substantial data carrying capability.
  - Inexpensive to send and receive.

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### Are You A Clearinghouse?

- A key HIPAA Key Issue facing Financial Institutions is Healthcare Clearinghouse Status Determination.
- If a Bank is a Healthcare Clearinghouse it is a "covered entity" regulated by the DHHS and subject to civil and criminal penalties under HIPAA.

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### Is a Bank a Clearinghouse?

- When is a Bank a Healthcare Clearinghouse Under HIPAA?
  - If an RDFI receives a CTX payment containing an X12 835 claim payment on behalf of a physician office and routes the remittance data to the physician office by fax is it a clearinghouse?
  - If an RDFI receives CTX claim payments on behalf of a provider and converts the data from NACHA to X12 for reporting purposes is it a healthcare clearinghouse?

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## Is a Bank a Clearinghouse?

- When is a Bank a Healthcare Clearinghouse Under HIPAA?
  - If an ODFI receives an X12 835 from a health plan and converts it into a CTX is it a clearinghouse?
  - If an ODFI receives a flat file from a health plan and converts it into an 835 and then into a CTX is it a healthcare clearinghouse?

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## Banking Industry Response

- NACHA and the ABA formed a Banking Industry Task Force in late 2001.
- NACHA representatives met in December at the Miami ANSI ASC X12 meeting with Medicare (CMS, formerly HCFA) and interested parties in X12 F (Finance) and X12N (Insurance).
- NACHA hired MMI to write a draft White Paper on the Impact of HIPAA on the Banking Industry in order to create a consensus and action plan among the HIPAA Task Force banks.
- The Banking Industry HIPAA Task Force met twice in early 2002.
- The Banking Industry White Paper is available for review at [www.hipaabanking.org](http://www.hipaabanking.org)

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## Proposed Test for Status

- NACHA/ABA Proposed Test would differentiate between bank services that are "routine payment processing" and those services that qualify the bank as a Healthcare Clearinghouse.
- Proposed Key Test Question is:
  - **"Is the bank editing or reformatting data against the specifications of the HIPAA Implementation Guidelines?"**
  - **Those banks that answer "yes" are healthcare clearinghouses. Banks that are editing for X12 and NACHA format compliance are conducting routine payment processing and are not healthcare clearinghouses.**
- **The White Paper Contains Case Scenarios to illustrate how the Healthcare Clearinghouse determination would apply with examples.**

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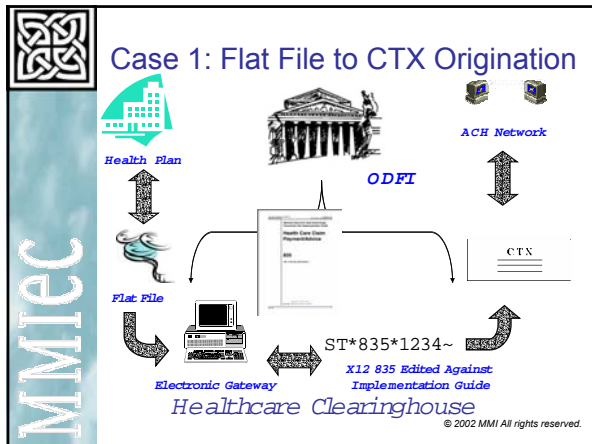
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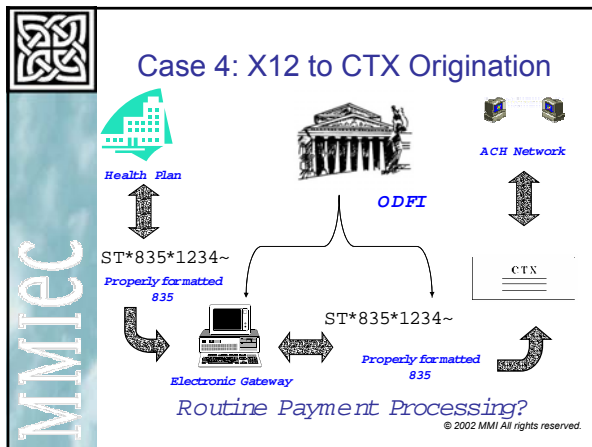
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**Healthcare EC and EDI**

- Medicare practices and procedures created today's *electronic claims* processes.
- Claims clearinghouses arose to meet the *mapping and editing* needs of providers and commercial claims payers.
- Medicaid's practices and procedures created today's *electronic eligibility* processes.

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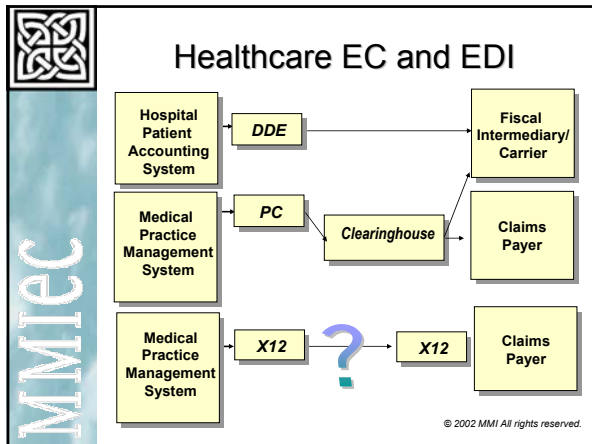
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**X12 Standards**

X12 Standards establish standards for the “enveloping” of data for successful message routing.

EDI allows “trading partners to use the electronic equivalent of “return receipt mail” with a transaction set called the Functional Acknowledgement (997).

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**Imagine...**

You have a PO, Invoice or Claim Form..

Transaction Set Header and Trailers indicate the start and end of each transaction (ST) (SE)

**FORM**

The diagram shows a table-like structure representing a form with multiple rows and columns, illustrating the layout of a transaction set.

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**You place your form in a box**

The GS and GE segments are used to "envelope" transactions of the same type. So all the claims would be bounded by GS(ST)(SE) GE



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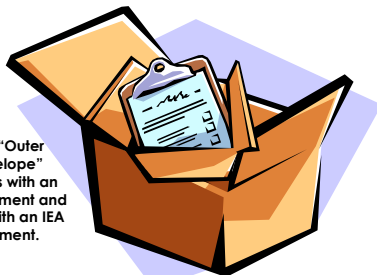
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**You place the boxed document into another box that routes the document to the correct receiver**

The "Outer Envelope" begins with an ISA segment and ends with an IEA segment.



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**EDI Standard/Document**

The outer envelopes are crucial to support of the Functional Acknowledgement (997) standard.

As will become apparent the 997 and message tracking are crucial for making HIPAA standards work.

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## HIPAA Standard Transactions

- What they are
- What you can do with them




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## National Standards for Electronic Transactions

- NCPDP (for Pharmacy only)
- American National Standards Institute (ANSI) ASC X12

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## Standards Do Not Mandate Technology

*“X12 Standards do not define the method in which interchange partners should establish the required electronic media communication link, nor the hardware and translation software requirements to exchange EDI data.”*

-- HIPAA Implementation Guidelines

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## HIPAA Standard Transactions

- Enrollment and Disenrollment in a Health Plan (834)
- Premium Payments (820)
- Healthcare Claim or Encounter (837)
- Eligibility for a Health Plan (270-271)
- Claim Payment and Remittance Advice (835)
- Healthcare Claim Status (276-277)
- Referral Certification and Authorization (278)
- Coordination of Benefits (837)

*And, later...*

- Healthcare Claim Attachment (275)
- First Report of Injury (148)

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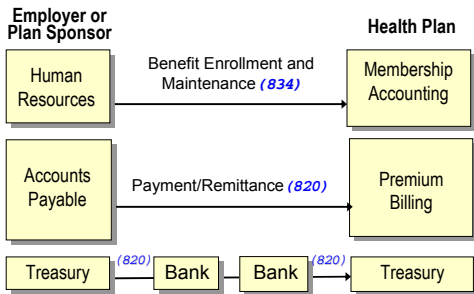
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## Enrollment



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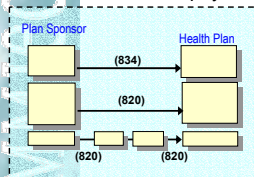


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## Enrollment

### Objectives

- ✓ Faster eligibility processing and improved member service
- ✓ Far fewer errors
- ✓ Fewer payments on ineligible claims



**Requires:** Support for X12 834 and X12 820 standards

Probably not needed by most medical practices

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## Employers Achieve High ROI

- **AT&T**
  - Saved \$15 million in first year of EDI enrollment.
    - WEDI pilot in 1993
    - Substantial decrease in claims paid to ineligible claimants
- **Regents of the University of California**
  - Implemented HIPAA compliant enrollment
  - Found and corrected \$1million billing error
  - Implemented 834/820 with MMI in 2001
- **Pacific Business Group on Health/CALINX**
  - Workgroup examined and adopted X12 standards as part of CALINX initiative. CALPERS, UC System, SBC and others using HIPAA transactions.

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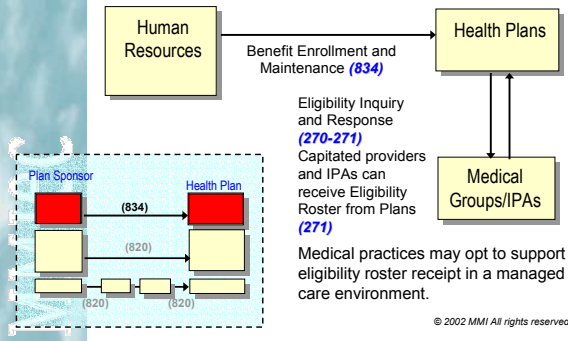
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## 834 Enrollment / Eligibility



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## 834 Benefit Enrollment and Maintenance

See Handout!

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**820**  
 Payroll Deducted and Other Group  
 Premium Payment for Insurance  
 Products

This transaction set can be used to:

- make a payment,
- send a remittance advice,
- or both in one message.

• The 820 can also be used for a// EDI payments, not just premium payments.

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**820** Payroll Deducted and Other Group  
 Premium Payment for Insurance Products

In Table 2, the detail area, Remittance Detail Information can be delivered in two ways:

- a summary bill payment,
- or an individual or "list bill" payment.

Individual payments are of two types. The first type is a Payment made for each subscriber that includes amounts due for dependents.

The second Individual Payment type includes a payment amount for each subscriber and each dependent.

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**820**  
 Premium Payments

Human Resources - A/P → Health Plans  
 Payment Order + Remittance Advice (820)

But Capitation Premium Payments use Claim Payment Advice (835) plus Eligibility Roster IG for the (271)

Health Plans → Medical Groups/IPAs

Medical practices may opt to support EDI capitation premium payment receipt in a managed care environment.

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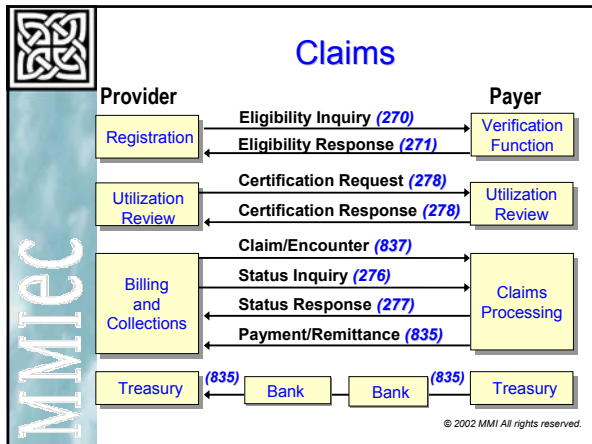
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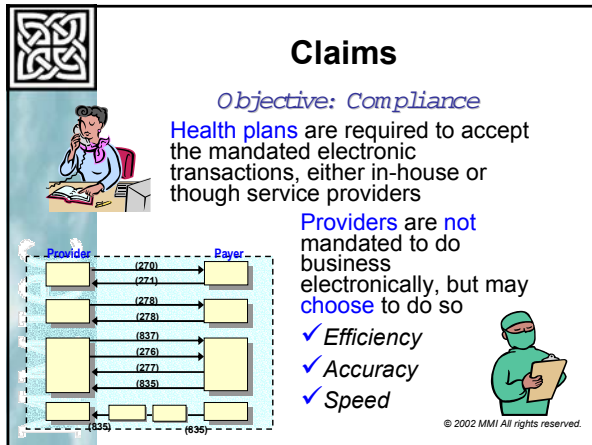
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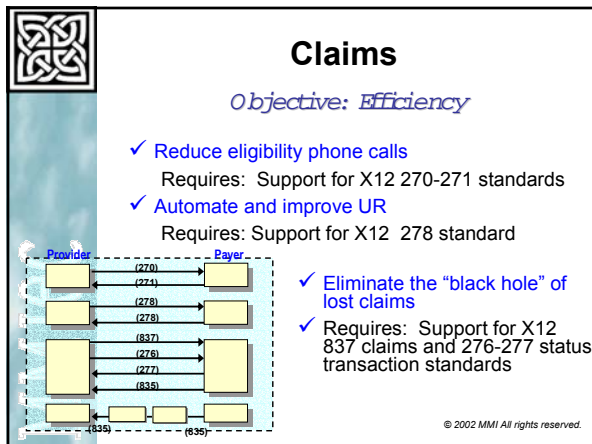
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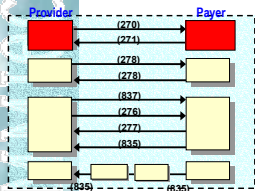




## 270 & 271

### Eligibility, Coverage or Benefit Inquiry & Information

Eligibility Transaction Processing is captured in the back and forth exchange of 270 and 271 Transactions



- Can be done in batches or real-time
- Stanford University Clinic reports that 50% of its bad debt was attributable to bad eligibility data.
- Practice profiles impact the relative attractiveness of implementing automated eligibility.

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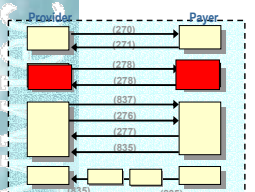
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## 278

### Health Care Services Review Information

This transaction set can be used to transmit health care service information, such as Subscriber, Patient, Demographic, Diagnosis or Treatment data for purposes of:



- Utilization Review
- Certification
- Notification
- Reporting the outcome of a health care services review
- but not for Medical Management/Case Review

Likely users of this transaction:

- Managed Care Health Plans
- Providers
- Utilization Review Firms
- IPAs

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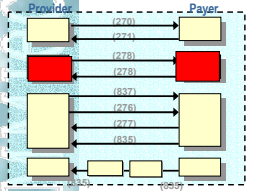
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## 278

### Health Care Services Review Information

The Authorization standard is not yet widely supported but is a key IPA-physician and hospital data exchange.



- Some states (Washington and Texas) have initiatives to standardize paper forms for authorization requests.
- There may be limited demand for medical practice support of this transaction unless dominant IPAs and HMOs adopt it.

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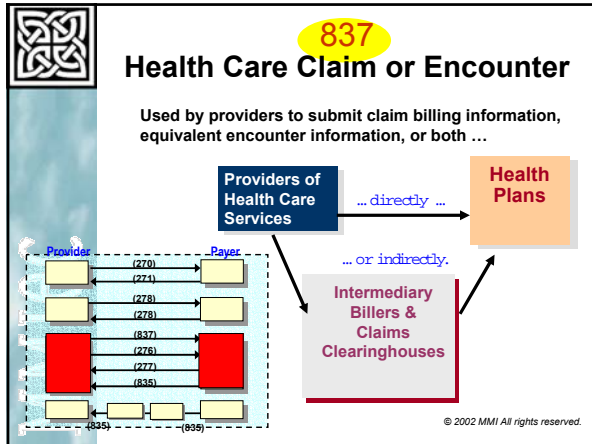
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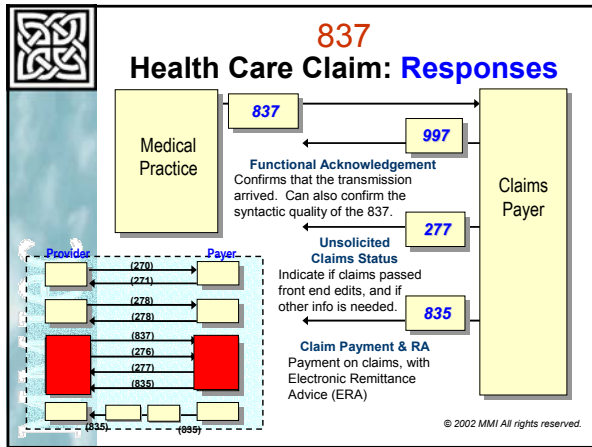
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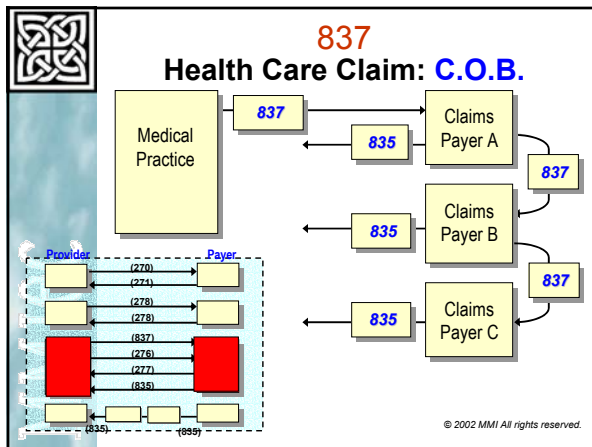
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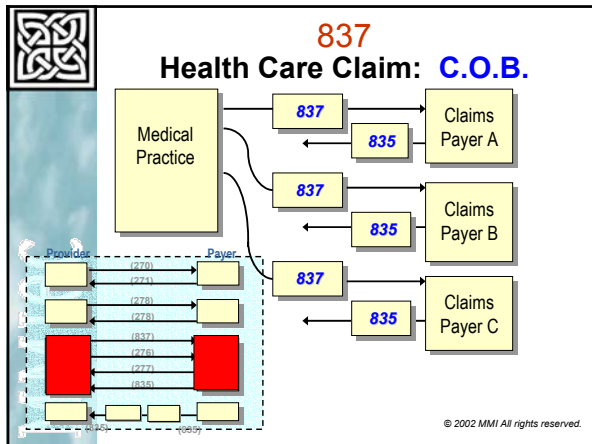
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**837**  
**Health Care Claim**  
*Compliance Issues*

- Support of the 837 standard is important to maintain cash flow and participation in the Medicare program.
- Widespread support of the 837 among health plans should benefit providers and billing companies.
- Determine if you have non-compliant local transmissions. Evaluate impact of local code usage and discuss with the relevant health plans.

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**276 & 277**  
**Health Care Claim Status Request & Notification**

The HIPAA Implementation Guidelines provide an **automated** way to request and respond to Claims Status data in the 276 and 277 transactions.

Inset: Provider ↔ Payer  
 (270) → (271) →  
 (278) → (279) →  
 (837) → (276) →  
 (277) → (835) →

Black Hole

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**276 & 277**

## Health Care Claim Status Request & Notification

Payers may provide claims status reports from various points in the adjudication process.

- Pre-adjudication (accepted/rejected status)
- During adjudication (claims pending)
- Adjudicated but not yet paid claims.

Payers can also choose to send an unsolicited 277 without waiting for a 276 request, for:

- a notification about health care claim status including front end edit acknowledgements, or
- a request for additional information about a health care claim by the payer.

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**276 & 277**

## Health Care Claim Status Request & Notification

The standard provides Claim Status Category Codes for “categories” of messages, including **A** for acknowledged, **E** for errors, **P** for pending, **F** for finalized and **R** for requests.

•Providers should integrate status data into their receivables process, to automate claims tracking.

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**Claim Payment**

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## Claim Payment

### Objectives

For Payers, sending a secure 835 can cost less than a stamp, and is much less error-prone than physical printing and collating of checks.

For Providers, receiving an 835 can automate posting and closing tasks; receiving an ERA permits automated secondary billing.

**Provider**      **Payer**

(270) →

(274) →

(278) →

(278) →

(837) →

(276) →

(277) →

(835) →

(835) ←

(835) ←

- ✓ Improve **efficiency**: Automate payment, RAs and EOBs
- ✓ Improve **accuracy**: reduce correction costs, avoid privacy violations, improve customer satisfaction

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## 835 Health Care Claim Payment / RA

The HIPAA-compliant 835 transaction is designed for paying healthcare claims. Like checks, one 835 describes one payment, which may represent reimbursement for one or many claims.

The 835 is also used for EDI capitation payments in conjunction with the 271 Eligibility Roster.

**Provider**      **Payer**

(270) →

(274) →

(278) →

(278) →

(837) →

(276) →

(277) →

(835) →

(835) ←

(835) ←

In addition to making the actual payment, the 835 can replace most of the financial documents used both by the beneficiary to process and post it.

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### Option 1: Dollars & Data Travel Together


835 Electronic Payment Order with remittance information




**Payer (Originator)**



**Originator's Bank**



**Receiver's Bank**



**Provider (Beneficiary)**

835

Electronic funds transfer between banks which includes remittance information in the same "electronic envelope".

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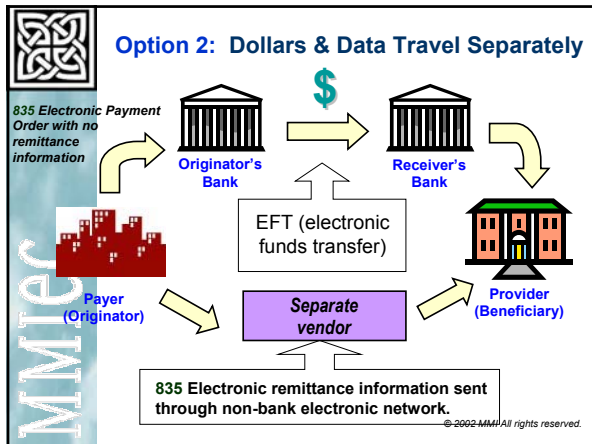
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**835 Health Care Claim Payment/Advice**

*Compliance Issues*

- How will EFT deposits from multiple health plans be managed?
- Have you reviewed the EDI capabilities of your bank?
- A revised *EDI Capable Questionnaire* dealing with HIPAA will be available soon from NACHA.

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**The Challenge**

**Change Management**

- Comprehensive Analysis of Current Procedures
  - Comprehensive workflow analysis and data modeling to avoid major errors.
- Detailed Vision of Future State
  - Best Practices must be understood in detail
  - HIPAA Plan consistent with IS and Corporate Strategic Plans
- Step-by-Step Implementation Plan
- Appropriate Staffing and Funding

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