



Feb. 4, 2019

## **Third Party Liability Cost Avoidance Program Description and Measurements**

### **Section V.J.4.h**

#### **Background**

Pursuant to Social Security Act 1902. [42 U.S.C. 1396a] (a), a State plan for medical assistance must take all reasonable measures to ascertain the legal liability of third parties (including health insurers, self-insured plans, group health plans, service benefits plans, managed care organizations, pharmacy benefits managers, or other parties that are, by statute, contract, or agreement, legally responsible for payment of a claim for health care item or service) to pay for care and services available under the plan. In any cases where such a legal liability is found to exist after medical assistance has been made available on behalf of the individual and where the amount of reimbursement the State can reasonably expect to recover exceeds the costs of such recovery, the State will seek reimbursement for such assistance.

Federal regulations require Medicaid to be the “payer of last resort”, meaning all third-party insurance carriers must pay before Medicaid processes the claim. We have several programs that ensure that Medicaid is the payer of last resort. Those programs include Medicare Disallowance, direct billing of the Commercial Insurance carrier, cost avoidance, credit balance and casualty recovery. The Prepaid Health Plans (PHPs) are required to handle administration of these programs to ensure that compliance with federal regulations.

#### **Program Goals**

NC Medicaid’s strategic goal is to use resources and partnerships to improve health care for all North Carolinians. We contribute to the strategic goals of the organization by administering a successful third-party liability program. We first edit claims to prevent inappropriate payments (cost avoidance) and then perform post payment reviews to identify items to pursue for cost recoveries.

#### **Measurements**

We will use the Conversion Rate as the measurement tool to determine the PHP’s effectiveness in meeting the Third-Party Liability standards established by the Division. To obtain the Conversion Rate, we will divide the PHP’s recovered amounts by the PHP’s paid amount. The recovered amounts are defined as the amounts the PHP recovered from a liable third-party, and the PHP’s paid amount is the amounts the PHP paid on claims.

Conversion Rate for each line of business is illustrated in the table below:

<b>Line of Business</b>	<b>Recovered Claims</b>	<b>PHP Paid Amounts</b>	<b>Recovered Amounts</b>	<b>Conversion Rate</b>
Commercial Insurance (Direct Billing)	1,107,027	\$116,184,522	\$101,745,882	87.57%
Medicare Disallowance	308,996	\$2,947,767	\$2,293,329	77.8%
Casualty	23,874 (cases)	\$56,219,848	\$34,845,218	61.98%
Credit Balance Audits	510,811	\$30,896,312	\$16,528,876	53.5%

Each PHP will be evaluated by these conversion rates. The Division will also compare its Fee-for-Service program recoveries to the PHP’s Managed Care recoveries during the evaluation process.

The Division will evaluate the PHP’s effectiveness annually and may descope TPL activities from the PHP if the PHP’s recovery program does not meet the effectiveness criteria determined by the department.

NC DEPARTMENT OF HEALTH AND HUMAN SERVICES

Version

DATE	SECTION UPDATED	CHANGE