ACH Primer for Healthcare (Revised)

A Guide to Understanding EFT Payments Processing

ACH Primer for Healthcare (Revised April 5, 2013)

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The Electronic Payments Association

Foreword

To our partners in Healthcare:

The benefits of Healthcare reform are many, including improved cash flow, increased cost reductions, and enhanced patient care. Processing payments through the Automated Clearing House (ACH) Network has many benefits, one of which is allowing physicians and their staff to spend less time processing payments and more time with their patients.

Yet, despite the many benefits of Healthcare reform, learning a new way to process Healthcare payments can seem daunting. In fact, many of you opening this primer have little or no experience processing Healthcare payments or information through the ACH Network. This purpose of this primer is to give you the information you need to navigate the EFT payments maze with skill and confidence.

We have taken a pragmatic rather than a technical approach to writing this primer for EFT payments, although we have included technical information in the appendix for interested parties. This primer provides a guide for processing EFT payments and remittance information through the ACH Network.

We hope that this ACH Primer for Healthcare: Guide to Understanding EFT Payment Processing (Revised) will make your job easier. To make this primer a valuable information resource, we have chosen to use easy-to-understand language, checklists, and answered your most commonly asked questions.

For answers to specific questions related to Healthcare payments, contact your financial institution or payments provider.

Janet O. Estep
Jan Estep, President and CEO
NACHA—The Electronic Payments Association

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Preface & Glossary

The ACH Primer for Healthcare is designed to educate healthcare Providers, including Health Plans, their trading partners, and the healthcare industry in general, on the benefits, cost-savings and efficiencies of utilizing the ACH Network for processing EFT. The ACH Primer for Healthcare provides information about the fundamentals of the ACH Network, its participants, and related payment processes, including NACHA's Operating Rules framework. In addition to current ways to use EFT between those that pay for and receive healthcare-related services, the Primer highlights future requirements related to creating synergies between CORE Rules and *NACHA Operating Rules* to improve the EFT process and increase provider and other stakeholder utilization.

Moving paper payments to electronic payments could, according to U.S. Healthcare Efficiency Index Fact Sheet, create $11 billion in annual savings for the healthcare industry. That's money that could be redirected to research, treat, and cure diseases. There are a number of additional recently-legislated healthcare reform initiatives that are providing the impetus for the rapid migration of healthcare-related payments to electronic formats, in particular:

- Section 1104 – Administrative Simplification: In 2010 U.S. healthcare was a $2.6 trillion industry which represents approximately 17% of the US GDP. Estimates have shown that 25 to 40 cents of every dollar spent on healthcare is consumed by administrative costs. The aim of Section 1104 is to improve the processing, procedures and standardization of healthcare administration. The Congressional Budget Office scored administrative simplification savings at $11.6 billion in operational savings over 10 years.

- Modification of Section 1862(a) of the Social Security Act mandates the use of electronic funds transfer (EFT) for all Medicare reimbursement to healthcare Providers by January 1, 2014.

- The timetable required by Congress for healthcare administrative simplification is aggressive. Healthcare operating rules must be written and adopted for all HIPAA EDI transaction sets. The EFT and Electronic Remittance Advice (ERA) operating rules must be adopted by July 1, 2012 and implemented no later than January 1, 2014.

- Administrative simplification: Adoption of Standards for Health Cared Electronic Funds Transfers (EFTs) and Remittance Advice identified the NACHA CCD+Addenda as the HIPAA standard for healthcare EFT transactions. 45 CFR 162.925 requires that health plans deliver the HIPAA EFT standard for claims remittances, if it is requested by the provider.

Health Plans, Providers, and healthcare clearinghouses/technology Providers all use EFTs and ERAs to varying degrees, and they all are intending to increase their utilization. The National Committee on Vital and Health Statistcs (NCVHS) has recommend that CAQH CORE, in cooperation with NACHA, develop the healthcare operating rules for healthcare EFT and ERA and the NACHA CCD+ as the healthcare EFT standard format.

Glossary

Throughout this document, you may come across unfamiliar terms. To assist you, we have provided common terms used throughout this primer.

ACH Network — an electronic funds transfer system governed by the *NACHA Operating Rules*

ACH Operator — an entity that acts as a central facility for the clearing, delivery, and settlement of Entries between or among Participating DFIs.

Authorization — Permission obtained by the Originator from a Receiver to initiate entries through the ACH Network to the Receiver's account.

CCD — a corporate credit or debit Entry originated by an Organization to or from the account of that Organization or another Organization.

EFT Credit — an order or request for the transfer of money to the account of a Receiver

EFT Debit — an order or request for the withdrawal of money from the deposit account or general ledger account of a Receiver

Effective Entry Date – is the date specified by the Originator on which it intends a batch or Entries to be settled.

Entry — an order or request for the transfer of money to the account of a Receiver (a "credit Entry") or an order or request for the withdrawal of money from the deposit account or general ledger account of a Receiver (a "debit Entry")

NACHA—The Electronic Payments Association — a non-profit association and private sector rulemaking body that support the growth of the ACH Network by managing its development, administration and governance. NACHA develops and enforces the *NACHA Operating Rules*.

NACHA Operating Rules **(Rules)** — the body of work defining the requirements for all EFT transactions processed through the ACH Network. Financial Institutions, Originators, ACH Operators, and Third-Party Vendors using the ACH Network agree to be bound to the *Rules*.

ODFI — the Participating Depository Financial Institution that transmits entries directly or indirectly to an ACH Operator for transmittal to an RDFI.

Originator — a Person that has authorized an ODFI (directly or through a Third Party Sender) to Transmit a credit or debit entry to the Receiver's deposit account.

Participating Depository Financial Institution (participating DFI) – a financial institution that is authorized by applicable legal requirements to accept deposits, has been assigned a routing number by Accuity, and has agreed to be bound to the *NACHA Operating Rules*.

PPD — a credit or debit Entry initiated by an Organization to a Consumer Account of a Receiver based on a standing or a Single Entry authorization from a Receiver.

RDFI — the Participating Depository Financial Institution that receives entries from its ACH Operator to the accounts of Receivers.

Receiver — a Person that has authorized an Originator to initiate a credit or debit entry to their deposit account or loan account with an RDFI.

Routing/Transit Number — a nine digit bank code, used in the United States, which appears on the bottom of negotiable instruments such as checks identifying the Financial Institution on which it was drawn.

Settlement — the actual transfer of the value of funds between financial institutions to complete the payment instruction of an ACH entry.

Settlement Date - the date an exchange of funds with respect to a Credit or Debit Entry is reflected on the books of the applicable Federal Reserve Bank(s).

Standard Entry Class Code — a three-character code used to identify various types of Entries.

Third-Party Service Provider — an Organization that performs any functions on behalf of the Originator, the ODFI, or the RDFI related to the processing or creation of entries.

Trace Number – the 17-digit number assigned by the ODFI that uniquely identifies each entry. The first eight digits of the trace number are the Routing/Transit number of the ODFI.

Introduction to the Automated Clearing House (ACH) Network

You have probably been using the Automated Clearing House (ACH) Network for years, although you may not realize it. If your employer deposits your pay directly into your checking, savings, or other account without issuing a paper check, you are receiving an electronic funds transfer (EFT) payment through the ACH Network. If you pay bills online, drawing funds from your banking account to pay billers, you are using EFT payments through the ACH Network. Common types of payments in the healthcare industry using EFT include Health Plan/insurance company claims payments to Providers, vendor remittances, monthly Health Savings Account contributions, and monthly recurring payments through patient long-term treatment reimbursement plans.

EFT transactions affect payment to (credit), or deduction from (debit), checking and/or savings accounts. Common EFT payments made through the ACH Network include Direct Deposit of payroll, Social Security, as well as Direct Payment of home mortgages, insurance payments, loan payments, newspaper and magazine subscriptions, utility bills, cable TV bills, health club membership dues, credit card payments, and contributions to non-profit organizations. All of these types of payments use an EFT payment through the ACH Network, directly moving money, and sometimes information, from one bank account to another.

The ACH Network connects virtually all 14,000 financial institutions throughout the United States. ACH Network users can send EFTs to any bank account at any financial institution in the United States. Many processing companies (both from within financial institutions and from outside of financial institutions) can also help to connect banks, their business customers, and consumers throughout the United States.

Healthcare EFTs through the ACH Network

In the Healthcare industry, there are many applications for EFTs. According to the Fall 2010 Payment Trends in the Healthcare Industry study by TAWPI, the ACH Network supports the majority of electronic payments that are made today between Health Plans and Providers.

Payments that cover business transactions such as premiums and claims payments have slightly different rules and standards in the *NACHA Operating Rules* than those that apply to consumer payments. For business payments, rules and standards support the requirements of accounts receivable processing for receipt of both funds and data related to accounts receivable.

Benefits of Moving to EFT

Healthcare legislation may affect the way you do business and require, depending on whether you are a Health Plan or Provider, changes to your accounts receivables

department, accounts payables department, operations, and back office processes and procedures. There are a number of significant benefits to be realized by early adoption of EFT through the ACH Network:

Health Plan benefits:

- Faster claims processing and payment cycles
  - Reduced phone calls
- No lost or missing checks
  - No stop payments

One major Health Plan, during a presentation at the 2010 NACHA PAYMENTS conference provided a cost comparison for processing 145 million claims using paper versus a full electronic process – the company would save $28 million annually moving to an all electronic process:

- $30.7 million when processed by paper (145 million paper claims)
- $2.7 million when processed electronically (145 million electronic claims)

Providers:

- Faster payments
- Better management of claims denials
- No risk of paper checks being stolen or lost
- Automated data entry and reporting – improved accuracy

A Provider at the 2010 NACHA PAYMENTS Conference discussed the benefits of complete electronic claim and payment cycle indicating:

- Faster payment – 71% improvement
- Time and expense savings – 64% of accounts receivable tasks

General benefits of electronic payments are:

- Reduced operating costs for collection and disbursement activities, streamlined treasury management, and improved productivity and efficiency.
- Processing costs decrease. Companies report savings of more than 40 cents in processing costs for each paper check that is converted to an EFT. The U.S. Treasury has stated that they save 98 cents in processing costs for each paper check that is converted to an EFT.
- Improved company services and response times, achieved through economies of scale and systemic processing efficiencies. ACH applications dovetail with other automated systems, both internal (accounting, claims adjudication and processing) and external (financial institution reporting systems and account analyses).
- A fast, safe, reliable, efficient, and low-cost means to make and collect payments.

- Financial institution service charges are reduced. Typically, it costs more to process a paper check than an EFT transaction.
- The potential for errors is reduced, because an EFT requires less manual handling than a check.
- Account reconciliation is simplified. The company's account statement includes a single dollar amount for the total amount of the EFT transactions, as opposed to multiple individual check amounts that must be reconciled.

Benefits of Automation

According to the Electronic Transaction Savings Opportunities for Physician Practices, Milliman USA, June 11, 2006, a physician who currently relies on paper and telephone calls for insurance administration may be able to save more than $42,000 a year through simple steps to increase electronic transactions for operations likes claims submission, referral and preauthorization requests, and eligibility verifications.

Estimated Annual Savings from Electronic Transactions
For Typical Physician Office Practice

	Manual Cost	Electronic Cost	Savings/ Transaction	Transactions Per Year	Estimated Annual Savings
Claims	$6.63	$2.90	$3.73	6,200	$23,124.21
Eligibility Verification	$3.70	$0.74	$2.95	1,250	$3,693.04
Referrals	$8.30	$2.07	$6.22	1,000	$6,223.17
Preauthorization	$10.78	$2.07	$8.71	100	$870.62
Payment Posting	$2.96	$1.48	$1.49	4,340	$6,456.59
Claim Status	$3.70	$0.37	$3.33	620	$2,065.59
TOTAL					$42,433.23

Source: Electronic Transaction Savings Opportunities for Physician Practices

In addition to per-transaction financial savings, Milliman identified other benefits, which although hard to quantify, are no less substantial:

- Electronic claim submissions minimize exceptions and the need to resubmit claims multiple times.
- Electronic claims submission improves cash flow and reduces accounts receivable days.
- Electronic transactions reduce back-office costs
- Electronic options enhance scalable growth

Patients are also continuing the shift to online payment channels, i.e., biller direct and bank bill pay solutions, a trend expected to continue through 2017. Online payments make up approximately 50 percent of bill payment volume, while check payments lag behind at just 23 percent.

Enhancing Providers Revenue Cycle

Financial institutions are well positioned to help healthcare providers improve their revenue cycle through automation. Consider the following tips when switching from paper to electronics.

Start with Paper: Identify systems that move information from paper to electronic, looking for configurable file outputs that meet provider system requirements. Look for obvious advantages and ease of use.

Understand the Provider's Needs: Avoid making assumptions. Ask questions to clarify. Keep in mind that cookie-cutter solutions may cost more and fail to address individual provider needs. Act to address the unique concerns and business objectives of the practice.

Remember Reporting and Analytics: identify options that will meet the needs of the practice or work to develop customize analytics that will detect partial payment and reporting and identify trends in volume.

Think Broadly: Consider the end-to-end process—top down and bottom up. Find ways to minimize exception processing and implement business rules to be more effective. Look for ways to reduce costs, speed implementation, and simplify reconciliation.

Risk Management: Understand the risk of offered solutions to healthcare providers, ensure the approach is in line with the organization's risk tolerance and put procedures and policies in place to mitigate risk.

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The ACH Network and Participants

The ACH Network is a credit and debit batch processing system. Rather than sending each payment separately, financial institutions accumulate EFT transactions and send them to the ACH Operator at predetermined times. Rather than using paper to carry necessary transaction information, EFTs flow between banks through secure electronic data transmission.

To assist you in understanding ACH terminology as it applies to a Health Plan sending funds, we have included the diagram and chart below, which compare typical term for ACH participants with equivalent term for healthcare payments from Health Plan to provider for claims reimbursement.

ACH Participant	ACH Participant Responsibility	Healthcare Participant

Originator	• Maintains relationship with the Receiver
	• Maintains record of authorization for entry
	• Assigns entry type to each entry
	  • Debit or Credit
	  • Entry type determined by SEC Codes
	• Transmits entry information to the ODFI
		Health Plan sending the EFT

Originating Depository Financial Institution (ODFI)	• Initiates all payments into the Network
	• Maintains relationship with the Originator and the ACH Operator
	• Responsible for all entries transmitted using its Routing/Transit Number
	  • Warrants entry is authorized
	  • Warrants entry contains correct data
		Health Plan's Financial Institutiion

ACH Operator	• Could be Federal Reserve or Electronic Payments Network (or both) • Maintains relationship with ODFI and RDFI • Receives entry from ODFI and transmits entry to RDFI	
Receiving Depository Financial Institution (RDFI)	• Maintains relationship with Receiver Debits or Credits Receiver's Account According to entry • Provides reassociation TRN Segment to Provider	Healthcare Provider's Financial Institution
Receiver	• Maintains relationship with Originator • Matntains account with RDFI	Healthcare Provider

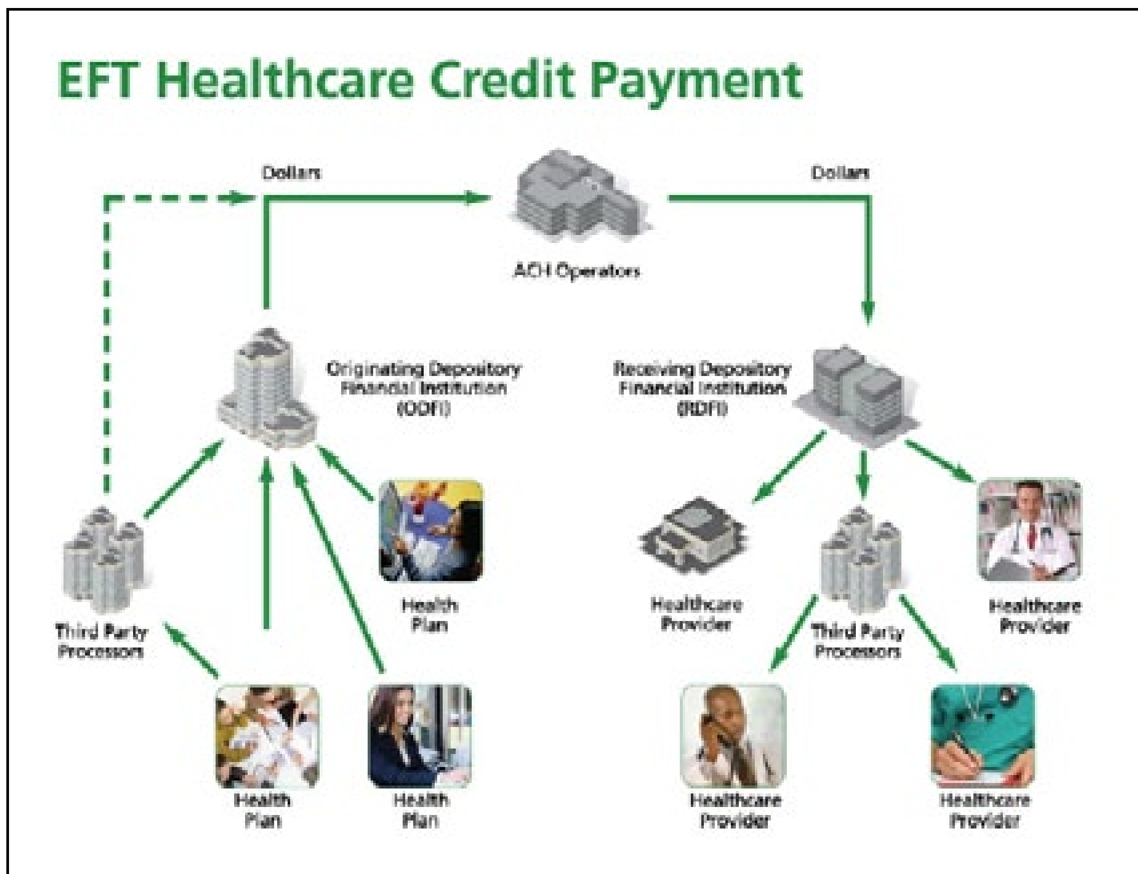
ACH Transaction Flow — Health Plans to Providers

In ACH terminology, Originator (Health Plan) and Receiver (provider) refer to the participants that send and receive the EFT entries. Unlike a check, which is always a debit instrument, an EFT may be either a credit or a debit transaction. By examining what happens to the Receiver's (provider's) account, you can distinguish the difference between an EFT credit and an EFT debit. If the Receiver's (provider's) account is debited (balance decreased), then the entry is an EFT debit. If the Receiver's (provider's) account is credited (balance increased), then the entry is an EFT credit. Conversely, the offset to an EFT debit is a credit to the Originator's (Health Plan) account and the offset to an EFT credit is a debit to the Originator's (Health Plan's) account.

EFT Credits – Payments from the Health Plan to Provider

EFT credit entries occur when a Health Plan initiates a transfer to move funds into a Provider's account. For example, when a Health Plan originates a payment for healthcare services through the ODFI, the ODFI initiates the credit transaction to transfer the money into the Provider's account at the RDFI. In this instance, the Provider is the Receiver.

The example below illustrates the EFT healthcare credit process:



Information and Funds Flow

As above, a healthcare payment (CCD+) credit flows from an account at a Health Plans financial institution to an account at a Providers financial institution. Credit entries must be posted to a Provider's account no later than Settlement Date. Originator provides an Effective Entry Date for each payment, this is the date on which the Originator intends a batch of Entries to be settled. In most cases the Effective Entry Date is the same as the Settlement Date. (See section on Posting for additional information.)

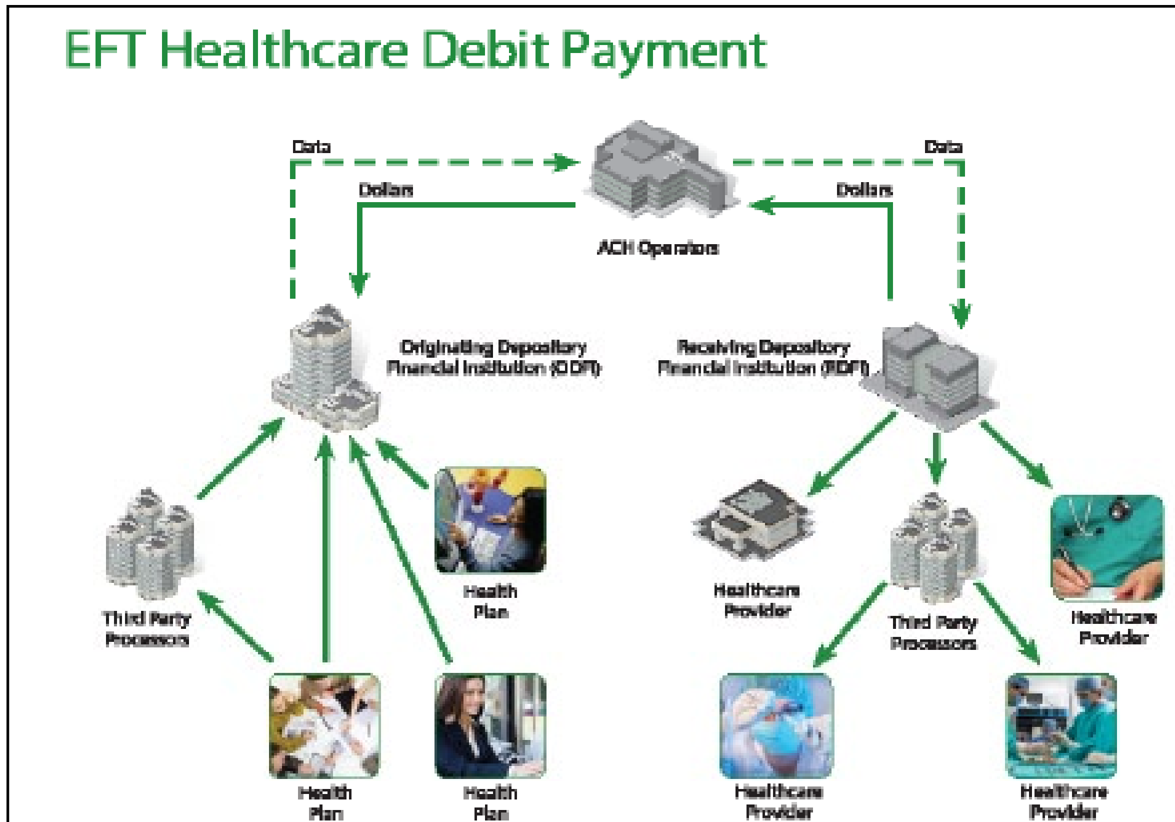
EFT Debits

In an EFT debit, funds flow in the opposite direction. Funds are collected from a Receiver's account and transferred to an Originator's account, even though the Originator initiated the entry. All debits must be authorized by the Receiver (Provider). If an unauthorized debit is sent to the Provider's account it can be return as unauthorized if the appropriate timeframes are met. (See sections on Returns and Appendix A for more details)

Debit example: State tax payments. The State of California originating a preauthorized debit is the company/government body to which the amount is owed. Provider authorizes the State of California to debit their accounts for their quarterly tax payment. The State initiates a file of EFT debits through its ODFI to withdraw the money from the Providers' account on the due date of the tax payment. The State is the Originator, and the Provider is the Receiver.

Debit example: Collection of outstanding patient account balances. Providers can also use EFT debits to collect payments from consumers who are self-ensured or have outstanding balances for services not covered by health insurance. The consumer authorizes the Provider to debit their accounts for a monthly amount until the debit is paid. Once a month, or as specified in the authorization agreement, the Provider sends a file of EFT debits to its ODFI to withdraw the money from the consumers account. The Provider is the Originator, and the consumers are the Receivers.

The figure on the following page illustrates the healthcare debit process. The healthcare Provider sends a preauthorized EFT debit instruction from the healthcare Provider's financial institution to consumer's financial institution with instruction to debit the consumer for a healthcare payment (dotted line arrow). The consumer's financial institution acts on the EFT instructions and debits the consumers account for the amount of the EFT entry. The funds flow back through the ACH Network to the ODFI and the ODFI credits the healthcare Providers account. Debit entries must not be posted to a Receiver's account prior to the Settlement Date, and the corresponding credit entries are posted to the Originator's account on Settlement Date.



ACH Applications

The ACH Network supports a number of different payment applications. An Originator initiating entries into the ACH Network codes the entries to indicate the type of payment, such as a debit or credit to a corporate or consumer account. In certain cases, a particular application may be used for both corporate and consumer transactions.

A Standard Entry Class Code (SEC) identifies each ACH and the computer record format that carries the payment and any payment-related information for the application.

There are currently 23 Standard Entry Class Codes. SEC codes used by the healthcare industry could include:

PPD - Prearranged Payment and Deposit Entry

Direct Payment

Direct Payment is a debit application. Through a written authorization, the consumer grants the company authority to initiate a debit, either one-time or recurring, to his or her account. This application can be used to collect outstanding balances for healthcare services.

Direct Deposit

Direct Deposit is a credit application that transfers funds into a consumer's account at the RDFI. The deposited funds can represent a variety of products, such as employee payroll, reimbursements, pension, etc.

Corporate Application

CCD - Corporate Credit or Debit (and CCD+)

The CCD+ was recommended by NCVHS as the HIPAA EFT standard format and content required for Health Plans to perform an EFT transaction. For healthcare the CCD+ is used to carry a re-association TRN - Trace Number Segment in the addenda record that is used to link the EFT payment to the Electronic Remittance Advice (ERA). The TRN Segment is formatted as specified in the X12 835 TR3 Report for version 5010.

The CCD can also be used for vendor payments.

Contracts/Agreements

A series of agreements govern the ACH Network. These contractual agreements allow the enforcement of the *NACHA Operating Rules* through the legal system. By entering into an agreement to comply with the *NACHA Operating Rules*, ACH Network participants also become subject to NACHA's rule enforcement mechanisms. The chart below details the relationships between ACH participants when the Health Plan is the Originator of EFT payments to the Provider:

Participant		Participant
ODFI	Contract	Originator (Health Plan)
ODFI	Contract	ACH Operator
Provider	Signed an Authorization Agreement	Health Plan
RDFI	Agreement	ACH Operator
RDFI	Depositor Agreement	Provider
Provider	Cash Management Service Agreements may be required for Debit Block, Debit Filters or to receive the TRN Segment information from the RDFI	RDFI

An example of an EFT Provider authorization agreement is below:

Electronic Funds Transfer (EFT) - Authorization Agreement – Sample language
Electronic Funds Transfer (EFT) I hereby authorize (company name) to initiate EFT credit entries to the account at the bank listed (below or above) for all benefits payments payable to me. This agreement will remain in effect until I notify (company name) of my desire to cancel or change this service or until (company) notifies me that this service has been terminated. I understand I must allow reasonable time for my instructions to be executed. I authorize and request the bank listed (below or above) to accept any credit entries from (company name) and to credit the amount of those funds to my account. If (company name) credits more money than the correct benefits amount to the account, due to: • Duplicate EFT (where "duplicate" is defined as multiple EFTs received for the same services rendered, the same membership and the same dates of service), or • Erroneous EFT's (where "erroneous" is defined as complete EFT's received in error) (company name) will attempt to recover the duplicate or erroneous payment via a debit to your account to the extent permitted by state law. I understand and agree that if an electronic debit is unsuccessful for deposit only accounts, or not permitted by state law, company will pursue settlement with me via alternate measures.

If a Provider is debiting a patient for balances owed the *NACHA Operating Rules* contain certain requirements that validate a consumer debit authorization. Each debit authorization must:

- Be readily identifiable as an authorization
- Clearly state the terms of the authorization (i.e., date of debit, amount of debit, length of authorization term)
- Provide a method for revocation of the authorization

Settlement

Settlement is the actual transfer of the value of funds between Financial Institutions to complete the payment instruction of an EFT.

Posting

The RDFI is responsible for posting entries and for providing funds availability, both of which are determined by the Settlement Date. An ACH Operator determines the Settlement Date of an Entry according to assigned processing schedules. There are

restrictions as to when entries may be delivered to the RDFI and credited to or debited from a Receivers' account.

• EFT debits will be delivered to an RDFI no earlier than one banking day prior to the Settlement Date. *NACHA Operating Rules* state that debits cannot post prior to the Settlement Date.
• EFT credits will be delivered to an RDFI no earlier than two banking days prior to the Settlement Date. It is recommended that credits post on the Settlement Date; credit entries may, however, be posted prior to the Settlement Date if the RDFI cannot warehouse the entries. *NACHA Operating Rules* require that credit entries must be available for withdrawal by the customer no later than the Settlement Date of the entry.

At times, the ODFI and RDFI can be the same Financial Institution (i.e., the Originator and the Receiver both hold a deposit account with Bank A). In these instances, any transaction between the Originator and the Receiver is considered an "on-us" transaction. Normally, these transactions do not flow through an ACH Operator and, conversely, the ACH Network. Financial Institutions internal procedures govern settlement and posting times for on-us items.

Notification of Deposit

Financial institutions do not generally provide an individual notification of the deposit for an ACH transactions, funds are deposited to the Providers deposit account and can be viewed at any time through on-line banking services or the monthly account statement. Additional notification can be provided by most financial institutions as part of their Treasury or Cash Management Service with their balance reporting services.

Reassociation Trace Numbers for ACH CCD+

The formatting of the TRN Reassociation Trace Number Segments used to "tie" the EFT payment with the Electronic Remittance Advice (ERA) is defined in the X12N T3 Implementation Guide version 5010. In the TRN 02 segment – if the payment is made by EFT the number used in the TRN 02 must be the EFT reference number.

- The X12 TRN Re-association Trace Number Segment should be placed in the Payment Related Information field of the CCD+ addenda record.
- This information is passed unchanged through the ACH Network to the RDFI with the EFT payment.
- RDFI provides TRN to Provider – If requested by the Provider, the RDFI must provide the information to the Receiver by opening of business on the 2nd banking day following settlement date. However, the Rules are silent regarding the method used to provide the information or fees associated with receiving the information.

Providers must notify their financial institution of their desire to receive the Reassociation Trace Number. It will not be delivered by the financial institution unless requested.

Returns

The *NACHA Operating Rules* include provisions that allow for the return of certain entries.
Debit entries may be returned if the Provider reports the transaction as unauthorized within two Banking days of settlement.

Due to the short timeframe allowance, corporates (Providers) are encouraged to check their accounts daily, or to take advantage of many treasury management tools offered by their financial institution to prevent fraud and identify or block unauthorized access to accounts such as ACH Positive Pay, debit blocks, or account management services. Additional information about these services can be found in Appendix B.

Other services offered by financial institutions such as detailed bank statements, bank balance reporting systems, and online banking may also be available.

More Information on ACH

- You may purchase a copy of The *NACHA Operating Rules* at www.nacha.org for more information.
- To view the Rules online, visit http://www.achrulesonline.org/.
- NACHA's Regional Payments Associations provide training and assistance on the Rules. Visit http://www.electronicpayments.org/c/fi_about_regassoc.cfm?hp=fi for more information or to locate your nearest Regional Payments Association.
- Electronicpayments.org – website that provides additional information for businesses and consumers on EFT payments.

Final Rule on Health Care EFT Standard

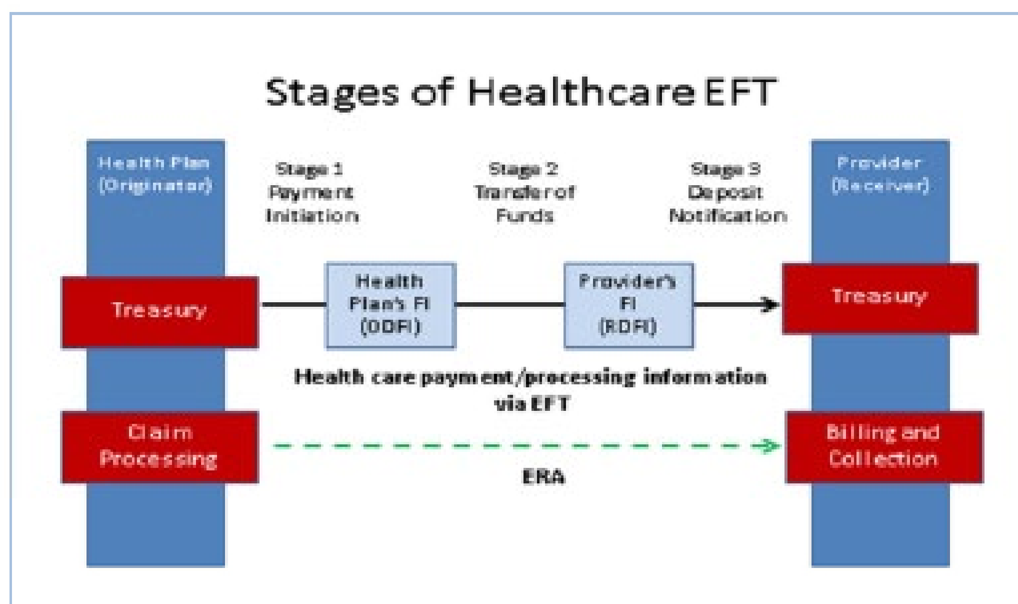
On July 10, 2012, the Department of Health and Human Services issued a statement that the interim final rule with comment (IFC) [CMS-0024-IFC], " Administrative Simplification: Adoption of Standards for Health Care Electronic Funds Transfers (EFTs) and Remittance Advice," which was issued January 10, 2012, would not be changed and was now considered a final rule. Industry implementation efforts are underway for the January 1, 2014, compliance date. In the announcement of the final rule, CMS also stated that "Covered entities must comply with the provisions of CMS-0024-IFC by January 1, 2014. However, there are no prohibitions against using the health care EFT standards before that date."

CMS-0024-IFC identified two EFT standards for EFT transactions that flow through the ACH Network – the EFT payment standard and a standard for the addenda content. NACHA's CCD+Addenda was identified as the Health Care EFT Standard for Stage 1 Payment Initiation, and the ASC X12 835 version 35010 TRN Data Segment was identified as the standard for the content of the CCD addenda record.

CMS-0024-IFC also divided the ACH transaction flow into three chronological stages, each of which includes separate electronic transmission of information:

- Stage 1 – Payment Initiation,
- Stage 2 – Transfer of Funds, and
- Stage 3 – Deposit Notification.

The Health Care EFT Standard identified in CMS-0024-IFC addresses Stage 1 Payment



Initiation only, and is specific to the communication between the health plan and its financial institution. The final rule does not adopt standards for Stages 2 and 3 of the health care EFT process. The diagram below illustrates the three stages of the ACH transaction flow as identified by HHS.

Health Care EFT Standard for ACH Network

The Health Care EFT Standard identified for Stage 1 Payment Initiation is the NACHA Corporate Credit or Debit Entry with Addenda Record (CCD+Addenda) and its related technical specifications, as contained in the *2011 NACHA Operating Rules & Guidelines*[1]. It should be noted that HHS has adopted only the specific chapter and appendices of the *NACHA Operating Rules* that include technical specifications for the CCD+Addenda, and not the *NACHA Operating Rules* in their entirety.

CCD+Addenda Content

The final rule also adopted the ASC X12 835 version 5010 TRN Segment as the standard for the data content of the Addenda Record of the CCD and requires health plans to input this data segment into the Addenda Record of the CCD+Addenda. Specifically, Section 2.4 (Segment Detail, TRN Reassociation Trace Number) of the final rule includes the following technical specifications for the TRN Segment addenda content: the Trace Type Code (TRN01), the Reference Identification (TRN02), the Originating Company Identifier (TRN03), and if situationally required, the Reference Identification (TRN04). Additional information on the formatting for the TRN Reassociation Trace Number can be obtained from X12 at http://www.disa.org/.

Provider's Ability to Request Delivery of the HIPAA EFT Standard (CCD+Addenda)

The Healthcare EFT Standard identified in the IFR Administrative Simplification: Adoption of Standards for Health Care Electronic Funds Transfers (EFTs) and Remittance Advice is now a HIPAA standard transaction. Therefore, as detailed in 45 CFR Part 162.925, a health plan is required to deliver a HIPAA standard transaction if it is requested by the provider. While the IFR does not prohibit use of other EFT payment options, the health plan must deliver the claims reimbursement payment using the Healthcare EFT Standard (that is, the CCD+Addenda and the TRN Reassociation Trace Number.)

45 CFR § 162.925 Additional requirements for health plans.
(a) General rules. (1) If an entity requests a health plan to conduct a transaction as a standard transaction, the health plan must do so.
(2) A health plan may not delay or reject a transaction, or attempt to adversely affect the other entity or the transaction, because the transaction is a standard transaction.
(3) A health plan may not reject a standard transaction on the basis that it contains data elements not needed or used by the health plan (for example, coordination of benefits information).
(4) A health plan may not offer an incentive for a health care provider to conduct a transaction covered by this part as a transaction described under the exception provided for in § 162.923(b).

1 From CMS FAQs, "While the implementation specifications in the 2011 *NACHA Operating Rules & Guidelines* are the adopted standard for the CCD+Addenda, any version of the *NACHA Operating Rules & Guidelines* can be used as long as the implementation specifications for the CCD+Addenda do not differ from those in the 2011 version."

Changes to the *NACHA Operating Rules* to Support Health Care EFT Transactions

On October 31, 2012, NACHA's voting membership approved amendments to the *NACHA Operating Rules* to support health plans' and providers' use of the ACH Network for payment of health care claims and the exchange of payment related information. The revised Rules support processing enhancements requested by the health care industry, as well as specific transaction identification and formatting requirements for health care claim payments.

The *Rules* should be used in combination with health care industry operating rules for electronic funds transfers (EFT) and electronic remittance advice (ERA) (which were developed by the Council on Affordable Quality Healthcare (CAQH) Committee on Operating Rules for Information Exchange (CORE), in collaboration with NACHA), and the designation by the Department of Health and Human Services (HHS) of the CCD entry as the health care EFT standard transaction. Together, these complementary sets of rules provide for efficient and standardized electronic payment of health care claims and the reassociation of the payments with health care remittance information ("reassociation"), ultimately resulting in simplified administrative processes for both health plans and health care providers.

These healthcare-specific changes to the *NACHA Operating Rules* become effective on September 20, 2013 in advance of HHS' January 1, 2014 deadline for compliance with the Interim Final Rule. Originators and ODFIs could begin using the transaction identification and formatting standards within this Rules earlier than the effective date; use of the standards will not cause any processing problems for RDFIs and Receivers. Similarly, RDFIs that do not do so already could begin offering an electronic option for the delivery or provision of payment related information as soon as they are ready.

The five major components of the *NACHA Operating Rules* specific to healthcare payments are as follows:

Unique Identification of Health Care EFTs

Originators must clearly identify CCD Entries that are Health Care EFT Transactions through the use of a specific identifier. The presence or absence of this health care-specific indicator provides RDFIs with certainty in distinguishing Health Care EFTs from non-health care CCD Entries, allowing RDFIs the ability to comply with the *Rules* and specific processing requests from health care customers. Specifically, the *Rules* require Originators of Health Care EFT Transactions to populate the Company Entry Description field of the CCD Entry with the value "HCCLAIMPMT".

Additional Formatting Requirements for Health Care EFT Transactions

For each CCD Entry that contains the health care indicator, as described above, the Originator must ensure that the CCD Entry complies with the following formatting requirements, which are necessary to provide Receivers (health care providers) with clear identification of the source and purpose of the payment.

- **Company Name**: An Originator of a Health Care EFT Transaction must populate the Company Name field of the CCD Entry with the name of the health plan. In situations where an organization is self-insured, this field could contain the name of the organization's third-party administrator that is recognized by the health care provider and to which the health care provider submits its claims.

- **Addenda Record and Payment Related Information Requirements for Health Care EFT Transactions**: Originators must include an addenda record with each CCD Entry used for a Health Care EFT Transaction. Originators must also populate the Payment Related Information field of the CCD Entry's addenda record with the ANSI ASC X12 Version 5010 835 TRN (Reassociation Trace Number) data segment. The TRN data segment, along with additional information contained within the Entry, is needed by health care providers to reassociate the Health Care EFT with the electronic remittance advice (ERA), which is transmitted separately.

Delivery of Payment Related Information (Reassociation Number)

RDFIs must provide or make available, either automatically (if such a service is established by the RDFI) or upon the request of a Receiver that is a health care provider, all information contained within the Payment Related Information field of an Addenda Record transmitted with a CCD Entry that is a Health Care EFT Transaction. The RDFI must provide or make available the Payment Related Information no later than the opening of business on the RDFI's second Banking Day following the Settlement Date of the Entry. Further, RDFIs must offer or make available to the health care provider an option to receive or access the Payment Related Information via a secure, electronic means that provides a level of security that, at a minimum, is equivalent to 128-bit RC4 encryption technology.

The requirement that an RDFI must offer, or make available, to healthcare providers an option to receive the healthcare payment related information electronically via a secure delivery channel adopts an encryption standard that is consistent with other data security requirements under the Rules regarding the secure transmission of banking information over unsecured electronic networks. Examples of a secure, electronic delivery channel can include SSL or HTTPS secure email, online account access, online reports, or file transmissions that meet the 128-bit RC4 encryption technology minimum standard. Mail, unsecured fax, or unsecured email of payment related information is not considered a secure, electronic delivery method.

The *Rules* also clarify that the reassociation information delivery requirements apply to Health Care EFTs that are sent to Non-Consumer Accounts of Receivers. While the *NACHA Operating Rules* have always been based on the presumption that SEC Codes are used correctly (in this case, that CCD Entries are business-to-business transactions and directed to business accounts), clarifying the Rules ensures that RDFIs do not incur new obligations if Receivers do not use appropriately-designated Non-Consumer

Accounts to receive Health Care EFT Transactions.

Additional EDI Data Segment Terminator for ACH Addenda Records

In addition to the backslash, Originators have the option to utilize an alternative data segment terminator, the tilde ("~"), to indicate the end of any data segment carried in the Addenda Record of the CCD Entry. The tilde (which is commonly used in the healthcare industry to indicate the end of a healthcare data segment) is a valid character for ACH Entries and should already be recognized as such by ACH processing software. However, EDI translation software might need to be modified to recognize the tilde as a valid data segment terminator for the CCD Addenda Record and NACHA-approved banking conventions.

Health Care Terminology within the *NACHA Operating Rules*

Four additional terms are incorporated into the *NACHA Operating Rules* to address concepts specific to Healthcare EFT Transactions and to help clarify RDFIs' obligations for processing such payments to non-consumer accounts:

- "**Health Plan**" - an Individual or group plan that provides, or pays the cost of, medical care as defined by HIPAA Part II, 45 CFR 160.103.

- "**Healthcare EFT Transaction**" - a CCD Entry originated by a Health Plan to a Healthcare Provider for the reimbursement or adjustment of a healthcare claim. A Healthcare EFT Transaction must be accompanied by one Addenda Record that contains the ANSI ASC X12 TRN (Reassociation Trace Number) data segment in the Payment Related Information field.

- "**Healthcare Provider**" - as defined in HIPAA Part II, 45 CFR 160.103, a provider of services (as defined in section 1861(u) of the Act, 42 U.S.C. 1395x (u)), a provider of medical or health services (as defined in section 1861(s) of the Act, 42 U.S.C. 1395x(s)), and any other person or organization who furnishes, bills, or is paid for health care in the normal course of business.

- "**Non-Consumer Account**" - an account held by a Participating DFI and established by an Organization for commercial purposes. Also an account held by a Participating DFI and established by a natural person for commercial and not for personal, family, or household purposes.

Comparison of EFT Payment Options

The interim final rule with comment (IFC) [CMS-0024-IFC], " Administrative Simplification: Adoption of Standards for Health Care Electronic Funds Transfers (EFTs) and Remittance Advice," does not prohibit the use of other EFT payment options for healthcare claim payments, and health plans are not required to send health care EFTs through the ACH Network. However, health plans must certify they are compliant with the Healthcare EFT Standard and Operating Rules by January 1, 2014 and must deliver the Healthcare EFT Standard if it is requested by the Provider. As a Provider, it is important that you have an understanding of each the most common EFT payment options, the features of each, and the costs to accept each payment option.

Cost comparison of EFT payment options

The costs used in the following examples are average costs based on publically available information. The costs for ACH and Wire Transfer are taken from The *Blue Book of Bank Prices* 2012-13 published by Phoenix-Hecht - https://www.phoenixhecht.com/treasuryresources/PDF/BBExecSumm.pdf. The virtual purchasing card fees are published by MasterCard- http://www.mastercard.com/us/merchant/pdf/MasterCard_Interchange_Rates_and_Criteria.pdf. For actual costs to receive an ACH or Wire Transfer payment, please check with your financial institution. While the cost to accept virtual card payments is based on your agreement with your Merchant Processor, interchange fees of between 2.4%-5% of the payment amount typically apply, plus a per transaction fee.

The chart on the following page was designed to provide a side-by-side comparison of ACH, card payments, and wire transfer EFT payment options.

	ACH	Virtual Card	Wire Transfer
Funds Availability(as measure from the time that a plan initiates payment)	Next Day	2-3 Business Days depending on card type and agreement with Merchant Card Processing Provider (funds deposited to Merchant Account via ACH Network)	Same Day (funds irrevocable)
Average Cost to Receive $2,500 EFT Payment	$0.34 (any payment value)	Percentage of total payment plus a transaction fee Example – 3%* interchange fee on $2,500 payment and $0.10 transaction fee = $75.10	$10.73 (any payment value)
Enrollment/ Acceptance	Must have a bank account One time with each health plan	Must have a bank account and agreement with a merchant card processing provider, and point of sale processing system/terminal	Must have a bank account One time with each health plan (account information must be provide to each health plan)
Risk	Very low risk with ACH credit payment; FI can support additional account monitoring tools such as debit filters or blocks	Higher risk with virtual cards; card numbers mailed or faxed have information that can be used by anyone with ability to accept card payments (Square, other options)	Very low risk with immediate payment
Manual processing for each payment	None – automatically deposited to bank account	Each payment must be manually entered into the POS terminal by office staff	None – automatically deposited to bank account
Reassociation with Electronic Remittance Information	Standardized inclusion of TRN Reassociation Data Segment in payment Delivered by financial institution after service is established	Not included with payment Manual access to each EOB through web portal	No requirement to include TRN Reassociation Data Segment with payment. If included, can be delivered by financial institution after service is established

Maximize Benefits of accepting ACH to Providers

One of the major barriers identified by Providers to accepting ACH transactions is the enrollment process. Providers currently need to provide each individual health plan with banking information, which can be time and resource intensive. The CORE EFT Enrollment Operating Rule standardizes the format and information that can be included in an EFT enrollment form and requires that there is one electronic enrollment option available. There are also databases that are being established to allow Providers to input the EFT enrollment information in one location and designate which Health Plans can receive or access the information. Both of these initiatives will help to reduce the time it takes Providers to enroll to receive EFT for claims payments.
In the mean time, there are things that providers can do to improve cash flow and back office payment processing.

- Identify which health plans represent the largest portion of your business and have office staff work through the EFT enrollment process with those health plans first. In general, 20% of your health plans will represent 80% of your claims payments. By moving that 20% to ACH first, you will improve you cash flow and reduce the number of transactions that are manually processed by check or cards.

- Check with your financial institution about delivery of the TRN Reassociation Data Elements. Determine how and when the information will be delivered from the financial institution to your practice or vendor.

- Prevent unauthorized ACH debit transactions by contacting your financial institution about ACH Debit Blocks, Filters, or ACH Positive Pay.

- Concerned about giving out banking information? Check with your financial institution to see if it offers a UPIC or similar service. Universal Payment Identification Codes® (UPICs) are a unique account identifiers issued by financial institutions that allow organizations to receive ACH credit payments without divulging confidential banking information. The UPIC is used in place of an account number in EFT enrollment forms and prevents delivery of ACH debits to the account holder.

Appendix A: Re-association Trace Numbers for ACH CCD+

	ERA TRN Re-association Trace Number	ACH Trace Number
Creator of TRN Data Segment	**Health Plan**	**ODFI**
Placement	X12N 835, Table I – TRN: If the payment is made by EFT, this segment is used to link the 835 to its corresponding payment. It is composed of three parts: • TRN01 is a Trace Type Code. The only value that is currently allowable is “1” • TRN02 is the Reference Identification. It is a 1 – 50 position alphanumeric field that is unique to each payment order/remittance advice (BPR) • TRN03 is the Originating Company Identifier. It is a 10 position alphanumeric field that uniquely designates the plan/ payer making the payment. (See the X12N 835 Implementation Guide for assistance in formatting this field.) CCD+ - The TRN Re-association Trace Number is placed in the Payment Related Information field of the CCD+ Addenda Record	CCD+ - Field 11 of Entry Detail Record • The CCD+ Trace Number, as defined in the *NACHA Operating Rules* is assigned by the ODFI. **The ACH Trace Number in a CCD+ is not intended to carry information for payment re-association and does not convey any portion of the TRN segment.**
Primary Function	The TRN – Re-association Trace Number is defined by the X12N 835 version 5010 Implementation Guide and is used to “tie” the ERA and the matching EFT payment when the ERA and EFT are sent separately. When the TRN Re-association Trace Number is included in the CCD+ Addenda record, it flows unchanged from the Originator to the Receiving Depository Financial Institution (RDFI) - through the ACH Network	ACH Trace Number uniquely identifies each Entry Detail Record within a batch in an ACH input File
Issues and Delivery to Provider	CCD+ Addenda Record – the TRN Re-association Trace Number placed in the Payment Related Information field flows through the ACH Network unchanged. Matching the TRN Re-association Trace Number placed in the Payment Related Information with the TRN Data Segment in Table I of the X12N 835 ERA provides the Re-Association Key necessary to match the EFT payment to the ERA.	CCD+ Payment Related Information field: The X12 TRN Re-association Trace Number. NACHA Operating Rules require the RDFI to provide the data in the Payment Related Information field to the Provider by opening of business on the 2nd banking day – if it has been requested. The Rules are silent on how this information is provided.
Standards Development Organization (SDO)	ASC X12	NACHA

NACHA The Electronic Payments Association

The formatting of the TRN Re-association Trace Number Segments used to "tie" the EFT payment with the Electronic Remittance Advice (ERA) is defined in the X12N T3 Implementation Guide. In the TRN 02 segment – if the payment is made by EFT the number used in the TRN 02 must be the EFT reference number. In the ACH file layout the "EFT reference number" would be the Trace Number that is found in field 11 of the CCD+ Detail Record. The Trace Number is a mandatory field that is assigned by the ODFI. If the Health Plan, or the entity that creates the ACH file, populates the Trace Number field, that number will be replaced by the ODFI – as required by the NACHA Operating Rules .

The X12 TRN Re-association Trace Number Segment should be placed in the Payment Related Information field of the CCD+ addenda record. This information is passed unchanged through the ACH Network to the RDFI with the EFT payment. Article Three, Subsection 3.1.5.3 of the ***NACHA Operating Rules*** states that "upon request of the Receiver, RDFI must provide to the Receiver all information contained in the Payment Related Information field of the addenda record". The RDFI must provide the information to the Receiver by opening of business on the 2nd banking day following settlement date. However, the Rules are silent regarding the method used to provide the information or fees associated with receiving the information.

Appendix B: Unauthorized ACH Debit Entries – Corporate Accounts

As with consumer entries, the business Receiver must authorize all ACH credits and debits to its account. An Originator (Health Plan) must enter an agreement with each business Receiver (Provider) of entries under which the Receiver has agreed to be bound by the *NACHA Operating Rules*. The nature of the agreement for corporate transactions can vary depending upon the complexity of the application and the relationship between the Originator and the Receiver.

A corporate account (Provider or Health Plan) holder has a very limited timeframe to return an unauthorized ACH debit entry; this timeframe may vary depending on the processing capabilities of their financial institution. Return timeframes for corporate account holders should be outlined in the agreement with your financial institution. It is usually 24 -48 hours from the time the debit is processed to the account. A corporate account holder should be reviewing their account daily to ensure that unauthorized debits have not been processed to their account.

If the Receiver identifies an unauthorized CCD+ debit to their account past the Return deadline, the RDFI may Transmit a Return Entry to the ODFI after the time for return has expired, provided (only if) that the ODFI agrees, either verbally or in writing, to accept the late Return Entry. If the ODFI does not agree to receive the late return the item will not be sent back to the Originator through the ACH Network, and the Provider will need to address this debit directly with the Originator.

Treasury Management Services

Many financial institutions provide treasury management service to corporate customers to help prevent unauthorized or fraudulent debit transactions from being posted to corporate accounts. These are considered value added treasury services and there are generally modest fees associated with providing those services.

ACH Debit Block – This service automatically returns all ACH debits that are directed to a particular bank account. No customer intervention is necessary once the service is set up.

ACH Debit "Filter" – Automatically returns all ACH items for a designated account, except those that are pre-authorized. Authorized ACH Originators are identified by providing the bank with specific identifier information, e.g., Originating company ID, individual ID number, etc. Some banks offer the flexibility of allowing customers to further fine-tune their payment criteria based on maximum dollar amounts, exact dollar amounts, and maximum number of occurrences.

ACH Positive Pay – allows review of ACH debits before they are posted, with the customer making the decision to accept or return the debit individually.

The determination of which treasury service to use is a function of what type of activity an account is used for and what specific debit block services are available from the bank.

Appendix C: Next Steps Checklist – Receipt

❐ **Step 1: Contact Your Financial Institution to Discuss Services Offered to Assist in Receiving EFTs through the ACH Network**

As mentioned above, moving from paper-based payments to EFTs through the ACH Network will result in significant cost savings, reduced operating costs, and improved cash management capabilities. To help determine cost and understand the process, ask these important questions:

- What fees, if any, are associated with receiving EFT payments
- How do these differ from depositing checks
- What services are available to review your account activity, i.e., to see what deposits you have received, debit blocks or debit filters
- What are the return timeframes for unauthorized debits and how quickly must you notify your bank of an unauthorized debit
- Advise your bank that you want to receive the ACH Addenda record information (TRN reassociation key) and discuss options for receiving the information and costs

❐ **Step 2: Contact the Health Plan**

Contact the Health Plan to complete the enrollment forms for receiving EFT payments. Be sure to ask:

- What forms they require
- How long it take to begin receiving EFT payments instead of checks
- Who should you contact at the Health Plan if you run into a problem
- Is there a difference in processing timeframes between checks and ACH
- Work with your financial institution or payments provider to understand the process for receiving EFTs through the ACH Network
- Change back-office processes and procedures to facilitate the electronic transfer of funds

❐ **Step 3: Continue to Work Closely with Your Financial Institution to Begin Receiving EFTs through the ACH Network**