An Introduction to Payor Contracting Language

Five Contract Terms Every Healthcare Provider Needs to Know

Unfortunately, there's no Rosetta Stone for payor contracting. As you flipped through your payor agreement searching for a signature block, somewhere 10+ pages in, you might have wondered "how many people read this stuff?!" The simple answer is, not enough. It is critical that you understand what you are signing up for. Payor contracts are the source of truth that dictate how you get paid. It's not enough to simply flip to the reimbursement schedule to look at rates. You need to understand operational and strategic terms that can have a meaningful implication on your organization and financial performance.

Yes, the majority of terms in payor contracts aren't the most flexible, but payor compromises aren't impossible. At the very least you need to understand the fundamentals of your agreement. We've outlined five critical contract terms that need to be understood for each of your payor contracts. This list is by no means exhaustive and it is always prudent to consult a lawyer regarding any legal questions. That said, learning about these terms will start you on your path to success.

1 Term & Termination

One of the first things you want to understand about a contract is how to get out of it. You want to maintain optionality for contract negotiation whenever possible, this allows you the opportunity to get out of unfavorable situations or pursue renegotiations with more conviction. It's also critical to understand when the termination date is so that you can initiate re-negotiation conversations. You don't want to wait until the termination to initiate conversations. Ideally you allow for appropriate coordination (i.e. three to six months).

These can vary greatly agreement to agreement. There are some common structures and concepts to be aware of as you review your agreements. Typically, agreements have a two to three year initial term that can either automatically renew or terminate. If it is automatically renewed for additional one year renewal terms, these are commonly referred to as 'evergreen' contracts. If there is not a renewal period, these are commonly referred to as 'hard' terms.

Termination rights can generally be considered with or without cause. There is typically a notice period that is associated with either (e.g. 30, 60, 90, or 120 days). You should confirm whether both types of termination rights exist and understand the details closely. For any termination with cause, ensure you understand what constitutes cause and compliance.

2 Provider Manuals

The base agreement and any referenced extensions of that agreement are all part of the contract. It's critical to appreciate that the provider manual is an extension of your contract. The payor can make changes to this and you are committed to those changes.

It's crucial to understand if they are required to give you notice of updates and what your rights are if any 'material changes' occur that have adverse financial impacts on your organization. As with most aspects of the contract, the detail is important to understand.

Ensure that key members of your organization are familiar with their responsibilities under the provider manual. Transparency, communication, and discipline will serve you well.

3 Medical Necessity

You will only be reimbursed if the services you deliver to your patients are considered medically necessary. Ensure you understand the parameters outlined in the agreement. If you were to submit a bill to a payor that was known to be medically unnecessary, that could be evaluated as potential fraud and can pose a serious risk.

4 Claims Payment Provisions

The details behind what constitutes a clean claim are defined by the contract. From all the components that need to be accurately populated on the claim (e.g. patient information, dates of service, etc.), to additional dependencies that must be met (e.g. substantiating medical necessity, if applicable), to the time frames that must be acknowledged.

Other key timeframes to understand are when you must be paid by, what your ability is to appeal any over/under payments, or how long a payor can come back to recoup (i.e. take back) any overpayments. If you believe there are unreasonable terms, such as an indefinite ability to come back and collect overpayments, raise the point.

It helps to plot out the key milestones in the process strategy and identify the timeframes to understand where you might have operational exposure.

5 Lesser of Provisions

Lesser of provisions can impact your allowable reimbursement in a variety of ways. This contract language compares the rates that are in your fee schedule to either (i) your billed charges or (ii) usual and customary (U&C) charges. Essentially, you will receive payment for whichever rate is lower (or the lessor of) the two rates being compared.

It's important you understand the details so that you can avoid 'leaving money on the table' in this structure. For example, if it is the lesser of billed charges you can control your chargemaster to ensure your chargemaster is higher than your established rates. Alternatively, if it is based on U&C you should understand what benchmarks they are using and understand the potential impact to your overall reimbursement.

Although the Lessor of Provision can have a direct impact on the overall profitability of a payor contract, many of the other terms can also have indirect impacts on how you would financially and strategically assess an agreement. You should always understand exactly what you are committing to, but you don't have to perform all of the analyses or management yourself. PayrHealth has a deep understanding of the key financial, operational, and strategic drivers for an agreement. Let our team of experts be an extension of your organization and help you navigate the complexities of payor contracts....

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