



Testimony to  
The Subcommittee on Standards  
National Committee on Vital and Health Statistics

CORE Activities Related to Operating Rules for the  
Use of Electronic Funds Transfer (EFT) and Electronic  
Remittance Advice (ERA) in Healthcare

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Good afternoon. I am Gwendolyn Lohse, Deputy Director of CAQH<sup>®</sup>, a non-profit alliance uniquely focused on simplifying administrative processes in healthcare. I appreciate the opportunity to provide this testimony today to the Subcommittee on Standards of the National Committee on Vital and Health Statistics (NCVHS).

As you heard earlier today, the CAQH Committee on Operating Rules for Information Exchange, or CORE<sup>®</sup>, was conceived and established by CAQH in 2005 to address the needs of providers and health plans to exchange more robust administrative transactions in real time. CORE is the only national effort solely engaged in the development of operating rules for the facilitation of non-retail pharmacy, administrative healthcare transactions. The CORE Operating Rules are, and have been, created through an open, transparent, quorum-based voting process with a wide range of healthcare stakeholders, including health plans, providers, vendors, associations and standards development organizations (SDOs) such as ASC X12 and the National Council for Prescription Drug Programs (NCPDP). The CORE health plan participants cover more than 150 million insured lives – as well as Medicare and some Medicaid beneficiaries. For additional information on CORE, please see our testimony from your July 2010 meeting on operating rules in relation to Section 1104 of the Patient Protection and Affordable Care Act (ACA).

This afternoon the Subcommittee is hearing testimony from a wide range of stakeholders regarding accelerating the healthcare industry transition to electronic payment processing and related services. The ACA has addressed this matter by mandating standards and operating rules for electronic funds transfers (EFT) and electronic healthcare payment and remittance advice (ERA).

I am pleased to testify on behalf of CAQH CORE, which has established the leadership role in the development of healthcare operating rules through its partnerships with key stakeholders.

## **BACKGROUND**

CORE launched its work in the area of electronic funds transfer (EFT) and electronic remittance advice (ERA) based on issues that were raised during discussions in earlier phases and due to its long-term vision. The CORE integrated model is based on the interests of participating organizations in realizing administrative simplification throughout the data exchange process. CORE priorities have always been guided by a milestone-driven process recognizing the interdependencies of the critical transactions as well as the interdependencies of the stakeholders involved. As CORE has grown over the past several years stakeholders could see – and were beginning to be affected by – the growing convergence of banking and healthcare. Some were experiencing, and others could envision, greater dependencies across the two sectors, and the opportunities for economies of scale, improved efficiencies and return on investment (ROI).

Since its inception, CAQH CORE has been collaborating with NACHA – The Electronic Payments Association. The intention in working with NACHA was to learn lessons from other industries that have embraced the concept of operating rules and standards in support of interoperability. NACHA has served on all of the CORE Subgroups and Work Groups, and has served as an ex-officio member of the CORE Steering Committee. Including NACHA in this manner supported CAQH CORE staff as they paved a new approach for healthcare

administrative transactions. Moreover, a NACHA banking industry leader with experience in healthcare transactions co-chaired one of the first CORE Rules Work Groups. This Work Group included heated debates, and it was extremely meaningful for the co-chair to be able to assure the Work Group participants that significant change throughout an entire industry was feasible – and setting goals for things such as system availability and financial data delivery appeared less daunting.

Recent and related legislative and regulatory efforts further heighten the need for work in this area. As the NCVHS is aware, the ACA requires the Department of Health and Human Services (HHS) to promulgate a final rule for both EFT and ERA, and, as the industry is aware, the timeline is very compressed. In addition, the recent Health Information Technology for Economic and Clinical Health Act (HITECH) may affect financial institutions and the way in which they structure and deliver services in the healthcare sector through significant changes to the Privacy and Security Rules, which implement provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

At the same time, the healthcare industry is increasingly accelerating adoption of electronic transactions. Legislative and regulatory changes, coupled with financial incentives, have been put in place to stimulate adoption of electronic prescribing and electronic health records (EHRs). States and regions are becoming wired for health information exchange. The Federal government is spearheading work on the National Health Information Network. The result is a rapidly evolving world in which there is increased need for administrative simplification in the electronic processing of clinical and administrative data, including claims payments.

## **CORE UPDATE**

Over the past year, CORE has been engaged in a number of activities related to operating rules for the EFT and ERA transactions. I would like to briefly update the Subcommittee on our progress and why we believe that embracing the opportunity of operating rules for these transactions is critical to administrative simplification.

**Draft Phase III Rules: Initial Step.** The impact of the convergence between banking and healthcare were not lost on CORE and its participants, which chose to take a proactive role and begin to address the intersection of the two sectors in the drafting of the Phase III rules and forming a partnership with NACHA.

As with all CORE Phases, the Phase III scope was developed based on input from multiple sources and using a priority selection process to assess a large list of scope options against key filters. Determining the scope of the Phase III Rules involved broad representation, both in number and stakeholder type, from CORE participant organizations. For more on the CORE rule writing and review process, please see the CAQH CORE July Testimony.

Against that backdrop CORE began applying the concept of operating rules to these transactions by drafting a Phase III Rule for 835 Payment/Remittance Advice with the objective of establishing basic infrastructure requirements, as in previous CORE rules. One focus was on the period of time that the providers and health plans could agree upon for the availability to the provider of both paper and electronic ERAs. Significant debate and research occurred around the timeframe. A sample of the draft operating rules language includes:

### ***Dual Delivery of Claim Payment/Remits***

A CORE-certified health plan that currently issues proprietary claim remits is required to continue to offer such remits to each provider during that provider's initial implementation testing of the v5010 835 for a minimum of 31 calendar days from the initiation of implementation. If the 31 calendar day period does not encompass a minimum of three payments to the provider by the health plan, the health plan is required to offer to continue to issue proprietary claim remits for a minimum of three payments.

By no means was this rule viewed as the end goal for ERA, rather it is just *one example* of the discussions that needs to occur on the operating rules for these payment focused-transactions. Details can be found on the CORE website, at [http://www.caqh.org/CORE\\_phase3.php](http://www.caqh.org/CORE_phase3.php).

**Partnerships.** In addition to the work across its large stakeholder universe, CORE has built on strategic partnerships with two organizations that are critical to this particular discussion - NACHA and HIMSS – and identified ways to potentially expand other partnerships, such as those with WEDI and the SDOs.

As noted above, the existing partnership with NACHA is essential in this arena. The reason is simple: the financial industry, through NACHA, has had considerable experience in standards development and the creation of operating rules related to payments. As you heard earlier today from NACHA, the CAQH CORE – NACHA partnership continues to grow. Synergies between the two organizations will help ensure that operating rules developed in healthcare will be synchronized with those in the banking industry. In that way, all parties can benefit from the efficient and reduced costs of widespread electronic payment and processing of healthcare claims.

In partnership with NACHA, over the past month CAQH has conducted over 15 interviews with leading health plans, banks, vendors/clearinghouses, state-based entities and others to gauge current market views on where the industry can have the greatest impact within the deadlines established in the ACA. Examples of these findings are included below, and details will be shared in a white paper to be issued by NACHA and CAQH. As appropriate, these findings will help drive focus for the necessary documentation and work required to develop meaningful rules. The interviews clearly demonstrated the value of having NACHA and CAQH CORE work closely together to share contacts, expertise and resources.

Additionally, the two organizations have partnered with HIMSS to provide expanded skills sets, tools, processes and distribution channels to facilitate the CORE process, particularly with the ERA. This is a natural alliance that builds on the commitment of all three organizations to public-private collaboration, their complementary missions, and staff competencies. The three also bring together an exceptionally broad range of industry participants and relevant expertise. Together they represent a significant depth of understanding of the ACA Section 1104 requirements. Their combined educational and outreach skills reflect the magnitude of effort that will be required for development and adoption of EFT/ERA operating rules and their implementation.

Equally important are other existing partnerships as the industry broadens the exchange of knowledge and moves along a shared path. Key among these is WEDI, who over the past several

years has been outlining options for improving the use of the ERA. Their perspectives and experiences will continue to be essential.

**CAQH CORE Infrastructure.** In November of this year the CAQH Board re-stated its strong support for the CORE long-term vision, and reaffirmed its commitment that CAQH CORE collaborate across the industry and with HHS to meet the needs and deadlines of Section 1104. As noted in my previous testimony, CAQH CORE is forming a Transition Committee to develop options for evolving the CORE governance and funding models moving forward (see December 3, 2010 CAQH CORE testimony on Operating Rule Updates). The CAQH Board also approved new resources for CORE to focus on EFT and ERA, should CORE be designated as an operating rules author. The ongoing CAQH Board commitment to such resources are essential given that the transition to new CORE funding models will not be completed during 2011, which is a critical year with regard to meeting Section 1104 deadlines. Per the CAQH CORE July testimony, we strongly believe that dedicated resources are required to support industry volunteers in their decision-making roles within the CORE integrated model. These resources enable the volunteers to focus on substantive activities such as reviewing research/analysis documents and facilitating group consensus for multi-stakeholder meetings. Finally, the Board reiterated that neither the CAQH Board nor the CAQH CORE leadership or staff have, or ever will, vote on the CORE rules. To immediately assist with the EFT and ERA work, CORE has retained additional staff and technical experts to work on these issues, and also to work with the critical partners in preparation for the potential operating rule writing that could occur based on the analysis and outreach that has already been completed.

## **EXAMPLES: EMERGING THEMES AND OPPORTUNITIES**

As the Committee considers whether operating rules can be written within the timeframes outlined in the ACA and who should serve as authors, we asked that you consider several concepts that you may be hearing from us and others as you recommend whether the timeframes of ACA can be embraced. Based on work in the field and collaboration with stakeholders, we see certain themes and opportunities emerging as potential candidates for operating rules under what will be a very compressed timeframe. Most of these opportunities echo the research findings that were identified through our joint work with NACHA. We would be happy to provide the Subcommittee with more information or a separate briefing on these specific results.

**Operating Rules for EFT/ERA Models.** The first emerging theme is the need to address the reality of the new world in which we live. The train has definitely left the station, but where is it going and how is it getting there? We see two models emerging: The EFT/ERA together; and the EFT/ERA separately, re-associated at the back end.

In many provider practices today, the model is to receive separate EFT and ERA transactions, which are reconciled primarily by vendors or the provider's staff. For a variety of reasons, the industry is a long way from some of the proposals that have been mentioned today, such as a combined EFT/ERA where the funds and the data flow together via the ACH. Transitioning from the current model would require significant work flow changes for providers – at a time when they are struggling to adopt a number of mandates, including implementation of ICD-10 and electronic health records. Moreover, some providers are not yet interested for reasons that

include concerns about the privacy and security of health information and financial data as they flow to different entities through various networks, not to mention the more basic resistance to change. Finally, the first and last mile in the payment process includes many small health plans administered by third party administrators, and hundreds of thousands of small providers. No doubt we will see consolidation in the coming years, but addressing the reality of and diversity of stakeholders will need to be part of the solution. *All this said, long-term goals with milestones could – and should – be established by the industry as it considers various models.*

Where does that leave us? We believe that there is much work to be done in both the near-term and longer-term. One size definitely does not fit all. CAQH CORE believes that the state of the healthcare industry argues for support of both models. As you have heard from others testifying today, having funds and data flow together will not happen overnight, but the business case for expanding this option is growing. CAQH CORE envisions that work will continue in collaboration and coordination with NACHA on the financial side – both in the development of operating rules in both sectors and by incorporating references in the respective industry rules. CAQH CORE is ready to use its broad multi-stakeholder model to meet the intent and timeframes of the ACA. We need to transition into the future, and milestone goals should be pursued. As we work closely to address solutions to increasingly complex issues such as enforcement and the emerging discussions regarding the role of certification, we also must pursue short-term goals to improve the accuracy of the data and enhance the process by which the data is exchanged. Following are only two examples that were highlighted in our research:

- There is a clear need for rules outlining the coordinated and established timing for the delivery of these two interdependent data streams. Reducing the duration between the delivery of an ERA and the availability of the funds via the EFT is a goal almost everyone in the industry can agree upon. Creating an operating rule that moves the different sectors of the industry towards an agreed upon range will be the challenge.
- The inability to easily trace the numbers used in the EFT and ERA is a challenge most stakeholders acknowledge. Developing rules regarding the level of provider banking information that is needed to make these matches, such as the use of NPI and where the numbers need to be available, will require thoughtful analysis and discussion to build trust among all the entities in the line of data exchange.

Based on experience over the last five years, as well as the more recent experience since the September 30<sup>th</sup> letter, CORE is committed to continuing to apply our integrated model in order to address implementation challenges and develop operating rules.

*The Ongoing Relationship with Standards.* As noted above, operating rules are needed in this arena, and they must continue to embrace and enhance the standards. Both the financial and healthcare industries have standards in place that will need to be maintained and adapted to future needs. CORE anticipates continued coordination and collaboration with NACHA on its EFT standard and the SDOs, especially ASC X12 given the critical role of the 835 standard. Operating rules can assist in the challenge of gaining uniform use and understanding of standards, as well as any needed enhancements and/or adjustments. For example, a group of large providers in the New York Region that designed a draft set of guidelines to address the

ERA found that the v5010 835 has challenges, including variations in interpretations and ongoing use of proprietary codes. It will be critical to collaborate effectively with the SDOs to prioritize these issues. Lessons learned in developing the CORE Claim Status operating rules may be practical approaches upon which to build. Operating rules work to support the adoption of a standard and its most critical elements. Beyond the uniform use of the standard and ensuring the business value of the data delivered, the ongoing support of standards by operating rules further encourages the industry to embrace the standards and communicate their benefit in delivering administrative simplification.

**Industry Infrastructure.** Clearly, infrastructure needs must be addressed – both to support the rules as well as achieve provider adoption. There will be many technological challenges, similar to those in implementing the health plan identifier.

*Enrollment as an Example.* An example is the need for an all-payer/all-bank approach for providers to complete EFT enrollment. Currently, separate and non-standard provider enrollments are required by each payer for EFT and ERA. This is a challenge to all stakeholders in the industry: Payers must collect and use banking and identification information from every provider, and providers must go through the process with every payer. Given the significant effort in maintaining these data sources, fraud and abuse is an ongoing challenge for all involved.

As the industry considers the options for improving enrollment, many in the industry have referred to the work done with the CAQH Universal Provider Datasource (UPD) as an example of how the industry could potentially approach aspects of this barrier to adoption. The CAQH UPD is an online, provider data-collection service that was established to assist with credentialing data. It streamlines the collection of provider data through use of a standard electronic form, which is accessed on-line and *without charge*. Healthcare organizations – authorized by the providers – can access that information for a nominal fee, however the providers own their own data and control its use. There are currently over 875,000 providers registered with the service, and it continues to grow by approximately 7,000 per month. Over 600 health plans/hospitals/IPAs access the system; and it has been endorsed by a wide range of provider associations due to the cost savings and administrative simplification that it has achieved.

The current healthcare environment cannot support significant trial and error of industry infrastructure given the impact on an already burdened provider office workflow. Thoughtful consideration will be critical should the industry decide to address this identified gap and expect a successful outcome. Moreover, the business case and market expectations need to be well aligned to result in the successful adoption of shared industry tools.

**Education: Providers and Their Vendors.** As evidenced by the draft CORE Phase III rule example above, provider education and outreach is key to increasing the transition from paper to adoption in a way that enhances stakeholder relations. Providers – especially small and non-institutional providers – need to understand the relationship between EFT and ERA, and the benefits of that linkage. While everyone wants to be paid more accurately and more quickly, we also need to address provider concerns about transaction security and privacy protections, and how that would work within the banking system for electronic payments. This applies to

vendors as well as to providers. CAQH CORE has always been vendor agnostic, and as we look at the payment transactions, this Guiding Principle will be critical.

CORE is committed to continuing and enhancing its outreach to providers, individual states and other key stakeholders to achieve the goals of administrative simplification, and to make the electronic exchange of clinical and administrative data and payments a seamless reality in the near-term, as well as into the future. Identifying operating rules that build trust and encourage adoption in a reasonable fashion is a feasible goal.

## **Next Steps**

In short, there is a significant amount of work to do should NCVHS choose to maintain industry focus and momentum on meeting the ACA Section 1104 deadlines. CORE embraces the opportunity to work with stakeholders in both industries – healthcare and banking – to make electronic claims payments a reality within the tight ACA statutory timeframes.

**Authoring Entity Selection.** NCVHS is charged with making recommendations on an authoring entity for the transactions named in the ACA statute, including EFT and ERA. The testimony today will inform NCVHS deliberations, and we strongly urge the Subcommittee to designate CAQH CORE as the authoring entity for the non-retail pharmacy healthcare operating rules for EFT and ERA. This would leverage the processes and infrastructure that have already been established, with input provided by a broad set of constituents. It will also build on the research and rules that have already been accomplished. NACHA will serve in a leading role, providing expertise in financial services and EFT – and writing complementary operating rules for the ACH that can be referenced and supported by CAQH CORE. The collaboration proposed between CAQH CORE and NACHA can ensure that the non-retail pharmacy healthcare operating rules for EFT and ERA and the *NACHA Operating Rules* for maintenance and implementation of the EFT standards will work effectively for the healthcare industry.

Implementing the ACA for improved administrative simplification is critical work that must be done within very short timeframes. A fragmented approach will not achieve an integrated outcome. To name multiple entities to author operating rules has the real potential to create market confusion, add burden to providers, health plans and other stakeholders in negotiating and staffing multiple entities and their unique processes; and increase costs due to duplication of efforts and lack of economic synergies and economies of scale.

Both CORE and NACHA are successfully “branded” as the go-to entities in their respective industries for operating rules. They have unique, complementary, backgrounds and competencies for the two transactions. They also have solid stakeholder bases and a history of working together. CORE supports the adoption of the ACH CCD+ and CTX standards as the EFT standard for healthcare, and supports the review of these standards for potential updates. These standards have a long history of successful use in payments in healthcare – and outreach and industry discussions demonstrate that although some minor changes are needed to these standards, they can continue to serve the industry effectively. The CAQH CORE and NACHA partnership, along with the ongoing partnership with NCPDP as the retail pharmacy operating



rule entity, will successfully address the objectives of the ACA Section 1104 and our respective industries.

## **Conclusion**

In conclusion, I wish to thank the Subcommittee for this opportunity to provide an update about CORE activities regarding the development and implementation of operating rules for the EFT and ERA. CORE remains committed to moving forward with a wide range of stakeholders so the industry can realize the significant value in administrative simplification.

I look forward to your questions. Thank you.