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## MEMORANDUM

**TO:** Working Capital Differential Participants - Hospitals and Payers

**FROM:** Donna Kinzer – Executive Director

**DATE:** September 29, 2016

**RE:** Current Financing Guidelines - Clarification

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On September 1, 2016, the 2<sup>nd</sup> amended guidelines for the calculation of the Current Financing advance monies required to be provided to a hospital in order to obtain the Working Capital Differential per HSCRC regulation COMAR 10.37.10.26(B) (c) were distributed. Subsequently, it has been brought to our attention that Section #3 Adjusted Claims as it describes the manner in which the elapsed days for negative payment claim adjustments should be counted in the Average Daily Payment Lag calculation should be clarified.

Since the elapsed days for a negative payment adjustment represents the number of days that the hospital had the payer's money when it should not have, the number of elapsed days for negative payment adjustments should be counted from the day the original claim payment was received by the hospital to the day the rebate (negative payment) was received by the 3<sup>rd</sup> Party Payer.

If you have any questions, you may contact Dennis N. Phelps, Associate Director-Audit & Compliance at 410-764-2605.

REVISED 2<sup>ND</sup> AMENDED CURRENT FINANCING GUIDELINES, OCTOBER 1, 2016

In accordance with the revised Working Capital Differentials – Payment of Charges Regulation COMAR 10.37.10.26(B) (c), the HSCRC staff hereby sets forth the guidelines for the calculation of the current financing advance monies (the “Calculation”) required to be provided to a hospital in order to obtain the Working Capital Differential (the “Differential”).

General terms:

- 1) The Differential shall be taken only on the amounts paid by the third-party payer.
- 2) The Differential shall only be taken on the claims of the lines of business included in the Current Financing Calculation.
- 3) Adjusted Claims – Significant partial payments and negative payment adjustments (in excess of \$500 or 50% of the original amount of the claim, whichever is the lesser) shall be treated as individual claims, i.e., the amount paid, elapsed days, and number of claims shall be included in “a” and “b” below. **The elapsed days for negative payment adjustments should be counted from the day that the original claim payment was received by the hospital to the day that the rebate (negative payment) was received by the 3<sup>rd</sup> Party Payer.**
- 4) **Extreme Outlier Limit – 750 days shall be utilized in the Current Financing deposit calculation for claims settled more than two years after discharge or date of service.**
- 5) The detailed claims data on which the Calculation is based shall be made available to each hospital upon request.
- 6) By regulation, the Working Capital Advance must be adjusted within 45 days of a rate order or such other time as circumstances warrant. In the absence of a rate order, the adjustment must be made at least annually. However, no periods shall be unaccounted for, i.e., all paid claims must eventually be considered in calculating the Working Capital Advance.
- 7) Processing time shall be based on claims paid during the calculation period. For hospitals that receive payments other than through Electronic Funds Transfer (EFT), one day from the payment transmission date should be utilized as the transmission time in the elapsed days calculation.
- 8) Separate calculations shall be made for inpatient claims and outpatient claims when a payer wishes to obtain the 2.25% differential, equal to paying upon admission.
- 9) It is the position of the Maryland Insurance Administration that a payer who complies with regulations governing the working capital differential program has complied with the prompt pay rule, and no interest accrues on payments past due.

The Calculation:

Average Daily Payment Lag - Divide the number of elapsed days (number of days from discharge or date of service to receipt of payment) of all claims paid in the period, including partial payments, by the total number of claims in the period, including partial

payments. The elapsed days associated with negative payment adjustments shall result in negative days in the calculation of the average daily payment lag. The payer's average length of stay shall be added to the elapsed days of all inpatient claims when a payer wishes to obtain the 2.25% differential, equal to paying upon admission.

- a. Average Daily Payment - Divide total payments made in the period by number of days in the period.
- b. Revised Current Financing Balance – Multiply the Average Daily Payment Lag by the Average Daily Payment. For the 2.25% differential calculation, add the payer's average length of stay for the period.
- c. Amount of Adjustment – Subtract the Revised Current Financing Balance from the Current Financing Balance to determine amount of the adjustment.