

HIPAA, Electronic Benefits Enrollment & the Impact on Employers

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Ascentis

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Overview

Starting in October of 2002, all carriers and third party administrators (TPA) that process health data must accept enrollment data and premium remittance, when transmitted electronically, in a standard data format. Electronic Data Interchange (EDI) is intended to result in significant administrative cost savings to the industry as a whole and to help control the overall cost of healthcare. Employers are not required to transmit enrollment data and premium remittance electronically. However, as carriers and TPAs implement these standards, it is expected that they will provide incentives to employers to transmit data electronically in the standard formats and may discontinue support for non-standard formats. There are significant benefits to employers who transmit enrollment data and premium remittance electronically. These include greatly reducing the number of errors that are introduced in the process of collecting, managing and transmitting enrollment and premium remittance data manually, and speeding up the process resulting in an overall reduction of costs. For the many small to mid-sized companies in the United States that still manage their HR and Benefits information using paper-based systems and spreadsheets, it will become necessary to implement a Human Resources Information System (HRIS). The HRIS must be capable of accommodating the standard formats and transmitting the data in a secure manner in order to achieve the efficiencies envisioned in the Administrative Simplification Requirements of the Health Insurance Portability and Accountability Act of 1996.

Background

The Health Insurance Portability and Accountability Act of 1996, (HIPAA) was signed into law on August 21, 1996, by President Clinton. One part of this law, labeled Administrative Simplification, is intended to reduce the costs and administrative burdens of healthcare by making possible the standardized, electronic transmission of certain administrative and financial transactions which are currently carried out manually. These transactions include:

1. Health claims or equivalent encounter information
2. Health claims attachments
3. Enrollment and disenrollment in a health plan
4. Eligibility for a health plan
5. Healthcare payment and remittance advice
6. Health plan premium payments
7. First report of injury
8. Health claim status
9. Referral certification and authorization

To accomplish this goal, the law requires the Secretary of Health and Human Services to adopt national uniform standards for these transactions. The law requires that the standards be followed any time these transactions are conducted electronically. The standards are known as ANSI ASC X12N.

The transaction types that specifically impact employers are:

1. Enrollment and disenrollment in a health plan (known as ANSI ASC X12N 834)
2. Health plan premium payments (known as ANSI ASC X12N 820)

These two transaction types are the primary focus of this whitepaper. Other transaction types are more applicable to carriers and TPAs.

A large percentage of every healthcare dollar is spent on administrative overhead. A large part of administrative overhead includes the process for enrolling individuals in a health plan. Today, this process involve numerous paper forms and telephone calls, and many delays in communicating information among different locations, creating problems and costs for employers and carriers alike.

To address these problems, the healthcare industry has attempted to develop standards for accomplishing these transactions electronically. But it has been very difficult to get all the competing parties to agree voluntarily to follow a single, uniform set of standards. Consequently, at the request of the industry and with bipartisan support, Congress included the Administrative Simplification provisions in HIPAA.

The healthcare industry estimates that full implementation of these provisions could save up to \$9 billion per year from administrative overhead, without reducing the amount or quality of healthcare services.

Impact on Employers

HIPAA Administrative Simplification makes electronic benefits enrollment and premium remittance possible. By making these new standard electronic data formats mandatory for all carriers and benefit vendors across the country, the federal government has made it possible for Human Resource Information System and benefit software vendors to create a common interface to these new data standards. This will enable electronic benefits enrollment and premium remittance over the Internet, a virtual private network, or over a standard modem connection.

Electronic payment methods have become commonplace for consumers who pay their monthly mortgage, power, or telephone bills electronically. Yet, electronic payment of health insurance premiums by employers is not common at all.

Some of the benefits of conducting these transactions electronically include:

- **Reduced benefit costs.** Electronic transactions will reduce overall benefits costs for employers. By greatly reducing the administrative costs of carriers, Ascentis believes that we will see premium savings due to Administrative Simplification. Market forces may motivate carriers to require employers to submit enrollment electronically using the ANSI X12N 834 standard, although this is not mandated by the law. Ascentis also believes that once carriers start to accept these new formats, we will start to see a premium incentive to use electronic enrollment. Many carriers will start to charge a higher premium for employers that are not using electronic enrollment.
- **Administrative savings.** Electronic transactions will reduce internal processing costs for employers. Internally it will save companies money by reducing the amount of paperwork, postage, and faxing which occur with traditional paper forms.
- **Improved efficiency.** By reducing the paperwork involved in benefits enrollment and premium remittance, electronic transactions can greatly improve an employers own efficiency, freeing up time that can be better spent on other HR and benefits related tasks.
- **Reduced errors.** Consider the current enrollment process - the employee fills out a form, the data is then entered into an employer's internal system, the form is then faxed or mailed to the carrier, and then the data is entered into the carrier's system. This process can create numerous errors- errors that can be costly and create a large liability for employers. Electronic enrollment can greatly reduce the number of errors that are made.

Timeline for HIPAA Administrative Simplification

The Final Rules for the Transaction Standards were published in the Federal Register on August 17, 2000 and became effective 60 days after publication. Carriers and TPAs have a deadline of October 16, 2002 to comply. Any carrier or TPA can begin to comply voluntarily before the deadlines. Carriers and TPAs are already hard at work on their internal systems, and we believe that many carriers will be ready to accept these formats before the deadline.

August 21, 1996	HIPAA becomes law
October 1996	Implementation begins
July 9, 1997	Public Forum on Progress Toward Administrative Simplification
October 1997	Draft Implementation Guides and Data Dictionaries published for ANSI ASC X12N Transaction Standards
May 7, 1998	Notices of Proposed Rule Making (NPRMs) for the ANSI ASC X12N Transaction Standards were published in the <i>Federal Register</i> . A 60 day public comment period begins.
August 17, 2000	Final Rules published in the <i>Federal Register</i> .
October 16, 2002	Carriers and TPAs with more than 50 participants are required to be ready to accept the X12N Transaction Standards. Fines are proposed for carriers and TPAs that do not comply.

Who must comply?

The HIPAA law was passed at the request of the healthcare industry, and the standards to be adopted by the Secretary of Health and Human Services apply to the whole industry, not just Medicare and Medicaid.

All carriers, TPAs, or anyone that pays claims or processes health data must comply. This is not optional. Carriers and TPAs must be able to send or receive the ANSI X12N transactions in standard electronic form on October 16, 2002. Carriers and TPAs that cannot perform these standard electronic transactions may comply by contracting with a clearinghouse to perform them. However, the responsibility for compliance remains with the primary entity.

If an employer is self-insured and self-administers their own health plan, they too must comply with the standards applicable to carriers and TPAs. They may contract with a clearinghouse or TPA to conduct the standard transactions for them.

Carriers and TPAs may not refuse to accept standard transactions submitted electronically (on their own or through clearinghouses). Furthermore, carriers and TPAs may not delay payment because the transactions are submitted electronically in compliance with the standards. The law specifies monetary penalties for non-compliance.

On October 22, 1997, U.S. Representative Hobson clarified these requirements for health plans. He said:

I want to make it clear that, although voluntary standardization was considered in the past, it was judged to be unworkable in the real world and is not a part of the law today for that reason.... The intent of the law is that all electronic transactions for which standards are specific must be conducted according to the standards.

(Congressional Record, p. E2065).

While employers who do not self-administer their self-funded plans will not be required by the government to submit benefits enrollment and premium remittance electronically, carriers and TPAs may require this of employers.

Health plan sponsors, including employers when they act in the role of a sponsor, are not covered explicitly by the law but may benefit from the adoption of standards and electronic transactions. Sponsors may elect to use standard enrollment, disenrollment, and premium payment transactions, which must be accepted by all health plans when submitted electronically. Market forces may move health plans to require sponsors to use the standards for electronic transactions, although this is not mandated by the law.

U.S. Department of Health and Human Services- Administrative Simplification Frequently Asked Questions.

What transmissions must comply?

All electronic transmissions of the transactions covered by ANSI X12N from one computer to another must comply with the standards. *Electronic transmissions* include transmissions using all media, even when the transmission is physically moved from one location to another using magnetic tape, disk, or CD media. Transmissions over the Internet, intranets, leased lines, dial-up lines, private networks, etc. are all included. Telephone voice response and faxback systems would not be included. The HTML interaction between a server and a browser by which the

elements of a transaction are solicited from a user would not be included, but once assembled into a transaction by the server, transmission of the full transaction to another corporate entity, such as a carriers or TPA, must comply.

For More Information

This whitepaper was developed in large part from a variety of government and other sources. A list of these sources, including links to their web pages, is available on the Ascentis website. In addition, the latest information on this topic will be posted on our website. Please visit our website at <http://www.ascentis.com/hipaa> for more information.

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