

## CONFIDENTIAL

### Third Party Insurance

This topic is so in depth that there will be two communications addressing *third party insurance*. Next week's communication will have examples of the requirements needed to implement an insurance program at Shriners Hospitals for Children.

Many members of our fraternity, along with hospital leadership, have inquired about the potential benefit of taking insurance to Shriners Hospitals for Children (SHC).

In this communication, you will find definitions of terms to help you have a better understanding of the *third party insurance* concept. Also, the pros and cons of accepting insurance will be outlined. I will reference some facts from the PricewaterhouseCoopers study completed in 2004 which address third party insurance. I am recommending visiting the website: ReformPlans.com. (**and click on glossary**). The World Health Care Congress' Forum website will give you a glossary of terms and general information concerning the multifaceted topic of healthcare insurance.

Definition: *Third Party Insurance* - an organization (third party or insurance) other than the patient (first party) or health provider (second party) involved with the financing of personal health.

OR

Definition: *Third Party Payer System* - a third-party payer system is an arrangement in which an individual or employer pays the health insurance premiums to a third party (an insure), which then pays for approved health services.

The definition of *third party insurance* may appear simple but the subject is very complex. The implementation of *third party insurance* may potentially produce a revenue stream of income for hospitals operations. This potential revenue could help meet our financial goals, but would not be realized for 3 or 4 years. The exact dollar amount is only an approximation until an assessment for implementation can be completed. (See Path to Financial Stability document)

There are many legal and regulatory steps that must be completed before implementation of *third party insurance*. In addition, the finance department structure of SHC must be reconfigured to include billing staff, staffing dedicated to (insurance) contract negotiations, medical coding systems and quality assurance systems. The Human Resource department must adherence to all personnel regulations according to the (Equal Employment Opportunity Commission (E.E.O.C.) with the accepted of *third party insurance*.

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### **Third Party Insurance Pros:**

- Increase revenue (after a 3 or 4 year implementation)
- Uniform medical coding system
- Uniform quality measure (ability to measure SHC against other hospitals)

### **Third Party Insurance Cons:**

- Legal requirements such as: a petition to the Office of the Inspector General requesting an exception for co-pays for patients, Stark Law, Safe Harbor, etc.
- Regulatory requirements
- Investment in a billing structure
- Human Resource adherence to EEOC
- Compliance
- Investment in IT services
- Insurance companies may not contract with SHC due to sub-specialized services

PricewaterhouseCoopers completed a study suggesting that third party insurance may be a potential source of revenue for Shriners Hospitals for Children. The conclusion of the report stated the preponderance of Shrine patients have some form of health care insurance either commercial or government. The assessment of insured patients across the system indicates a majority of patients may have insurance of one form or another. It is recommended to update the 2004 study to ensure a valid comparison between 2004 and 2008. This would include patient/payer mixes, staffing levels, laws and regulations, financial investment, training and education.