CHAPTER 4:

REVENUES (INFLOW)
The Revenue Stream

Payment After Service Is Delivered

- Fee-for-Service
- Discounted Fee for Service
The Revenue Stream

Payment Before Service Is Delivered

- Pre-Determined Per-Person Payment
- Rate-Setting Differences
Deductions from Revenue

Contractual Allowances

The difference between the full established rate and the agreed-upon contractual rate to be paid.
Deductions from Revenue

Contractual Allowances

It is not uncommon for different plans to pay different contractual rates for the same service.
Other Deductions from Revenue

Allowances for Bad Debts
aka “provision for bad debts”

Estimated amounts of credit losses (bad debts) is charged to this account.
Other Deductions from Revenue

Charity Service

- Services provided to indigent patients.
Sources of Health Care Revenue

Revenue Sources

- Sources are generally called “payers.”
- “Payer mix”* is a measure often included in an organization’s profile.
- Many types of management reporting are arranged by payer (the revenue source).

* the proportion of revenues realized from different types of payers.
Sources of Health Care Revenue

Revenue Sources

- **Governmental Sources** include Medicare, Medicaid, and other.
- **Managed Care Sources** distinguished by types of plans and types of contracts.
- **Other Sources** include commercial insurers, private pay, and others.
Grouping Revenue for Planning and Control

Grouping revenue is an effective method for managers to use information.

The method of grouping, or classification, must be consistent with the current structure of the organization.
Grouping Revenue for Planning and Control

*Grouping revenue by revenue source has just been discussed.*

Other approaches to grouping include:
- Revenue Centers
- Care Settings
- Service Lines
- Other classifications such as disease management
Grouping Revenues by Care Setting: Example

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital Inpatient</td>
<td>42%</td>
</tr>
<tr>
<td>Hospital Outpatient</td>
<td>38%</td>
</tr>
<tr>
<td>Off-Site Clinic</td>
<td>4%</td>
</tr>
<tr>
<td>Skilled Nursing Facility</td>
<td>8%</td>
</tr>
<tr>
<td>Home Health Agency</td>
<td>6%</td>
</tr>
<tr>
<td>Hospice</td>
<td>2%</td>
</tr>
</tbody>
</table>

Total for Care Setting = 100%
## Revenue Sources and Grouping Assignment

<table>
<thead>
<tr>
<th></th>
<th>Medicare</th>
<th>Medicaid</th>
<th>Other Public Programs</th>
<th>Patients</th>
<th>Commercial Insurance</th>
<th>Managed Care Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICU</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Lab</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Lab</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICU</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>ICU</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lab</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
Contractual Allowances: Example

Contractual allowances represent the difference between the full established rate and the agreed-upon contractual rate that will be paid. An example was given in the text of Chapter 4 by which the hospital's full established rate for a certain procedure is $100, but Giant Health Plan has negotiated a managed care contract whereby the plan pays only $90 for the procedure.

The contractual allowance is $10 ($100 minus 90 = $10).

Assume that Near-By Health Plan has negotiated a managed care contract whereby it pays $95 for the procedure.

The contractual allowance would then be $5 ($100 minus 95 = $5.)
Contractual Allowances: Practice

For a particular procedure:
- The Medicaid allowed charge is $2,700
- The Medicare allowed charge is $3,075
- The Blue Cross/Blue Shield rate is $3,090
- The hospital established charge is $3,200

1. Are there contractual allowances in this example?
2. If so, what payer is involved?
3. What are the dollar amounts of any contractual allowances?

Solution:
1. Yes
2. All three
3. $500; $125; $110
Using the worksheet: For each payer enter the full rate and contracted rate. For each payer compute the contractual allowance.

<table>
<thead>
<tr>
<th>Payer</th>
<th>Full Rate</th>
<th>Contracted Rate</th>
<th>Contractual Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHP</td>
<td>$72.00</td>
<td>$35.70</td>
<td></td>
</tr>
<tr>
<td>HPHP</td>
<td>72.00</td>
<td>58.85</td>
<td></td>
</tr>
<tr>
<td>MC</td>
<td>72.00</td>
<td>54.90</td>
<td></td>
</tr>
<tr>
<td>UND</td>
<td>72.00</td>
<td>60.40</td>
<td></td>
</tr>
<tr>
<td>CCN</td>
<td>72.00</td>
<td>70.20</td>
<td></td>
</tr>
<tr>
<td>MO</td>
<td>72.00</td>
<td>70.75</td>
<td></td>
</tr>
<tr>
<td>CGN</td>
<td>72.00</td>
<td>10.00</td>
<td></td>
</tr>
<tr>
<td>PRU</td>
<td>72.00</td>
<td>54.90</td>
<td></td>
</tr>
<tr>
<td>PHCS</td>
<td>72.00</td>
<td>50.00</td>
<td></td>
</tr>
<tr>
<td>ANA</td>
<td>72.00</td>
<td>45.00</td>
<td></td>
</tr>
</tbody>
</table>