

**Bulletin Number:** MSA 06-38

**Distribution:** Outpatient Hospitals

**Issued:** June 1, 2006

**Subject:** Contractual Adjustments

**Effective:** July 1, 2006

**Programs Affected:** Medicaid, CSHCS

The purpose of this bulletin is to clarify policy, billing, and the claim adjudication process related to contractual adjustments for outpatient hospital (provider type 40) claims.

### **Identifying Contractual Adjustments**

The Michigan Department of Community Health (MDCH) defines a contractual adjustment as the difference between the provider's charges less any third party obligations (payment plus co-pays, deductible and co-insurance).

Contractual adjustment amounts for outpatient hospitals are identified on the payer's (Medicare or commercial carrier) remittance advice with the following group and adjustment reason codes (ARCs):

- CO 42
- CO 45

An adjustment amount identified by an ARC not included in this list is not considered a contractual adjustment.

### **Reporting Contractual Adjustments**

MDCH strongly encourages submission of electronic claims, as the UB-92 claim form does not accommodate reporting contractual adjustment amounts. For electronic claims, the total contractual adjustment amount must be reported in a CAS segment at the claim level.

If a paper claim is submitted, the contractual adjustment amount must be added to the total payment and reported as a single value in Field Locator 54 – Prior Payments. Providers who work with billing agents are responsible for ensuring the contractual adjustment amounts are reported correctly on both electronic and paper claims.

### **Adjudication of Claims with Contractual Adjustments**

Any contractual adjustment amount reported for dates of service on or after July 1, 2006 will be applied as a reduction in charges. This reporting will reduce the provider's original billed charges for all services to the coinsurance and deductible amounts (net).

For outpatient hospital claims, the total contractual adjustment amount will be prorated across all lines and used to reduce the line charges (e.g., if a claim line's reported charge is 50% of total charges, 50% of the contractual adjustment amount will be applied as a reduction to the line charges).

### **Provider Manual Updates**

When finalized, the policies and information contained in this bulletin will affect the following portions of the Medicaid Provider Manual:

- Coordination of Benefits Chapter
  - 2.1 Commercial Health Insurance
  - 2.6.E. Medicaid Liability
  - 2.6.G. Special Considerations for Inpatient Hospital Claims
- Hospital Chapter
  - 1.5 Third Party Liability

Examples of calculation methodology can be seen on the MDCH website at: [www.michigan.gov/medicaidproviders](http://www.michigan.gov/medicaidproviders), under the Provider Updates link, within the Provider Tips/Hospital section. Go to Contractual Adjustment Examples.

### **Manual Maintenance**

Retain this bulletin until the information has been incorporated into the Michigan Medicaid Provider Manual.

### **Questions**

Any questions regarding this bulletin should be directed to Provider Inquiry, Department of Community Health, P.O. Box 30731, Lansing, Michigan 48909-8231, or e-mail at [ProviderSupport@michigan.gov](mailto:ProviderSupport@michigan.gov). When you submit an e-mail, be sure to include your name, affiliation, and phone number so you may be contacted if necessary. Providers may phone toll-free 1-800-292-2550.

### **Approved**



Susan Moran, Acting Deputy Director  
Medical Services Administration