



Understanding the HIPAA standard transactions: The HIPAA Transactions and Code Set rule

Many physician practices recognize the Health Information Portability and Accountability Act (HIPAA) as both a patient information *privacy* law and electronic patient information *security* law. However, HIPAA actually encompasses a number of regulations. As such, the federal government has published several “rules” that instruct the health care industry on how to comply with the law. HIPAA began as a bipartisan effort to provide portability of health insurance benefits to individuals who left the employment of a company that provided group health insurance (that is why HIPAA is the “Health Information Portability and Accountability Act”).

In response to this initiative and the additional expense of billing individuals for continuation of coverage, the health insurance industry requested standardization and promotion of electronic health care transactions. The health insurance industry argued that electronic health care transactions would reduce administrative cost and justify the new costs associated with premium billing and administration that portability would create. The health insurance industry’s request became the “administrative simplification” component, called “Health Insurance Reform: Standards for Electronic Transactions.” These standards include the form and format of electronic transactions as well as their content—such as the Current Procedural Terminology (CPT®)* and the International Classification of Diseases-9th Edition-Clinical Modification (ICD-9-CM) codes. This document refers to this part of HIPAA as the “Transaction and Code Set rule” (HIPAA TCS rule).

Note: The Department of Health and Human Services (HHS) published two HIPAA final rules on January 16, 2009. One of these rules adopted version 005010. See the section [“Upgrading to newer standards”](#) for more information.

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The HIPAA standard transactions are designed to improve your claims management revenue cycle

The push for administrative simplification originated in the health insurance industry as a way to standardize the claims processing and payment cycle, the eligibility and enrollment cycle, and even health insurers' premium payment. However, use of the HIPAA standard transactions holds tremendous promise for physicians as a way to reduce their costs and overhead expenses associated with billing, collections, referral authorization, eligibility and other related components of the claims management revenue cycle. Physician practices that use the HIPAA standard electronic transactions are saving **thousands of dollars annually** by using the standard transactions.

How is the HIPAA TCS rule related to the HIPAA Privacy and Security rules?

At the time HIPAA was enacted, the Internet was fast becoming a standard method of commerce and communication in its own right. Many people were concerned that promoting electronic health care transactions, especially over the Internet, would expose sensitive and confidential patient information to hackers and other entities that did not have authorized access. Thus, the HIPAA Privacy rule was developed as an attempt to establish a federal standard for protecting individually identifiable health information. During the development of the HIPAA Privacy rule, it became apparent that patient information was created, maintained and stored in electronic formats on computers and not just as paper records or oral communications. This realization resulted in the HIPAA Security rule, which deals with the administrative, physical and technical requirements that safeguard electronic protected health information that is maintained on computers and similar devices.

It is important to note that HIPAA does not require physicians to conduct transactions electronically, but if a physician practice conducts any of the transactions named under HIPAA, the physician practice must submit these transactions according to the HIPAA standards. Furthermore, under a separate but related law known as the Administrative Simplification Compliance Act (ASCA), most physician practices are required to submit their claims to Medicare electronically and in accordance with the HIPAA standards (physician practices that contain fewer than 10 full-time equivalents are exempt).

What are the standard transactions?

Table 1: Electronic transactions considered standard under HIPAA: Between a physician practice and health insurer		
Common name of transaction	Formal name of transaction	Transaction function
Claims	ASC* X12 837 Health Care Claim: Professional	Submitting claims to the health insurer
EOB/RA	ASC X12 835 Health Care Claim Payment/Remittance Advice	Receiving payment and/or remittance information from the health insurer for claims
Claim status request	ASC X12 276 Health Care Claim Status Request	Contacting the health insurer about the status of a claim
Claim status response	ASC X12 277 Health Care Claim Status Response	Receiving information about the status of a claim from the health insurer
Patient eligibility request	ASC X12 270 Health Care Eligibility Benefit Inquiry	Contacting the health insurer about the eligibility and benefits of a patient
Patient eligibility response	ASC X12 271 Response	Receiving information from the health insurer about the eligibility and benefits of a patient
Authorization request	ASC X12 278 Health Care Services Review Information - Review	Sending a request for referral authorization or prior authorization for services for a patient
Authorization response	ASC X12 278 Health Care Services Review Information - Response	Receiving the response to a referral authorization or prior authorization request
Coordination of benefits	ASC X12 837 Health Care Claim: Professional	Determining payment responsibilities of the health insurer
Claims attachments†	ASC X12 275 Additional Information to Support a Health Care Claim or Encounter	Submitting claims attachments to the health insurer
First report of injury†	ASC X12 148 First Report of Injury, Illness or Incident	First report of injury to the health insurer

* Accredited Standards Committee

† Note: Standards for claims attachments and first report of injury have not yet been adopted.

Table 2: Electronic transactions considered standard under HIPAA: Between an insurance purchaser and a health insurer or between health insurers

Common name of transaction	Formal name of transaction	Transaction function
Membership enrollment	ASC X12 834 Benefit Enrollment and Maintenance	Enrolling members in the health plan
Premium payments	ASC X12 820 Payment Order and Remittance Advice	Making premium payments for the health insurance coverage
Coordination of benefits	ASC X12 837 Health Care Claim: Professional	Coordination of benefits

What is ASC X12?

Health care industry groups develop standards, which the government then adopts. The HIPAA TCS rule adopts the standards for the transactions included in [Table 1: Electronic transactions considered standard under HIPAA: Between a physician practice and a health insurer](#) and [Table 2: Electronic transactions considered standard under HIPAA: Between an insurance purchaser and a health insurer or between health insurers](#), as defined by the Accredited Standards Committee (ASC) X12. Recognized by the Department of Health and Human Services (HHS), ASC X12 is a standards development organization, accredited by the American National Standards Institute (ANSI) that focuses on developing standards for electronic information exchanges. ASC X12 has subcommittees that focus on different industries, such as finance, government, transportation and insurance. The AMA is a member of ASC X12 and participates on the Insurance Subcommittee (X12N). X12N develops and maintains standards related to the insurance and health care industries, such as the standards in [Table 1](#) and [Table 2](#).

What is an implementation guide?

The X12N subcommittee has documented the specific details of each HIPAA standard transaction in an implementation guide. The implementation guide is a very detailed document that defines:

- The electronic format of the transaction
- The details of the necessary data and where to place them in the electronic file
- The details of the various code sets that are used and how to use them
- The kind of electronic “envelopes” each transaction requires (these are sometimes known as the headers and control documents)
- References for the different code sets used in that transaction

The implementation guides are complex documents. For example, the current ASC X12 837 professional version for health care claims is 704 pages in length. The primary entities that use these

guides are: (1) health insurers (to program their software to process claims); (2) clearinghouses (to ensure that claims conform to the implementation guides); and (3) physician practice management software vendors (to program their software to capture information and transmit a compliant standard transaction or receive and process a standard transaction). The first version of the guides that the government adopted is known as version 004010.

HIPAA mandated standard transactions and operating rules

The current HIPAA mandated standard transactions for health care are the 005010 version of the ASC X12 standard transactions found in Table 1. All HIPAA-covered entities (health insurers, physicians and clearinghouses) were required to adopt and comply with the 005010 version of these standard transactions by January 1, 2012.

Additionally, HIPAA requires all covered entities to support requirements of the Council for Affordable Quality Healthcare (CAQH) Committee on Operating Rules for Information Exchange (CORE) Operating Rules that include:

- Connectivity rules
- Eligibility and Claim Status Operating Rules: Phase I and Phase II (Federally mandated via Final Rule)
- EFT & ERA Operating Rules: Phase III (Federally mandated via Final Rule); and
- Uniform reporting of CARC and RARC Operating Rules Phase III (Federally mandated via Final Rule).

Visit CAQH CORE website and access the [Nationally Mandated Operating Rules Timeline with Associated Resources](#) web page for more information about upcoming operating rules.

Implementing the updated version of the standard transactions and operating rules requires changes to practice management systems, changes to some data reporting requirements, potential changes to work flow processes and staff training.

Another recent regulation will also require the replacement of the ICD-9-CM code sets with International Classification of Diseases-10th Edition-Clinical Modification (ICD-10-CM) on October 1, 2014.

What are companion guides?

The health care industry has provided a method of communicating how an individual “trading partner” will implement an ASC X12 standard; the collection of this implementation information is known as a “companion guide.” (A trading partner is a vendor with which a physician practice exchanges patient data or protected health information electronically in the course of its operations.) The ASC X12 implementation guides provide some flexibility in terms of data elements that can be used, although version 005010 drastically reduces the flexibility. The complexity of these transactions also sometimes requires health insurers to implement these transactions in phases as they update their internal software or business processes.

Health insurers publish companion guides that provide detailed information about their specific implementation of a HIPAA standard transaction and any pertinent requirements. These guides are usually available for review on health insurers’ websites. Health insurers may change and modify their companion guides whenever they make a change to their implementation of a HIPAA standard transaction. For example, a health insurer might begin to use situational codes (many health insurers did not require situational codes when they first implemented HIPAA standard transactions). The materials in the implementation and health insurers’ companion guides contain important information

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for physician practices' software vendors. These vendors are frequently the ones that ensure physician practices are able to send their claims and other transactions according to the X12N standards and the health insurer requirements.

Companion guides in real life

When a health insurer changes its companion guide, a change is reflected in its implementation of the HIPAA standard transactions. Some of these changes could result in claims processing delays or denials. For example, if your practice management system does not currently use some of the HIPAA-required designated situational information (such as birth weight), and a health insurer decides to place a claim edit on this field, the claim will be denied.

How will you know whether a companion guide change is going to affect you and suddenly result in a claim rejection? It is virtually impossible for most physician practices to audit the companion guides of each contracted health insurer and then remain on top of the constant changes. There are more than 1200 companion guides.

A practical solution is to choose a practice management software, billing service or a clearinghouse that can assure you it can perform this function. You may also need to continue to update and modify your practice management software to ensure compliance with the health insurers' claim submission requirements.

Determine whether your vendor will be staying up to date on health insurer claim submission requirements. If not, or if you are a small physician practice, consider a claims clearinghouse approach, in which the clearinghouse commits to remaining current. You can also implement a system of routine review of companion guides, at least for the health insurers with which you submit the most claims.

How is the HIPAA TCS rule enforced?

October 16, 2003 was the deadline for HIPAA-covered entities (health insurers, physicians and clearinghouses) to comply with HIPAA's electronic transaction and code set provisions, and January 1, 2012 was the adoption date for use of the updated transactions, version 005010. However, some health insurers still have not adopted all of the standard transactions or implemented the code set edits and rules. For example, some health insurers may accept an electronic claim (ASC X12 837) but do not create an electronic remittance advice (ASC X12 835) or do not provide an electronic claims status transaction (ASC X12 276/277). This inconsistency creates a burden for physician practices.

As a best practice, you should be able to check eligibility electronically (ASC X12 270/271) with every health insurer. By implementing this best practice, you will receive electronic documentation of patient eligibility and avoid excessive telephone wait times. Consider how using these electronic transactions would improve your practice efficiency.

The AMA strongly encourages health insurers to use the HIPAA standard transactions. The HIPAA regulation states, "If an entity requests a health plan to conduct a transaction as a standard transaction the health plan must do so." 45 CFR §162.925

Non-compliance by a health insurer

Health insurers and self-insured employer-sponsored health insurers are covered entities under HIPAA. As such, they must comply with all applicable HIPAA regulations, including the HIPAA TCS rule. A health insurer that does not accept a standard transaction or produce one of the transactions for which it is responsible (such as the electronic remittance advice) is in violation of the law.

The AMA urges physicians to ask health insurers with which they work to comply with HIPAA. If the health insurers do not comply, you can [file a complaint](#) with the Centers for Medicare & Medicaid Services (CME).

CMS has stated it will focus on voluntary and complaint-driven enforcement. If you are ready to use the standard transactions and you have a health insurer that is not cooperating, consider [filing a complaint](#).

What are the typical areas in which health insurers are not compliant, and how does this non-compliance increase physician practice costs?

The health insurer does not accept ASC X12 837 Health Care Claim. As a result, your practice's clearinghouse must convert your electronic claim to paper and send that paper claim to the health insurer. Both of these steps cost you time and money in getting the claim paid.

The health insurer does not offer Health Care Claim Payment/Remittance Advice ASC X12 835. If your practice management software supports this feature, the health insurer's non-compliance will prevent you from automatically posting the payment. It will also prevent you from using electronic denial management and other electronic payment reconciliation tools that dramatically improve payment recovery.

The health insurer does not accept the Health Care Eligibility Verification Benefit Inquiry ASC X12 270 or provide the Response ASC X12 271. When the only option is the health insurer's Web portal, your practice will not realize the full cost savings of direct electronic transactions and will incur additional expense by manually re-entering eligibility request information on multiple health insurers' websites and verifying eligibility through phone calls.

The health insurer does not accept Health Care Services Review Information (referral authorization) ASC X12 278. If your practice performs these two functions manually by phone or fax or through the health insurer's Web portal, your practice will not achieve the cost savings possible through performing these functions electronically.

The health insurer does not accept the Health Care Claims Status Request ASC X12 276 or provide the Response ASC X12 277. Avoiding the follow-up time of manually tracking claims will reduce administrative time and expense for your practice.

The health insurer does send the Health Care Claim Payment/Advice ASC X12 835, but the information in the transaction is inaccurate or doesn't follow the business rules of the standard. This results in added costs for custom programming by your vendor for that health insurer, or prevents you from automated posting, and prevents you from using tools for denial management.

Health insurer Web portals

Using health insurer Web portals is not as cost efficient as using the HIPAA standard transactions. Using a Web portal requires your practice to re-key data that is already in your practice management system and visit different Web portals for each health insurer. In addition, you have to re-key the response data received from the Web portal, such as referral authorization numbers, which could otherwise be posted electronically in your practice management system.

Your state may mandate the use of HIPAA standard transactions

States have begun to help in the enforcement effort by mandating that any health insurer doing business in their state use the HIPAA standard transactions. For example, Minnesota passed legislation that became effective in 2009 that requires health insurers and health care providers to use the standard transactions. This law requires the exchange of eligibility, claim, and payment and remittance advice information electronically. Other states are considering similar legislation. The push at the state level for adoption of the HIPAA standard transactions is aimed at reducing administrative costs associated with the claims management revenue cycle.

What are the HIPAA Transaction Code Sets?

The HIPAA TCS are a major component of each standard transaction. In many cases, the code sets are familiar to most physician practices (for example, CPT codes or ICD-9-CM codes). Code sets may also be ones that you do not actively choose during a patient encounter but are instead behind the scenes. Two examples of such code sets are Place of Service codes and relationship codes (the relationship of the patient to the insurance guarantor).

There are also many new codes that have been developed for the X12 transactions. For example, the X12 835 remittance now has standardized claims adjustment reason and remark codes. Using standardized codes for X12 835 remittance advice may provide a practice management system with the logic it needs to automatically and correctly post a payment.

When the code set is part of a transaction you submit, such as the electronic claim, eligibility request or claim status, it is important that you understand how the codes within the code set are used, and you should also have a way of entering these codes into your practice management software. When a code is contained in a transaction you receive, such as the electronic remittance advice, being familiar with the meaning of the code is helpful. But not every health insurer uses the code sets the same way. Some health insurers will use a very specific adjustment reason code and related remark code for each line item they adjudicate, while other health insurers may use more generalized codes. Some health insurers use codes that have been removed from the list and are no longer valid. This inconsistency makes your efforts to process an electronic remittance advice and determine the accuracy of the payment more difficult.

AMA tip

Visit www.ama-assn.org/go/reportcard to learn more about the inconsistency in use of the reason and remark codes with the AMA's [National Health Insurer Report Card](#).

A number of different organizations maintain the code sets. The various X12 subcommittees maintain some of these code sets, and other organizations maintain other code sets. For example, the AMA maintains the CPT® codes, the National Uniform Claim Committee maintains the Health Care Provider Taxonomy code set and CMS maintains the Place of Service code set.

How can physicians improve practice efficiencies by using HIPAA standard transactions?

Steps you can take to improve practice efficiency

Using the HIPAA standard transactions can bring efficiency and cost savings to physician practices. If you are not sure how these transactions will help your practice or what you may need to do in preparation, a good place to start is conducting a brief internal assessment.

The **first step** of an internal assessment is to determine whether you are currently submitting or receiving any of the following transactions:

- ASC X12 837 Electronic Claims
- ASC X12 835 Remittance Advice
- ASC X12 270/271 Eligibility Benefit Inquiry and Response
- ASC X12 276/277 Claim Status Inquiry and Response

The requirement for the claims attachment standard transaction has not yet been adopted, but you should keep this future standard transaction in mind when evaluating your practice management system.

The **second step** of an internal assessment is to understand some basic information about your claims management revenue cycle process by answering the following questions:

- Do you use a billing service?
- Do you maintain your own billing software?
- If you create electronic claims, are they HIPAA-compliant standard transactions? Many older versions of practice management software that physician practices and billing services use do not create a standard transaction but instead rely on a clearinghouse to take the paper claims' print image or other format and convert those to electronic claims. This method is only a temporary solution.
- Do you use a clearinghouse? Does the clearinghouse offer any other transactions in addition to claims?
- Are you a specialty physician practice that might be impacted by the situational fields and new code sets?
- How much time and cost does your practice spend to manually verify eligibility, check claims status or manage referral authorizations?
- How much time does your practice spend posting manual remittance advice?

The **third step** of an internal assessment is to understand how well your practice management system vendor, billing service and/or clearinghouse supports the HIPAA standard transactions.

Practice management software and billing service vendor readiness

It is imperative to understand how your practice management software and billing vendors are complying with the HIPAA TCS rule. First, determine how many vendors are involved. For example, you might have one vendor for your billing and claims generation and another vendor for electronic eligibility or referral authorizations. Survey each vendor by asking them to complete the [AMA vendor survey tool](#) (available to AMA members).

Clearinghouse readiness

If you currently use a clearinghouse, you should determine the clearinghouse's ability to provide standard transactions and the costs associated with providing those transactions. For example, some clearinghouses charge per physician and others per transaction. You should know how the clearinghouse(s) you are considering will charge your practice for services prior to selecting a clearinghouse as a solution. You should be aware that some clearinghouses that perform HIPAA standard transactions may also convert to paper any electronic claims that they cannot process. In some cases, the clearinghouse performs this conversion because it has not tested its HIPAA standard transactions with the health insurer. Sometimes it is more efficient to use the clearinghouse as a portal for standard transactions other than claims. Competent clearinghouses should provide a mechanism to receive the electronic remittance advice, submit an eligibility and benefits verification request, receive a response, and review the claim's status.