

Publications

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BCBSIL's New Downcoding Policy Raises Reimbursement Concerns Ahead of New Illinois Restrictions

Key Updates

- BCBSIL began applying an enhanced claims-review process July 1 to certain office, inpatient and outpatient E/M services, allowing the insurer to reimburse claims at a lower level when it determines the billed E/M level is unsupported.
- Illinois' Transparency in Downcoding Act will impose new restrictions beginning Jan. 1, 2028, including limits on automated downcoding, a ban on downcoding based solely on diagnosis codes and new transparency and human-review requirements.

Why It Matters

- Illinois providers, particularly pediatric and behavioral-health practices, may face immediate reimbursement reductions and added administrative burdens from BCBSIL's policy while the state's new downcoding restrictions remain more than a year away.

Next Steps

- Providers should review claims and remittance data, quantify any reimbursement impact, confirm E/M documentation support, evaluate dispute and appeal rights and monitor implementation of the Transparency in Downcoding Act ahead of 2028.

Blue Cross and Blue Shield of Illinois (BCBSIL) recently implemented changes to its claims-review process that may reduce reimbursement for certain evaluation and management (E/M) services. BCBSIL began applying an enhanced review process July 1 to professional claims for office, inpatient and outpatient E/M services. If BCBSIL determines that the billed services do not support the submitted E/M level, it may reimburse the claim at a lower level of service.

The change is drawing attention from Illinois providers, particularly pediatric and behavioral-health practices, who are reporting significant volumes of downcoded claims. It also comes shortly after Illinois enacted the Transparency in Downcoding Act, which will impose new restrictions on automated and diagnosis-based downcoding beginning Jan. 1,

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What Changed?

E/M codes generally reflect the nature and complexity of a patient encounter and affect reimbursement. Under BCBSIL's new process, the insurer may reduce reimbursement when it concludes that a lower E/M level is supported. BCBSIL states that it will follow American Medical Association guidelines concerning level of service and medical decision-making. Providers that disagree with the reduction may submit medical records supporting the originally billed level.

Recent reporting suggests the practical impact may be substantial for some practices. WBEZ and the *Chicago Sun-Times* reported that one suburban pediatrician estimated approximately 40% of his practice's higher-level sick-visit claims had recently been downcoded. A Chicago practice that includes psychiatrists and psychotherapists reportedly experienced approximately 2,400 claim reductions in July. Providers interviewed for the report stated that BCBSIL had not requested their medical records before reducing the claims, and several expressed concern about the administrative burden associated with challenging large numbers of reductions individually.

The reports also raise questions about what information BCBSIL considers when making the initial determination. BCBSIL's public announcement does not identify the specific technology or methodology used in the review process, and BCBSIL has not publicly confirmed that artificial intelligence is involved.

Illinois' New Transparency in Downcoding Act

Illinois' newly enacted Transparency in Downcoding Act will regulate how payers make and communicate downcoding determinations beginning Jan. 1, 2028. The Act defines downcoding as a payer's unilateral alteration of an E/M or other service code that results in lower payment.

Once effective, the Act will prohibit a health care payer from using an "algorithm or other automated process, system, or tool" that bypasses evaluation of information submitted by the billing health care professional. Automated tools may still identify claims for potential downcoding, but the determination must be made or reviewed by a natural person who considers the provider's information and applicable coding guidelines. The Act also prohibits downcoding based solely on diagnosis codes.

The Act will also require greater transparency when claims are downcoded, including disclosure of the basis for the reduction and information regarding how the provider may dispute it. Downcoding disputes must receive human review, including consideration of relevant clinical information and medical records submitted by the billing professional. Payers also remain responsible for compliance when they delegate downcoding functions to third parties.

Notably, the Act's protections do not extend to every type of provider potentially affected by payer coding adjustments. Its definition of "health care professional" is limited to physicians, physician assistants and advanced practice registered nurses, meaning some behavioral-health professionals may fall outside its protections.

What Providers Should Consider Now

Because BCBSIL's policy is already in effect, while the new statutory protections will not take effect until 2028, affected providers should consider taking steps now to understand the scope and financial impact of downcoding within their practices.

Providers may want to:

- **Reviewing claims and remittance data** for patterns of downcoding and changes in reimbursement.
- **Quantifying the financial impact** and identifying whether particular codes, services or practitioners are disproportionately affected.
- **Confirming that documentation supports the E/M level billed** under applicable coding guidelines.
- **Evaluating available dispute and appeal rights** where the clinical record supports the original code.
- **Reviewing payer agreements and reimbursement policies** for provisions governing claims review, coding adjustments and disputes.
- **Monitoring implementation of the Transparency in Downcoding Act** before its Jan. 1, 2028 effective date.

Providers experiencing significant or systematic reductions should assess their current contractual and dispute rights while preparing for the new statutory framework.