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MITIGATING FINANCIAL WASTE IN THE U.S. HEALTHCARE SYSTEM: AN AI-DRIVEN FRAMEWORK FOR REAL-TIME FRAUD DETECTION IN MEDICARE AND MEDICAID CLAIMS

Umma Twaha[1]

Affiliations

[1] Master of Business Administration, University of North Alabama, USA
utwaha@una.edu

Corresponding Author's Email

[1]utwaha@una.edu

ABSTRACT

The financial waste associated with fraud, abuse, and inefficient claims processing remains a significant challenge to the sustainability of the United States healthcare system, specifically in Medicare and Medicaid programs. The traditional fraud detection systems are mostly reactive, and they are unable to cope up with the increasing volume and complexity of the healthcare claims data. The recent developments in the field of artificial intelligence (AI) present the potential of improving the process of detecting fraud by applying real-time surveillance and predictive analytics.

This paper will discuss the perception of stakeholders on the problem of financial waste in the U.S. healthcare system and evaluate how AI-based, real-time fraud detection systems are perceived to address the issue of fraud in Medicare and Medicaid claims.

The research design used was cross-sectional, quantitative and it was based on a structured survey instrument. The sample included 250 healthcare stakeholders who included administrators, billing and coding specialists, health IT professionals, policymakers and researchers. The survey involved the assessment of the awareness of financial waste, AI adoption, perceived efficiency of AI-driven fraud detection models, the challenges related to it, and ethics. Reliability analysis and descriptive statistics were used to analyze the data.

The statistics indicate that the awareness rate of the respondents regarding financial waste in healthcare is high. There was also high agreement among the respondents about the use of AI and its success in reducing financial waste particularly on real-time fraud detection. Reliability analysis indicated a high level of internal consistency among measurement constructs. Despite the predominantly positive attitudes towards AI effectiveness, the respondents mentioned the challenges related to ethics, regulation, and implementation of AI in respect of data privacy, transparency, and system integration.

The paper concludes that AI-informed real-time fraud detection systems are seen by many people as a powerful tool to decrease the financial waste on Medicare and Medicaid claims. Nevertheless, a powerful ethical governance, sufficient infrastructure, and readiness of organizations are necessary to implement it successfully to provide sustainable and responsible adoption.

Keywords: Artificial Intelligence, Healthcare Fraud, Financial Waste, Medicare, Medicaid, Real-Time Fraud Detection, Claims Management

INTRODUCTION

The healthcare system in the United States is a highly resource-intensive and complex system in the world, and it still experiences significant financial inefficiencies [1]. Fraud, waste, and abuse make up a significant portion of resources in healthcare that is wasted annually, especially in large programs like Medicare and Medicaid that are publicly funded [2]. Such losses burden the resources of the government, decrease the supply of money to attend to real patients, and harm the confidence of people in medical facilities [3]. Traditional fraud detection processes which are mostly based on manual audits and retrospective reviews

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are usually slow, expensive and reactive in nature. With the progress of fraudulent activities getting more advanced, the restrictions of the traditional detection methods become more pronounced.

The recent developments in artificial intelligence (AI) and data analytics have provided new opportunities to solve the long-term challenges of healthcare fraud detection [4]. Ai technologies, especially machine learning and predictive analytics, can operate real-time on large amounts of claims data, detect intricate patterns, as well as notice anomalies that can be indicative of fraudulent activities [5]. Compared to rule-based systems, AI-based solutions can constantly learn with new data and change with new fraud schemes and increase their detection rates with time. These features predispose AI as an effective means of reducing financial waste and enhancing the integrity of Medicare and Medicaid claims processing.

The real-time fraud detection represents a paradigm shift in the surveillance of the healthcare system and the control of financial risk [6]. Inappropriate payment can also be stopped by using AI-based systems because there is a chance to identify suspicious claims at the time of submission, rather than at the time of reimbursement. This is a proactive strategy and besides reducing the losses of money, it maximizes operations efficiency as few post-payment investigations are made [7]. Furthermore, constant monitoring helps in making evidence-based decisions among the health care administrators and regulatory bodies that enable health care to intervene and modify the policies and rules on time.

Regardless of the potential benefits, the implementation of AI-based fraud detection systems in the U.S. healthcare sector is not without challenges. Data privacy, integration of systems, algorithm transparency, and ethical responsibility are issues that are still of concern to the stakeholders [8]. Healthcare information is highly confidential and the use of AI must possess a robust governance framework to assist in upholding regulatory requirements in addition to protecting the privacy of the patients. Also, effective implementation requires the organizational willingness, technological infrastructure, and human resources to comprehend and implement AI-generated insights [9].

It is important to comprehend the stakeholder perceptions to AI acceptance, system viability and ethical issues to create effective and sustainable AI-based fraud detection systems. The analysis of these perceptions assists in making valuable insights about the variables which influence acceptance and success implementation [10]. The proposed study aims to add to the accumulating challenges through empirical investigation on how AI-based real-time fraud detection can prevent financial waste in Medicare and Medicaid claims [11]. The study intends to inform policy-making and strategic decisions in the U.S. healthcare system by targeting awareness, adoption, perceived impact, and related challenges.

LITERATURE REVIEW

A. Financial Waste and Fraud in the U.S. Healthcare System

Wastes in the financial sector of the U.S. healthcare system are still very common phenomena and fraud, abuse and inefficiency in the billing practices continue to be major factors behind unnecessary spending. Medicare and Medicaid are especially prone to fraud and misuse, including upcoding, phantom billing, and duplicate claims due to their size and complexity [12]. Such practices do not only boost the expenditure of the people but also divert resources to other fundamental services in healthcare [13]. The current literature points out that traditional monitoring systems tend to be ineffective at identifying fraud in time so that inappropriate payment leads to accumulation over time.

B. Limitations of Traditional Fraud Detection Approaches

Traditional fraud detection techniques are very much dependent on manual reviews, pre-defined rules and post-facto audits. Although such techniques are capable of detecting the recurring patterns of fraud, they find it difficult to determine new or sophisticated fraud schemes [14]. Post-payment audits are reactive, which causes them to be slow in intervening and recovering the money that has been lost [15]. Furthermore, manual systems are also labor intensive and are prone to human error thus restricting their ability to handle the increasing amount of healthcare claims data.

C. Role of Artificial Intelligence in Healthcare Fraud Detection

Artificial intelligence has become one of the revolutionary technologies in the healthcare analytics field, which introduces powerful functionality in terms of pattern identification and projection modeling [16]. The AI-fraud detection systems are based on machine learning algorithms to process and analyze the historic

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and real-time data, identify that abnormal billing behavior exists, and label the high-risk claims [17]. These systems are more effective at processing large datasets and adapting to changing trends of fraud as compared to a static rule-based model. Another way in which AI may be applied to enhance the accuracy, speed and scalability of fraud detection is also highlighted in the literature.

D. Real-Time AI-Driven Fraud Detection Systems

One of the biggest advancements in the healthcare finance management is the fraud detection systems in real time. The implementation of AI tools in claims processing activities can also enable healthcare organizations to identify suspicious activities when claims are being processed [18]. This proactive system assists in reducing the number of improper payments and decreasing the administrative burden on the post-hoc investigations. Research have shown that real-time monitoring is not only beneficial in terms of financial control but also promotes transparency and accountability in claims management [19].

E. Ethical, Legal, and Implementation Challenges

Despite the advantages of AI use in medical fraud detection, it also has both ethical and operational concerns [20]. The problems of data privacy, algorithm bias and non-transparency of algorithms are frequently discussed. Healthcare institutions must ensure that AI does not violate the legal and regulatory requirements at the expense of equity and responsibility [21]. There is also the proper implementation with qualified staff, training appropriate implementation and clarity in compatibility with the present information systems. The literature highlights the necessity of balancing the technological innovation and ethical governance to achieve the sustainable outcomes.

RESEARCH OBJECTIVES

1. To examine stakeholders' awareness of financial waste and fraud in Medicare and Medicaid claims.
2. To assess perceptions regarding the adoption of artificial intelligence in healthcare fraud detection.
3. To evaluate the perceived effectiveness of AI-driven real-time fraud detection frameworks in reducing financial waste.
4. To identify key challenges and ethical concerns associated with the implementation of AI-based fraud detection systems.
5. To analyze the overall perceived impact of AI technologies on improving transparency and efficiency in healthcare claims management.

STATEMENT OF THE PROBLEM

The financial waste caused by fraud and ineffective claims processing remains a significant obstacle to the sustainability of the U.S. healthcare system, both in Medicare and in Medicaid programs. Traditional fraud detection systems are mostly passive, disjointed, and incapable of handling the growing quantity and volume of healthcare information. Due to this, fraud is usually left unnoticed until the financial losses have been significant. Although the concepts of artificial intelligence can be used to find the solution to the problem of healthcare fraud, since the systems may be introduced to find the real-time and predict the outcomes, their application in healthcare fraud detection remains limited as the users experience the concerns regarding the feasibility, data privacy, ethical consideration, and system integration. The empirical knowledge about the perceptions of stakeholders about AI-based fraud detection and its ability to reduce financial waste is lacking. This gap should be filled to make informed policy policies and implement AI-based solutions.

METHODOLOGY

A. Research Design

The research design chosen in this study was quantitative, cross-sectional research in order to investigate the perceptions of stakeholders about financial waste in the U.S. healthcare system and how artificial intelligence may be used to reduce fraud in Medicare and Medicaid claims. The use of a structured survey design was done to gather standardized data among professionals in the healthcare administration, policy, billing and information technology. This was deemed to be a suitable design in order to measure quantifiable attitudes, levels of awareness and perceived effects of AI-driven fraud detection frameworks.

B. Study Population and Sampling

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The target population was made up of healthcare administrators, health IT professionals, billing and coding professionals, policymakers or healthcare regulators, and researchers or academics who are directly or indirectly involved in healthcare systems. A purposive sampling was applied to make sure that the respondents had acquired appropriate knowledge and experience in matters pertaining to healthcare claims processing and fraud detection. There were 250 valid responses that were gathered and used in the final analysis.

C. Data Collection Instrument

A structured questionnaire with 20 questions measured on a five-point Likert scale was used in data collection from strongly disagree to strongly agree. The instrument was constructed to identify five critical constructs, including awareness of financial waste and fraud, AI implementation in the detection of fraud, AI-based real-time fraud detection systems, challenges and ethical implications, and the overall effects of AI on financial waste. The questionnaire questions were formulated according to the available literature and were aligned with the study objectives.

D. Data Collection Procedure

The questionnaire was conducted online to the respondents of different professions in healthcare. The respondents were free to participate in the study and they were made aware of the scholarly interest of the research. Anonymity and confidentiality were ensured to promote truthful and unbiased responses.

E. Reliability and Data Analysis

Cronbachs alpha was used to determine the internal consistency of the instrument of measurement. The constructs showed high to very high levels of reliability with alpha values being higher than the required level of 0.70. The analysis of the data was performed through the descriptive statistics methods such as means, SD, frequencies, and percentages to describe the characteristics and perceptions of the respondents concerning AI-based fraud detection and waste reduction in healthcare.

F. Ethical Considerations

The research was conducted with ethical considerations to guarantee that the research was conducted in accordance with the accepted standards of academic and healthcare-related research. No one was forced to participate in the study and all the respondents were made aware of the objective of the research before they were allowed to fill in the survey. Participation was not coerced or incentivized in any form, thus providing free and informed consent.

No personally identifiable information was gathered to preserve the privacy of respondents. All the answers were on anonymity basis and data were utilized purely on academic and research basis. Since healthcare systems and financial information are sensitive, special care was taken regarding confidentiality and ensuring that the data obtained was not misused. The research was conducted on perceptions and opinions, not on real patient records or factual claims data, thus making the study not directly exposed to protected health information.

The information acquired during the survey was stored safely and was accessible to the researchers working on the survey. Results analysis and reporting were performed in the aggregate form so that individual respondents or organizations could not be identified. Moreover, the research followed ethical standards that pertain to fairness, transparency, and integrity particularly in artificial intelligence and healthcare governance.

Lastly, the study also recognized ethical issues that revolve around AI application in the medical sector, such as privacy of data, transparency of algorithms, and responsibility. Not only were these considerations respected during the research process, but they were directly analyzed as one of the study variables, which further confirms the ethical rigor and relevance of the entire research process.

RESULTS OF THE RESEARCH

A. Reliability Statistics

Reliability analysis was carried out to evaluate internal consistency of the measuring tool and its constructs in terms of Cronbach alpha (α). As shown in Figure 1, every construct showed strong to excellent reliability, which means that the items in each construct can measure the intended construct.

Construct Awareness of Financial Waste and Fraud which consisted of four items had a Cronbach alpha of 0.84, indicating a high internal consistency. In the same manner, AI Adoption in Fraud Detection

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based on five items showed alpha coefficient of 0.88 which was excellent and there was high coherence of item. High reliability was also observed in the construct AI-Driven Real-Time Fraud Detection Framework (α =0.86), which helped to demonstrate the stability and consistency of the four items to measure this dimension.

Construct in Challenges and Ethical Considerations has a Cronbachs alpha of 0.82 that is above the generally accepted threshold of 0.70 indicating that the items effectively measure perceived challenges and ethical issues related to AI implementation. Similarly, the construct Overall Impact of AI on Financial Waste with three items showed high internal consistency with an alpha coefficient of 0.85.

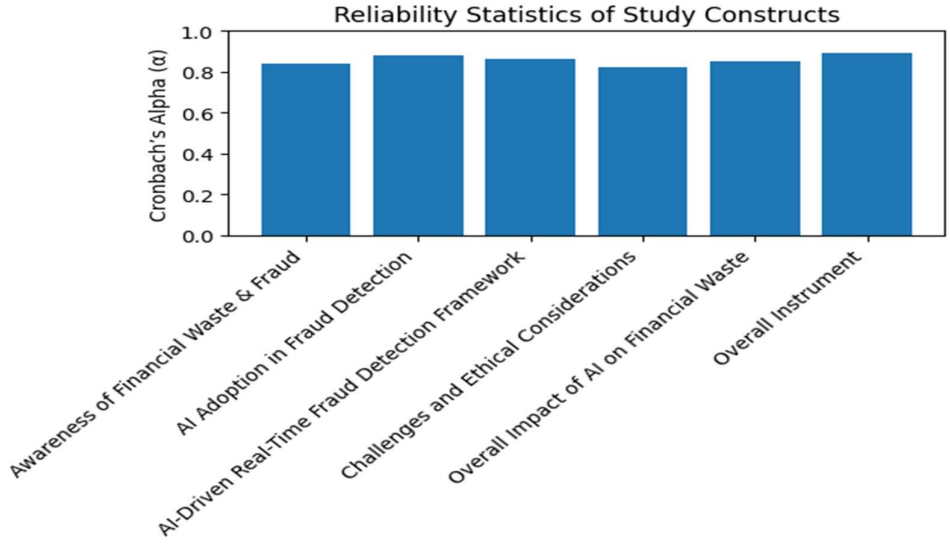

Fig 1: Reliability Test

Notably, the total tool, which is a combination of 20 items, had a value of Cronbach alpha of 0.89 which is excellent in terms of reliability. This finding validates the fact that overall the instrument is very consistent with regard to further statistical examination. All these findings collectively show that the measuring scales employed in the research are trustworthy and the validity of further analysis and conclusions made on the data.

B. *Demographic Information of the Respondents*

Professional Role	**Frequency**	**Percentage (%)**
Healthcare Administrator	70	28.0
Billing/Coding Specialist	55	22.0
Health IT Professional	45	18.0
Policy Maker/Regulator	30	12.0
Researcher/Academic	35	14.0
Other	15	6.0
Experience (Years)	**Frequency**	**Percentage (%)**
Less than 2 years	40	16.0
2–5 years	65	26.0
6–10 years	75	30.0
11–15 years	45	18.0
More than 15 years	25	10.0
Level of Involvement	**Frequency**	**Percentage (%)**
Very High	55	22.0
High	70	28.0
Moderate	65	26.0
Low	40	16.0
None	20	8.0

***Table 1*:** Demographic Profiles

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The demographic description of the respondents shows that it is very balanced and covers a wide range of stakeholders working in the sphere of healthcare systems and other areas. Table 1 demonstrates that healthcare administrators represent the most significant group of participants (28.0%), then billing and coding specialists (22.0%), and health IT professionals (18.0%). Such a distribution implies that the study has been able to get the views of the people who are directly involved in the operation, financial, and technological side of healthcare provision. Inclusion of researchers/academics (14.0%), policy makers or regulators (12.0%), also enhances the analytical scope of the study through the inclusion of the strategic and regulatory perspectives. The fact that there were respondents who can be classified as "other" (6.0%) indicates the existence of other interdisciplinary contributions, which helps to have a wider perspective on the field of subject matter.

As far as professional experience is concerned, the sample exhibits the high concentration of mid-career and experienced professionals. The highest percentage of the respondents had experience of 6-10 years (30.0%), secondly, there were those with 2-5 years (26.0%) and lastly, there were those with 11-15 years (18.0%). This means that most of the participants have considerable practical exposure and can respond in an informed and contextually-based manner. Those with less than two years of experience (16.0%) and more than 15 years (10.0%) guarantee both the first-career outlooks and long-term expertise, contributing to the overall credibility and balance of the dataset.

Regarding the level of involvement, a significant share of the respondents experienced high or very high involvement (50.0% combined) indicating strong engagement in healthcare processes, systems, or decision-making activities that were considered in the study. The percentage of respondents who respond to moderate (26.0%) involvement also confirms the applicability of the sample, whereas low involvement or none involvement (24.0%) respondents offer supplementary perspectives that can be indirect or peripheral engagement. On the whole, the participation distribution shows that the results are largely informed by participants that have significant exposure and responsibility in the healthcare sector.

Together, the demographic attributes indicate that the study sample is not only diverse but also professionally strong to be able to justify the reliability and generalizability of the study results in the context of healthcare administration, policy, and information systems.

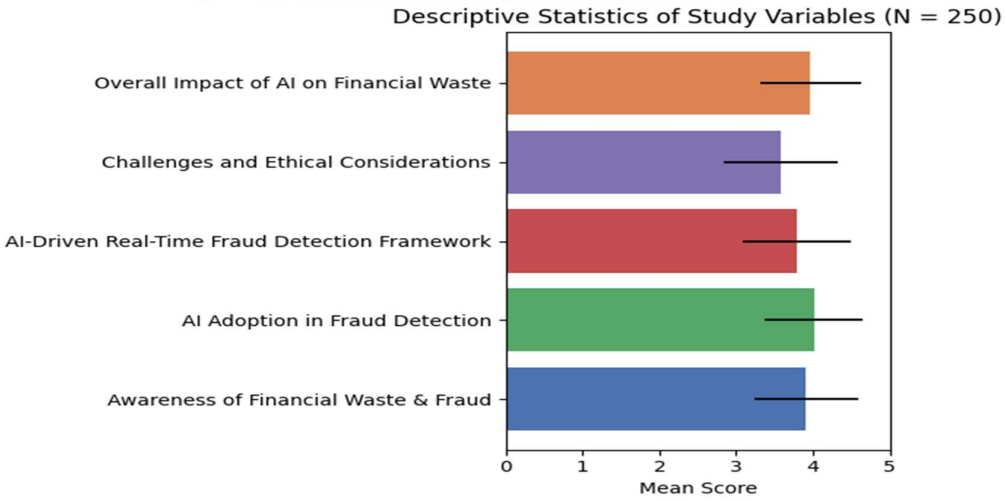

Fig 2: Descriptive Statistics

Figure 2 shows the descriptive statistics of the variables of interest in this study on the basis of 250 participants. The mean scores of all constructs are in the higher part of the measurement scale that shows the general favorable attitude towards artificial intelligence and its contribution to the reduction of financial waste and fraud in the sphere of healthcare.

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Construct Awareness of Financial Waste and Fraud has a mean score of 3.91 and standard deviation of 0.68 indicating that there is a high degree of awareness among the respondents and a relatively low variance in the responses. Equally, AI Adoption in Fraud Detection had the greatest mean value (4.01, SD = 0.64) as it showed that there is a high degree of consensus on whether AI-based solutions should be adopted and used to detect fraud. The standard deviation is also low and this also shows a high level of agreement among participants.

Construct AI-Driven Real-Time Fraud Detection Framework recorded a mean score of 3.79 (SD = 0.71), which indicates positive perceptions towards real-time AI framework, but with a higher standard deviation of responses compared to the perceptions of adoption. Such variation can be associated with organizational readiness or contact with advanced AI systems.

The construct Challenges and Ethical Considerations had the least mean score (3.58, SD = 0.75), which suggests that there was moderate consensus on the existence of the challenges and ethical issues related to the implementation of AI. The standard deviation is more comparatively high, which indicates a broader range of opinions because of the difference in the role of their professions, regulatory backgrounds, or the level of awareness of the ethical standards of the respondents.

Lastly, the Overall Impact of AI on Financial Waste showed a mean score of 3.97 and standard deviation of 0.66, which showed a great consensus that AI positively influences the reduction of financial waste and that respondent's perceptions were relatively stable.

In general, the descriptive statistics provide positive indications of the attitude towards the adoption of AI and the perceived effectiveness to reduce financial waste and fraud, in addition to the consideration of the implementation challenges and ethics. The standard deviations between constructs are generally low and indicate consistency of respondent opinion as a reason as to why the descriptive findings are reliable.

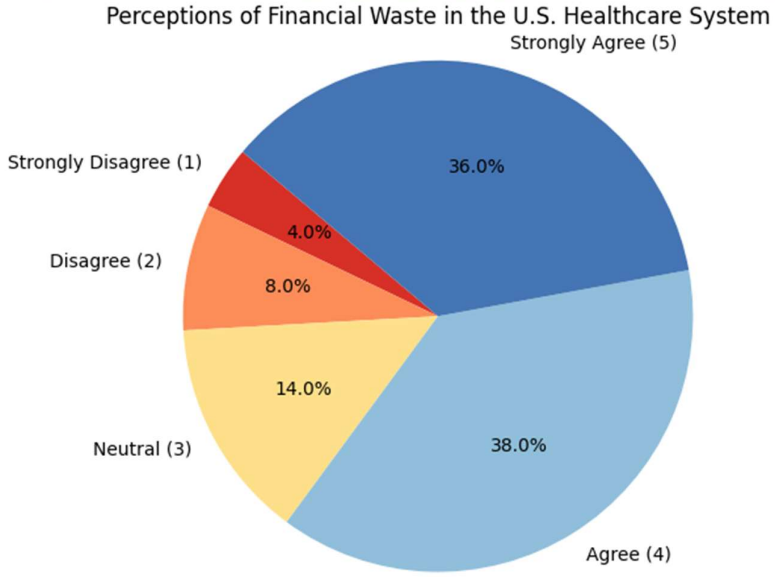

Fig 3: Financial Waste Is A Major Challenge In The U.S. Healthcare System

Figure 3 will show the perception of the respondents on whether financial waste is a major challenge in the U.S. healthcare system. The response distribution indicates that there is a high level of agreement with this statement.

A significant majority of the respondents were agreeing with 38.0% of them saying Agree and 36.0% saying Strongly Agree. Taken together, this is 74.0% of the sample, indicating that it is almost three-quarters of the respondents who acknowledge financial waste as a serious systemic challenge in the healthcare sector of the United States. Such a high degree of consensus indicates a universal recognition of inefficiencies and financial leakages throughout the healthcare operations.

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Conversely, a fairly low number of respondents showed disagree. Disagree and strongly disagree were chosen only by 8.0% and 4.0% respectively. indicating limited resistance to the notion that financial waste poses a major challenge. Additionally, 14.0% of respondents reported a Neutral stance, which may reflect uncertainty, limited exposure to financial oversight, or role-specific perspectives.

In general, the response pattern demonstrates a predominant and evident perception among the respondents that financial waste is a major issue in the healthcare system of the U.S. The overall result of this agreement is a solid empirical basis to further discussions of the mitigation measures or the use of advanced technologies such as AI to minimize the financial inefficiencies.

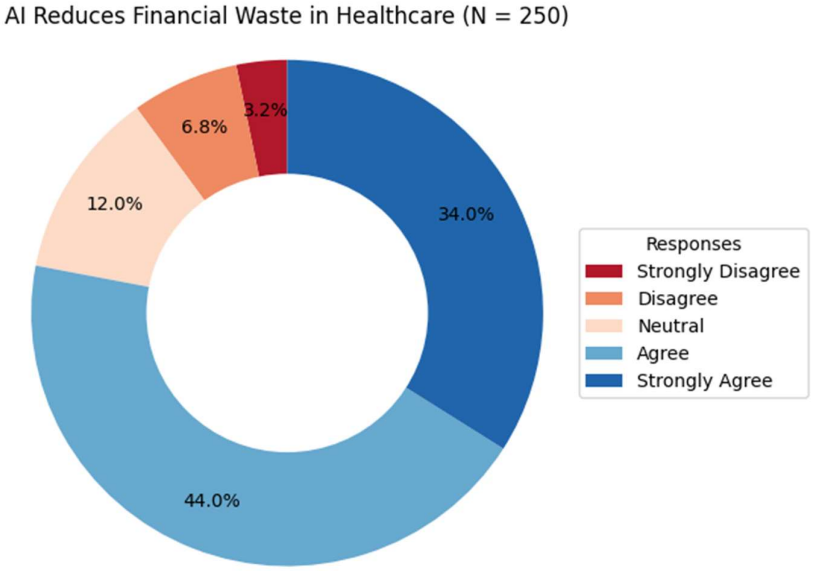

Fig 4: AI Reduces Financial Waste in Healthcare

Figure 4 contains the perception of the respondents regarding the effectiveness of artificial intelligence to reduce financial waste in the healthcare industry. The responses distribution indicates that there is a high positive tendency in terms of perceived contribution of AI on mitigating financial inefficiencies.

A large percentage of the respondents were likely to agree to the statement with 44.0% giving Agree and 34.0% strongly agree. In total, 78.0% of the participants agreed with the notion that AI can be used to work towards decreasing the financial waste in the healthcare sector. This is a very high level of consensus proving the great level of trust in the AI-based solutions to optimize financial management, identify fraud, and become even more efficient in usage of the resources.

The number of respondents who disagreed with it was quite low with 6.8% saying Disagree and 3.2% Strongly Disagree. These responses show that people are moderately distrustful of AI application in this regard. Meanwhile, 12.0% of respondents selected the Neutral option, which might be viewed as the symptom of the lack of confidence, the inadequate organizational experience with AI systems, or even the reserved attitude toward the emerging technologies.

Altogether, the results indicate that there is a solid agreement between respondents that AI has a significant role in helping decrease financial waste in healthcare systems. This understanding justifies the applicability of AI-based interventions and empirically justifies the need to further examine AI adoption as a strategic instrument of financial efficiency in healthcare.

DISCUSSION

The results of this paper empirically confirm the emerging view that financial waste is still one of the critical issues of the U.S. healthcare system, especially in Medicare and Medicaid systems. The high rate of consensus between the respondents concerning the issues of financial wastage conform to previous studies with respect to the existence of inefficiencies and fraud in major government-backed insurance programs [12],

[13]. This universal recognition reinforces the argument on embracing more sophisticated and active detection systems.

The results also testify that the stakeholders are very confident in artificial intelligence as the effective tool of saving money wastage. Such high mean scores with regards to AI adoption and perceived impact may be understood to imply that administrative, technical, and policy professionals are recognizing the significance of AI-based solutions. This is consistent with the previous studies which had indicated that AI systems are very effective when compared to other rule-based and manual systems due to their functionalities to facilitate real-time monitoring, adaptive learning and improved detection of anomaly [4], [16].

Remarkably, the impressions of AI-based real-time fraud detection systems were favorable yet with a higher degree of variability, which could be caused by the dissimilarity in the organizational preparedness, the maturity of the infrastructure, and the exposure to AI systems. This finding is similar to the available literature that highlights the challenges during implementation, such as the lack of system integration and the absence of workforce capabilities [18], [19]. Also, there is a middle ground on ethical and regulatory issues, which reflect the persistence of data privacy, transparency, and governance in the AI deployment [20], [21], [22].

All in all, the discussion highlights that although AI is viewed as an effective remedy to financial waste reduction, its usage must rely on responsible usage, institutional justifications, and sound ethical guidelines to make it sustainable in the U.S. healthcare system.

CONCLUSION AND RECOMMENDATIONS

This paper concludes that financial waste due to fraud, abuse and inefficient claims processing is a major and well-known issue in the healthcare system of the U.S. and especially on Medicare and Medicaid programs. The results show that stakeholders are highly aware of this problem, and most of them are confident that artificial intelligence can be a suitable and efficient solution to reducing financial damage. The favorable attitudes toward AI implementation and its net effect across the board demonstrate that AI-based, real-time fraud detection systems are becoming an increasingly important resource in enhancing financial efficiency, transparency, and accountability within healthcare claims management. The credibility of these conclusions is further reinforces the credibility of these conclusions.

Meanwhile, the paper emphasizes that the effective deployment of AI-based fraud detection technologies will depend on the solution of several critical challenges. Ethical considerations, privacy of data and integration complexities of the system, and the level of organizational readiness still affect the level of stakeholder confidence and adoption rates. These issues imply that technological capability cannot work without proper governance and institutional encouragement [23].

On the basis of the findings, it is recommended that healthcare policymakers and regulatory authorities should establish specific national guidelines of ethical and transparent application of AI in claims processing, with specific regards to data security and accountability of algorithms. Hospitals and other healthcare organizations must invest in the recent data infrastructure and workforce development to guarantee that the AI systems are properly accommodated within the current workflow and that the decision-makers ought to have the ability to interpret the AI-generated information correctly. Additionally, to minimize the operational risk and establish the institutional trust, the strategies of phased implementation, pilot programs, and constant evaluation of the system are suggested [24]. Long-term effectiveness and scalability is yet to be substantiated with future research emphasizing longitudinal evaluation of AI-motivated fraud detection results and comparative analysis across healthcare systems. Together, such steps can contribute to the introduction of AI technologies on a sustainable basis and reduce significantly financial waste in the U.S. healthcare system.

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