EHR Incentives in an Era of Innovation

July 1, 2009

The Health Information Technology Symposium at MIT

Sheera Rosenfeld
Avalere Health LLC
Presentation Agenda

- Overview of the HITECH provisions of ARRA
- Key points from Avalere’s analysis of EHR incentives
- Unanticipated market impact and case studies
- Outstanding questions
- Discussion
ARRA provides unprecedented funding to further HIT adoption

Formalizes HIT activities nationally

Supports integrating HIT into clinical education

Offers grants to states for HIT infrastructure and EHR adoption

Makes privacy and security provisions explicit

Awards financial incentives to meaningful EHR users
### Incentive Payments and Penalties Seek to Stimulate EHR Adoption and Use by Medicare Providers

<table>
<thead>
<tr>
<th>Adoption Year</th>
<th>Year 1 Incentive</th>
<th>Year 2 Incentive</th>
<th>Year 3 Incentive</th>
<th>Year 4 Incentive</th>
<th>Year 5 Incentive</th>
<th>Payment Reduction</th>
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<tbody>
<tr>
<td>2011 or 2012</td>
<td>$18,000</td>
<td>$12,000</td>
<td>$8,000</td>
<td>$4,000</td>
<td>$2,000</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>$15,000</td>
<td>$12,000</td>
<td>$8,000</td>
<td>$4,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2014*</td>
<td>$15,000</td>
<td>$12,000</td>
<td>$8,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2015</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1%</td>
</tr>
<tr>
<td>2016</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2%</td>
</tr>
<tr>
<td>2017</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3%</td>
</tr>
<tr>
<td>2018</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3% - 4%**</td>
</tr>
<tr>
<td>2019 and beyond</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3% - 5%**</td>
</tr>
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*The first payment year must be before 2015; no payments will be made after 2016.
**If the percentage of professionals using EHRs is <75% by 2017, the Secretary can increase the fee schedule adjustment by 1% up to, but not to exceed, 5%.
Some Providers May Ultimately Find it More Cost Effective to Pay Penalties

EHR Penalty Payments* Compared to Annual EHR Costs** with Differentials

*Dollar Amount (in thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Penalty Payments</th>
<th>EHR Costs</th>
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<tbody>
<tr>
<td>2015</td>
<td>$1.7</td>
<td>$53</td>
</tr>
<tr>
<td>2016</td>
<td>$3.4</td>
<td>$18</td>
</tr>
<tr>
<td>2017</td>
<td>$5.1</td>
<td>$18</td>
</tr>
<tr>
<td>2018</td>
<td>$6.8</td>
<td>$18</td>
</tr>
<tr>
<td>2019 and beyond</td>
<td>$8.5</td>
<td>$18</td>
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</table>

*This figure is based on internal research and assumes that this physician sees eight Medicare patients a day, at an average payment of $85 per patient, totaling $170,000 in annual Medicare receipts. Assumes penalties assigned to Medicare providers.

**Assumes $35,000 for initial EHR implementation and $1,500 in monthly maintenance and support. $35,000 based on 2005 AHRQ estimate of implementation costs. http://www.ahrq.gov/research/sep05/0905RA28.htm.
Anticipation of Incentives and Existing Provider Needs Yield Unanticipated Market Responses

- Affordability
- Usability
- Comprehensive functionality
- Ease of Implementation

Market Response
# Three Trends Comprise The Market Impact

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<th><strong>Market Innovation</strong>: Vendors are creating new tools to address the varied needs of different healthcare stakeholders</th>
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<tr>
<td>2</td>
<td><strong>Entry of Non-traditional Players</strong>: Funding is enticing stakeholders from other industries to apply their ‘expertise’ to healthcare</td>
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<td>3</td>
<td><strong>Market Consolidation</strong>: Mergers and acquisitions are bringing together complimentary strengths</td>
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Product Innovation Seeks to Address Functional Needs

Remaining Issues/Problems

- Unmet need in current marketplace
  - Less architectured products for discrete tasks, such as lab test follow-up
  - Physicians’ need for population tracking
  - Plans’ desire to measure physician performance
- Scale for small group providers
- Interoperability

Response

- Development/dissemination of Application Service Provider (ASP) EHR models
- Web-based platforms
- Expanded registry functionality
## Case Study: WellCentive

<table>
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<th>Initiative</th>
<th>WellCentive</th>
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</table>
| **Description** | - Web-based, point-of-care patient registry and community data exchange system  
- Secure messaging; VOIP appointments and care reminders; direct reporting to payers; automated patient outreach; customizable searches, alerts, and reports; patient portal; and patient report cards  
- Supports patient centered medical home, pay for performance, CMS PQRI reporting, chronic disease management, and other programs |
| **Impact** | - 1.5 million unique patient records  
- Michigan practice implemented WellCentive registry in July 2006  
  » 90% adoption after 3 months, 100% adoption rate after 1 year  
  » 37% improvement in incentive payments from 2006 to 2007  

VOIP: Voice Over Internet Protocol; CMS: Centers for Medicare and Medicaid Services; PQRI: Physician Quality Reporting Initiative
Funding Entices Entry of New Players

Entry of Non-traditional players

Remaining Issues/Problems
- Players in adjacent markets with historical eye on healthcare/HIT market
- Other industries (e.g., banking, automotive) with lessons applicable to healthcare

Response
- Anticipation of funding enticing/creating opportunity for new entrants into market.
- Examples:
  » Wal-Mart /Sam’s Club* partnership with Dell and eClinicalWorks (announced 3/09, implemented 5/09)
  » GE’s Healthy Imagination (5/09)

* Wal-Mart is a subsidiary of Sam’s Club
### Case Study: Wal-Mart, Dell, eClinicalWorks EHR

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<th>Initiative</th>
<th>Wal-Mart/Sam’s Club, Dell, eClinicalWorks HER</th>
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<td><strong>Description</strong></td>
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<tr>
<td>▪ SaaS (Software as a Service) cuts EHR cost in half</td>
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<td>▪ $25,000 for the first physician in a practice</td>
<td></td>
</tr>
<tr>
<td>▪ $10,000 for each subsequent physician</td>
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<td>▪ Annual maintenance and support charges: $4,000-$6,500 per system</td>
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<td>▪ Offered in three test markets (Georgia, Illinois, and Virginia) beginning April 2009; anticipated nationwide by end of year</td>
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<td>▪ Dell to provide the hardware, eClinicalWorks to provide software</td>
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<tr>
<td>▪ Wal-Mart will serve as intermediary between the two systems</td>
<td></td>
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<tr>
<td><strong>Impact</strong></td>
<td></td>
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<tr>
<td>▪ Leverages recognized names for consumers</td>
<td></td>
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<td>▪ Part of an emerging trend toward more cost effective software and hardware solutions for small practices</td>
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<td>▪ Could drive other EHR vendors to reduce their pricing and explore alternative software solutions to remain competitive in the marketplace</td>
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Market Consolidation Brings Together Complementary Strengths and Functionalities

Remaining Issues/Problems:
- Capital requirements for small vendors
- EHR market is saturated, yet fragmented
- CCHIT requirements leading some large vendors to purchase niche products
- Discrete companies with complimentary functionality

Response
- Partnerships: WellPoint and Availity (4/09)
- Mergers and Acquisitions: Allscripts and Misys Healthcare (3/08), Ingenix of AIM Healthcare Services (6/09), Aetna of ActiveHealth (5/05)

CCHIT: Certification Commission for Health Information Technology
## Case Study: WellPoint and Availity Partnership

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<th>WellPoint/Availity</th>
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| **Description** | - WellPoint, the largest health insurer in the US invested in Availity, a health information network between plan, physicians, and hospitals  
- WellPoint priority/focus to “be a part” of “crafting the future connecting strategy” to allow for real-time information at the point of care |
| **Impact** | - Allows for transmission of HIPAA transactions, eRx, and EHR clinical data exchange by WellPoint plans  
- Uniformity of administrative transactions |


HIPAA: Health Insurance Portability and Accountability Act  
eRx: Electronic prescribing
Outstanding Questions Remain

- Where is more innovation still needed? What market failures can or should be addressed?
- How will the “meaningful use” definition impact innovation?
  » Is it more likely to stifle or spark?
- What is the role for quality measure developers in driving innovation and changing the EHR marketplace?
- How should vendors best engage providers in the evolution of these products?
- What is the ‘right’ role around innovation for the federal government and private sector?
Thank you!

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