



EHR Incentives in an Era of Innovation

July 1, 2009

The Health Information Technology Symposium
at MIT

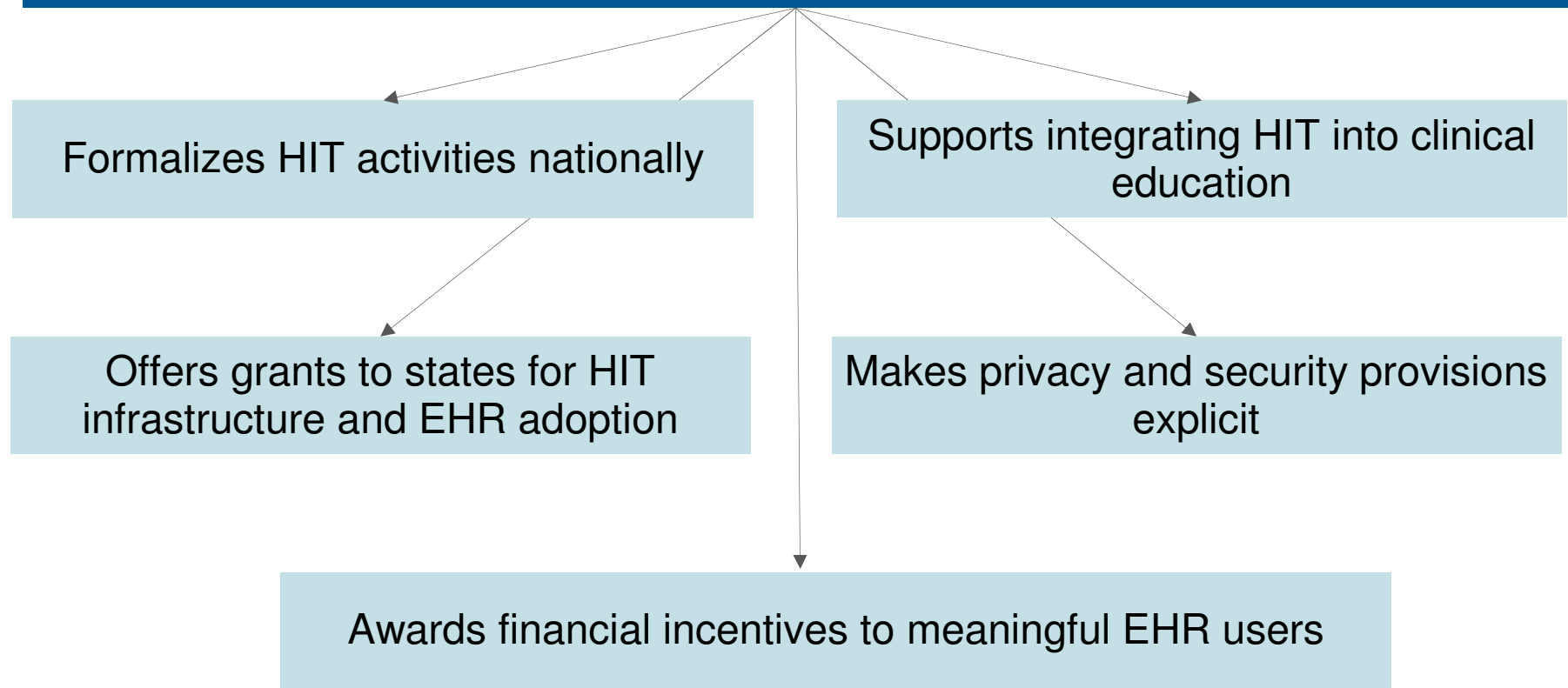
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Presentation Agenda

- 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

HITECH Allocates \$19 Billion in Net HIT Incentives for Providers

ARRA provides unprecedented funding to further HIT adoption



Incentive Payments and Penalties Seek to Stimulate EHR Adoption and Use by Medicare Providers

Adoption Year	Year 1 Incentive	Year 2 Incentive	Year 3 Incentive	Year 4 Incentive	Year 5 Incentive	Payment Reduction
2011 or 2012	\$18,000	\$12,000	\$8,000	\$4,000	\$2,000	-
2013	\$15,000	\$12,000	\$8,000	\$4,000	-	-
2014*	\$15,000	\$12,000	\$8,000	-	-	-
2015	-	-	-	-	-	1%
2016	-	-	-	-	-	2%
2017	-	-	-	-	-	3%
2018	-	-	-	-	-	3% - 4%**
2019 and beyond	-	-	-	-	-	3% - 5%**

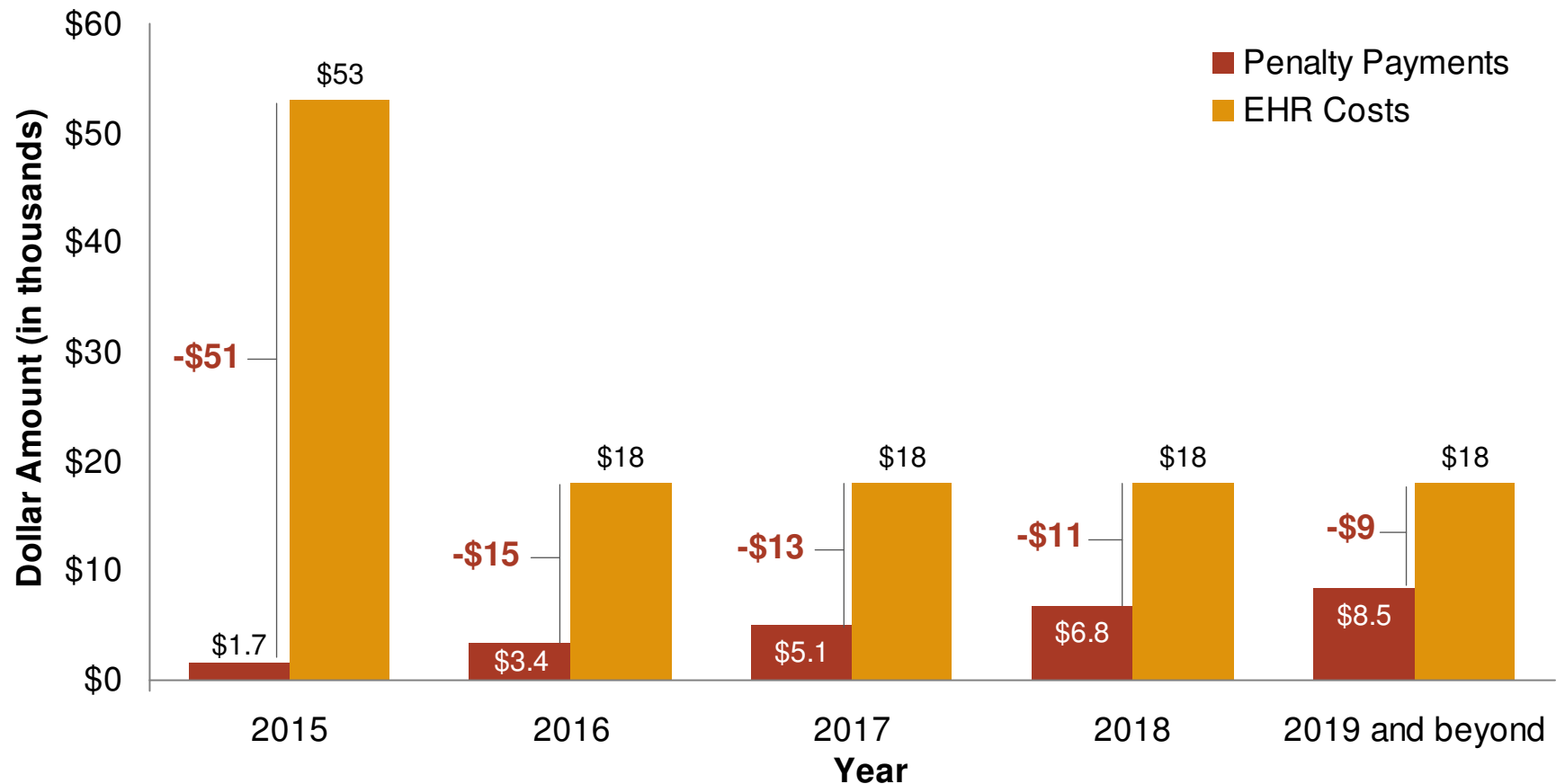
*The first payment year must be before 2015; no payments will be made after 2016.

**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



*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



Three Trends Comprise The Market Impact

1

Market Innovation: Vendors are creating new tools to address the varied needs of different healthcare stakeholders

2

Entry of Non-traditional Players: Funding is enticing stakeholders from other industries to apply their 'expertise' to healthcare

3

Market Consolidation: Mergers and acquisitions are bringing together complimentary strengths



Product Innovation Seeks to Address Functional Needs

Market Innovation

Remaining Issues/Problems

- Unmet need in current marketplace
 - » Less architected 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

Initiative

WellCentive

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
 - » Improved from 5th (2005) to 3rd (2006) to 2nd (2007) in BCN MI quality rankings



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

Initiative

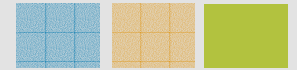
Wal-Mart/Sam's Club, Dell, eClinicalWorks HER

Description

- SaaS (Software as a Service) cuts EHR cost in half
 - » \$25,000 for the first physician in a practice
 - » \$10,000 for each subsequent physician
 - » Annual maintenance and support charges: \$4,000-\$6,500 per system
- Offered in three test markets (Georgia, Illinois, and Virginia) beginning April 2009; anticipated nationwide by end of year
- Dell to provide the hardware, eClinicalWorks to provide software
- Wal-Mart will serve as intermediary between the two systems

Impact

- Leverages recognized names for consumers
- Part of an emerging trend toward more cost effective software and hardware solutions for small practices
- Could drive other EHR vendors to reduce their pricing and explore alternative software solutions to remain competitive in the marketplace



Market Consolidation Brings Together Complementary Strengths and Functionalities

Market Consolidation

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)



Case Study: WellPoint and Availity Partnership

Initiative	WellPoint/Availity
Description	<ul style="list-style-type: none">WellPoint, the largest health insurer in the US invested in Availity, a health information network between plan, physicians, and hospitalsWellPoint priority/focus to “be a part” of “crafting the future connecting strategy” to allow for real-time information at the point of care
Impact	<ul style="list-style-type: none">Allows for transmission of HIPAA transactions, eRx, and EHR clinical data exchange by WellPoint plansUniformity of administrative transactions

Source: *FierceHealthcare*, “Q&A: WellPoint’s John Jesser and Availity’s Julie Klapstein,” May 27, 2009, www.fiercehealthcare.com/special-reports/q-wellpoints-john-jesser-and-availitys-julie-klapstein

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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The intersection of business
strategy and public policy