HEALTH REFORM:
PRIORITIES AND CHALLENGES FOR HOSPITAL EXECUTIVES

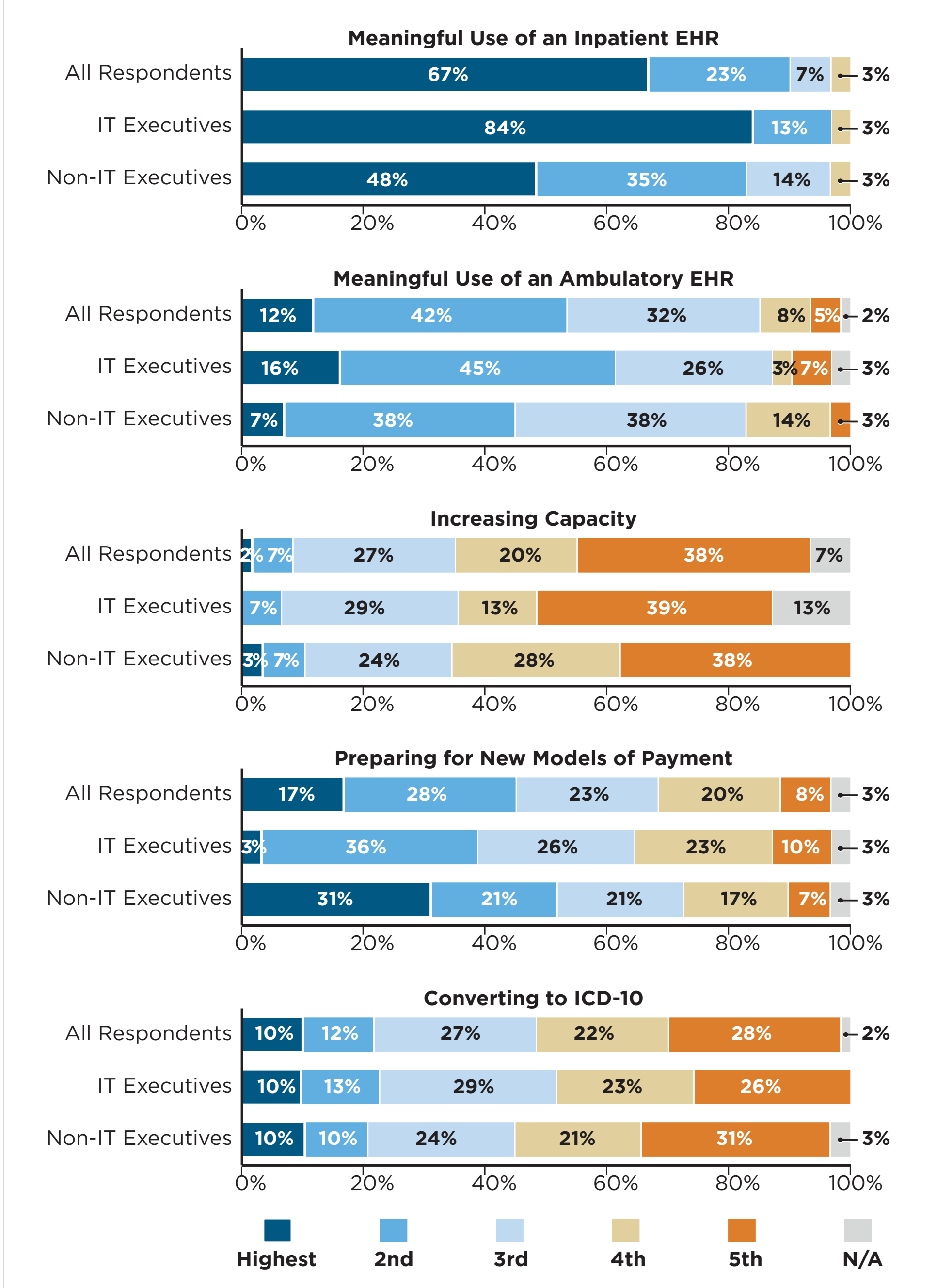
The health care system is changing — and those changes are coming rapidly and from multiple directions. In October of 2010, hospitals can begin to qualify for incentive payments for "Meaningful Use" of electronic health records (EHRs). The incentives are substantial: a typical community hospital can receive over $6 million, so achieving meaningful use is a goal for most organizations. Hospitals can choose to create accountable care organizations and share savings with Medicare and Medicaid starting in 2012. By 2013, hospitals must convert to the ICD-10 coding system; which will affect reporting, billing, quality reporting and many other aspects of record keeping. The incentives and penalties under the Centers for Medicare and Medicaid Services value-based purchasing program also begin to affect Medicare reimbursement starting in 2013 and more than 30 million newly insured individuals will start to enter the health system in 2014. All these changes raise some obvious questions: how are hospitals setting priorities to meet these new requirements, where are they in their journey and what challenges do they see? To answer these questions, we conducted a survey of 60 executives at health delivery organizations during June and early July of 2010. The survey revealed some clear priorities: the focus now is on achieving meaningful use, but many hospitals are attracted to the concept of accountable care and making decisions now on how to take advantage of this opportunity.

The executives participating in the survey were from across the United States; 33 respondents represented multiple hospitals or health systems with a total of about 225 hospitals, 15 were responding for a single academic medical center, and 12 responses were for a single hospital that was not an academic medical center. In total, the survey included more than 250 hospitals. The respondents were almost equally divided between IT executives and operational executives (including CEOs, COOs and CFOs).

The immediate focus of attention is on achieving meaningful use of an inpatient EHR; 67 percent of respondents reported this was their highest priority, and for 90 percent it was one of the top two priorities. For 42 percent, helping owned and/or affiliated physicians achieve meaningful use of an ambulatory EHR was the second priority and for 12 percent it was the number one priority for 2010 and 2011. This result is not surprising, since hospitals and physicians can apply for incentive payments starting in 2011 respectively, and the deadline for meaningful use is 2015, or physicians and hospitals will face penalties from Medicare. Some hospitals are looking longer term and have included preparing for accountable care as a high priority. As shown below, the perspectives of IT and non-IT executives are quite different. IT executives overwhelmingly placed responding to meaningful use as their top priority. Almost half of operational executives selected achieving meaningful use on an inpatient EHR as their top priority, but almost one-third selected preparing for new models of payment that stress accountable care. It is interesting that neither IT nor operational executives placed a high priority on converting to ICD-10, although some industry observers feel this will have impacts throughout health delivery organizations.

> **"Achieving meaningful use has a significant, direct impact on delivery system finances for 2011, but in the long term, systems will succeed or fail based upon their ability to perform under payment structures that hold them accountable for costs and outcomes."**
>
> *Malcolm Isley, Vice President of Strategic Services, Greenville Hospital System*

Health Reform Short Term Priorities (2010 and 2011) Among Operational and IT Executives



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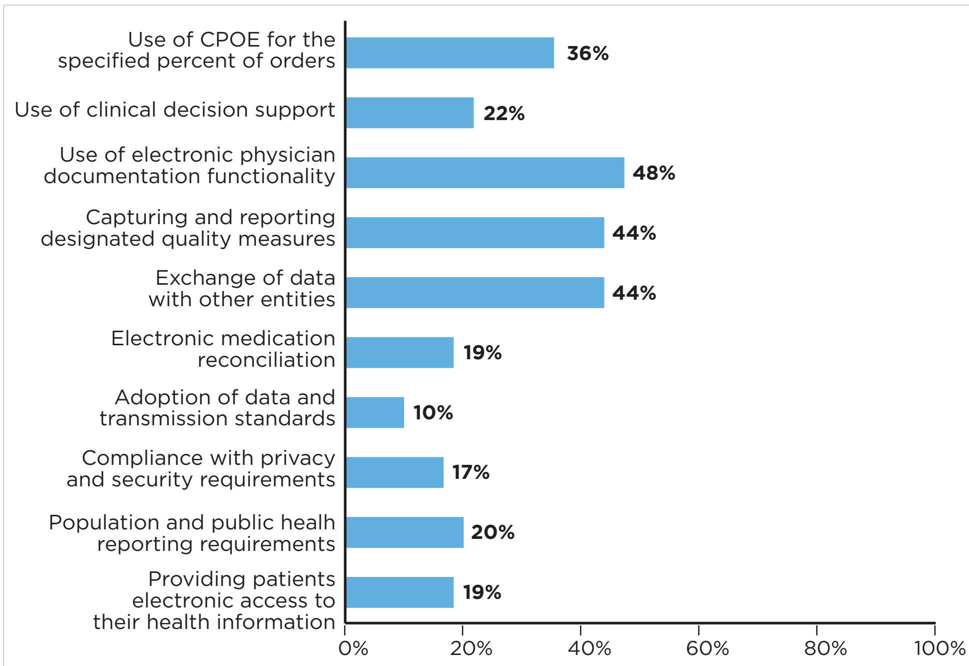
Most hospitals in our sample are already engaged in preparing for meaningful use. Fifteen percent did not need to purchase any new software and are working to improve the use of their existing EHR. The majority of respondents (67 percent) have implemented or are in the process of implementing new capabilities in order to meet the requirements of meaningful use. Thirteen percent are further behind but have purchased needed software or upgrades that have not yet been implemented, and only 5 percent have not begun to take any actions to prepare for meaningful use. The biggest barrier to moving forward (reported by 60 percent) is that the final rule for meaningful use had not been finalized when we conducted the survey. This was a bigger issue for operational executives, 85 percent of whom stated they were waiting for the final rule while only one third of IT executives cited the lack of a final rule as a barrier. Other major barriers included insufficient IT staff (for 40 percent) and other priorities taking precedence (for 32 percent). Limited capital was only cited as a major barrier by 28 percent, and only 12 percent cited vendor backlog as a big barrier.

The respondents in our survey plan to qualify for meaningful use early; 51 percent are targeting fiscal year 2011 (for hospitals that requires meaningful use be demonstrated by July 2011) and an additional 34 percent are targeting fiscal year 2012. Only one respondent had a target date after 2013 but three had not yet set a target date. The frustration with waiting for the meaningful use requirements was eloquently expressed by Chris Belmont, System Vice President and Chief Information Officer at Ochsner Health System, "The sooner the regulations come out the better. Right now I feel like we are running a race without a finish line and we don't know if it's a marathon or a steeplechase."

There is clear recognition that there will be challenges in meeting meaningful use incentive requirements. Based on the proposed requirements, the three biggest challenges reported are:

1. Use of physician documentation (including the problem list, medication list and documentation of procedures). These will all need to be captured in coded format for quality reporting.
2. Data exchange with other entities (including referring physicians, pharmacies and patients).
3. Capturing and reporting quality measures.

The Biggest Challenges in Meeting Meaningful Use (respondents could select up to three)



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Even though hospitals have been tracking their progress in implementing EHRs, they still have gaps to fill. One CIO commented that he was surprised that although his organization had reached Stage 6 (the second highest level of the HIMSS EMR stages of deployment) they still have a large gap between that status and attaining Stage 1 meaningful use criteria.

Hospitals in our survey are taking several different approaches to helping community physicians achieve meaningful use and take advantage of the hospital's efforts. Sixty-three percent already offer community physicians access to their enterprise EHR and most of the others plan to do so. Thirty-nine percent have teams that help physicians select and implement EHRs, but an equal number have no plans to offer this type of assistance. Almost half (46 percent) do not plan to offer financial support to subsidize physicians' purchase of systems, although 33 percent have already done so. Almost two-thirds of the organizations we surveyed (64 percent) either currently offer a hosted ambulatory EHR or plan to offer one in the future.

> **"I believe that with 32 million more people seeking care, the limits of access capacity will be beyond reasonable levels, to the point of bursting at the seams."**
>
> *Mike McCoy, President, Community Hospital Division, Nueterra Healthcare*

Health information exchange is rated as one of the top three challenges in meeting meaningful use. **Most hospitals in our survey (66 percent) are planning to participate in a statewide health information exchange (HIE)**. Although grants to establish statewide HIEs have been made, currently there are few in operation, and only 11 percent of the respondents currently participate in a state HIE. Currently 26 percent have established a private hospital-sponsored HIE, although almost half our respondents (46 percent) do not plan to take this approach.

Most of the organizations we surveyed are looking beyond meaningful use to other aspects of health reform including an increase in the number of people with health insurance, changes in payments based on quality performance, and the opportunities presented to be accountable for the costs and quality of care through bundled payments or accountable care organizations.

When more than 30 million newly insured people start to enter the health care system in 2014, 25 percent of hospital executives we surveyed predict that their organization will experience a significant strain on their capacity to provide care, and an additional 43 percent expect to experience a slight strain on capacity. They anticipate the biggest impact will be on outpatient primary care (expected by 36 percent) followed by demand in the emergency department (expected by 33 percent).

Almost half of the organizations included in our study (49 percent) see the ability to form accountable care organizations and share savings with Medicare and Medicaid as a future opportunity, although almost as many (44 percent) see this as both an opportunity and a threat. Pilots of bundled payments (one payment for a combination of inpatient and outpatient services around an episode of care, such as cardiac surgery) are seen by 45 percent of hospital executives as both an opportunity and a threat, and 25 percent felt that this is purely a threat to their organization. The value-based purchasing program that will reward or penalize hospitals based on meeting quality performance expectations, reducing readmissions, and avoid hospital acquired conditions was seen as an opportunity by 34 percent of respondents. About one-quarter of the organizations we surveyed are planning on participating in a bundled payment or accountable care pilot, and less than 10 percent have already decided not to; the majority (67 percent) had not yet made a decision.

When asked about the changes to payment models that have been proposed, about one-quarter of the hospital executives we surveyed (26 percent) feel that the downward adjustments to the Medicare market basket update (including the "productivity adjustment") will have the biggest impact on their organizations, 18 percent think that the reduction in base payment rates to fund the value-based purchasing program will be the biggest impact, and 18 percent are most concerned about the penalty for hospital readmissions. Only 9 percent expect the biggest impact to come from penalties for hospital-acquired conditions, but 30 percent of the respondents don't know what element of payment reform will affect their organization the most.

Our results indicate that although achieving meaningful use is top of mind among hospital executives, there are many competing proprieties. Some executives are already planning for the next stage of payment reform, including several different models for accountable care. The next 4 years will be filled with opportunities and challenges for hospital executives and success will depend on starting now and building the organizational and information technology infrastructure that moves beyond meaningful use to achieve success under payment models that include accountability for costs and quality of care.

This survey was conducted by CSC's Emerging Practices Group under the sponsorship of David Hampshire, Managing Partner for Health Care Delivery. We appreciate the input from the health delivery executives who participated.

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