Essentials of the U.S. Hospital IT Market
Fifth Edition

Industry Signposts

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Industry Signposts

Competitive Environments

Market events will serve as signposts to assist hospital executives as they assess their business environments and strategies relative to their competitive positions. Hospital executives must monitor the industry for the signals that will most significantly affect their strategies and operations. These are some of the signposts to watch for over the next three to five years:

Between 30 and 40 percent of U.S. hospitals may be at risk if they fail to meet federal meaningful use criteria.

- The impact on hospital and clinic consolidation of the meaningful use criteria in the American Recovery and Reinvestment Act of 2009/Health Information Technology for Economic and Clinical Health (ARRA/HITECH).
  - We believe that between 30 percent and 40 percent of current U.S. hospitals may be at risk financially and operationally for not meeting meaningful use criteria.
  - We believe that more than half of all independent clinics will be at risk for not meeting meaningful use criteria, even with Regional Extension Center (REC) assistance.
  - This will drive significant acquisition and merger activity in the market over the next five years.
- The impact of International Classification of Diseases, Tenth Revision (ICD-10) coding upgrades on revenue cycle management (RCM) processes.
  - Over two dozen health information management (HIM) and RCM applications will be affected by ICD-10 upgrades.
  - Many inter-application interfaces will be affected by the ICD-10 upgrades.
  - This event could have more impact on the RCM environment than the Y2K preparedness efforts at the turn of the new century.

  - This could trigger some sunsetting of older applications, which will require unplanned replacements by hospitals.

  - Hospitals that struggle with this coding upgrade will become acquisition candidates.

- Meaningful use reporting criteria will drive organizations toward the Accountable Care Organization (ACO) model for healthcare delivery.

  - Hospitals will be paid with bundled payments on the basis of episodes of care.

  - Competitive hospitals that launch ACO services early may be the ultimate winners in their markets.

  - The ACO model will emerge in regions where capitated care is driving market dynamics.

  - The ACO model will drive data warehousing market growth as delivery systems try to determine the best quality and financial metrics to succeed as an ACO.

- Hospital quality and pricing transparency will begin to evolve as more consumers are saddled with additional responsibility for their healthcare dollars.

  - Flexible spending accounts (FSA) and healthcare savings accounts (HSA) continue to evolve with more sophisticated service options for consumers.

  - Hospital branding will be driven by patient safety and outcomes metrics that surpass the competitors.

- Competition from retail stores such as Wal-Mart, Walgreens, and CVS for ambulatory services to a broad segment of healthcare consumers.

  - Lack of access to primary care physicians (PCP) is driving consumers to these new delivery environments, which are staffed for non-critical patient care services at very reasonable prices.

  - Large retailers will continue to drive these models and impact ambulatory primary care markets.

- Consumers will be provided the ability to be more proactive with their healthcare data.
  - The question remains as to how to fully engage consumers with personal health records (PHRs).
  - Microsoft and Google are making huge bets on this market, and with good reason.
  - Hospitals will look for third parties to help them deliver PHR services in the majority of cases.
- There will be global competition for surgical services from countries such as India and China for a broad segment of cost-conscious healthcare consumers.
  - The United States must compete on cost and quality with other countries for some segment of consumers.
  - Personal information confidentiality and security may hinder some countries from competing, but most countries in Europe have more stringent confidentiality and security laws for patient data.
- The emerging medical home model makes the PCP the central care provider and begins to relegate specialists to the second tier in healthcare delivery.
  - Increasing cost pressures on healthcare will drive this model.
  - The lack of PCPs to support this model may be a significant barrier to success.

Revenue Cycle Management

Perhaps the biggest challenge for hospitals over the next three to five years will be emerging regulations, which will significantly challenge them to implement effectively, and on a timely basis within their revenue cycle management environments.

Hospitals that fail to enact the appropriate changes to their RCM information technology (IT) environments and work flows may suffer tremendous negative financial effects in their businesses. The key regulation signposts to monitor are the:

- Recovery audit contractor (RAC) regulations, which allow contractors to review all Medicare bills for under- and over-payment. How well do the revenue cycle applications currently in use in hospitals provide protection for these types of audits?

- Health Insurance Portability and Accountability Act (HIPAA) Claims Attachment—how well will legacy RCM applications be able to accommodate the implementation guidelines for this impending regulation? How negatively will hospitals that struggle to implement this regulation be affected on a cash flow basis?

- Version 5010 HIPAA claims formats that are now required to be implemented by January 1, 2012.

- ICD-10 encoding upgrades—another upgrade to the encoding system used for billing and service analysis that will impact most of the RCM applications beyond HIM encoding applications. The date for implementation has been moved back to October 1, 2013. This unfunded government mandate has perhaps the largest single impact on the RCM environment ever. Mapping more than 200,000 codes to diagnosis-related groups (DRGs) or other billing codes will be a huge effort for all hospitals and vendors. Other countries that have implemented ICD-10 have shown productivity decreases in coding, which will have an effect on coding staffing requirements as well as days in accounts receivable.

Healthcare information exchanges are a good idea in concept, but few have created viable business models.

- The potential for bundled payments from the government for some chronic disease populations and their episodes of care.

- Competing for budget and resources to implement version 5010 electronic data interchange (EDI) updates and ICD-10 upgrades, while also trying to meet meaningful use criteria for ARRA/HITECH.

Healthcare Information Exchanges

Healthcare information exchanges (HIEs) are a good idea in concept, but few have created viable business models and many are not supported, because competitive health systems are not inclined to share their information with competitors. Most of the successful HIEs are emerging from state-sponsored exchanges that are tied to supporting Medicaid populations and services (e.g., California, Massachusetts, Indiana, and New York).

Some of these state programs promote disease management programs that address diabetes, congestive heart failure, or asthma. Disease-management programs will become a major component of U.S. healthcare at some point in the future.

We will begin to focus healthcare funding on wellness programs, disease-management programs, and integrated delivery system models. What we learn from HIEs today, and our ability to evaluate effective information exchanges from these environments, will allow us to become successful with future healthcare management and delivery programs (e.g., ACOs).

Healthcare Reform Legislation

The passage of healthcare reform legislation is now poised to significantly change the way healthcare will be delivered in the future. Insurance companies and pharmaceutical companies will be taxed at a heavier rate to help fund this transformation, and we believe a public option for health insurance will emerge as insurance companies continue to gouge their members and deny coverage. The current insurance model is not working, and the new laws will create an eventual collision course between the government and the insurance industry. Again, the ACO and medical home models are models that more effectively support the intentions of this legislation.

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Massachusetts

Massachusetts has undertaken the task of providing health insurance for all of its citizens. Massachusetts is still experiencing the pain of underestimating the costs of these initiatives. For the first time since 1947, a Republican defeated a Democrat for the U.S. Senate seat in that state—this was a result of the citizens' displeasure with the healthcare reform legislation. This state will continue to be a good model to evaluate as we undertake the roll-out of the new reform legislation.

Potential Legislative Impacts

The Obama administration provided funding—via the ARRA/HITECH acts—for hospitals and ambulatory clinics to implement electronic medical record (EMR) solutions so that we can better share and manage the healthcare information of our citizens. But this initiative may be problem-ladened if the industry does not effectively monitor and manage how these solutions are implemented and evaluated for effectiveness in improving healthcare delivery. We believe that vendors are emerging with very low-cost EMR solutions that may create a tipping point for independent physician clinic acquisitions of EMR solutions.

Relaxation of the Stark Law has had minor impacts on moving the market forward in adopting ambulatory EMRs, but this could change, because physicians in many parts of the country will approach hospitals to help them with ARRA/HITECH funding strategies and potentially EMR selections. Our key concerns regarding ARRA/HITECH funding are:

- If the market suddenly decides to move forward in lockstep to implement EMR solutions in both the hospital and ambulatory markets, we may not have enough qualified implementation personnel to service this demand from vendors or consultants.

- If demand outpaces implementation staffing capabilities in the industry, vendors and consultants may recruit from hospitals, exacerbating hospital IT staffing issues.

- If demand outpaces implementation staffing capabilities in the industry, vendors may shortcut implementation cycles, resulting in EMR installation failures.

- Push-back from providers on the definition of meaningful use or the time frames for adoption may force the U.S. Department of Health and Human Services (HHS) to push the end date for this initiative past 2015.

- Hospitals and ambulatory clinics may overreach their IT capabilities and strategies by chasing ARRA/HITECH funding, resulting in failed businesses.

- Significant ambulatory clinic market implementation activity may affect patients' ability to access primary care from physicians who use EMR systems. Until physicians become comfortable with their EMRs and work flow, they may not be able to see as many patients as they normally have.

Interoperability—Still a Buzz Word

The "Interoperability Showcase" at the HIMSS Annual Conference proves that the industry can create interoperability between various healthcare applications. But these examples are not easily replicated beyond the exhibit hall because of the continuing lack of standards that are needed to drive replicable solutions. The new Health Level 7 (HL7) Continuity of Care Document (CCD) standard moves the industry in the right direction, and we now need to demand its use by vendors with clinical application solutions.

The development of replicable interoperability between all healthcare IT applications will help to drive down the maintenance costs associated with application interfaces that represent a significant component of hospital IT operating costs. Interoperability will also increase the life cycle of applications that are able to accommodate this architectural function.

Data Warehouses and Business Intelligence

The value of business intelligence and data warehouses will be proven by organizations that are able to evaluate changes to funding and markets towards their patient populations. How will ICD-10 encoding impact current service revenues? How will the conversion to ICD-10 affect multi-year quality and efficiency studies? Can the organization cut costs and improve efficiencies to compete for bundled episode-of-care payments?

Secondarily, using clinical data to continue monitoring quality and patient safety will be required to evaluate best practices for delivering competitive, lower cost care than competitors. We predict that this market will explode over the next five years.

Economics

We entered a recession in the latter part of 2007. The question is how long will it last? If it lasts longer than two years (past 2010), it could have a significant impact on healthcare IT spending, even with ARRA/HITECH funding, and the advancements of hospitals in implementing EMRs could be slowed. This could fuel requests to extend the threshold for meaningful use compliance past 2015.

Banks and the bond market are still not providing access to capital that hospitals need and can afford. Our forecast models for healthcare IT application spending over a five-year period suggest that the compounded annual growth rate over this period will achieve approximately 8 percent growth. This growth will be gated in some instances by a lack of qualified implementation resources. Spending on healthcare IT will also be conducted on infrastructure needs—security, data storage, network upgrades, and business continuity/disaster recovery—as hospitals implement more sophisticated and complex EMR capabilities.

If we don't reduce healthcare costs, we will continue to lose our competitive position in the global business world.

Unfunded mandates for version 5010 claims formats and ICD-10 encoding upgrades could have significant funding impacts on hospitals if the capital markets do not open up for hospitals.

The best-case scenario is that hospitals that have more advanced EMR environments can easily achieve ARRA/HITECH funding requirements and use those funds for the unfunded mandates. But what about hospitals that have limited EMR capabilities? Do they invest to achieve ARRA/HITECH funding requirements, or do they shift budgets toward the unfunded mandates? Budget and strategy conflicts will be difficult to resolve in these organizations, especially as bad-debt portions rise with unemployment rates.

Sign Posts—Be Vigilant

Hospitals will need to remain vigilant in monitoring market and industry signposts. Healthcare has become a front-page subject for all of the major newspapers and business journals. If we don't begin to reduce our healthcare cost impact as a component of the Gross Domestic Product (GDP), we will continue to lose our competitive position in the global business world.

Legislative initiatives have now been launched to address this issue, and these initiatives will impact all healthcare organizations regardless of their sizes, regional locations, or service focuses (private/public, academic/non-academic, medical surgical/other, etc.). It will be important for healthcare organizations to identify their greatest opportunities and challenges—and the related industry signposts—to ensure that they are prepared for the great healthcare transformation we all face.

info@himssanalytics.org
230 East Ohio Street | Suite 600 | Chicago, IL 60611-3269
877-364-2500 | http://www.himssanalytics.org