

HIPAA Return on Investment

**National Committee on Vital and
Health Statistics**

Subcommittee on Standards and Security

April 6, 2005

Opening Statement

- **Joseph S. Smith: Vice President Private Programs and CIO for Arkansas BCBS**
- **Speaking on behalf of the Blue Cross and Blue Shield Association**
- **BCBSA is composed of 40 Independent, locally owned and operated BCBS Plans**
- **Collectively provide healthcare coverage for 91,000,000 Members nearly 1 in every 3 Americans**



Overview

- **HIPAA is still Work in Process**
- **Payers, as BCBS Plans, enabled to support full HIPAA suite**
- **Providers are not yet making full use of HIPAA transactions**
- **Based upon more than 17 months of HIPAA experience, BCBS offers the following key points about HIPAA ROI:**
 - **To date, HIPAA Administrative Simplification has not produced ROI**
 - **Supportive of HIPAA, BCBS Plans have undertaken numerous actions to support HIPAA compliance across the industry**
 - **HIPAA may produce some positive ROI, if Providers engage the full suite of HIPAA transactions, especially at their point of origin**
 - **BCBS Plans will continue to work with Providers, Federal, State and Local Industry Groups to improve HIPAA**



Return on Investment to Date

- None seen to date
- Original HHS estimates were based on 1993 WEDI C/B study, projecting \$29 Billion net savings over 10 years
 - Assumed full implementation of all transactions by the 2002 compliance deadline
- Four Key factors for why no ROI:
 - Costs to implement HIPAA far greater than HHS estimates
 - Benefits achieved substantially lower than HHS projected
 - Continuing need for redundant Contingency Operations
 - Gaps in HIPAA readiness of vendor supplied Practice Management Systems (PMS)



Substantially Higher Compliance Costs

- Actual financial history at Covered Entities reflects substantially higher HIPAA compliance costs than estimated
- Pre-implementation Nolan study estimated Health Plan compliance costs 10 X's higher than HHS estimates
 - Estimated summarily at \$11 Billion higher
 - Average Plan at \$10 Million Vs. HHS's estimated \$1 Million
 - Many BCBS Plans reported several times higher than \$10,000,000
- Provider costs estimated at 3 X's higher
- No on-going operating costs included
- Incremental Compliance costs for additional regulations not included (e.g. NPI, Attachments, Uniform Payer ID)



Substantially Lower Benefits

- **No Value for ANSI 837 for claims to Providers, BCBS Plans, nor Medicare**
 - **Institutional EMC rates at 90+% pre-HIPAA**
 - **Professional EMC rates at 60+% pre-HIPAA**
 - **High 1st pass payment rates Pre-HIPAA**
- **Without updating 1993 WEDI C/B analysis, major technology advances achieved 1994 – 2003 have not been reflected**
- **Most Payers already have implemented OCR and Imaging of Paper claims pre-HIPAA**



Extended Contingency Plans

- In 2000, apparent required changes will not be ready by 2002
- BCBS Association, along with many other industry groups, advocated an extension
- Congress ultimately offered a 1 year extension to 10/2003
- In July 2003, CMS offered a “Contingency Window” to maintain cash flow, supported by most Covered Entities
- Still remains open today
- However, this “Contingency Window” drives redundant costs at Payers, who must run both HIPAA and non-HIPAA operations platforms
 - Great volumes of paper printing, mass mailings and people costs remain on legacy environments, in addition to a redundant HIPAA compliant environment



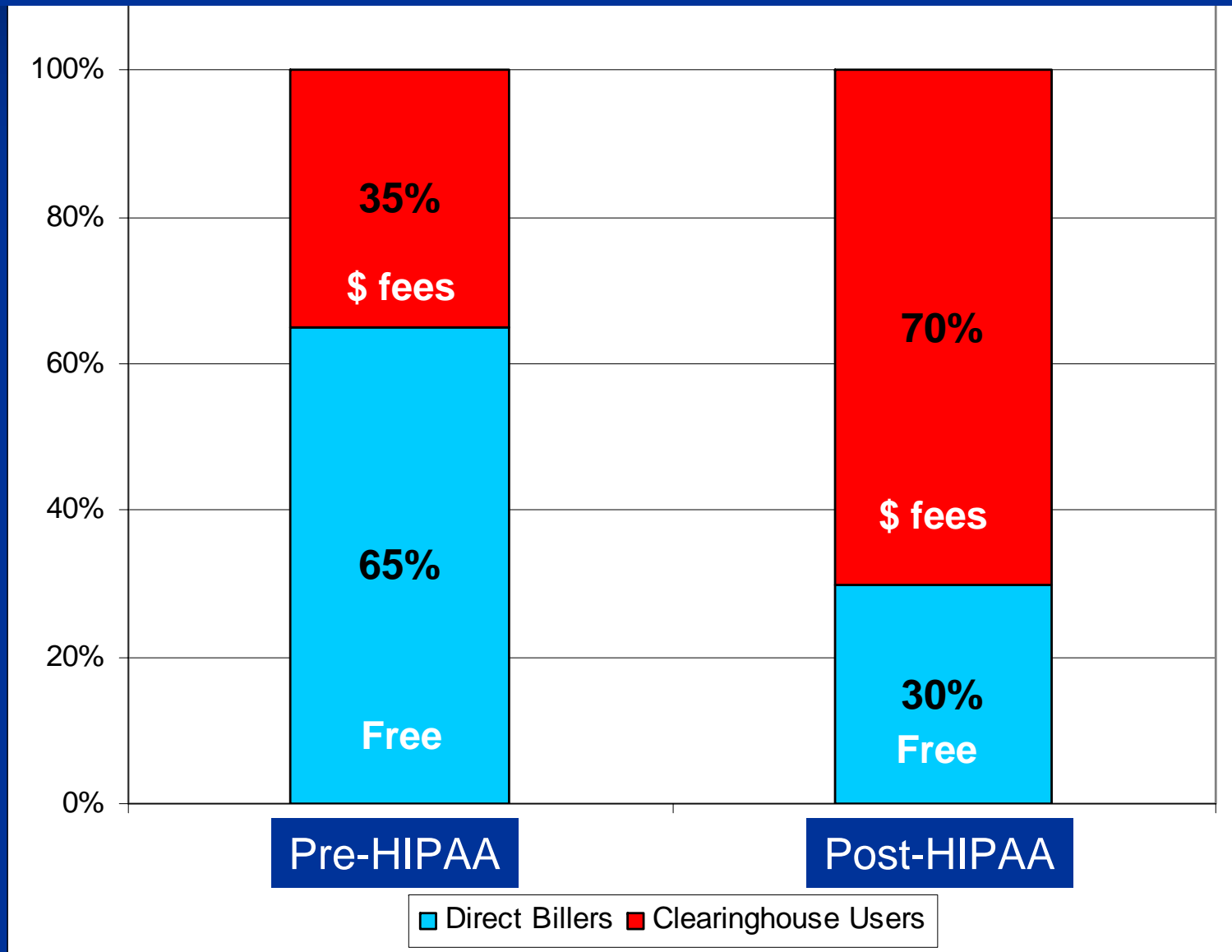
Gaps in Vendor Supplied PMS's at Provider sites

- The potential existed to reduce Clearinghouses volumes by enabling direct PMS to Payer HIPAA compliant connections
- However, many pervasive PMS vendors did not update their PMS's to be HIPAA enabled -- rather directed transactions to their “captive Clearinghouse” for HIPAA translation
 - **Thereby prohibiting continued use of existing “free” direct connections to Payers**
- Recent six state sample of 27,000+ Medicare providers serviced by Arkansas BCBS
 - **Pre-HIPAA, 65% used a “free direct connection” to Medicare**
 - **Post-HIPAA, only 30% enjoy this “free direct connection” to Medicare**
 - **Continued access to “free direct connections” was possible**



Six State sample – more than 27,000 Providers

Shift largely occurred because PMS vendors chose to force Providers to their captive clearinghouses, rather than change their PMS system to generate HIPAA transaction formats



BCBS efforts to make HIPAA work

- All BCBS Plans ready for HIPAA compliance 10/13/2003 for all transaction sets
- Extensive testing work with Trading Partners, and offering testing facilities
- Established Web & Telephone information sources to Providers, Vendors, Self-funded Groups
- Publishing free of charge a widely used HIPAA Toolkit to assist Providers in their HIPAA implementations
- Companion guides to fill gaps not specified in standards
 - E.g. Acknowledgements, Situational options, connectivity guides

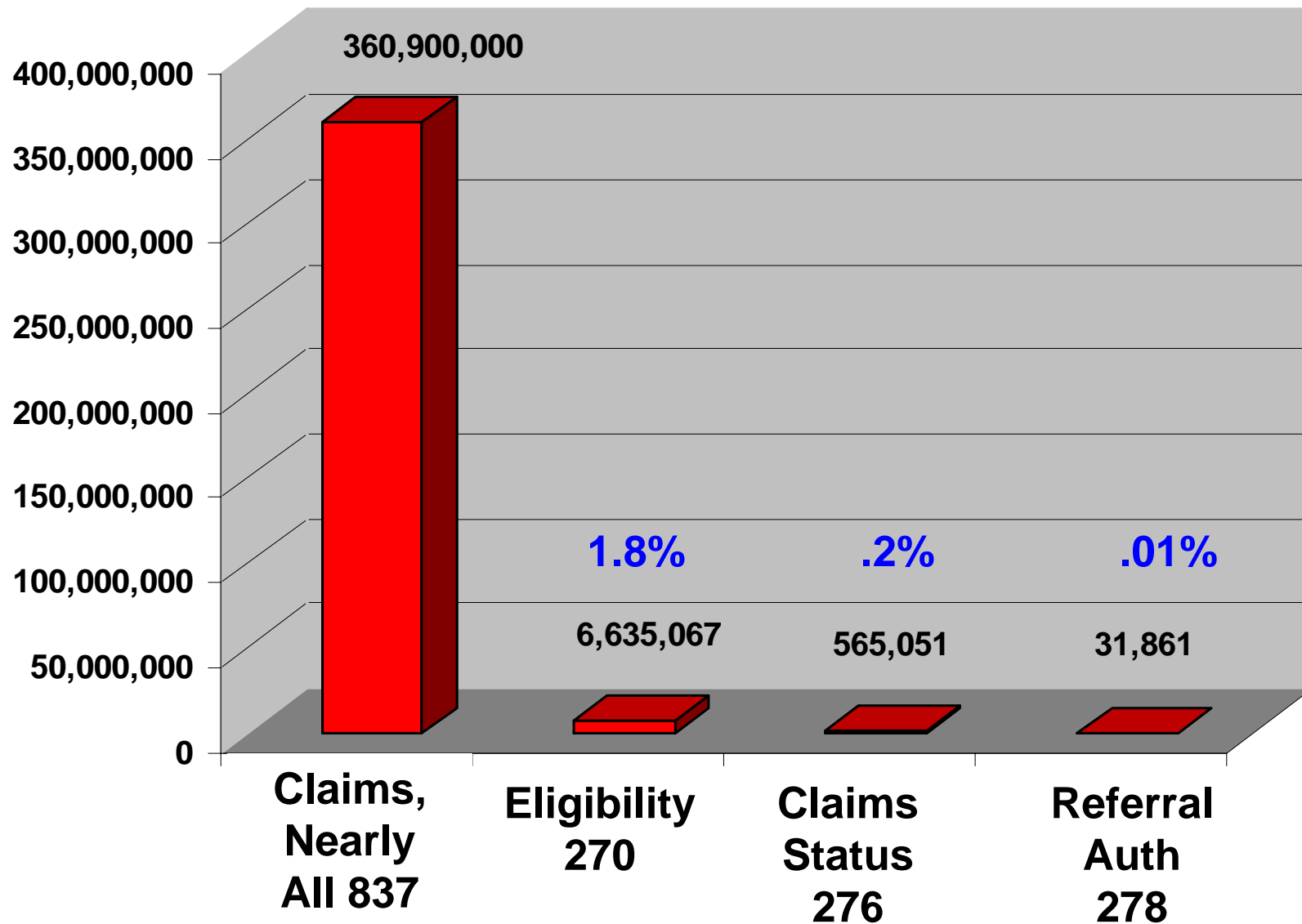


Future Potential for HIPAA ROI

- Because EDI claims were already at high levels, very little incremental ROI opportunity existed for claims
- However, for Eligibility, Claims Status and ERA's, we believe there is good potential for more ROI if use is adopted on a wide-scale, especially from the points of Provider origin.
 - Expect large reductions in paper printing, handling, mailing and long-distance telephone costs
 - Automated direct posting of the ANSI 835 to PMS, with all attendant reconciliation posting holds great promise of savings for providers
- Why no real ROI to date? Providers remain focused near exclusively on the claim transaction.

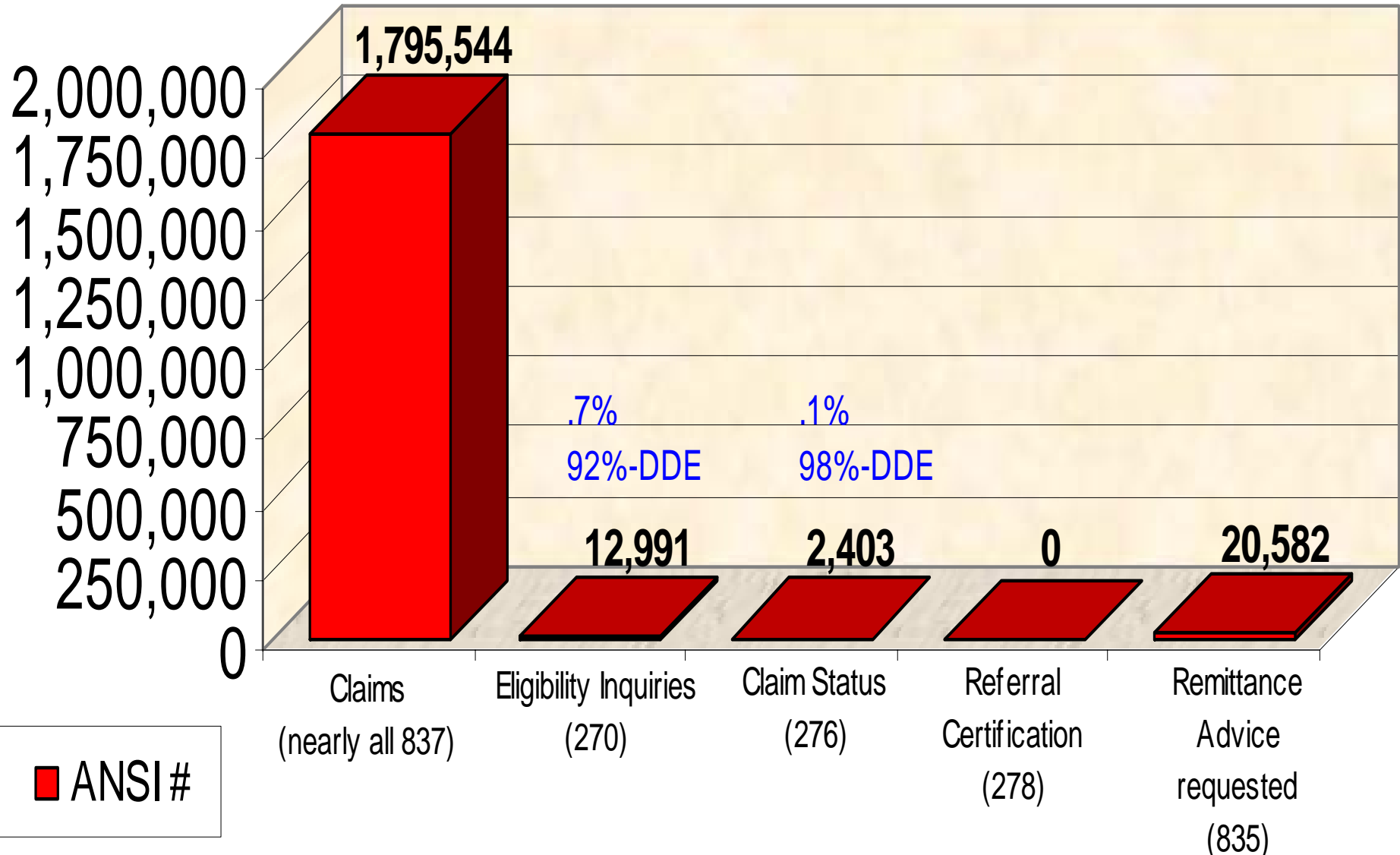


HIPAA Transaction Adoption - National Accounts & Travelers 2004

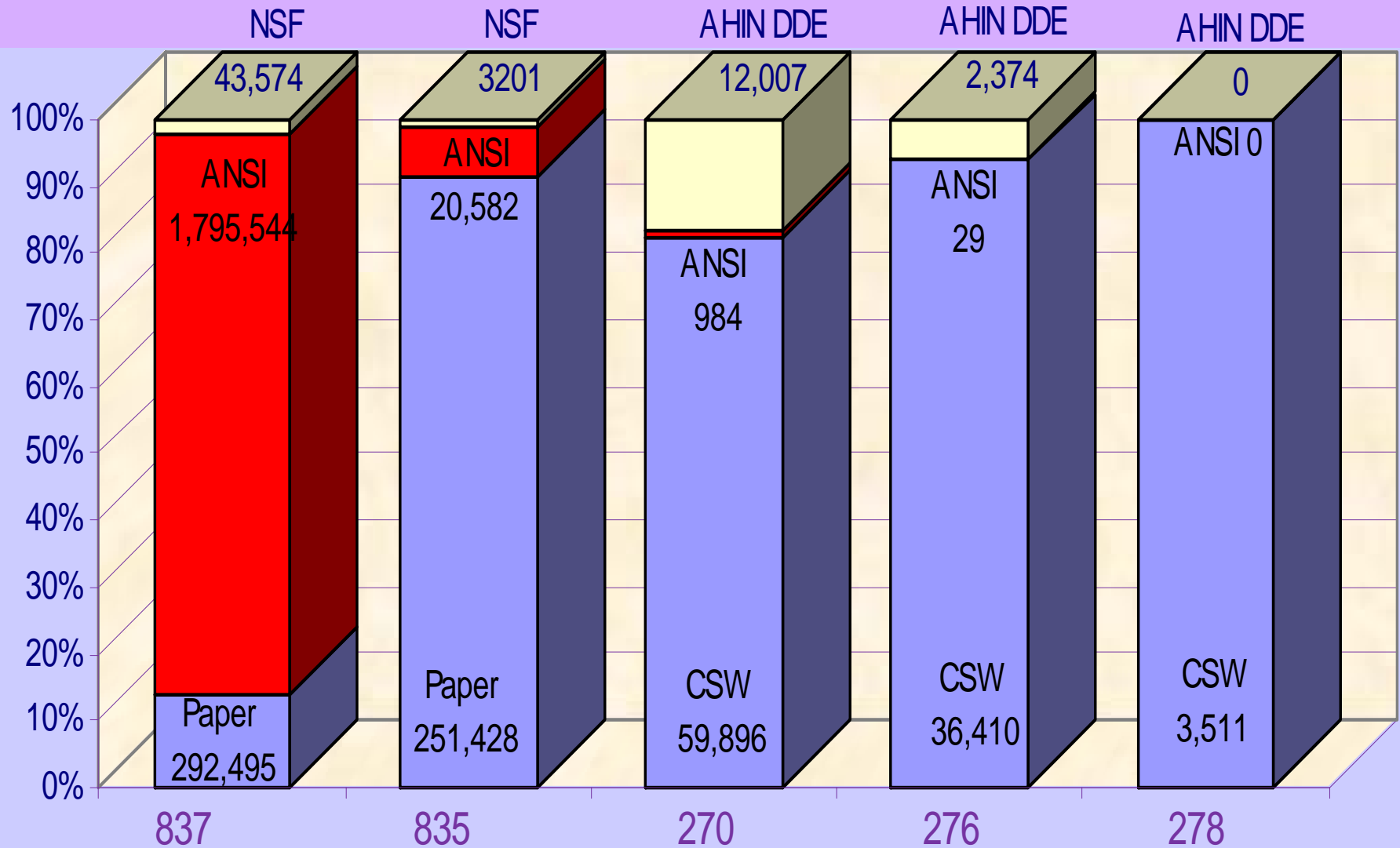


HIPAA Transaction Adoption-Local Business

December 2004 - January 2005



Provider Adoption Rate of Transactions



■ Manual
 ■ HIPAA Transaction
 ■ Local

One ultimate Underlying Cause...

- Low use on non-claims HIPAA transactions due to PMS system not being updated to be HIPAA enabled for direct connections with Payers
- Many PMS systems can not originate many HIPAA transactions (e.g. ANSI 270, 276, 278)
- Many PMS Systems can not automatically process HIPAA transaction replies (e.g. ANSI 271, 277, 278 and 835's)
- Until such time as this is rectified, further HIPAA adoption, and by extension ROI, will be “illusive”
- If auto Accounts Receivable posting does occur, usually it involves prior translation back to NSF formats, thereby losing the ANSI 835 line item balancing and reconciliation



BCBSA and BCBS Plans will Continue to Work With the Industry to Improve HIPAA

- **BCBS Plans have and continue to work to mitigate factors preventing Providers from using HIPAA's full suite of transactions**
 - **Council for Affordable Healthcare clarifying business rules for more robust eligibility replies**
 - **December 2004 implemented much more robust eligibility content and response time requirements across the U.S.**
 - **Working with SDO's on clarifying ERA remarks codes**
 - **Very active and maintain Leadership roles in various SDO organizations, as well as in many Regional SNIP's**



Conclusions

- BCBS Plans are committed to improving HIPAA operations, and raising potential for positive ROI
- We urge Policy Makers to do their part as well by:
 - Supporting industry to resolve issues at the SDO level
 - Finish current requirements before adding more; including encouragement of PMS's to be HIPAA enabled
 - Pilot test all proposed new Standards to assess potential ROI, before broad mandates
 - Use a national roadmap for all Health IT standards going forward

