EPHOR GROUP

Healthcare Business Services Brief:
Managing the BUSINESS of healthcare in the future.

Situation Overview: Patients are not satisfied with the Quality of Care and the Cost of Care: While Providers of Care are not satisfied by their Vendors.

Brief Overview:

- Trends & Drivers
- Landscape
- The State of American Healthcare
- Opportunities For Change
- The Case for Healthcare IT Advances

5.1.2010

solving the value equation

Managing the BUSINESS of healthcare more efficiently.

"*Healthcare is a terminal illness for America's governments and businesses. We are in big trouble.*" - Professor Clayton Christensen, Harvard Business School

Situation Analysis: Patients are not satisfied with the Quality of Care and the Cost of Care. While Providers of Care are not satisfied by the Vendors.

Introduction

The traditional predictions regarding the future trends in the health care industry have been overshadowed by the continual discussion about health care industry reform, even with the 2010 legislation, it continually appears to be a moving target. There is no clear path to systemic change in the healthcare industry, and decades of attempted reform have only contributed to the spiraling cost of healthcare, and the increased dissatisfaction with the system. The complexity of the industry, the fee-for-service reimbursement system, the current misalignment of economic incentives, the structure of the delivery system, and the lack of innovation and political will suggest that the fix is complex and will require significant re-engineering of the entire set of systems.

Whether the "fix" is the Patient and Provider Reform Act of 2010 or another phased in approach the actions will no doubt include the enhanced and expedient application of technology and radical business process changes.

Irrespective of the recent "Healthcare Reform" specifics; reducing the costs of health care services will be the underlying objective of ongoing efforts by both the legislative and executive branches, at either the state or federal level. However, the complexities of restructuring healthcare will mean that a fully implemented, comprehensive solution may be a work-in-progress for many years to come.

This brief outlines the existing US healthcare system and the current and futures trends in the industry. It also discusses the need for implementing a solution that facilitates more efficient management of the business of healthcare; specifically, the need to improve the structure and function of the business practices within the industry. It proposes that information technology and the "bundling of capability service offerings" by the vendor community can provide the needed infrastructure to systematically begin the process to provide economically efficient and ongoing support to the healthcare delivery system.

The U.S. Health Care Industry Today

Healthcare costs continue to outpace the rate of inflation. However, since 2003 the percentage rate of increases has diminished each year. According to employers and health plans, this trend is predicted to reverse itself with premium increases expected in 2010 and beyond.

The current healthcare environment is characterized by increasing revenue pressure, rising costs, declining reimbursement, and increasing regulatory and compliance integrity with an emphasis on patient safety and confidentiality. A view of the problem is outlined below in an excerpt from the report "Cutting Red Tape in Health Care", by the CALPIRG Education Fund:

> *"California's health care system is broken. Costs are rising faster than either inflation or wages, and wasteful spending is a major culprit. Inefficient and duplicative administrative systems force doctors and hospitals to spend more time and money on administrative processes and support than is necessary, which increases costs to patients.*
>
> *However, by following the example of other states and streamlining key processes, expanding the application of technology and bundled services by the vendor community; such activities as insurance billing, payment and physician credentialing at hospitals—providers and payers in California can collectively save hundreds of millions of dollars annually and help lower the cost of health care.*

Complicated billing practices and administrative systems result in grossly inefficient communication between physicians, hospitals and insurers and lead to higher-cost care for patients. Physicians' offices spend large amounts of administrative time on getting paid for the care they provide. In California doctors' offices, billing and insurance-related costs account for more than half of all administrative spending, or 14 percent of total office revenues. Insurers share the burden of inefficient administrative processes. In California, 21 percent of private insurer health care spending goes to billing and insurance-related costs instead of direct patient care. This is the rough equivalent of $9 billion, or 5.4 percent of total yearly health care spending statewide."

Based on the above trends, the primary emphasis for healthcare organizations in the near-term will be on reducing costs and creating greater value in the health system. This focus "will have a domino effect from one sector to another and redefine roles, responsibilities and relationships[1]."

Healthcare Trends for 2010 and Beyond

In an attempt to reduce costs and create greater value, trends to be expected in the coming years include:

i. ***Cost containment.*** Industry-wide, intense efforts to reduce healthcare costs.

ii. ***Increased reliance on information technology.*** Healthcare IT expansion, technology and telecommunications companies are aggressively capturing a growing share of the healthcare business.

[1] *PWC 2009 Healthcare Survey Report finding.*

iii. ***Changes in patient behavior and expectations.*** Consumers are taking a more involved role in managing their health. The internet has provided consumers with access to the same reports as hospital CEOs and other health care leaders. This savvy patient population will search and compare the data before making health care decisions.

iv. ***Accessibility.*** An increase in the number and scope of services offered by work-site and retail health clinics and home health services, as well as other technology-enabled delivery such as e-mail, tele-health and remote patient monitoring.

v. ***Transparency.*** At all levels and between multiple constituents.

vi. ***Physician Integration.*** The percent of hospitals employing physicians has nearly doubled since 1994, and it is expected that this trend will continue in 2010 as physicians seek greater stability and electronic connectivity.

vii. ***Improving the quality and safety of patient care.*** Increasingly, insurance companies will measure hospitals by their performance and will move toward a "pay for performance" method for dispensing reimbursements.

viii. ***Community health.*** A new social responsibility, it is supported by employers, health care leaders and community leaders getting funds from the government for promoting community health[2].

ix. ***Shortage of healthcare professionals.*** *This will be of particular importance as the "mandates" associated with "Healthcare Reform" become a reality.*

x. ***Decreasing reimbursement rates to providers.*** *As a result of enhanced utilization management and further cost containment initiatives, by all payors.*

[2] *Manos 2009*

The Case for Improved Information Technology

In all of the above trends, it is apparent that connectivity and technology play critical roles in and are fundamental requirements to reducing the cost of administration and compliance. Innovations in technology are increasingly prevalent in the management of healthcare, and also in clinical areas[3]. For example, clinical advances have already permitted many formerly inpatient services to be offered on an outpatient or even ambulatory basis.

More changes are on the horizon. The pressure to implement electronic medical records (EMR) will continue to force change during the coming months, in both physician practices and hospital settings. Because saving time means saving money, innovative information systems and medical equipment will be sought by medical offices in an effort to perform common tasks more quickly and efficiently.

Physician practices and hospitals that prosper in this increasingly challenging environment will be required to be more adaptable to technology, to business process changes, and to outsourcing capabilities. Strategy development, effective implementation, specific performance measurement, and performance accountability will be required of physicians, executives, and staff in every delivery setting.

Improving healthcare information technology is one way to make this process easier for healthcare providers and networks. Consider the following patient episode; a typical medical office visit and insurance billing follow-up required in America today:

> *"A middle-aged woman goes to her doctor's office with early symptoms of heart disease. Once her symptoms are diagnosed, office staff will have to spend time determining what kind of care is covered by her insurance. To prescribe a cholesterol medication, the woman's doctor may spend time looking up which drugs are covered by her insurance plan, and determine the amount of the co-pay*

[3] *Plunkett 2009*

for the drug. In many cases, however, her doctor might be too busy to check, and the woman would not find out that her drug was not covered until she got to her pharmacy. This could then cause a lengthy back-and-forth between her doctor and pharmacist, for which neither would be compensated.

"Then, in order to be paid for the care the woman received, her doctor's staff must complete billing forms that require specific coverage information to be provided. Despite a limited degree of federal standardization, this information is coded in different ways, depending on both her insurance company and on the specific benefits and co-pays of her insurance plan. Accurately completing the forms demands large amounts of staff time, and may require the services of billing specialists or claims clearinghouses—at additional cost to the doctor.

"Once the woman's claim has been successfully completed, it must be submitted to her insurer. In some cases it might be submitted electronically; in others, the claim might be written or printed and then faxed. The woman's insurer then has to pay someone to handle the received form and send it to the correct internal location, a process whose efficiency varies greatly by insurer. Meanwhile, her doctor's office must use staff time to track the claim and ensure it gets paid, and deal with the fact that each service on the woman's claim may have a different payment schedule, divided into three parts: what the insurer pays, what the woman pays, and what the doctor has agreed to cover. The woman herself may not learn for weeks whether or not her claim has been accepted.

"Further, if there is any dispute between the physician and the insurer, it is the patient who will have to take the time to sort out the mess—a frustrating and often time consuming process. All for a $75 payment and probably an unprofitable office visit.

"The costs of these many steps, repeated for hundreds of patients per week in thousands of clinics around the state, add up quickly. Doctors' offices, billing and

*insurance-related costs account for more than half of all administrative spending, or **14 percent of total office revenues**.*

*"The costs of billing and claims processing are not limited to physicians alone: insurers and hospitals share the burden of these labyrinthine administrative processes. It is estimated that **21 percent of private insurer health care spending** goes to administrative costs instead of direct patient care. This is the rough equivalent of **$9 billion, or 5.4 percent of total yearly health care spending** in California alone. Hospitals bear fewer (though by no means negligible) costs, at 7 to 11 percent of their total revenues."*

Administrative costs can and should be cut as more than one-fifth of private insurer health care spending goes to administrative costs instead of direct patient care. Improvements in information technology will be at the forefront of changes in the delivery of medical services. At present, however, the more visible attempts at reducing the cost and inefficiency of health care administration (for example, the full adoption of an Electronic Medical Record system by a physician practice as a stand-a-lone initiative) fall far short of creating an efficient, integrated, high-performing platform.

This lack of efficiency or "point solution orientation" is due in part to a lack of communication across the design, installation and management of the systems. Generally, information systems are purchased from one vendor, installed by another, supported or hosted by yet another, and then in many instances utilized by an outsource provider. Therefore how can any one vendor demonstrate a comprehensive understanding of the medical practice, its processes, its objectives or its inefficiencies? Therefore the need for holistic and bundled technology enhanced service offerings is present.

In that practice management systems, billing systems, IT support, IT hosting, finance and accounting, supplies/inventory, maintenance/staffing, and scheduling/quality improvement/CRM are all generally piecemeal purchases provided by different vendors, attempts by medical practices to manage each function are generally ad hoc and not integrated. IT, Operations and

Supply Chain strategies, decisions, implementations and management suffer as a result. Processes are not optimized because there is no organizing framework or systems discipline in the design and procurement of these functions. Systems are siloed and there is no ongoing implementation and process support for these services. Furthermore, many practice managers don't have the time and/or appropriate qualifications, education or experience to perform this support function.

Information Technology: The Time to Change is Now

According to McKinsey & Co. the U.S. healthcare payment system, which processed $1.9 *trillion* in 2007, is ripe for transformation.

> *"…the system is inefficient, consuming 15 percent or more of each dollar spent on health care, compared with about 2 percent for the payment system in retailing. Expenditures on the processing of bills, claims and payments: bad debt: and other transactions total more than $300 billion a year."*

Change is happening in health care IT already, however clearly not rapid or systematic enough. At present, technology and telecommunications companies are partnering the healthcare sector in a significant way. The federal government's America Recovery and Reinvestment Act is a boost for the IT sector. Doctors and other providers have entered in the race to benefit from the Act by adopting healthcare IT in 2010 to qualify for the bonuses in 2011[4].

The investment potential in healthcare IT and technology-enabled healthcare business services is significant. Recent trends and developments demonstrate that information technology change is coming to the healthcare industry. IBM's acquisition of Cognos, and the development of business intelligence software for fulfilling patients' demand of timely and correct reporting, may soon bring the following advances:

[4] *Manos 2009*

- The **promotion of performance management** through healthcare analytics, which should increase the overall efficiency of hospitals tremendously;
- The development of a repository of all data, and a structure provided to it, which, through **the application of business intelligence tools, can help in reducing costs, informing consumers, and delivering better patient outcomes**;
- The **reduction of workflow issues** between all providers, payors and administrators;
- The implementation of **demographic computing**;
- The creation of customized demographic **dashboard portals with real time information** about patients, which can be accessed by doctors and nurses;
- The availability of **meaningful data mining**, making it possible to move from static reporting to real time data mining, enabling prediction and modeling of future costs and quality of systems on historical data; ultimately allowing insurers and practitioners to compete on quality[5].

The federal reforms aimed at the insurance industry, reimbursement, grant programs, and more suggest that the US is taking focus and making progress in healthcare IT. However, there is no clear path to systemic change in the healthcare industry.

Conclusion

In the context of managing the healthcare business more effectively in the U.S. among the stakeholders (Hospitals, Physician Practices, Patients, Insurers and the State and Federal Governments), Ephor Group believes that better deployment and management of information technology through a holistic and integrated approach will offer significant improvements in administrative efficiency of the healthcare delivery system, as well as offer attractive investment returns to institutional investors.

Healthcare IT and technology enabled services are only as good as the implementation, utilization, management and support of the tools deployed. Our collective experience in the

[5] *Plas & Klein 2008*

healthcare industry and our deep understanding of the unsatisfied and underserved needs across the healthcare stakeholders; suggests an investment opportunity in bringing together healthcare technology, process enhancement and business services to holistically address the macro and micro economic challenges. The result being a more efficient and comprehensive support infrastructure for doctors, hospitals, health plans, patients, and payors.

By empowering complex systems to work smoothly, we believe we can provide the complicated healthcare system with much needed structure, process and comprehensive functionality. We believe that by focusing on the non-clinical issues of improving technology, operations and supply chain management, we can provide an opportunity to create value in the uncertain and dynamic industry of healthcare delivery.

While much is being done now to improve the adoption of technology in healthcare, there continue to be significant gaps in the deployment, integration and support of the technology among providers and trading partners. Simply implementing a new technology does not ensure that efficiency objectives will be met, and most attempts at reform or efficiency are aimed at one part of the system and therefore do not provide a comprehensive solution across the business process platform.

Until there is a comprehensive approach to implementation, support and management of Technology, Operations and Supply Chain investments in healthcare IT, improvements will continue to fall short of the opportunity to drive real, sustainable improvements in the cost of healthcare administration. We believe that a significant investment opportunity exists by bringing together companies providing complimentary products and services, which create a comprehensive, well orchestrated, integrated solution addressing the needs of all “Healthcare Reform” initiatives.