

Frequently Asked Questions on Healthcare Reform: Administrative Simplification for Payers and Providers

U.S. Healthcare Reform will affect both payers and providers. The Frequently Asked Questions below give an overview of the recent legislation and the changes it will impose.

1. **What are the broad changes mandated by the new healthcare reform legislation that affect payers and providers?** The new law mandates the creation of new operating standards and rules to promote economies of scale for payment transactions, calling for secure, syntactic and semantic conformity. Broadly speaking, the intent of the legislation is to drive down administrative costs for all market participants. Significantly, it requires a systemic solution for all market participants and mandates straight-through processing of electronic transactions.
2. **What savings does the Government expect to achieve through this new reform?** Through reform, the government expects to realize \$11.6 billion in operational savings over 10 years – an estimated \$7.3 billion save in Federal Medicaid spend and a \$4.3 billion reduction in exchange subsidies.
3. **How should financial institutions participate?** Financial institutions can assist enforcement and promote adoption of these new operating standards.
4. **Broadly speaking, what is the main transactions-related issue that the new healthcare reform legislation is designed to address?** At the systemic level, the main issue is the paper intensive process and the technology disconnects between health plans and hospitals that make payment and remittance information difficult to transmit.
5. **What is the aim of the new healthcare reform legislation in terms of operating rules and standards? How will Health Insurance Portability and Accountability Act (HIPAA) be affected?** The aim of the new governance of administrative transactions is to drive simplification and reduce the administrative burden integral to payments. The watch phrase is “administrative simplification,” and the legislation demands operating rules and standards to simplify current complexities and help drive down administrative costs. It builds on existing HIPAA regulations.
6. **Exactly what does the legislation specify with regard to the new operating rules?** New operating rules and standards must allow for automated reconciliation of electronic payments with remittance advices. The new healthcare reform legislation mandates a specific timeline that must be followed with regard to phasing in fully electronic payments.

7. **Who will be affected by these changes?** Mandated standards and operating rules on administrative transactions mean changes to healthcare reimbursement practices in the industry that will affect all market participants. Providers and payers alike should be aware that multiple changes to administrative transactions will result from these new operating rules and standards. Finally, payers should be aware that the effect of this legislation is that the onus is on them to make changes.
8. **What is the timeline for this reform?** Reform will be phased in over the next four years, until 2014. Specifically, electronic funds transfer (EFT) and health care payment and remittance advice rules must be adopted by July 1, 2012, effective January 1, 2014. Standards for EFT must be adopted by January 1, 2012, effective January 1, 2014. Health Plans must certify compliance by December 31, 2013, or pay a penalty of \$1 per covered life per day until compliant. By 2014, Medicare payments must be fully electronic.
9. **Who will enforce this?** The Department of Health and Human Services is responsible for execution and payment and remittance processes.
10. **How many Americans will the new law affect?** Administrative simplification pertains to all HIPAA administrative transactions, thereby affecting how healthcare transactions are processed for all Americans. In addition to the 250 million or so Americans that have healthcare coverage today, those newly eligible as a result of expansion in coverage will also be affected. Current estimates put that number at approximately 32 million new customers entering the healthcare system – more than 10% of the U.S. population. Nineteen million new customers will enter the system by 2012.
11. **What is driving the steep upward trajectory in providers' costs?** The main driver of high administrative costs is that hospitals receive payments in multiple formats across inconsistent time horizons. One result of this is that billing and insurance-related (BIR) expenses are 42% of administrative costs. The fact that providers have not been able to realize scalable efficiency gains has added significant pressure to their operating revenue. Currently, hospitals spend approximately 20% of revenue on administrative costs. Thirty percent of all hospitals have negative operating margins.
12. **In general, what needs does Healthcare reform legislation mandate for providers?**
Providers need administrative simplification for both their revenue cycle and payables. This is not a small task for a system that currently includes approximately 5,800 hospitals and 446,000 ambulatory services serving 250 million insured and 45 million uninsured Americans. Current paper-based, manual processing creates difficulties in reconciling dollars and data. Complexities abound in the need to automate myriad transactions including coding, diagnostic, eligibility, payment, reimbursement and explanation of payments.
13. **What critical decisions will providers be required to make as a result of these reforms?**
Essentially, they must decide what their future will look like. Changes in Medicare

reimbursement will incent organizations to consider how to embrace bundled payments, and to decide how to deliver accountable care organizations.

14. **What is driving the steep upward trajectory in payers' administrative costs?** Financial and operational complexities in health plans are substantially driving costs. Administrative cost growth is not on a sustainable path; costs represent 15% of revenue and continue to rise. From 1999 to 2008, private insurance, Medicaid and Medicare administrative costs grew by 8.0%, 9.8%, and 14.9% respectively.
15. **In general, what needs does the legislation address for payers?** The payer system currently includes 1,600 insurers seeking scalability and growth in order to compete effectively in the new market. Payment systems include two third-party payment operators, and three major card associations. Plus, independent information services companies crowd the market, with multiple variations and customization. Payers need a way forward towards advanced cost and quality controls, process efficiencies, enhanced scalability and improved accountability.
16. **What has been implemented so far this year?** This year, healthcare payments EFTs have already become a HIPAA transaction and Health Information Technology for Economic and Clinical Health (HITECH) Act Privacy and Security guidelines have become effective.
17. **What is slated for 2011?** By July 2011, we are looking towards the creation of operating rules for eligibility for health plan and health claim status transactions. These rules will include the use of machine readable identification cards.
18. **What's on the agenda for 2012?** 2012 is the effective date for all covered entities to be fully 5010 compliant. By July 2012, expect the creation of operating rules for EFTs and health care payment and remittance advice transactions. Health plan identifiers will be in place by October, 2012.
19. **How does administrative simplification impact my plans for implementing 5010?** Healthcare Reform's administrative simplification components don't change 5010 implementation plans. However, billing, claims and technology resources will need to be engaged to generate or accept 5010 transactions, as well as the additional transactions now required by HIPAA as a result of Healthcare Reform. It is yet to be determined how these standards and rules will be released – whether as a new version of X12 or as changes to 5010.

To learn how Healthcare Reform may impact your organization, contact your J.P. Morgan representative.