

The Ecosystem of Healthcare Reform

Speaker: Martha Beard, Healthcare Industry Segment Head for Treasury Services - December 2010

Welcome, everyone, and thank you for joining us today to talk about the ecosystem of change for healthcare providers. Many of you on the phone, we've reached out to you over the last few months to talk with you about healthcare reform and its impact. Today we would like to talk about those results and talk about the legislative landscape and also talk about how we believe your institution can think about assessing and preparing your own organization for change that's going to come along.

We wanted to take a moment just to find out who's joined us today, and so we have a poll question we would like to ask around who from your organization and what kind of organization you represent. If you can, pick one – specialty, multipurpose or physician groups. Others, you could have all of those within your provider organization, and many others — we'll give it another minute. It looks like we have quite a mix, and we have those that are kind of part of the healthcare industry but potentially not part of some of the organizations that we've called out today.

We would also like to get a sense of what your role is within the organization that you represent, so I have another poll question just to find out what specifically your discipline and interests are. Revenue cycle or receivables processing and billing or financial management, information technology, all of the above potentially or other. Many of you are within the financial management and treasury organization within your firm, and that certainly will be the focus of the lens in which we're going to look at healthcare reform.

What we thought we wanted to do to set up our discussion today was graphically depict, in our view, the way that we think healthcare reform is going to have impact across the industry. If you think about the constituents and stakeholders being kind of the root of an organic organization, so government clearly has a large impact, not only from a regulatory standpoint but as a purchaser of healthcare. Health plans, providers, you here on the phone, clearly patients at the center of how we want to take care of consumers as individuals and certainly employers as a big purchaser of health care. Those constituents, we believe, reach across many operational activities within the healthcare industry. We've represented the core healthcare activities that we believe are going to impact operational and financial activities to try to represent to you a way in which you should consider a framework of impact and change related to healthcare reform and all constituents.

If we look at the areas and the interconnection of those areas as a framework, we start to begin to look at it in a holistic manner and potentially look at the impact and the cross-impact of each of these items. It certainly will help us to structure our thinking around this, as we could end up with a more complex and fragmented system, as a result of healthcare reform, versus a less and more simplistic one.

So with this kind of ecosystem in mind, let's think about some of the changes that are represented in terms of the legislative landscape. So the first thing I would like to know is, just as you either read the papers or are discussing within your own project teams or within your own organization, where do you expect legislative changes to have the most impact on your organization: quality care and services, technology and infrastructure, administrative hypotheses, financial transactions or something that we haven't listed out here? So for many of you, clearly because you are in the financial and treasury area of your firm, the administrative and financial transactions are top of mind for you.

Now let's take a look at the legislative landscape through a financial and operational lens and some of the things that we would like to base our discussion on this afternoon. There are two elements of federal healthcare reform that really are shaping the way that financial experts and managers and the banking industry are starting to prepare ourselves for healthcare reform. One is something that has already happened, and that is the event of the stimulus package, which was implemented in February of 2009, and the creation of high-tech investments. At that same time, new

responsibilities for financial institutions were part of the high-tech portion of the stimulus plan. Those new responsibilities went into effect in February of 2010 and cover three things that are at the bottom of this page. There are changes to security-related requirements, which require banks to have new assessments of the way that we handle physical, protected health information and technical safeguards about handling that physical protected health information and how those particular processes will apply to our business associate responsibilities. Those rules will require and have required banks to do an assessment of our receivables, payables and deposit processes to insure that we are handling this information in an appropriate way and that we are directing the information to only those intended.

There's new regulatory oversight that is required of the banking industry as a business associate. While we understand and respect the relationship we have with you, as our covered entity client, as a provider, we also have new oversight, regulatory oversight from Health and Human Services, who now require us to submit annual reports of our reach and privacy activity around protected health information. That annual report also must discuss our ability to do a self-assessment and to have regular oversight discussions, from a client's perspective, across these operations that are affected by protected health information.

There's also new risk management requirements and vigilance on the part of business associates as it relates to new powers from state attorneys general, who will now be able to enforce financial penalties if individuals bring complaints to the state attorneys general when there is a breach of their protected health information. With these privacy breaches, financial penalties can cost up to \$1.25 million on each individual event. Clearly, these are important. Clearly, these are significant things that banks are paying attention to, and with the vigilance and regulatory expertise that we have in protecting personal data in the main, we feel prepared to navigate through this portion of healthcare reform.

We're going to turn our attention now more specifically to upcoming changes that are part of the Patient Protection and Affordable Care Act, or PPACA, as we'll call it throughout this presentation today, and that is around the expansion of HIPAA.

Section 1104 of HIPAA does expand the number of transactions that are considered HIPAA transactions. Prior to the implementation or the enactment of PPACA, there were nine HIPAA transactions, which did not include the EFT or the payment. Now the EFT or payment is a standard transaction that must be part of HIPAA changes. The overall implementation of the EFT is going to require a new standard to be written. We also want to draw your attention to the fact that EFTs not only will have a new standard, but there's going to be a mandate that Medicare implement fully electronically with payments and ERAs by 2014 across all the payments that they initiate for reimbursement in Medicare programs. These are significant changes, particularly for physicians groups who may still be dealing with paper ERAs or paper payments, potentially due to the small nature of the number of reimbursements that they receive.

Clearly change is on the way, and change, not only on the Medicare program front, but also with private commercial health plans. Health plans will have to certify by the end of 2013 that they have fully implemented eligibility transactions, claim status transactions, EFT and healthcare payments and remittance advices according to new standards, which will begin work early next year. That standard is going to also have a penalty associated with it for private health plans, which will begin a penalty assessment in April of 2014.

The goal for this section of the bill is also something that is important to take note. The bill has operating rules and standards, which will create — we're just going to jump back a page here, just to navigate back for a moment. The operating rules that are mentioned within this section of the bill are new. Operating rules currently don't exist in a standard format across the nine and now ten HIPAA transactions. I bring this to your attention because there is the potential impact of changes to the use or the value of companion guides, which many of you may be dealing with as you're implementing electronic notification or payment with your health plan partners. These companion guides — both use and requirements — may change with the implementation of a standard set of operating rules. Please consider using this timeline as a way to both engage your health plans and ask questions and also to dialogue with your constituents and peers in the industry as changes start to go through the implementation process.

Clearly implementation of healthcare reform is going to have some impact, based on what has just happened in terms of midterm elections. I'm sure all of us read the midterm election results with varied degrees of interest or trepidation. We in JPMorgan's healthcare team have taken third-party data and an analysis of the implementation of healthcare reform to try and draw for you a potential propensity for each state to implement healthcare reform. As many of you know, while healthcare reform was a federally legislated action, the implementation and the real impact will be at the state level. We've considered healthcare reform as a political factor in the review that we have done, and we would like to suggest that there are ways for you to think about the potential outcomes. Many states may decide that they will defund portions of the new healthcare law. The other outcome could be repealing certain portions of the healthcare law. It's very difficult to predict those things, so we've tried to navigate against those data elements and the results of the election to give you a sense of where strongly we expect healthcare reform to be implemented and embraced. You can

see by the representation of the map on the bottom of the page how our results have, at this point in time, shown a representation of likely implementation of the healthcare reform bill.

Not all aspects of healthcare reform are being ruled out, as you look at whether Republicans didn't vote for healthcare reform and Democrats did. Many Republican leaders have an interest in Medicare reform by not expanding it from a fundamental perspective but also have done things such as implementing mandates for administrative simplification at the state level, such as Minnesota. So take these at this point in time and as a relative way for you to gauge what will happen in your own state.

What we want to do also, as we think about the state in your own local markets, as it relates to the implications of healthcare reform and what's on your mind today, JPMorgan spent time in the market over the last few months talking with many of you about the elements of administrative simplification, whether those elements were part of your plans or on your radar screen today or what other elements of PPACA were most important to you and where was your organization spending time or having most concerns. What I wanted to do was figure out from this organization, from your organizations, from those of you on the phone, what is your most concerning element of healthcare reform and what are you thinking about. Is it meeting deadlines of administrative simplification, understanding the financial implications of reform requirements, other changes that could occur due to midterm elections? What do you think?

Our poll is telling us that financial and bottom line impact is what's most important, and that's not surprising. Currently financial activity is something that is part of the challenges of what all of you are dealing with on a daily basis, and we realize that you have to continue to do your day job and what's going on currently in the market. It's very hard to plan for uncertainties.

We did also ask some of these same questions out on the market, as I mentioned a moment ago, and we thought we would share the results and share the trends with you, as they could be instructive for your own organization. We talked about, with financial managers across the country, the interpretation of the bill and the policy environment. We talked about how they assess the operational readiness and financial readiness of their own organizations. We also talked about do you feel you've got the right resources or expertise, either externally or internally, to prepare your organizations for reform.

This is what we found. We found that many of you are concerned and focused on four key areas and four key outcomes: capital expenditures, the resulting potential change in business models, operational requirements because of those changing business models, and the revenue mix that could change as a result of reform or other economic situations. We're going to focus on each one of these and highlight some of the more common points that were brought up by many of you as it relates to your organization or these organizations navigating through healthcare reform.

From a capital expenditure perspective, the impetus to implement and to have capital investments on electronic medical records and other healthcare IT incentives that are in the bill and are also in high tech loom very large. As a financial manager, it is clearly important to understand how to measure or rely on any of these investments, and in the main, many of you are uncertain at the moment in terms of what that return on investment may be for these very large ticket capital expenditures. However, the consequence of not implementing these technologies in a meaningful way is clear, and that is penalties from a Medicare reimbursement perspective do kick-in in 2015. The ability to articulate and report out meaningful use is also very significant, so this seems to be one of the larger, more pervasive issues that many of you are dealing with today.

Another issue that was clearly on the minds of financial managers was the ability to support their organization as their organization may contemplate changes to the business model that are related both to incentives and opportunities that healthcare reform may present. That is mostly around the implementation and definition of accountable care organizations and the impact that implementing or addressing accountable care organization approach could have on reimbursement, on the ability to compete in the market should others in your market decide to embrace accountable care in a way that is preemptive and whether or not accountable care organizations or integrated care, which is another concept, which is very similar and in the main part of accountable care concept, could be a draw for new patients. Everyone wants to insure that they've got an aggressive plan for how they're going to be able to grow revenue with their patient mix. Across the financial manager's responsibility is the ability to support these business models and what that may mean for streamlining systems or making investments that are going to support business models that maybe weren't anticipated.

Another concern, and this is an organic concern that clearly is part of how a financial manager and your partners within the receivables and billing organization track efficiency and track quality of processing, is the ability to capture as much revenue as possible and to optimize the type of revenue that's coming in the front door. Clearly federal healthcare reform is going to create a shift in the types of revenue and sources of revenue, and the changes that are going to be

implied on payers could also create unexpected or unanticipated shifts in that revenue as well. Clearly the increase in government funded coverage, with the change in Medicaid minimums is going to have impact in many markets. There was also concern and interest about the coverage of state insurance exchanges and the newly insured entering into the market and what that may mean for self-pay and the impact on bad debt or the potential increase of bad debt because of more insured within your care system and then also the changes in coverage by employers as they try to anticipate the types of plans that they need to offer year over year.

The last element that I wanted to mention, which was part of the discussions that we had over the last few months and on the mind of many of you, both from a financial manager perspective and operational executives, and that is the ability to capture and determine as much revenue and change in the way that financial reimbursements were going to occur across the care continuum. There's already a phenomenon in the marketplace, because of the economic downturn, of bad debt, a bounce after insurance, which is harder to track and harder to capture. Clearly if there are going to be changes in the way that a patient has coverage, either due to new types of coverage or the way employers offer coverage in the future, it will be important to have the appropriate tools and operational systems to optimize revenue.

Overall, it was clear that with the implications of administrative simplification plus the uncertainty and the challenging environment that we have, reform could also have unintended consequences that many of you were very concerned about as you relate it to preparing your organization. It was an identification that many of the experts needed across multiple streams of work that would occur in your organization. It could be scarce. Financial managers themselves felt that they were going to be pulled in multiple directions in order to provide guidance and to prepare operational areas that heretofore they had not had involvement in and, we believe, an important central business point in which the financial manager can provide and be an enormous resource to other operational areas of the health system as the implications of healthcare reform continue to unfold.

The other area that is also important to contemplate now is that whether we have large scale reform in some states or we have payer down reform in other states, there are continued pressures in terms of operating margin and the economic downturn and the uncertainty of when those things are going to shift. That's creating general pressure on the financial manager as they're trying to navigate their organization through this successfully.

So let's talk about how, observing from our conversations out in the market, what many of you have said are your key responsibilities, which is around financial transactions and financial stability and how you should think about assessing and preparing your organization for reform. We're going to ask a poll question now that we've covered some highlights here. Given the requirements of reform, what best describes your priorities for 2011: optimizing cash flow, upgrade technology, implement shared services and restructuring treasury, restructuring port function or educating and evaluating?

We have some shifting still going on. So it's a little split between education and evaluation and optimizing cash flow. I think that those are absolutely important focuses early. What we are hoping to share with you in the last of the couple of slides that we wanted to cover with you today, those are very key areas to start preparing your organization for upcoming reform.

So if you think about it, we've kind of come full circle now. We've talked about the legislative landscape. We've highlighted for you the elements of administrative simplification. We've hopefully given you some timing that will help you decide when you need to prioritize some of this activity in terms of preparing your organization. We've tried to give you some political considerations and navigate through many of the headlines we were reading over the last few months, as it related to the kind of polarizing effect that healthcare reform bill has had for us across the country, but we believe that if you take those items and you think about the key areas that your organization is hoping to address as it relates to preparing and being successful in the impact and implementation of reform, and that is business models changing, operational requirements shifting and being scoped and designed, the shift of revenue mix and the need to validate and continue to quantify capital expenditures. We believe by building a preparedness plan now as a financial manager, you're going to be able to navigate these elements successfully.

So we took a step back in JPMorgan Treasury Services and said, "What are core best practices when there is a significant changing environment in how the financial organization within a firm is a grounding element and a grounding area within your organization to help navigate some of the strategic business decisions that need to be made?" We represent them here through five key disciplines, and we've described the values that we think each of these disciplines will help in terms of preparing your organization. I'll describe a few of them on this page, and then we'll follow it up with a few of what we think are early examples of opportunities that you should consider in your early assessment and your early preparedness.

Go green is something, I think, that's all over many industries, and that concept is around any particular process or practice that isn't automated or repeatable or scalable through some type of automation. It could be something as simple as insuring that you've got an archive and a repository and an image system of all important paper documents. It could be something as simple as having an operating and efficiency of looking across all your administrative activities within billing and insurance and insuring there isn't a paper or unique element of that process that doesn't have a business resiliency plan and isn't prepared for automation or a need for change should things change within your business mix.

On enhancing security and reducing fraud, clearly we've talked about changes that have occurred over the last year as it relates to your relationship with your business associates. A constant oversight by compliance is clearly something that is standard practice in many of your organizations. It is now incumbent upon financial managers to be up to speed and understand what the implications for financial partners will be as compliance needs to broaden their conversation within the organization and share their knowledge and educate their constituents.

We believe that improving audit control is something that should be a theme across all of these activities, and that is do you have accessible and dynamic data across key parts of your revenue processing and your payables processing, and what is the transparency and the visibility of that data. If it does not occur today, what do you need to do in order to have transparency and full control of data and funds management?

Clearly, earlier in the webinar today we introduced the idea of an ecosystem and the interdependency of many stakeholders in insuring that as change occurs it does have a water flow effect or it has an organic effect, so financial managers taking a more aggressive part in managing their trading partners and understanding the quality of that relationship in terms of improving data flows, payment flows and the trends. The approaches to compliance as new parts of administrative simplification have to be implemented, understanding that and educating your constituents within the organization will be key.

Many of you mentioned in the poll results earlier that optimizing treasury and optimizing your financial flows is important. We couldn't agree more. It is important to think about, whether you have flexible payment processes and transparency, and again, of things from audit and other controls that we've mentioned in the other elements, reporting and the ability to control expenses and to have as much control in and out of the firm as possible.

We'll talk about a few examples now. I'm sure you can think of many of these examples on your own. I'm sure you've also adopted many of these, as many of you are very vigilant across these disciplines, but we thought we would introduce a few of them as takeaways for things for you to think about in the upcoming future and things that are just good to do, no matter the severity or the simplicity of how healthcare reform is implemented in your market.

It is important to look across your systems and your administrative processes to insure you have web-based transaction processing and web-based tools to manage transaction processing, including payments and data. Many of these processes may have point-to-point solutions or individual technologies that address a particular piece of your revenue and payment flows, but it's important to think about does it provide you a holistic view of your money coming in and being reconciled and hitting in your accounting systems in a transparent and an accelerated fashion. So think about all the payment systems and the vendors that are supporting these processes within your organization and insure you have transparency and web access.

The second item that I would just highlight: many of you have still produced much of your support for admittance and revenue cycle processing within your own organization, or you've centralized your billing and your revenue processing and revenue cycle processing into a central billing office, but there are still many payment processes that are being done in house. Given the change in high-tech rules around security and reporting, we would just suggest that you rethink the scalability of those processes and your ability to meet the shifting needs of security across security redundancy and security assessments against high tech and the fact that banks in general have scalable solutions that must meet regulatory guidelines across all of our clients and constituencies and particularly healthcare. This could be an area of cost-savings and an area of scalable compliance for this part of healthcare reform.

An example of improved audit control would be for you to think about those areas of processes that still could be centralized. Many of you, who have multiple facilities as part of your health delivery system, may still have some of your finance and audit procedures being done at a facility level. Think about what it would take to centralize or automate the processes to consolidate and to have reporting capability of financial and administrative activity from the facilities, especially given the fact that, as we've seen from the administrative simplification timeline, that these particular activities are going to change over the next three years.

One suggestion I would have relative to managing your trading partners is the fact that health plans and you as providers are going to be dealing with HIPAA 5010 and receivables activity that is going to change as it relates to 5010. I would think about your receivables processes and your technology vendors and whether your partners are prepared to help you navigate through, not only 5010, but also healthcare reform, which is going to come at the same time.

The last thing I would mention across optimizing payment flows really is the entire column that we've represented here as ideas and areas of focus that will prepare your organization. Clearly disciplines around working capital optimization are going to help you insure that you will bolster your cash forecasting. You will be able to drive for straight-through processing as a concept across both outbound payments and incoming receivables and the ability to look across your cash cycle and where you can tighten up those processes and those metrics. Clearly, the more you drive for cash efficiency, the more prepared you're going to be, in terms of balance sheet, to help your organization address any uncertainties in upcoming changes as it relates to healthcare reform.

So we would like to leave you with a couple of key things that you've heard today. How you -- as financial managers and operational managers -- can partner with your bank and with other constituents to do what you said in this particular poll kind of in the middle of the webinar here -- which is educating and evaluating where your organization sits today as it relates to those changes in healthcare reform. We do think that preparing is obviously best practice. We hopefully have given you a template of things to use in order to assess areas of preparedness, even if it's two or three years out in terms of full impact.

Think about the fact that as thought leaders you ought to reach out to either your banking partners or other constituents who are helping to drive change in the industry. Many of the organizations that represent your community and your industry are thinking about this and writing excellent white papers associated with the change of healthcare reform. The AMA and AHA have already done such work.

Also understand that it's not only about healthcare reform and PPACA, but things are already changing. HighTech has brought new vigilance as it relates to a bank's financial responsibilities and a responsibility to you as a partner to you providing operating services. Clearly, having a strong balance sheet and being able to optimize working capital is going to help your organization prepare for the unexpected, so we suggest that as business models change, you think about how your bank can help you consolidate and optimize your treasury structures.

That's all we have for today, and I thought I would stop and offer to open the line up for any questions or any further thoughts.

Facilitator: Thank you. Ladies and gentlemen, we are now ready to begin our Q & A session. If you have a question, type your question into the question box and then click submit. Martha, we have a question. What impact do you expect insurance exchanges to have on providers?

Martha: We have a bit of a technical glitch, and we couldn't hear the question. Could you repeat it one more time for us?

Facilitator: What impact do you expect insurance exchanges to have on providers?

Martha: Thanks for raising that one. We didn't spend much time in the webinar today on insurance exchanges, but it is something that I would suggest many of you keep track of as it relates to your own state. We actually expect insurance exchanges to be somewhat of a positive for healthcare providers, as many of the uninsured today will have an opportunity to have coverage. The statistics, I think, that came out early on when healthcare reform was implemented, was approximately 32 million newly insured constituents will enter into the system. Sixteen million of those will be newly insured because of the changes in Medicaid eligibility, and the other 16 million will be newly insured through insurance exchanges. So this is something that is significant, given the number of lives that will now have insurance coverage.

Facilitator: Thank you. Next question: in your meetings, did you hear or see examples of organizations that are doing a good job preparing for reform?

Martha: So we did talk about a lot of things that need to be done, but many of you have formed program offices, have projects across the major disciplines within your organization, and many of you from the financial office and the treasury's office are either part of those programs or have asked to be put on many of the project teams in order to educate and understand the potential implications of healthcare reform. I think that's great, and I would say that, if there are projects or program offices that have been initiated and they haven't tapped you to be part of those programs, I think it would be very helpful and very valuable to proactively ask to participate in some of those programs or projects just for the very nature of the interest that many of you highlighted in our poll earlier in the webinar, and that is to get an education and to be able to evaluate the impact.

Facilitator: Thank you. Next question: what have banks learned about healthcare reform from leading states such as Massachusetts?

Martha: What we've learned from Massachusetts is that it will take having an administrative framework in order for insurance exchanges to work effectively. There is the possibility that insurance exchanges will just be a shopping mall. In the case of Massachusetts, they opted to change from a shopping mall into a fully administered healthcare/health insurance program, so we learned that it's important to have the paperwork process thought out in advance. The second lesson that we learned from Massachusetts was that it definitely will have impact on the primary care physician. An unanticipated volume of new patients could certainly hit certain markets. That's something to look out for as it relates to which states would have the demographics of the most newly insured or newly eligible that could help forecast the new volume that may enter the system.

Facilitator: Thank you. We have one more question. Given mid-term election results and the rhetoric around repealing PPACA, why should I invest in reform now?

Martha: I think that it's important to invest now because, number one, it's very unlikely that healthcare reform is going to be repealed in total. Many states have already initiated aspects of reform in the form of administrative simplification mandates and EFT mandates themselves, such as Minnesota and Ohio and Washington. It will also take at least two years for these types of pervasive operational impacts to be implemented, so in order to assess and insure that you've prepared for the uncertain, I would suggest planning.

Facilitator: Thank you. That was the last question we have. We would like to thank Martha for presenting to us, and we would like to thank all of you for participating in the session today. Thank you. This concludes our session for today.

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