



## **Meaningful Use: The Economic Sticks**

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### Executive Summary

*The HITECH Act specifies both economic carrots and sticks in future years to motivate hospitals to meaningfully use electronic health records (EHRs). The economic sticks are negative adjustments to Medicare's market basket update to the Inpatient Prospective Payment System (IPPS), with adjustments pertaining to meaningful use of EHRs and quality measure reporting. As Medicare accounts for a large share of most hospitals' revenues, the adjustments to the market basket update to the IPPS constitute a major financial downside risk for hospitals.*

### Carrots and Sticks

As part of the [American Recovery and Reinvestment Act of 2009 \(ARRA\)](#), the HITECH Act specifies both economic carrots (i.e., incentive payments) and sticks (i.e., adjustments to Medicare's market basket update to the IPPS) to encourage hospitals to implement and meaningfully use EHRs.

The requirements for meaningful use are being defined through rulemaking and will be rolled out in three, successively more challenging stages. At a high level, Stage 1 focuses on data capture and sharing, Stage 2 adds advanced clinical processes, and Stage 3 targets improved performance and health outcomes. Stage 1's first payment year will be calendar year 2011, Stage 2's will be 2013, and Stage 3's will be 2015.

Much has been written about the incentive payments, which, while certainly not covering a majority of the average hospital's costs associated with implementing an EHR, still constitute a significant economic inducement.

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## The Details of the Economic Sticks

Far less attention has been given to the adjustments to the market basket update to the IPPS, effective in 2015 and subsequent years for eligible hospitals who are not meaningful EHR users. Articles about the economic aspects of meaningful use have described the adjustments only in general terms (e.g., “reductions,” “penalties” and “sanctions”), leaving out the details. Even the Centers for Medicare & Medicaid Services (CMS), in its summary fact sheet on the proposed rule to implement provisions of the HITECH Act, devoted only a single sentence to the adjustments, stating, “The annual payment update for inpatient hospital services for eligible hospitals that are not meaningful EHR users will be reduced beginning in FY 2015.”<sup>1</sup>

Fortunately, the actual [proposed rule](#) provides ample detail. It should be noted that CMS’s final rule for IPPS for 2008 required that hospitals report on 32 quality measures in calendar year 2008 in order to qualify for the full market basket update in fiscal year 2009.<sup>2</sup> Thus, differential reimbursement rates pertaining to the IPPS had already been used to motivate hospital activity prior to passage of the ARRA.

Not wanting to subvert the quality measure reporting initiative, the proposed rule splits the incentive payment adjustment into two portions—one pertaining to meaningful use of EHRs and one pertaining to quality measure reporting.

Section 1886(b)(3)(B) of the HITECH Act specifies for FY 2015 and each subsequent fiscal year, eligible hospitals who are not meaningful EHR users—based on the Stage 3 definition—will receive a reduced update (“market basket increase”) to the IPPS standardized amount, which was 3.6 percent for FY 2009 and 2.1 percent for FY2010.

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This reduction will apply to three-quarters of the percentage increase otherwise applicable. For FY 2015 and each subsequent fiscal year, the reduction to three-quarters of the applicable update for an eligible hospital that is not a meaningful EHR user will be 33 1/3 percent for FY 2015, 66 2/3 percent for FY 2016, and 100 percent for FY 2017 and each subsequent fiscal year. In other words, hospitals that are not meaningful users are subject to one-quarter, one-half, and three-quarters reductions of their market basket updates in FY 2015, FY 2016, and FY 2017 and subsequent years, respectively.<sup>3</sup>

The proposed rule provides that the reductions will be assessed and applied on a per-year basis. This provision creates a continuing incentive for hospitals to become meaningful EHR users, since a hospital that does become a meaningful EHR user in any year after the effective date of the update reduction will get back “on track,” receiving the same, fully updated standardized amount for that year, and subsequent years, as those hospitals that were already meaningful EHR users.

### Quality Measure Reporting

The proposed rule specifies that beginning with FY 2015, the reduction to the IPPS applicable percentage increase for failure to submit data on quality measures shall be one-quarter of the applicable market basket update.<sup>4</sup>

### An Illustrative Example<sup>5</sup>

The following example illustrates how this payment reduction would work. Suppose that the market basket update to the IPPS standardized amount is 2.0 percent. Of this 2.0 percent, one-quarter (0.5 percent) of the market basket update would be subject to a reduction for any hospital that fails to submit quality measure data, and three-quarters (1.5 percent) would be subject to a reduction for any hospital that is not a meaningful EHR user.

For FY 2015, hospitals could experience one of four different update outcomes, depending upon their reporting of quality data and their use of EHRs:

- A hospital that reports quality data and qualifies as a meaningful EHR user would receive the full update of 2.0 percent.
- A hospital that fails to report quality data but is a meaningful EHR user would receive an update of 1.5 percent, which represents the full 2.0 percent update minus the reduction of one-quarter (0.5 percentage point) for failing to report quality data.
- A hospital that reports quality data but does not qualify as a meaningful EHR user would receive an update of 1.5 percent, which represents the full 2.0 percent update minus 0.5 percentage point (33 1/3 percent of three-quarters of the full update: 1/3 times 1.5 equals 0.5).
- A hospital that fails to report quality data and does not qualify as a meaningful EHR user would receive an update of 1.0 percent, which represents the full 2.0 percent update minus the reduction of one-quarter (0.5 percentage point) for failing to report quality data, and a further reduction of 0.5 percentage point (33 1/3 percent of three-quarters of the full update: 1/3 times 1.5 yields 0.5).

Table 1 provides a summary of this illustrative example, for fiscal years 2015, 2016, 2017 and subsequent years, and for the four potential update outcomes, respectively. As indicated in the table, the financial impact of the meaningful use condition increases over time.

*Example continues with table 1 on pg. 6.*

Update outcome	Condition: Report quality measures data to CMS	Condition: Qualify as a meaningful EHR user	IPPS update received in FY2015	IPPS update received in FY2016	IPPS update received in FY2017 (and subsequent years)
A	Yes	Yes	2.0%	2.0%	2.0%
B	Yes	No	1.5%	1.5%	1.5%
C	No	Yes	1.5%	1.0%	0.5%
D	No	No	1.0%	0.5%	0.0%

Table 1

## The Significance of the Economic Sticks

Today, Medicare is the largest single healthcare payer entity in the U.S. As a result of the large baby-boom generation approaching retirement age and increasing life expectancy, Medicare is projected to grow from 3.6 percent of GDP in 2009 to 4.2 percent in 2018 and 6.4 percent in 2030, and Medicare will undoubtedly become a bigger component of the hospital profitability equation.<sup>6</sup>

Since Medicare accounts for a large share of most hospitals' revenues, the adjustments to the market basket update to the IPPS constitute a major financial downside risk for hospitals, potentially, given the volatility and often marginal level of hospital profits in recent years, determining whether a hospital finishes a year in the black or in the red. Thus, to mix metaphors, the economic sticks have real teeth. Given the "high bar" of the Stage 3 meaningful use requirements (improved outcomes), hospitals today should take the long view and prepare to engage in detailed planning, change management, fundamental process modification, quality measurement, and aggregation of data from disparate information systems to place themselves in a position to meet the more stringent requirements and achieve the ultimate vision for meaningful use.

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## Additional Information

For more information about meaningful use, visit [MedeAnalytics' Meaningful Use Resource Center](#) and download a complimentary introductory white paper, "[Meaningful Use: Meeting the Requirements Not Just for the Money, But to Actually Improve the Healthcare System and the Health of Americans.](#)"

## References

1. CMS, "CMS Proposes Requirements for the Electronic Health Records (EHR) Medicare Incentive Program," Dec. 30, 2009.
2. Heart Rhythm Society, "CMS Releases Final 2008 IPPS (Medicare Inpatient Prospective Payment System) Rule for Hospitals," [http://www.hrsonline.org/Policy/CodingReimbursement/reimbursement/physician/final\\_08\\_ipps.cfm](http://www.hrsonline.org/Policy/CodingReimbursement/reimbursement/physician/final_08_ipps.cfm), accessed March 18, 2010.
3. Federal Register, Vol. 75, No. 8, Jan. 13, 2010, pg. 1915.
4. Ibid.
5. Federal Register, op. cit., pg. 1916.
6. [Kaiser Family Foundation, Medicare Spending and Financing Fact Sheet, May 2009.](#)

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