HRI as we see it

Weekly insights from the Health Research Institute pwc.com/hri

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This week's regulatory and legislative news:

- **Hospital cuts add up under proposed payment rule**
- **Oregon moves from state to federal exchange**
- **Hospital groups split over ACA impact on first-quarter earnings**
- **New telehealth guideline: Adopt same standards as face-to-face visits**
- **FDA sets sight on e-cigarettes**

Hospital cuts add up under proposed payment rule

Acute care hospitals will start fiscal 2015 with $241 million in automatic Medicare payment reductions—with millions more at risk—under a proposed payment rule released last week by CMS. The rule administers cuts of 0.6% required by the ACA, and another 0.8% reduction to adjust for industry "upcoding." All told, the built-in reductions turn what would have been a 2.7% payment increase to one that is just 1.3%. Additionally, hospitals that do not participate in Medicare's quality reporting program, those that fail to meet minimum health IT standards, and those that fall short of readmission and infection control goals could see much steeper cuts. The nearly 1,700-page rule also acknowledges the ICD-10 delay, which has been pushed to October 1, 2015. Industry stakeholders have 60 days to submit comments on the proposed rule.

HRI impact analysis: The proposed Medicare reductions underscore two prevailing concepts of the new health economy: that the federal government wants to improve the industry as a purchaser of care, not a regulator, and that hospitals will have to shoulder more financial risk moving forward. Factor in Medicare's value-based purchasing program, efforts to reduce readmissions and infections, and "meaningful use" health IT requirements, and hospitals will see about 7% of their payments at risk by 2017. The Medicare cuts come at the same time that private insurers have stepped up their quality reporting requirements, primarily regarding the patient experience.

Oregon moves from state to federal exchange

Oregon's announcement late last week that it would be transitioning to the federal exchange gave rise to theories that other states may be headed down the same path. Oregon's state exchange—which never opened to the general public—was expected to cost $78 million to repair, while a transition to the federal exchange was estimated at $4 million to $6 million. Massachusetts is also considering a switch to the federal exchange, while Maryland decided to borrow Connecticut's infrastructure and Nevada is weighing its options.

HRI impact analysis: Oregon's decision to switch from state to federal exchange will impact its 16 insurer participants differently. Eleven of the participating health insurers built their IT systems to work with the federal exchange, but will need to make some technical updates in order to sell Oregon plans next year. The remaining five built specialized platforms exclusively for Cover Oregon and will have to abandon their investments. Despite the technical challenges, Cover Oregon enrolled around 64,000 residents in private health plans, out of an estimated 246,000 uninsured eligible for marketplace or employer coverage. Those numbers are likely to increase next year, as they are in other states, as technological challenges are sorted out.

Hospital groups split over ACA impact on first-quarter earnings

Two of the nation's largest for-profit hospital chains reported higher revenues through the first four months of 2014 compared with the previous year. Bill Carpenter, chairman and chief executive of Brentwood, Tennessee based LifePoint Hospitals, credited an 8.2% increase in revenue growth in part to the early benefits of health reform and efforts to manage costs. Carpenter added that increased Medicaid and exchange enrollment "contributed immeasurably to our results in the quarter," resulting in a decrease in patients who pay out-of-pocket and an increase in Medicaid revenue. But Milton Johnson, president and chief executive of HCA Holdings, was more cautious when describing the ACA's impact on revenue growth. The company saw revenues increase 4.6%, but Johnson said "healthcare reform had minimal impact" on first-quarter results. Instead, revenues grew due to relatively stable volume and higher acuity care. Still, HCA saw Medicaid admissions grow 22.3% in four expansion states—California, Colorado, Kentucky and Nevada—compared with a 1.3% decline in Medicaid growth in states that did not expand. Overall, HCA experienced a 29% decline in uninsured admissions in those four states.

HRI impact analysis: HCA executives said the data so far is encouraging but limited across a small sample size. Out of a total of 440,000 first-quarter admissions, about 1,700—or 0.4%—were covered by an exchange plan and about 1,000 patients had been previously uninsured. And even though a small portion of the payments have been received, the hospital system expects rates to be comparable to those for commercial accounts. It's crucial for hospitals to play a larger role in explaining the new coverage options available to some patients, especially since federal payments typically used to offset uncompensated care are declining.

New telehealth guidelines: Adopt same standards as face-to-face visits

The Federation of State Medical Boards approved a new policy last week that directs telehealth visits to adopt the same standards of care that protect patients during in-person visits. The policy requires providers that use telemedicine to establish a credible "patient-physician relationship," and conduct "all appropriate evaluations and history of the patient" that would normally be done during a face-to-face visit. It does not require, however, an initial in-person meeting, which has been a sticking point among some state licensing boards and physician groups. About 30 states require an initial face-to-face encounter before treatment can occur remotely. The guidelines are intended as a model to help state licensing boards ensure patient protections in an increasingly technology-enabled healthcare environment.

HRI impact analysis: Some patient advocacy groups expressed concern that the policy may not apply to encounters over the phone, or through emails, texts, or instant messaging. As written, the guidance states that a telehealth encounter "generally" is not audio only, but "typically involves the application of secure videoconferencing" that can mirror an in-person visit. Many rural communities—and even some urban areas—do not have broadband technology that is widely available, restricting patients to the use of telephones or text messages. According to a recent HRI consumer survey, 69% of respondents said they would be willing to communicate with medical staff through email, while 49% said they would do so through an online chat and another 45% were comfortable with text messaging.

FDA sets sight on e-cigarettes

The FDA recently proposed a new rule establishing its oversight of the growing e-cigarette market. Under the 2009 Family Smoking Prevention and Tobacco Control Act, the FDA was given the authority to regulate cigarettes, cigarette tobacco, roll-your-own tobacco, and smokeless tobacco. But the law also allows the agency to regulate other tobacco products, which it hasn't done until now. In addition to e-cigarettes, the FDA proposed expanding its oversight of tobacco products to include cigars, pipe tobacco, nicotine gels, and water pipe (or hookah) tobacco. The agency is requesting comments on the proposed rule by July 9.

HRI impact analysis: Pressure has been mounting on the agency to oversee e-cigarettes. State and local governments are also regulating the products; imposing news taxes, prohibiting sales to minors, and banning indoor use. Demand for the devices has been growing at the same time traditional cigarettes have faced setbacks, particularly among new entrants into healthcare. Recently, CVS Caremark announced it would stop selling tobacco products in its 7,600 stores as part of a strategy to expand its role as a healthcare company. Some consumers are turning to the devices to quit smoking conventional

cigarettes, which could pose a risk to traditional cessation drugs and patches. Employers and insurers are also raising insurance premiums for those who use e-cigarettes, as they do with consumers of traditional tobacco products.

Upcoming events & deadlines

- **May 8** – Confirmation hearing before the Senate HELP committee for Sylvia Mathews Burwell, nominee for Secretary of Health and Human Services. The confirmation hearing before the Senate Finance committee, which unlike the HELP committee has voting power, has not yet been scheduled.
- **May 8 & 9** – FDA's public workshop on implementation of the Drug Quality and Security Act (i.e., track and trace for Rx drugs).
- **May 13-15** – FDA's public workshop on the risk-based regulatory framework and strategy for health information technology.
- **June 27** – 2015 federal exchange premium rate filing deadline for health insurers.
- **October 1, 2015** – Confirmed ICD-10 implementation date, following a one-year delay by CMS.

Quote of the week

"It is with mixed emotions that I let you know that our Principal Deputy Administrator, Jonathan (Jon) Blum, has decided to leave CMS to pursue new opportunities," wrote CMS administrator Marilyn Tavenner in an e-mail announcing Blum's May 16 resignation. Blum is the second-highest ranked official to resign, following in the footsteps of HHS Secretary Kathleen Sebelius.

In the news

Last week, Facebook entered the healthcare space with its acquisition of Moves, a fitness and activity tracking application. Moves will continue to be a standalone app and will not integrate data with Facebook, but it is being described as a "sleeping giant" in terms of the impact it may have on mobile health. For more information on how technology and social media companies are changing the health system, see HRI's recent report, Healthcare's new entrants.

Factually correct

44% - The percentage of consumers who would use an electrocardiogram hooked up to a mobile device with results sent directly to their physicians, according to HRI's new entrants report.

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