

# Physician Incentives to Adopt EMR/EHR Systems

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HEALTHCARE MANAGEMENT CONSULTANTS

# Overview

- Stimulus 101 – Physician EMR Stimulus
- 2009 CMS changes as they relate to the physician quality reporting initiative (PQRI)
- Electronic Prescribing (eRX)
- EMR software tax deductions
- Healthcare system donations of 85% of the software costs

# Stimulus 101

- February 17, 2009 American Recovery and Reinvestment Act
  - HITECH Act
    - \$2B to HHS and the Office of National Coordinator for Health IT (ONC)
    - \$36B paid to healthcare providers who demonstrate use of EHR
  - Net cost to the government anticipated to be \$19.5 billion after savings through efficiencies, tax revenue and Medicare fee reductions for non-adopters



# Medicare Incentives for Physicians

- Money available commencing in 2011
- Compensate “meaningful EHR users” in an amount equal to an additional 75% of the allowed charge for professional services furnished by physicians
- Incentives are for five years, with a decreasing schedule each year
- Phase down for physicians adopting after 2013
- Physicians whose first payment year is after 2014 receive no incentives
- No incentives after 2016
- Beginning 2015, reduction in Medicare reimbursements by one to three percent each year for physicians who are *not* meaningful EHR users
- Also available to physicians of a qualified organization



# Specifics of the Physician Opportunity

- Physician incentives allocated in two payment forms beginning in 2011
- Two opportunities
  - Medicaid = >30% of paying patients >20% pediatrics eligible for \$65,000 over five years
  - Medicare for physicians without large Medicaid population can receive up to \$44,00 over five years and a 10% increase for “health provider shortage” areas
- Specialties delivering care entirely in a hospital are ineligible

# Incentive Flow - Medicare

- Based on 85% of allowable charges not to exceed eligible amount

Table 1 - Medicare							
Year -EMR use is first demonstrated	Providers will receive incentives each year						Total
	2011	2012	2013	2014	2015	2016	
2011	\$18K	\$12K	\$8K	\$4K	\$2K		\$44K
2012		\$18K	\$12K	\$8K	\$4K	\$2K	\$44K
2013			\$15K	\$12K	\$8K	\$4K	\$39K
2014				\$12K	\$8K	\$4K	\$24K

Source: American Recovery and Reinvestment Act



# Incentive Flow -Medicaid

- Under ARRA providers will earn from \$21,250 to \$25,000 for the first year of payments

Table 2 - Medicaid									
Providers will receive incentives each year									
Year EMR use is first demonstrated	2011	2012	2013	2014	2015	2016	2017	2018	Total
2011	\$25K	\$10K	\$10K	\$10K	\$10K				\$65K
2012		\$25K	\$10K	\$10K	\$10K	\$10K			\$65K



# Eligibility Criteria

- **Meaningful Use**
  - Can start in 2011 by meeting the following three criteria:
    - Use ePrescribing
    - Can accommodate electronic exchange of health information to improve quality of healthcare
    - Submit care quality measures to HHS
- **Additional criteria to get incentives from Medicaid**



# First Steps

- Prepare plan to implement a certified EMR system immediately
- Get the best possible information about the stimulus package for HIT through various sources
- Assess current status and precise requirements for implementation
- Identify the pros and cons of the stimulus bill for providers
- Begin recouping incentive in 2011

# Guiding Light

- Plan 2-4 months to research, review, select and purchase
- Plan additional 1-2 months to set up, train, implement, become fully functional
- Plan 5-8 months for staff to become proficient

# PQRI – Physician Quality Reporting Incentive

- CMS transforming Medicare program from passive payer into active purchaser of high-quality care linking payment to value of care provided
- Eligible professionals who satisfactorily report at least three applicable quality measures shall be paid an incentive of 2.0% of estimated allowable charges submitted not later than two months after the end of the reporting period for 2009 PQRI quality measures
- Utilize PQRI Toolkit for implementation process
- [http://www.cms.hhs.gov/PQRI/31\\_PQRIToolKit.asp#TopOfPage](http://www.cms.hhs.gov/PQRI/31_PQRIToolKit.asp#TopOfPage)



# PQRI – Physician Quality Reporting Incentive -ROI

<b>PQRI Channel</b>				
<b>Clinical Quality Solution: input data for ROI calculation</b>				
<b>Providers</b>	<b>Annual Medicare Allowables</b>	<b>OR</b>	<b>Annual Medicare Payments</b>	<b>Calculated Allowable</b>
PCPs			\$102,269	\$ 127,836
Cardiologists			\$1,142,860	\$ 1,428,575
Pulmonologist			\$1,495,751	\$ 1,869,689
Endocrinologists			\$273,162	\$ 341,452
Nephrologists			\$1,882,096	\$ 2,352,620
OB-GYNs			\$94,144	\$ 117,680
Oncologist			\$654,173	\$ 817,716
Hematologists			\$2,093,186	\$ 2,616,483
Gastroenterologists			\$0	\$ -
Podiatrists			\$640,340	\$ 800,425
Ophthalmologists			\$0	\$ -
Psychiatrists			\$0	\$ -
Neurologists			\$0	\$ -
Rheumatologists			\$526,883	\$ 658,604
Physician Assistants			\$0	\$ -
Nurse Practitioners			\$45,379	\$ 56,724
Internal Medicine			\$3,339,586	\$ 4,174,482
Infectious Disease			\$1,032,430	\$ 1,290,538
<b>ABC</b>			<b>\$13,322,259</b>	<b>\$ 16,652,824</b>
Orthopods			\$3,348,490	\$ 4,185,613
Physical Therapists			\$261,630	\$ 327,038
<b>DEF</b>			<b>\$3,610,120</b>	<b>\$ 4,512,650</b>
Surgeons*			\$3,196,053	\$ 3,995,066
Urology			\$2,102,962	\$ 2,628,702
<b>XYZ</b>			<b>\$5,299,014</b>	<b>\$6,623,768</b>
<b>Total</b>	<b>\$0</b>		<b>\$22,231,394</b>	<b>\$27,789,242</b>
<b>Number of Medicare Fee-for-Service patients:</b>	<b>42,543</b>		<i>(Approximate number)</i>	

# PQRI – Physician Quality Reporting Incentive -ROI

	List Price	Q3 2008 Introductory Price	ABC	DEF	XYZZ	Total
License Fee Per Provider	\$1,950	\$1,000	\$ 100,000	\$ 25,000	\$ 50,000	\$ 175,000
Implementation Fee (Based on an estimate of 128 hours at \$195/hour)		\$24,960	\$14,263	\$3,566	\$7,131	\$ 24,960
Annual CQS SMA Per Provider		\$360	\$360	\$360	\$360	\$ 360
Annual PQRI Content Channel Subscription Fee	\$360	\$240	\$240	\$240	\$240	\$ 240
<b>ROI Sample if implemented CQS in September 2008</b>						
Number of Providers		175	100	25	50	\$ 175
2008 Estimated Annual 1.5% Bonus paid to Client/Prospect by CMS for PQRI participation		\$405,497	\$249,792	\$67,690	\$99,357	\$405,497
One time Implementation and License fees for practice (at 2008 Introductory Price)		(\$199,960)	(\$114,263)	(\$28,566)	(\$57,131)	(\$199,960)
CQS SMA and PQRI Content Subscription Fees for 3 months		(\$26,250)	(\$15,000)	(\$3,750)	(\$7,500)	(\$26,250)
<b>Estimated Annual Net Gain for 2008</b>		<b><u>\$179,287</u></b>	<b><u>\$120,530</u></b>	<b><u>\$35,374</u></b>	<b><u>\$34,725</u></b>	<b><u>\$179,287</u></b>
Ongoing Estimated Annual 4.0% Bonus paid to Client/Prospect by CMS for PQRI participation*		\$1,081,326	\$635,869	\$180,506	\$264,951	\$1,081,326
Annual CQS SMA and PQRI Content Subscription Fees		(\$105,000)	(\$60,000)	(\$15,000)	(\$30,000)	(\$105,000)
<b>Estimated Annual Net Gain for 2009 and forward</b>		<b><u>\$976,326</u></b>	<b><u>\$575,869</u></b>	<b><u>\$165,506</u></b>	<b><u>\$234,951</u></b>	<b><u>\$976,326</u></b>
ROI in years		0.8				
Average PQRI bonus per month for 2008		\$33,791				
Average PQRI bonus per month for 2009		\$90,110				
*model based on Medicare Payments of \$21,626,519						

# PQRI – Physician Quality Reporting Incentive -ROI

## CQS Channel Breakeven Analysis

<b>Cash flow and ROI statement</b>				
CMS Revenue	YEAR			
	2008	2009	2010	2011
PQRI bonus 2008: 1.5%		\$405,497		
PQRI + ePrescribing bonus 2009 & 2010: 4%			\$1,081,326	\$1,081,326
PQRI + ePrescribing bonus 2011 & 2012: 3%				
<b>Total annual revenue from CMS</b>		<b>\$405,497</b>	<b>\$1,081,326</b>	<b>\$1,081,326</b>

<b>Costs (from below Cost Details)</b>	2008	2009	2010	2011
<b>Total</b>	<b>(\$226,210)</b>	<b>(\$105,000)</b>	<b>(\$105,000)</b>	<b>(\$105,000)</b>

<b>Contribution</b>	2008	2009	2010	2011
Gross contribution (Revenue-Cost)	(\$226,210)	\$300,497	\$976,326	\$976,326
Cumulative gross contribution	(226,210)	74,287	1,050,613	2,026,939

<b>Cost Details</b>	2008	2009	2010	2011
One time Implementation and License fees	(\$199,960)			
CQS SMA and PQRI Content Subscription Fees for 3 months	(26,250)			
Annual CQS SMA and PQRI Content Subscription Fees		(105,000)	(105,000)	(105,000)
<b>Total costs</b>	<b>(\$226,210)</b>	<b>(\$105,000)</b>	<b>(\$105,000)</b>	<b>(\$105,000)</b>

<b>ROI measures</b>	
Cost of capital	10%
Net present value (NPV) over time period shown	\$1,587,378
Payback (in years)	0.75

NPV is the monetary value CQS adds to the medical group. Projects with NPV > \$0.00 are a good investment. (NPV is the present value of future cash flows discounted back to the present using the cost of capital.) Payback shows how quickly the investment generates a return. Shorter payback times indicate less risk.

<b>Data cell key</b>
Data Input cells are automatically filled in from "ROI Inputs" sheet
Formula cells: Totals are calculated and filled in automatically.

# ePrescribing

- Incentive amounts will be 0.5 – 2.0% of the total estimated allowed charges for professional services covered by Medicare Part B

Year	Incentives	Penalties
2009	2.0%	None
2010	2.0%	None
2011	1.0%	None
2012	1.0%	1.0%
2013	0.5%	1.5%

# EMR Software Tax Deduction

- Under existing law, medical offices are allowed to write-off \$250,000 in the first year of ownership even when leased or financed
- Stimulus package also provides an additional 50% bonus tax deduction for 2009 only



# Hospital Assist of 85% of Software Costs

- Physicians select and purchase their own hardware meeting minimal computing requirements
  - \$5K - \$7K
  - 15% of EMR software cost
- Ongoing support to physician via monthly fee
- FY1 9% of health plans include incentives for EMR in P4P programs

# Sum of the Parts

Incentive	Amount
ePrescribing	2%
PQRI	2%
ARRA – Medicare	\$ 44,000
ARRA – Medicaid	\$ 65,000
Tax Deduction	\$ 250,000
Stark Hospital Software Contribution	85%



# Penalties

- Providers not adopting an EMR will see reductions in their Medicare reimbursements

	Median
Medicare: fee-for-service pay mix	25.70%
Gross FFS charges	\$ 1,0114,721
Medicare: fee-for-service charges	\$ 260,783
Medicare: fee-for-service revenue	\$ 92,265

Source: MGMA 2007 Cost Report

Not adopting EMR by the year	Reductions in Medicare Reimbursements to Providers	Penalty
2015	1%	\$ 922.65
2016	2%	\$ 1,845.30
2017	3%	\$ 2,767.95





# Thank You

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