

# Public Employers Health Purchasing Committee

## Action & Transmittal: Administrative Simplification

### 1. Policy Proposal Received From:

*Oregon Health Policy Board (developed by Administrative Simplification Work Group & Oregon Health Authority staff).*

### 2. Summary of Policy Proposal:

- *A public-private technical work group will develop companion guides for the electronic exchange of: a) eligibility verifications (by December, 2010); b) claims (by July, 2011; and c) remittance advices (by January, 2012).*
- *The Department of Consumer & Business Services (DCBS) will adopt administrative rules directing all carriers to implement the companion guides by April, 2011 (eligibility verifications); October, 2011 (claims), and July, 2012 (remittance advices), respectively.*
- *DCBS will seek statutory authority from the 2011 Oregon Legislative Assembly to extend the required use of such companion guides to third-party administrators and clearinghouses not currently under DCBS jurisdiction.*

*[See attached memo, "Administrative Simplification, Executive Staff Recommendations"]*

### 3. Committee Action(s):

- *Presentation and discussion at September 27, 2010 meeting.*
- *Committee Action at October 25, 2010 meeting:*

***The Public Employers Health Purchasing Committee supports the broad adoption of uniform standards for the electronic exchange of information between providers and carriers. The Committee recommends that public and private employers in Oregon encourage their carriers or third-party administrators to participate in and support the work of the public-private technical work group developing the companion guides.***

**Adopted by unanimous vote.**

### 4. Distribution:

- *Association of Oregon Counties, League of Oregon Cities, Special Districts Association of Oregon, Oregon Coalition of Health Care Purchasers, Associated Oregon Industries, Oregon Business Association, Oregon Business Council.*
- *Employer and labor trust mailing list.*
- *Health insurance carrier mailing list.*
- *Oregon Health Policy Committee, Oregon Health Authority cabinet.*

**Oregon Health Policy Board**  
**ADMINISTRATIVE SIMPLIFICATION**  
**Executive Staff Recommendation**  
*(Adopted by OHPB on August 10, 2010)*

Date: August 10, 2010

**Action item:** Administrative Simplification Work Group Final Report – **Request for endorsement of recommendations**

**Executive staff recommendation:**

- Endorse the work group recommendations (*See below*).
- Emphasize the importance of broad participation in future work groups.
- Recommend prior authorization, referrals, and plain language billing for consumers be the next stage for further administrative simplification activity,
- Develop metrics to measure cost savings from administrative simplification activities,
- Explore/develop mechanisms to capture savings for consumers,
- Recommend that the State Office for HIT develop an implementation plan that addresses issues particular to small medical practices,
- Require quarterly Board updates on progress on implementation.

**Benefit:** The work group estimates annual savings of approximately \$93 million by 2014 if there is reasonably rapid compliance with the requirements and rapid adoption by providers of internal processes that take full advantage of electronic transactions.

The benefit accrues to physician practices and health plans primarily through savings in labor: it has been estimated that administrative simplification could save four hours of professional time per physician and five hours of practice support staff time each week, potentially creating opportunities for increased access and improved patient care. (*Health Affairs, June 2010*).

Lower practice support staff costs and back office support costs may translate into lower premiums and lower Medicaid costs. Lower costs in health plans can translate into either lower premiums or increased retained earnings.

**Why the project was undertaken:** To reduce the administrative cost of health care. Estimates of inefficient claims processing, payment and claims reconciliation are between \$21 and \$210 billion in the U.S. It has also been estimated that these administrative costs account for 10% to 14% of revenue in physician practices. (*American Medical Association Administration Simplification White Paper, 2008*).

The work group was created at the direction of the 2009 Legislative Assembly, which required the Office for Oregon Health Policy and Research (OHPR) to

convene a stakeholder work group to develop uniform standards for insurers, including standards for eligibility verification, claims, and remittance advice transactions and authorized the Department of Consumer and Business Services (DCBS) to adopt the recommended standards through administrative rules.

**Previous Board Discussion:**

Administrative Simplification recommendations were initially brought before the Board on May 11<sup>th</sup>, 2010. The workgroup recommended that Oregon adopt the Minnesota Plan, which is to standardize electronic processes by replacing companion guides with a single uniform companion guide for three key transactions and then require all plans, providers and clearinghouses to conduct those three transactions electronically.

The Board requested further information about the Minnesota plan; staff prepared a memo and further information about the Minnesota plan (*attached here*).

The Board also expressed concern that issues related to small medical practices were not adequately addressed in the workgroup recommendations. Staff, working with the Oregon Medical Association, identified and interviewed several practice representatives between June and July to address issues that may be particular to small practices (*See below*).

**Work group recommendations:**

**Recommendation #1:** DCBS should adopt the uniform guides for three common administrative and financial transactions between providers and payers (eligibility verification, claims and remittance advice transactions)

**Recommendation #2:** All health plans should be required to conduct administrative transactions electronically on a phased timetable

**Recommendation #3:** In 2011 the legislature should authorize DCBS to apply the requirements to health plans, including third party administrators and clearinghouses that are not licensed by DCBS.

**Action steps to implementing the recommendations:**

1. A public-private technical workgroup will begin the industry analysis of the Minnesota companion guides and any other additional work completed in Oregon for an eligibility verification companion guide to be completed by December 2010. It will then complete work on a claims companion guide by July 2011 and a remittance advice companion guide by January 2012.
2. The Department of Consumer and Business Services (DCBS), in collaboration with OHA, will adopt administrative rules based upon the Policy Board workgroup recommendations and use the "Oregon" companion guides for eligibility verification by April 2011, claims by October 2011, and remittance advice by July 2012.

3. The Oregon Health Authority as a payer should follow the DCBS rules and require Medicaid managed care organizations, Medicaid providers, and others with which it deals to do so as well.
4. The OHA and DCBS will pursue legislation in 2011 giving DCBS authority to establish uniform standards for healthcare administrative transactions to all payers (including third party administrators and self-insured plans) and clearinghouses and to collect data from them to monitor progress and identify future opportunities.
5. DCBS and OHA should establish a leadership team to coordinate current and future work on administrative simplification. The leadership team would:
  - a. Continue close collaboration with health care stakeholders to monitor progress of current work and develop goals for future work.
  - b. Include the State HIT Coordinator and the Medicaid Director in order to ensure coordination with adoption of health information technology especially in small practices.

**New information developed at the request of the Board's previous discussion:**

Following the work group's presentation to the Board on June 8, staff has done additional analysis of the impact of the electronic transaction requirement on small providers.

- **Provider Cost:** Average initial implementation costs for an electronic practice management system will be about \$21,000 per provider—including the cost of lost productivity during the transition. The practice management systems required for electronic administrative transactions are a foundational component of a certified electronic health records (EHR) system; implementation of a full EHR system averages an additional \$25,000 per provider—for a total of \$46,000. The initial investment is potentially recoverable through the federal Medicaid and Medicare incentive programs. After the initial investment is recouped, annual savings of about \$11,000 per provider can be realized with those savings exceeding the ongoing costs of an EHR system.
- **Small Practice Feedback:** Staff, with assistance from the Oregon Medical Association, had targeted conversations with small physician practices so they could react to and provide feedback on the draft recommendations. Comments overall support the recommendations. Physician practices emphasized the importance of applying the requirements to third party administrators and clearinghouses to ensure standard electronic processes from all payers and vendors to providers. The primary barrier to physician compliance with proposed requirements that was mentioned was the physical absence in some rural communities of high speed internet access necessary to effectively transmit electronically. The physician practices interviewed would like the administrative simplification work to address credentialing,

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more standardized drug formularies, and more standardized prior authorization systems and requirements.

**Risks:** (1) The federal government could change standards or fail to adopt standards by the dates specified in the federal health reform law, which would require Oregon to re-examine and perhaps modify its approach. (2) The recommendation is for DCBS to require health plans to do business electronically; the requirement for providers to do so is indirect, through the plans. Additional steps may be required to achieve near universal compliance by providers. (3) Most of the savings from administrative simplification take the form of reduced labor time; therefore, jobs could be eliminated if affected workers are not redeployed to other activities within a health plan or health care facility.

**Conclusion:** The opportunity for reducing administrative workload and cost savings from adoption of the recommendations is substantial. The risks outlined are outweighed by the significant return on investment for both providers and payers.