

**The Interplay between Healthcare IT and Healthcare Payer
A HIMSS Fact Sheet on Healthcare Information Technology &
Consumer-Director Healthcare
Draft dated June 30, 2007**

Overview

In recent years, the hot topic in the healthcare **Payer** space has been advancing “Consumer-Directed Healthcare” as means to improving quality and lower costs. Meanwhile, the hot topic in the healthcare **Provider** space has been around the advancement of healthcare information technology, again as a means to improve quality and lower costs.

While each of these hot topics have been the focus of their respective industry’s thought leadership, conferences, publications, education efforts, legislative and regulatory initiatives, and the like, they have remained on separate tracks -- despite the common goals and potential synergies between the two.

The purpose of this fact sheet is to provide an overview of the key issues for these two communities, as well as the legislative and regulatory efforts behind each, and to suggest how improved interplay between the two can accelerate the improvements in our healthcare system sought by each.

Consumer Directed Healthcare:

“Consumer Directed” (or “Consumer Driven”) healthcare refers, in general, to efforts by Employers, and other Purchasers, as well as Payer / Managed Care entities to more thoroughly engage the consumer (or patient) in the decisions and choices around their health and the health services they receive. Greater awareness of their health state, of their choices around care services, along with more direct participation in their day-to-day health finances will, it is believed, result in lower cost and higher quality care for those in Consumer-Directed plans. Furthermore, it is theorized that the macro-economic shift by the industry toward this type of system will, finally, create the type of demand-side pressure found in nearly every other industry--but hitherto lacking in healthcare--to drive quality, safety and efficiency through the system.

The general momentum behind Consumer-Directed Healthcare has manifested itself through the emergence of a number of consumer choice health plans including:

- FSAs – Flexible Spending Accounts
- MSAs – Medical Savings Accounts
- HRAs – Health Reimbursement Arrangements
- HSAs –Health Savings Accounts¹

Medicare Modernization Act of 2003 and Health Savings Accounts (HSAs):

Of the various forms of Consumer Directed Plans, HSAs in particular have emerged as the main driver of the consumerism movement. While FSAs, MRAs, and HRAs attained some very minor traction in the marketplace, the HSA provision in the 2003 Medicare Modernization Act freed the healthcare industry to offer the necessary long-term financial and tax-related incentives to drive adoption.

HSAs are special accounts owned by the individual and used to pay for current and/or future medical expenses. HSAs are established in conjunction with High Deductible Health Plans.²

Consumer Directed Healthcare’s “Secret Sauce”: Healthcare Information Technology

A basic axiom of free-market economics is that a well-functioning market cannot exist without information. Therefore, the financial structure and economic incentives of Consumer-Directed Healthcare are merely hollow mechanisms without the necessary flow critical information required by Health Plans, Consumers and Providers to make effective health choices. Information – specifically timely, secure, accurate, accessible health information – represents the secret ingredient necessary transform Consumer-Directed Healthcare from merely an exercise in changing the way we “cut the pieces of the pie” to one in which we transform the pie itself – reducing the overall size when it comes to costs, while simultaneously driving improvement in the quality and safety of care delivered.

¹ FSAs – open to estimated 29 million workers. – set aside funds, tax free, from paychecks to pay for out of pocket expenses. But only 6 million use – forfeiture of unused funds; lack of understanding MSAs –1996 Congress allowed for under 50 employee businesses and self-employed. Low tax deferred contribution levels, restrictions, led to little insurer enthusiasm to offer. Only 70,000 hold MSAs

HRAs—Nonportable spending accounts established by employers on behalf of workers to pay for expenses. Workers can’t contribute Employer deposits not taxable.

HSAs: Portable, Employees and Employers contribute, tax-free \$2600 / \$5150. In conjunction with high deductible catastrophic insurance. Withdrawals are tax free. . Once 65 – can use funds for medical and nonmedical purposes..

² A comprehensive overview of HSAs is available at http://www.treas.gov/offices/public-affairs/hsa/pdf/all-about-HSAs_051807.pdf (:All About HSAs”, US Treasury Dept, May 18, 2007)

Accordingly, legislative, regulatory and industry efforts to promote Consumer-Directed Healthcare must be accompanied by parallel efforts promoting the wide-spread adoption and use of healthcare information technology in order for the promise of improved care and reduced costs to become effective. (An overview of the latest Healthcare IT legislative and regulatory efforts of this type can be found on the HIMSS Government Relations website at <http://www.himss.org/advocacy/news.asp>.)

The Administration and Congress's continued support and funding of the Office of the National Coordinator for Healthcare IT (ONC) has been the single critical factor in driving nation-wide adoption of robust healthcare IT tools to reduce costs and improve quality and safety of care. ONC's central objective to advance the delivery of "consumer-centric, information-rich healthcare" goes hand-in-hand with efforts by Payers to move more into a higher value-added role as healthcare's "infomediary" in a consumer-driven environment.

In particular, ONC's focus on promoting the adoption of interoperable, clinically-based Electronic Health Records (EHRs); interconnected through Regional Health Information Organizations (RHIOs); feeding-up, ultimately, through a National Health Information Network (NHIN) will provide the type of rich, consumer-centric information required for Consumers, Payers, and Providers to work together to make much more effective healthcare choices in a Consumer-Directed, information-empowered healthcare system.

HIMSS believes that ONC serves as the single, crucial nexus for transforming healthcare in the United States. The depth and breadth of ONC's agenda closely resembles the broad healthcare industry, and ONC possesses the authority required to drive real change in the system. As such, HIMSS calls for the codification of the Office of the National Coordinator.