MARYLAND HEALTH CARE COMMISSION

Spotlight on Maryland EDI

2002 EDI-HIPAA Progress Report:
Steady Growth in EDI - the Industry Gears Up for HIPAA

Overview of MHCC EDI Initiative

The administrative cost of delivering health care to Maryland residents exceeded $1.5 billion in 2001. Some of these dollars were spent completing the mountain of paperwork required to resolve payment. Many analysts believe that submitting electronic claims is one way of controlling spiraling administrative health care costs. To promote electronic data interchange (EDI) the Maryland Health Care Commission (MHCC) engages in a range of education and certification programs that promote greater use of EDI among Maryland's health sector. The cornerstone of the strategy is a certification program that uses national standards and industry "best practices" for certifying electronic health networks (EHNs or networks) doing business in the state. Maryland law requires payers to only accept claims from MHCC-certified EHNs.[1] Eight EHNs are MHCC-certified and seven others are in candidacy status; the number of fully certified networks increased by two from 2001 and those in candidacy status jumped by five.

To gauge and benchmark the annual success of its initiatives, MHCC requests payers to submit information on how providers submit claims and other transactions. This information is also used to guide MHCC's development of new EDI initiatives.

The 2002 report reflects data collected from 42 payers, Medicaid, and Medicare enabling MHCC to provide the EDI activity of all major health care payers in Maryland. Due to the consolidation of payers and some pre-screening by MHCC, approximately twelve non-HMOs that reported in the prior year were not required to report.[2]

Overall Claim Volumes Are Steady

Government and private payers processed about 66.6 million claims down slightly from the 66.8 million claims processed in 2001. The small decline for private payers was likely due to simple year-to-year reporting variations. Government payers, Medicare and Medicaid, experienced modest claims volume increases of about 2 percent. The increases for government payers were attributable to the migration of Medicare beneficiaries back to traditional Medicare, and ongoing enrollment in the S-CHIP Program administratively under Medicaid. A Medicaid-initiated physician claims clean up project that ended in late 2001 also played a role in reducing physician claims backlogs as it increased claims volume for the year.

EDI Growth Across Payers

As reported in Chart 1a, private payers received about 44 percent of claims using EDI while Medicare and Medicaid reported EDI use at 88 percent and 71 percent, respectively. The percent of claims submitted electronically, often referred to as the EDI share in this report, has historically been higher among government payers because of more aggressive promotion and lower adoption costs for providers. In particular, Medicare has used a single electronic standard for many years and offers low cost submission options. As shown in Chart 1b, private payers continue to narrow the gap of growth in EDI share with 4 percent versus about 1 percent for the government sector. For the past four years, Medicare's EDI share has been virtually flat, hovering at about 85 percent. Medicare's slow growth suggests that the lack of electronic formats for some types of claim attachments and the resistance of EDI adoption by some very small providers creates an artificial ceiling on EDI use below 100 percent. The new HIPAA transaction standards will mean that EDI shares should inch up for government.

Chart 1a
Percent of Claims Submitted Using EDI for All Payers

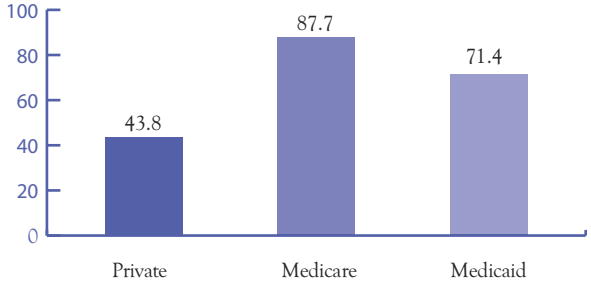
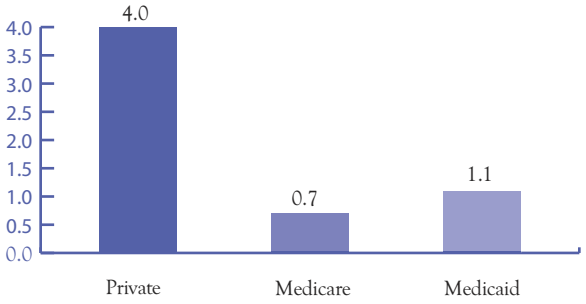


Chart 1b
Percent Change in EDI for All Payers



Hospitals Continue to Lead in Use of EDI

Hospitals submitted 71 percent of claims electronically followed by practitioners at 57 percent. Dentists followed with a distant third and continue to be unfamiliar with EDI. With small practice size, little government involvement in reimbursement, and the reduced importance of private third-party reimbursement, the dental profession continues to have a low EDI share at about 20 percent (Chart 2a). EDI growth among dentists is more likely to rise as this group conforms to required HIPAA regulatory changes.

Chart 2a
Percent of Claims submitted Using EDI for All Providers

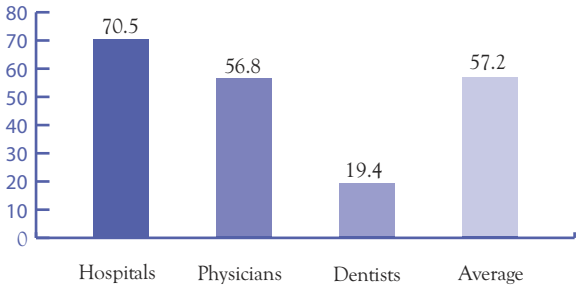
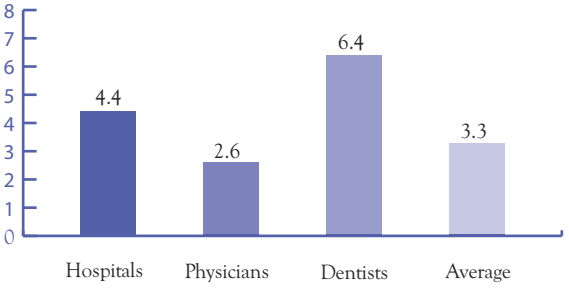


Chart 2b
Percent Change in EDI Share for All Providers



The 2001 EDI share for dentists increased the most rapidly, up over 6.4 percent. Hospital use of EDI increased by just over 4 percent from calendar year 2000 while physician EDI slowed. Since hospitals more routinely use EDI, the higher rate of growth is unusual. One explanation is that many hospitals increased their use of EDI after all but abandoning these technologies to conduct business with private payers in the late 1990's. Also, Maryland hospital EDI rates have been lower than in other parts of the country and are now rapidly catching up. The rate of growth in EDI share for physicians and other professionals is disappointing, however, these numbers do include government payers who reported almost no growth for this provider category.

Private Sector Results: Some Positive Signs

Chart 3a shows that private payers accepted 44 percent of claims electronically from physician and non-physician health care providers. Collectively, payers reported modest improvements in electronic claim shares. Hospitals reported submitting 53 percent of claims electronically. Dental EDI activity is low in comparison to medical for nearly all payers. Metropolitan Life Insurance Company and Cigna Health Care of the Mid-Atlantic are the only payers that reported accepting a large volume of dental claims electronically. EDI shares among private payers increased by approximately 4 percent, or about 1.4 million claims from the prior year (data not shown). Hospitals made the most progress as their EDI share grew by almost 5 percent.

Many of the biggest companies reported increased EDI activity. Aetna US Health Care of the Mid-Atlantic, CareFirst of Maryland (including MD and DC groups), Cigna Health Care of the Mid-Atlantic, and MAMSI reported significant increases in the share of claims they received through EDI. Most payers have noted that EDI adoption varied by the type of provider. Aetna US Health Care of the Mid-Atlantic, CareFirst of Maryland, Cigna Health Care of the Mid-Atlantic, and MAMSI saw sizable increases in practitioner EDI volume. CareFirst of Maryland and Cigna Health Care of the Mid-Atlantic reported increases in hospital EDI shares.

Chart3a
Percent of Claims Submitted to Private Payers Using EDI

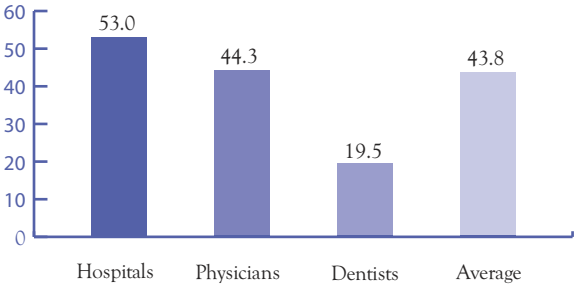
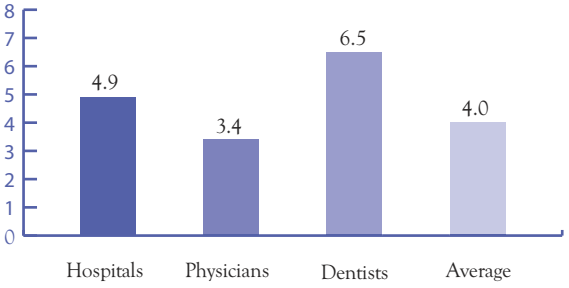


Chart 3b
Percent Change in EDI Share



Variations in payer EDI submission requirements often limit or deter its use. Practitioners and health care facilities must become familiar with each payer's requirements before sending electronic claims. Payers that accept claims electronically often require hard copy support documentation. In these instances, practitioners and health care facilities usually submit the claim on paper. The value of EDI decreases when payers request hard copy support documentation for an electronic claim. Over the last year, the number of HMOs and non-HMOs that accepted electronic claims remained the same. Some payers continued to make improvements in their EDI systems. Aetna US Health Care of the Mid-Atlantic and CareFirst of Maryland are examples of two payers that increased the number of claims accepted electronically.

The lack of standards is a factor in the lower EDI shares among private payers. Most payers state that they encourage electronic submission but many impose conditions that discourage its use - for example, accepting electronic claims yet requiring hard copy support documentation. Payers' inability to process electronic claim attachments discourages the use of EDI because most providers submit paper claims when attachments are required rather than splitting a claim into paper and electronic components.

Use of EDI Continues to Differ Between HMO and Non-HMO Products – But the Gap is Closing

EDI claim shares among HMOs trailed non-HMOs by approximately 11 percentage points (Chart 4a). The gap is narrowing from 2000 when HMOs trailed non-HMOs by a wider margin. Non-HMO shares of electronic claims exceed HMOs by about 14 percentage points for practitioners and by about 18 percentage points for hospitals. HMOs increased their electronic claims share for practitioners by approximately 5 percent and hospitals by about 6 percent (Chart 4b). Non-HMOs increased their electronic claims share for practitioners by roughly 4 percent and by almost 3 percent for hospitals. HMOs increased their electronic claims share for practitioners by approximately 5 percent and hospitals by about 6 percent (Chart 4b). Non-HMOs increased their electronic claims share for practitioners by roughly 3 percent and by almost 2 percent for hospitals.

Chart 4a
Percent of Claims Submitted by HMOs and Non-HMOs

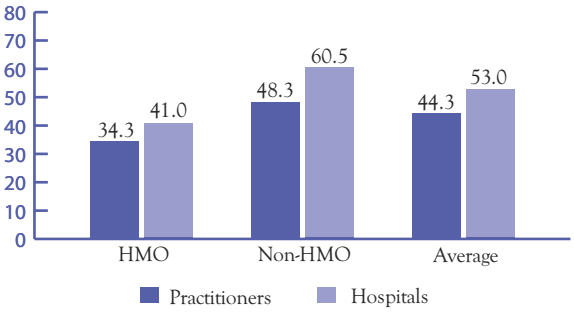
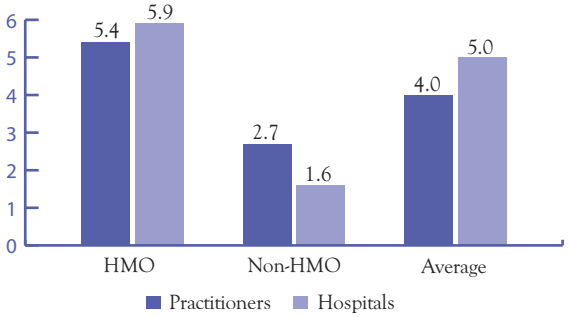


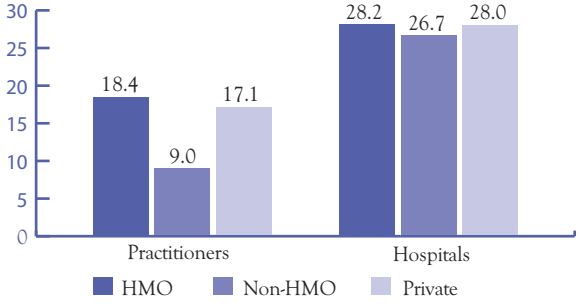
Chart 4b
Growth Rate in EDI by HMOs and Non-HMOs



Start-to-Finish Electronic Processing – The Ultimate Goal

Many payers recognize that fully automating the adjudication process will significantly reduce administrative expense. In 2001, most large payers were working toward achieving that goal. Administrative savings associated with processing electronic claims decreases as the level of manual intervention increases. Generally speaking, payer business rules and technical capabilities determine if an electronic claim will require manual intervention. Adjudicating claims electronically reduces the turnaround time from when the claim is received to when it is paid. Most payers report that electronic claims are processed within approximately 14 days of receipt. Conversely, paper claims require about 28 days for processing. A few payers reported adjudicating electronic claims within roughly 5 days of receipt. Some payers accept electronic claims but print the claim on paper for adjudication significantly adding to the cost. Overall, approximately 75 percent of electronic claims required some manual steps during adjudication. Approximately 17 percent of practitioner claims and 28 percent of hospital claims were processed without manual intervention (Table 5).

Chart 5
Claims Processed Without Manual Intervention



HMOs reported that approximately 18 percent of electronic practitioner claims and about 28 percent of hospital claims were processed completely via automated methods. Non-HMOs reported processing approximately 9 percent of electronic practitioner claims and about 27 percent of hospital claims without manual intervention.

EDI Challenges Loom Ahead for Medicaid Health Choice MCOs

EDI activity among MCOs remained the same from the previous year. Over the last two years, most MCOs reported accepting some electronic claims but significant progress was rare. Due to limitations in information systems, none of the MCOs reported accepting both professional and hospital claims electronically. Prime Health and JAI Medical Systems continued to only accept paper claims. For the most part, providers that submit paper claims generally include supporting documentation. On the other hand, MCOs that accept electronic claims process the claim with only the information included in the electronic record. Practitioners and health care facilities view MCOs' lack of EDI capability as a source of continual frustration. Most MCOs do not have the information systems necessary to fully support EDI and will need to make changes in this area in order to support electronic claims as part of the HIPAA requirements. In some instances, MCOs will still be able to request hard copy support documentation before processing an electronic claim. The use of EDI by practitioners and health care facilities will largely depend upon MCO adjudication rules.

HIPAA: New Opportunities and New Risks

HIPAA requires most practitioners and health care facilities to establish protections, adopt standards, and meet specific requirements for the transmission, storage, and handling of certain health care information. Included under HIPAA are the transaction and code set standards, privacy regulations, and security regulations. All payers hope to increase their electronic claims share as part of implementing HIPAA's transaction and code set requirements. Accepting electronic transactions is required by payers and claims clearinghouses, but optional for providers. Requirements on providers may be just around the corner. The Centers for Medicare and Medicaid Services (CMS) announced that most providers must submit electronic claims to Medicare after October 15, 2003.[3] CMS also published a list of exemptions allowing providers to continue submitting paper claims. This move by CMS enables private payers to adopt similar requirements. Some private payers have already hinted at adopting comparable claim submission requirements.

The HIPAA requirements should further encourage providers to adopt the new technologies and standards for the administrative transactions and should make incompatibilities disappear. The electronic standards for attachments and for HMO referrals should gradually eliminate the use of paper, however, HIPAA will not eliminate the need for all hard copy attachments. Some payer business rules will likely require the submission of hard copy attachments even after full HIPAA implementation.

Education plays an important role in furthering EDI use. Most payers have announced plans to offer incentives to encourage providers to submit claims electronically. Often efforts to increase EDI activity among providers are part of a broader HIPAA compliance program. Payers, having assigned significant resources to upgrade information systems, recognize that providers must use EDI in order for them to recover HIPAA compliance costs.

EHN Strategies to Increase EDI Use

The Maryland market offers EHNs opportunities to increase market share. Last year, providers submitted 28.5 million paper claims to government and private payers. Using an average of 30 cents per claim, MHCC estimates that nearly $8.5 million exists in potential claim revenue for EHNs operating in Maryland. MHCC has worked closely with industry to ensure that organizations entering the Maryland market are familiar with state requirements.

The implementation of HIPAA transaction and code set standards has heightened provider and payer interest in EHNs. As of October 16, 2003, practitioners and health care organizations will be able to submit up to eleven different electronic transactions to payers. The movement of transactions between providers and payers are a large part of an EHN's business model. Presently,

most networks only exchange a few transactions with providers and payers but most EHNs are working to meet the requirements to accept all transactions by the 2003 implementation date.

Several MHCC-certified EHNs have sought to expand their services through joint ventures. PayerPath, Inc. and RealMed Corporation announced strategic alliances that create seamless claims submission and real-time claims adjudication processing for providers. Both plan to roll out their new services to providers by late summer. Affiliated Network Services signed exclusive contracts with several practice management software vendors for submitting electronic provider transactions. WebMD maintains formal agreements with several smaller EHNs to retransmit claims to some large payers. The Commission believes that joint ventures are beneficial in expanding useful services as long as those arrangements do not limit the ability of providers to select an EHN that best meets their needs.

MHCC Initiatives to Increase EDI Use

Expand the Number of Certified Networks

Maryland law requires payers operating in the state to accept electronic claims exclusively from MHCC-certified EHNs. In most cases, EHNs can qualify for MHCC-certification within a year of submitting their application. MHCC-certification is a two-step process: (1) EHNs are required to obtain accreditation through the Electronic Health Network Accreditation Commission (EHNAC), an industry-lead organization that establishes technical standards and business best practices for the industry. (2) Once EHNAC-accredited, EHNs become eligible for MHCC-certification which consists of an independent review of technical operations and business practices that goes beyond the EHNAC process. MHCC-certification requires formal approval by a majority of the Commission members. In 2001, MHCC certified two networks. RealMed Corporation, an Indianapolis, Indiana corporation, obtained MHCC-certification in January 2002 and is working with CareFirst of Maryland on a pilot project using the Internet for claims submission. PayerPath Inc., a Richmond, Virginia firm, obtained MHCC- certification in August 2002. This network specializes in providing Internet-based EDI services to physician groups statewide.

MHCC Provides Opportunities for Small EHNs to Obtain MHCC-Certification

MHCC recognized the need to expand its EHN certification program to smaller networks that may find the application fee for accreditation by the EHNAC prohibitively expensive. In the past, only larger networks doing business nationwide had the resources to obtain MHCC-certification. MHCC developed a small EHN certification program allowing networks with less than $1 million in revenue to qualify for MHCC-certification and compete in Maryland. The small EHN certification program was developed in conjunction with EHNAC.[4] The Commission uses a candidate's EHNAC site review report and staff recommendations for determining MHCC-certification. An MHCC effort to certify small networks appears successful, as there are currently five EHNs with revenue below $1 million in candidacy status for MHCC-certification.

Assist Providers and Payers in HIPAA Compliance Efforts

The Commission developed a series of education and awareness tools aimed at increasing practitioner and health care facility understanding of the privacy and security requirements under HIPAA. These efforts have strengthened MHCC's reputation as an industry resource for obtaining information on EDI and HIPAA. MHCC presents on HIPAA compliance at most medical and non-medical health care association conferences. Many practitioners and health care facilities have relied on MHCC for accurate HIPAA information. Regional Medical Group Manager Associations and allied health associations invited MHCC to provide their organizations with overviews of the HIPAA requirements. In February 2002, MHCC hosted a HIPAA Conference attended by approximately 460 representatives from hospitals, ambulatory surgical centers, physician offices, and various other provider organizations. The HIPAA Conference offered beginner and advanced modules that included national and local speakers.

The EDI-HIPAA Workgroup, an MHCC advisory panel, has provided the Commission with expert industry knowledge to guide initiatives serving both provider and payer communities. This group is representative of leading health care organizations in the state and provided significant direction in the development of MHCC's, "HIPAA - A Guide To Privacy Readiness, v2.©" This assessment tool continues to receive local and national recognition and was requested by numerous national organizations over the last year as part of education and compliance activities. Most recently, the EDI-HIPAA Workgroup developed a similar assessment tool using HIPAA's proposed security regulations: "A Security Awareness Guide." The MHCC has engaged in a joint venture with the North Carolina Health Care Information and Communication Alliance to automate the guides. The privacy and security guides are available for downloading at **www.mhcc.state.md.us.**

On the Horizon

MHCC has an ambitious EDI/HIPAA agenda for 2003. A series of regional conferences are planned to assist practitioners in training employees, developing policies and procedures, and completing gap assessments for privacy and security. MHCC intends to focus even more on providers and payers to identify EDI adoption barriers. MCOs are a particular area of interest and the Commission plans to provide consultative support to small MCOs as they attempt to implement EDI systems necessary to support HIPAA. In addition, the EDI-HIPAA Workgroup has an agenda to continue the development of useful EDI and HIPAA-related tools for providers.

[1]Requirements for payers to accept claims from only MHCC-certified EHNs is spelled out in Senate Bill 371.
[2]These 12 payers were eliminated from the analyses for 2000 and 2001.
[3]Information obtained from H.R. 3323, December 4, 2001.
[4]In December 2001, EHNAC approved MHCC to use its certification criteria as parts of the MHCC-certification process for small EHNs with revenue less than $1 million.