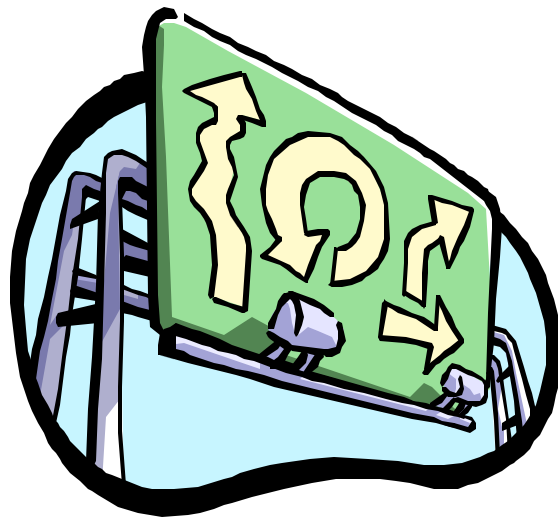


Health Care Financing Administration

HOW HIPAA IS RESHAPING THE WAY WE DO BUSINESS:

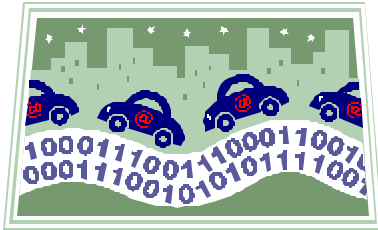
The Benefits and Challenges of Implementing the Administrative Simplification Standards



ROAD MAPS TO HIPAA COMPLIANCE
VOLUME 1, MAP 1
September 25, 2000

*HOW HIPAA IS RESHAPING THE WAY WE DO BUSINESS:
THE BENEFITS AND CHALLENGES OF IMPLEMENTING THE
ADMINISTRATIVE SIMPLIFICATION STANDARDS*

THE HIPAA HIGHWAY



With the signing and publishing of the *Final Rule for Health Insurance Reform: Standards for Electronic Transactions* on August 17, 2000, the countdown for implementation of the Health Insurance Portability and Accountability Act (HIPAA) of 1996, Administrative Simplification (AS) Rules has begun. Whether you are a State in the avant-garde of HIPAA implementation, or are just beginning the long journey, take a moment to reflect on why many leaders in the health care industry support AS, what it means to you and your data exchange partners, and how you can best prepare to meet the challenges ahead.

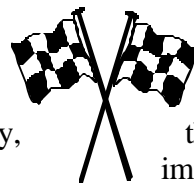
This paper is the first in a series of practical guides aimed at assisting State Medicaid agencies in their quest for HIPAA compliance. The theme of a Road Map is used to illustrate the phases of the journey toward compliance. Subsequent papers will focus on specific implementation issues and offer suggestions for resolution. The first part of this paper talks about the benefits of implementing HIPAA from the vantage point of the end of the road, and then highlights some of the hazards Medicaid agencies will face along the way.

“ON THE ROAD AGAIN....”

Over the years, the health care industry has witnessed a steady march towards standardization of formats and data, and a somewhat slower-paced progress in the use of the electronic highway. The combination of the legal muscle of HIPAA and the attraction of electronic and web-based business solutions results in an acceleration of this evolution.



VIEW FROM THE FINISH LINE



The hope is that at the end of the HIPAA highway, the health care payer, the provider, and the beneficiary will find a new and improved landscape. Starting from a location where much of the communication still relies on mail service, telephone calls, and fax transmittals, and where the parties use a multitude of formats, codes, and conventions, we travel to a new destination where communications are on-line and everyone speaks the same language.

The new landscape holds considerable benefits to all, as shown in *Figure 1* ^{3/4}HIPAA, the Promised Land.

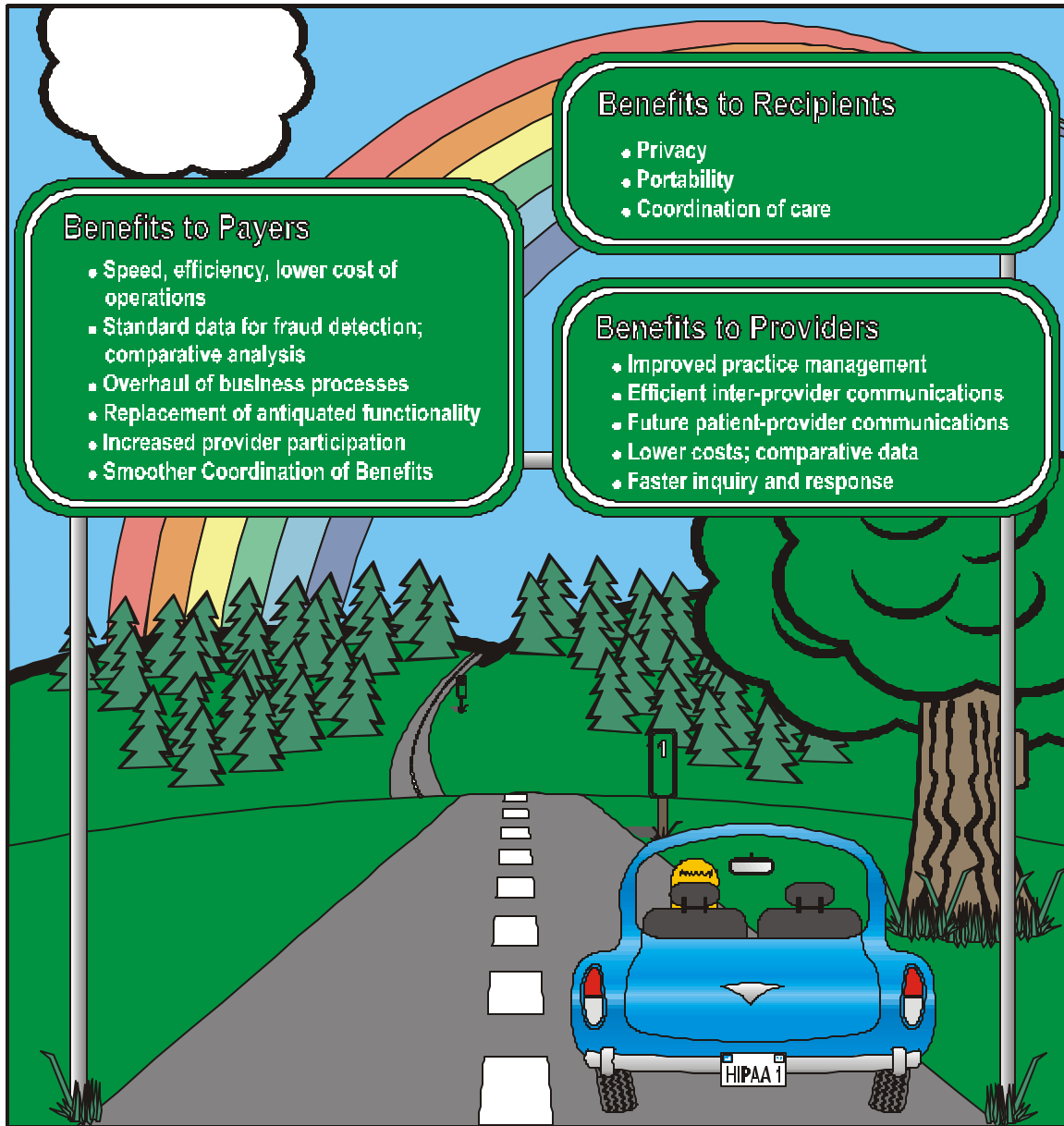
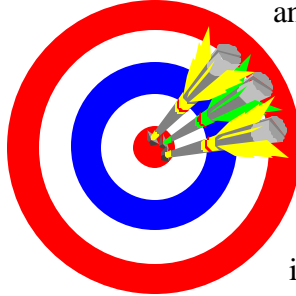


Figure 1—HIPAA, the Promised Land

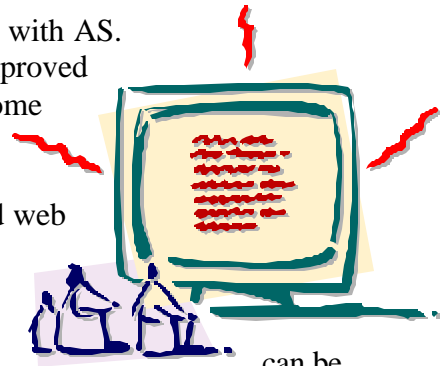
THE POST IMPLEMENTATION VISTA

Ultimately, implementation of the standards promises the Medicaid agency improvements in data exchange processes, lower operating costs, consistent data for statewide and national analysis and comparisons, better fraud detection capabilities, a happier provider community, antiquated systems and Standardized formats and the Coordination of Benefit and the opportunity to renovate streamline business processes. data content should also improve process.

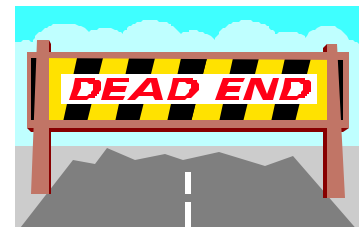


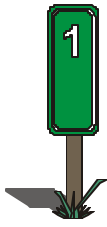
The provider community is a big winner at the end of the HIPAA highway. Major efficiencies can be achieved after the standards have been implemented. As in the payer community, the providers are also challenged with upgrading their systems and their data exchange capabilities, resulting in more efficient and timely inter-provider communications such as Coordination of Benefits, sending laboratory reports, making referrals, and ordering tests and prescriptions. Standards should also speed up inquiry and response for eligibility verification, service requests, or claim status.

Beneficiaries share indirectly in the improvements associated with AS. Standards, combined with on-line data exchange, result in improved coordination of care for the patient. Standards may remove some of the barriers to provider participation which could lead to more choice for the Medicaid beneficiary. As computer and web instruction increases in the classroom, and television and web technologies combine, Medicaid clients could have access to health care information such as health care education, rosters of providers, and directions to medical facilities. Also in the future when medical record standards are introduced, there can be more efficient transfer of information as the beneficiary moves from fee-for-service to managed care and vice versa, and from Medicaid eligibility to the State Children's Health Insurance Program (SCHIP).



The industry wants and needs standards. However, the standards come with a high price tag and require a significant effort at all levels of the health care information highway interchange. The second part of this paper examines some of the major roadblocks along the way to a successful implementation.





GETTING STARTED

By the time you are reading this paper, you may have already reviewed and documented the impact of all of the Rules on your State's operations. States and provider organizations with a head start in preparing for HIPAA implementation have reported completing some or all of the activities listed on the *Getting Started Checklist* in *Figure 2*.

●	Getting Started Activities	Status
	Develop enterprise-wide vision and business perspective for HIPAA	✓
	Obtain top executive buy-in for the vision	✓
	Establish a management team and HIPAA implementation leadership	✓
	Assign teams to read and analyze each Rule and document its	✓
	impact on business processes and systems	
●	Send representatives to national committees engaged in standard setting	✓
	(primarily the ASC X12N), educational committees, e.g., Workgroup	
	for Electronic Data Interchange (WEDI), and industry advocates, e.g.,	
	the Association for Electronic Health Care Transactions (AFEHCT)	
	Participate in the State Technical Advisory Group (S-TAG) workgroup	✓
	on HIPAA	
●	Contribute to the S-TAG sponsored pool of local State codes	✓
	Inventory business processes, systems, data exchange partners,	✓
	networks (leveraging from Y2K inventories).	
	Visit recommended web sites	✓
	Form a coalition with trading partners (providers, other payers,	✓
	clearinghouses) to address common issues on a state-wide or	
	regional basis	

Figure 2 ¾ Getting Started Checklist

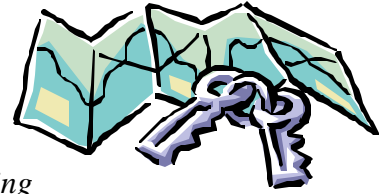


If you have done most of these activities, you have completed the “Awareness Phase” (borrowing General Accounting Office [GAO] terminology). If you have not completed one or more of the above activities, now is the time to play catch-up.

2

PLANNING THE TRIP

The next step is the “Assessment Phase”. States that have moved ahead in their analysis of the impact of HIPAA have recognized that compliance calls for a fundamental change in how providers and payers do business. No matter what your strategy is, addressing both business and systems changes as a package is essential. Key outputs of the Assessment Phase are shown in *Figure 3* **Planning Products**.



Planning Products	Status
The Planning Advance Planning Document (Planning APD)	✓
Gap Analysis of all AS-required electronic transactions and code sets	✓
Risk assessment of impact of all Rules (including National Provider Identifier, Security, and Privacy) on application systems, databases, and Networks	✓
Assessment of the convergence of other (non-HIPAA), system enhancement requirements	✓
Strategic plan encompassing all business and system changes and accommodating the agency's vision for the future	✓
Mitigation Plan (companion to the Risk Assessment)	✓
Plan for outreach to business trading partners and coordination of future testing efforts	✓
Assessment of resource and budget requirements	✓
Selection of best alternatives for achieving compliance and meeting other goals (including consideration of use of translators)	✓
Project work plan	✓
Outline for the Implementation APD	✓

Figure 3—Planning Products

TRAVEL TIPS

At this point in the journey, the landscape opens out upon a vista of challenging twists and turns. Some of these are highlighted in the following pages, e.g., Business Process



Reengineering (BPR), loss of local codes, sequencing issues, coordination with providers and other partners, cost of security, impact of privacy, budget and resources, and implementation strategies.

Reshaping the Roadways: the Case for BPR ¾HIPAA implementation planners foresee major changes to business processes due to the explicit requirements of the Privacy and Security Rules, and workarounds to substitute for missing local codes and provider location indicators. States that have recently documented their current business operations and points of data exchange have created an “As Is” map useful as a baseline on which to overlay the changes needed to get to the HIPAA-compliant state. The more reshaping required, the heavier the burden will be on the agency to retrain staff, document new procedures, and communicate with data trading partners.



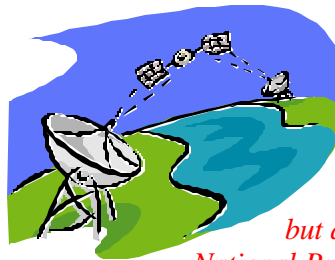
Life after Loss of Local Codes ¾AS eliminates the use of Local Codes. Only Standard Code Sets named in the Rule may be used. Since most States have created Local Codes for procedures, drugs, provider types, and type and category of service, and these codes are drivers for many automated processes, payment algorithms, and reports, creative changes to operations and systems must be developed to compensate for the missing data. An S-TAG workgroup is soliciting local codes from all States, categorized into

different code types, in order to consolidate them into a single “Medicaid Local Code” set for submission to the appropriate authorities in the HIPAA change approval process. At least 40 Medicaid agencies have turned in their codes. If you have not yet sent in yours, there is still time to contact S-TAG representatives, Russ Hart (California): 916-464-2583 or rhart@dhs.ca.gov, and Mario Tedesco (New York): 518-486-2902 or mxt07@health.state.ny.us. For other information, your HCFA Local Codes contact is Kurt Hartmann: 410-786-0400 or khartmann@hcfa.gov.

Dealing with Sequencing Issues

(You Need a Geographic Positioning System to Figure This Out!) ¾If the Rules themselves were

not complicated enough, the staggered implementation of the multiple Rules and transactions dramatically increases the business and technical issues to be resolved. The following list highlights some of the key issues (see the WEDI/Strategic National Implementation Process (SNIP) paper on this subject for more details (www.wedi.org). ⇒⇒⇒



1. Most Rules have an end date of 26 months from the start, but all Rules (Transactions, National Provider Identifier,

Attachments, Privacy, and Security) will have different start and end dates.

2. There are no guidelines for interim dates, only a final deadline 26 months from the start.

3. There is no national implementation plan. A few States (e.g., Utah and North Carolina) have formed business coalitions to coordinate provider and payer activities.

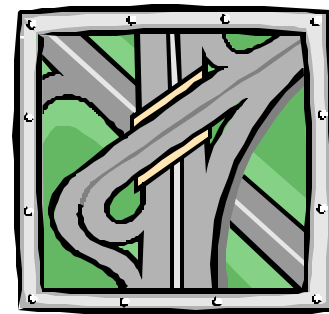
4. There are no guidelines for milestone dates for the transactions. There are data dependencies

and business processes linking the claim, the prior authorization request, and the remittance advice, but no consensus on concurrent implementation versus staggered implementation, or which should come first. Timing requires serious planning between providers and payers.

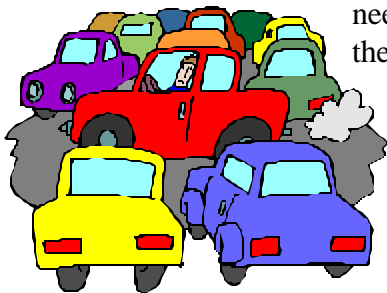
- 5. If the timing of implementing transactions and resolution of local code workarounds is not concurrent, the State needs a strategy to enable testing of transactions to proceed while decisions on code sets are in the works. The interdependency of codes shared by transactions complicates this decision.*
- 6. Can the Medicaid agency handle increased paper volume if deadlines for either providers or payers cannot be met?*
- 7. It is likely that some providers will be ready and some will not. If this and other sequencing issues lead to supporting parallel processing systems, does the State have the capacity?*

“You Take the High Road, and I’ll Take the Low Road...”^{3/4}
Coordinating with Providers and Other Partners^{3/4}

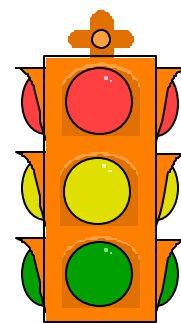
The Year 2000 efforts of providers and payers proved that coordination is possible. However, HIPAA “ups the ante” and requires joint planning on a scale never before attempted because both providers and payers must be independently compliant and because of the number of transaction formats to be changed and the amount of local code workarounds required. The sequencing issue addressed above makes it critical to begin forming coalitions with providers and other payers now, and continue throughout the multiple waves of HIPAA implementation until all end-to-end testing is completed.



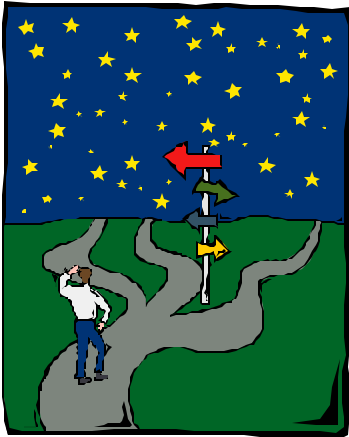
Making the Electronic Highway Safer^{3/4} The current version of the Security Rules touches all levels of applications, facility, hardware, personnel, networks, and data. States need to compare their security procedures and laws against the AS Rule. Providers and payers alike are faced with the question of what is the appropriate level of security for each component. How much security is needed and how much can be afforded? Meeting security requirements affects business practices as well as systems, and calls for large training budgets.



Road Stop to Consider the Business Practice Changes Needed for Privacy^{3/4} Privacy and Security have some points of overlap. It is possible to have a secure system without assuring privacy. Coordination of efforts is needed to assure that all requirements of both regulations are implemented. Privacy has a potential to create even larger changes to business practices at both the provider and payer ends, and may require even more training. Most health plans and providers will face major culture changes in meeting privacy requirements.



Do You Need an Appropriation to Build the New Road? ³/₄ *Impact on Budgets and Resources* ³/₄ Estimates of costs to implement HIPAA are all over the map. Frequently heard opinions include “1½ times the cost of Y2K” or “twice the cost of Y2K”. Much depends on the strategy selected and the amount of other system enhancements undertaken. HIPAA will likely drain the pool of skilled resources even more than Y2K and the stress on Human Resources and budgets will increase as the implementation deadline approaches.

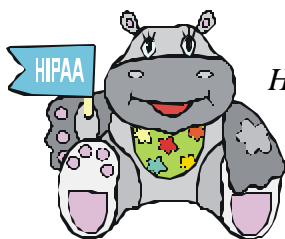


All Roads Lead to Rome.... Renovate? Replace? Install Translator? Use Clearinghouse? ³/₄ There is no single solution. Each State has to establish its own strategic plan. Whatever the overall direction, some amount of BPR, information systems strategic planning, and attention to interoperability of components is likely to be part of the picture. States are putting more emphasis on the role of the Chief Information Officer (CIO) and some are considering introducing a Systems Integration function to focus the planning and implementation efforts for HIPAA. A big decision for every State is whether to use a translator, and if so, build or buy?

The forces driving HIPAA are the forces of change at large in the 21st century. Health care as an industry is moving away from paper and into automation of workflows, frequently by-passing standard systems alternatives and opting to jump in one leap to web-enabled solutions. Technology provides a big impetus for this change, but HIPAA/ AS makes it feasible by enforcing implementation of standards and consumer protection uniformly across the industry.



Faced with the burden of implementation, it is easy to lose sight of the goals and rewards of AS. The major impacts on budgets and resources; the complications of sequencing issues, system changes, coordination with partners, and business processes changes; and the risk of missing the implementation dates are all serious concerns. But the cost of *not* making these changes now is far greater. In order to achieve AS, a massively complex implementation plan is required. There are no shortcuts but at the end of the road lies greater efficiency, modernized operations, operational savings, sharing of data on a scale never before possible, and a health care system benefiting as a whole from enabling technology.



HIPAA the Hippo says: “Don’t forget to read the latest edition of the Medicaid HIPAA Plus on the HCFA web site at www.hcfa.gov/medicaid/hipaapls.htm.”