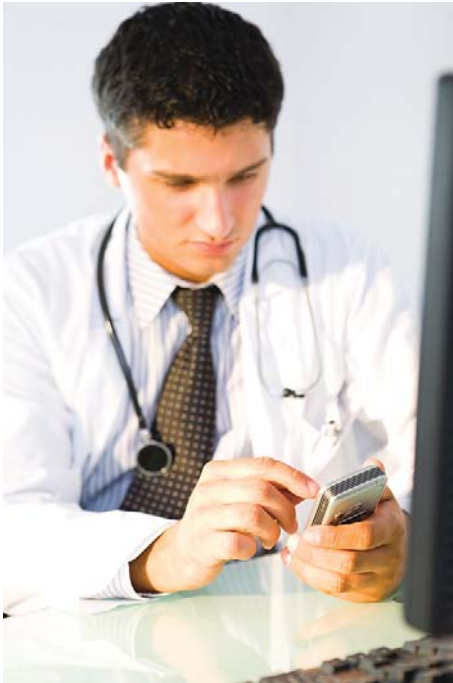


CREATING A FINANCIALLY SUSTAINABLE HEALTH INFORMATION EXCHANGE



Historically, health information exchanges (HIEs) have faced numerous challenges to their viability, but arguably none has been more daunting than financial sustainability. Securing initial seed funding, usually through grants or similar awards, can put an HIE on the map. The Office of the National Coordinator for Health Information Technology (ONCHIT) is currently providing funding for such efforts through State-Level Cooperative Agreements, but these awards are usually given either at once, or during a brief window of time. Building and executing a business model that provides sufficient cash flow to support the HIE long term has eluded most efforts to date. As the program managers for NEHEN (New England Healthcare Exchange Network), one of the nation's longest-running HIEs, we find that there are three core principles to creating and maintaining a HIE's financial sustainability. These principles are:

- Build a nexus around key payer and provider organizations to secure private funding
- Provide a clear value proposition to participants
- Structure the deal intelligently to anticipate challenges and change

Build a Nexus

Securing private funding for a HIE is crucial to its long-term survival. Grants can be vital for start-up, and for supporting initial operations, but cannot be counted on to sustain an exchange in perpetuity. Therefore, targeting the right organizations for inclusion in the HIE is an important undertaking.

The majority of HIE participants will be healthcare provider organizations and health insurance companies. By recruiting the healthcare providers and health insurance plans with the largest numbers of covered lives, it is possible to build a nexus of participation that over time will draw smaller players in to the exchange to provide additional funding. Providers will be drawn to the exchange by virtue of its broad support for a majority of their patients' insurance plans, and payers will be drawn to it to receive transactions from the largest provider organizations through a single channel.

It's important to note that some states have anti-trust policies in place that limit the involvement of certain entities in these kinds of cross-industry organizations; be aware of any such limitations that may affect your target participants.

Create a Core Value Proposition

When targeting healthcare providers and payers for participation in the HIE, with the goal of securing their financial support, it is important to present them with a clear value proposition: what's in it for them? In order to create a long-term sustainable HIE, the HIE should, at a minimum, provide services that replace existing costs. For example, a traditional HIE has neglected administrative transactions, such as member eligibility, claim submission, and electronic authorizations and remittances. However, supporting these transactions without a HIE costs both payers and providers significant dollars by way of the per-transaction fees. By participating in a fixed-cost HIE that includes administrative exchange, participants can enjoy savings from their administrative transaction costs which can then balance the cost of implementing other information exchanges, such as clinical data.

For providers, a HIE can offer many benefits, both in terms of revenue enhancement and cost savings. Medicare and Medicaid providers can earn sizeable incentives from the dollars set aside in the HITECH portion of the American Recovery and Reinvestment Act of 2009 for adopting electronic medical records systems, and their "meaningful use" includes several requirements for the exchange of health information; starting with the exchange of lab results, medication lists, patient eligibility and claims,



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and e-prescribing. Providers can save money by participating in a HIE not only by disintermediating traditional clearinghouses and their per-transaction fees, but also by streamlining their technology operations and reducing the number of technical interfaces they need to support. Another example of cost-avoidance from a HIE is the delivery of hospital and emergency room discharge summaries to the next setting of care. Typically providers pay \$10 – \$15 in manual labor and mailing costs to package and deliver discharge summaries, and this can be done much more cheaply by an electronic service, reducing the overall costs to HIE participants.

Health insurance payers stand to benefit greatly from participation in HIEs by virtue of their cost-savings potential. The more transactions payers receive through a HIE, the fewer they receive through their per-transaction fee clearinghouses; saving with every transaction migrated from one channel to the other. Increasing electronic exchanges with providers can also cut down on manual costs incurred by labor at call centers, rework from rejected claims and processing of paper transactions. In addition, like providers, payers can save by streamlining their technical operations and consolidating their disparate technical interfaces into a single HIE shared by many participants.

Reporting the ongoing financial results to the exchange's constituents is an excellent technique for building and reinforcing the core value proposition to current or potential participants. Analyze the opportunity cost of not participating in the HIE, both from a cost-avoidance and revenue-enhancement perspective, over the duration of the deal. Then, overlay the expected costs and revenue enhancements (e.g., meaningful use payments) from participation in the HIE, and participants will understand the value they are earning from their membership fee at a glance.

Structure the Deal Intelligently

Since private funding is rarely sourced from a single participant in a HIE, the structure of the deal among the participants is a key component to the exchange's survival. From the beginning, determine how costs will be fairly allocated between participants, and agree to how new participants in the exchange should share those costs. Though startup and initial operating costs can be defrayed by State and Federal grants, those sources of capital will diminish over time; in the case of ONCHIT's State HIE grants, these grants will end entirely in five years. Also, decide on the duration of the current deal structure, and establish clear rules for terminating or continuing the deal should it survive to the end of the agreed-to duration. Finally, agree to rules that will govern how the participants will fund any shortfalls the exchange should experience, or any capital requirements related to building the exchange. Subscription fees from participants should provide enough revenue to cover ongoing operations as well as an allocation for ongoing expansion of the exchange's capabilities.

We recommend eliminating per-transaction fees and making participation a fixed cost so that organizations can gain financial and operational leverage by increasing their participation. Depending on the maturity of the exchange, number of participants and breadth of services, the percentage of revenue allocated to developing new features should range between 40 percent for less mature, smaller exchanges, and 20 percent for established, feature-rich exchanges. Bear in mind that the demands of developing specific functionality to reach HITECH's meaningful use goals may mandate a shift of the financing balance among the participants in your HIE, as health insurance payer participants might not reap the same rewards from reaching the incentives as providers could.

Getting It Right

Making sure all these principles are represented and adhered to when launching and running a HIE can be a tremendous challenge. But by following the three core principles, decision makers will go a long way to ensuring their efforts stay on solid financial ground.

Learn more at www.csc.com/HealthforStates.

Next Steps

Contact CSC to discuss how we can help with your state-level efforts as per HITECH and health reform. For more information, please contact Linda Liano at 610.407.5667 or lliano@csc.com.