

Economic Stimulus Package

Healthcare IT Incentives for Critical Access Hospitals

The passage of the American Recovery and Reinvestment Act (ARRA) of 2009 provides incentives for critical access hospitals to tap into the power of electronic health record (EHR) systems. Hospitals, critical access hospitals, health systems and office-based physicians may be eligible to benefit from the incentives — whether through first-time deployment of a certified EHR or completion of existing healthcare IT projects that otherwise meet the ARRA requirements.

Snapshot of the Stimulus Package

- Plan includes \$19 billion to accelerate EHR and other IT adoption
- Incentives for critical access hospitals based on actual investment and cost
- Funds expected to become available for critical access hospitals on Oct. 1, 2010
- Funding and incentives are tied to demonstrating “meaningful use” of a certified EHR system

Current Medicare Reimbursement Methodology and Future Penalties

Critical access hospitals are currently reimbursed on a cost-based method and receive 101% of the Medicare allowed cost. If the critical access hospital does not achieve meaningful use of a certified EHR by 2015, then the hospital will begin to accrue penalties in reduced reimbursement rates.

- 2015: Reduced to 100.66% of cost
- 2016: Reduced to 100.33% of cost
- 2017: Reduced to 100% of cost

Incentive Overview

Beginning in 2011, critical access hospitals that demonstrate meaningful use of certified EHR systems are eligible to receive “prompt interim payments” based on accelerated depreciated cost of the EHR system. The incentive could greatly impact a hospital’s ability to implement a fully integrated hospital information system and demonstrate meaningful use.

Meaningful Use

To qualify for the incentive funds, hospitals must prove meaningful use of certified EHR systems. While general meaningful use criteria have been proposed and an interim final rule is expected in December 2009, a final rule is not expected until Spring 2010. However, it is clear that hospitals will have to demonstrate measurable results in quality, safety and efficiency improvements to receive funds. Required product capabilities are expected to include computerized physician order entry (CPOE), clinical quality reporting and interoperability. Qualification criteria may be altered and expanded on an annual basis.

Certified Systems

System certification requirements are not final yet, but will be matched closely to meaningful use criteria and will include requirements for security, privacy and interoperability. Until a certification process is defined, many industry experts believe that the health IT market will continue to rely on the Certification Committee for Health Information Technology (CCHIT) standards.

Critical Access Hospital Provision

Incentives for critical access hospitals are based on the accelerated depreciation cost of the EHR on a yearly basis, calculating in Medicare patient share plus a 20% bonus. Hospitals must qualify by 2012 to receive the maximum incentive amount. Critical access hospitals can receive incentives for up to four years; however, no payments will be made after 2015.

Critical access hospital incentive payments will be calculated per hospital using the following formula:

$$\text{Yearly Cost} \times \text{Medicare Share} + \text{Bonus}$$

Yearly Cost is the accelerated depreciated cost of the EHR system. The depreciated costs includes any remaining depreciation from prior EHR systems, as well as the full cost of the eligible new EHR system (100% depreciated in year one). Cost cannot include interest expense.

Medicare Share is based on inpatient bed days with exclusions for charity care (same formula as general hospitals).

The **Bonus** is 20% of the Yearly Costs.

In Year One, a critical access hospital applies with a Yearly Cost that includes depreciation of previous EHR and 100% of new EHR expenses. In Year Two, additional incentives can be applied for if they have applicable EHR costs. The same would apply for Year Three and Year Four; however, no payments will be made after 2015.

Taking the Lead: Achieve HIT

At McKesson, we believe health systems that take advantage of technology, focus on improving clinical outcomes, and position themselves for stimulus funding stand a better chance of surviving current economic challenges and emerging as leaders.

To help providers plan and prepare to qualify for the healthcare IT (HIT) incentives, McKesson launched the **Achieve HIT** program. In addition to educating our customers on the latest information from Capitol Hill, the program includes clinical assessments and other activities to help you develop a strategy to accelerate HIT adoption and qualify for the incentives.

Next Steps

Now is the time to evaluate your current IT plan in light of your overall strategy and potential funding from the

government incentives. You should consider what it might take to achieve meaningful use, both in terms of your target year for reaching that point and possible trade-offs to other parts of your strategic plan. You also should take into account the IT needs that are critical to your physician alignment strategy.

Information Exchange

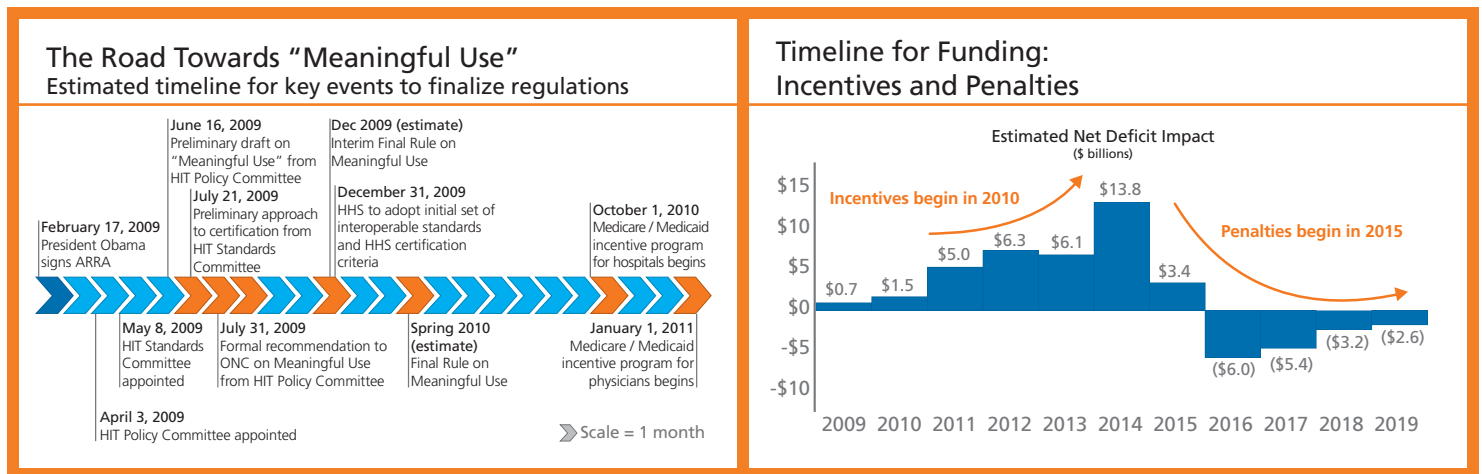
Providing secure connectivity for your physician community will be critical as physicians adopt EHR technology and gain the ability to share healthcare information with your organization, physicians, labs and more. Putting that infrastructure in place now positions your organization to differentiate itself in the community and lead its efforts.

McKesson welcomes the opportunity to take an active role in the planning and delivery of an IT strategy that supports

your ability to provide safe, efficient and better connected care. As the leader in healthcare IT, we offer proven systems with sophisticated analytics that support the measurement of IT use and impact. McKesson has the resources to meet the needs of all affected providers: small critical access hospitals and large health systems, employed physicians, and small and large physician practices.

For More Information

To learn more about Paragon, McKesson's hospital information system designed for critical access and community hospitals, visit www.mckesson.com/paragon.



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