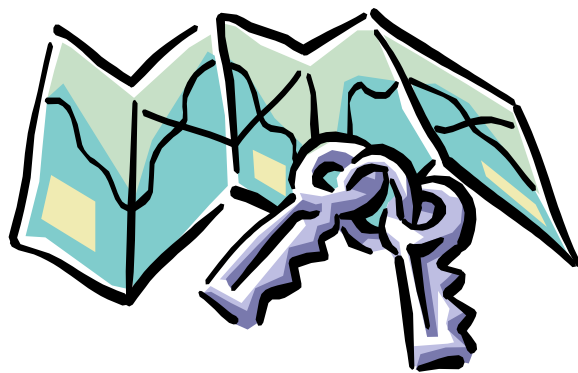


**Centers for Medicare & Medicaid Services**

**HOW HIPAA IS RESHAPING THE WAY WE  
DO BUSINESS:**

*The Benefits and Challenges of Implementing the  
Administrative Simplification Standards along the  
HIPAA Highway*



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## THE HIPAA HIGHWAY – The Overview

The Health Insurance Portability and Accountability Act of 1996 – otherwise known as HIPAA - adopts standards for Electronic Data Interchange for the purposes of standardizing the administration of health care and creating more efficiencies.

Conducting Electronic Data Interchange or EDI, a technical term for moving data electronically, has been around for a while. In fact, EDI standards have been developed and utilized by a number of industries and exist in your everyday life making it simpler by allowing daily activities to be done faster. Take for instance, bar codes otherwise known as UPC codes. As far back as 1969 standards for products sold at grocery stores were being discussed. It took four years for standards to be put into place and used. In 1974 a pack of Wrigley's gum became the first product to be scanned using the UPC in a supermarket in Ohio. The retail industry has forever been changed as a result.

With the signing and publishing of the *Final Rule for Health Insurance Reform: Standards for Electronic Transactions* on August 17, 2000, the countdown for standardizing the administration of health care as a result of HIPAA's Administrative Simplification provision, began.

Whether you are a provider in the vanguard of HIPAA implementation, or are just beginning the journey into this new era of health care, take a moment to reflect on why many leaders in the health care industry support Administrative Simplification, how it can benefit you and your data exchange partners, and how you can best prepare to meet the challenges ahead.

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 hurdles you may face along the way.

## VIEW FROM THE FINISH LINE – A Post-HIPAA Implementation View

The expectation is that at the end of the HIPAA highway, the health care payer, the provider, and the consumer will find a new and improved landscape. Whereas in today's health care industry communication still relies on mail service, telephone calls, and fax transmittals, and where parties use a multitude of formats, codes, and conventions, we are moving toward a new destination where communications are electronic and everyone speaks the same language.

Providers are expected to benefit from HIPAA Administrative Simplification. Major efficiencies can be achieved after the standards have been implemented. Although providers may experience challenges upgrading their systems and with their data exchange capabilities, the end result will be more efficient and timely communications with payers. One format and one set of codes for claims, remittance advice, service authorization, eligibility verification, and claims status inquiry should enable this.

Providers have testified that the accounts receivable and payment reconciliation process is easier, less time consuming, and more accurate when the HIPAA standard claims and remittance advice transactions are implemented. Standards should also speed up inquiry and response time for eligibility verification, service requests, or claim status.

Ultimately, implementation of the standards promises the payers 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, and the opportunity to renovate antiquated systems and streamline business processes. Standardized formats and data content should also improve the Coordination of Benefit process.

Consumers also share indirectly in the improvements associated with Administrative Simplification. Standards, combined with on-line data exchange, result in improved coordination of care for the patient. Consumer portals for health care information, disease management, privacy practice notices, and provider registries can all benefit from standardized data.

## TRAVEL TIPS – Challenges That May Lie Ahead

At this point in the journey, the landscape presents some challenging twists and turns. Some of these are highlighted in the following pages, e.g., transition to e-business, loss of local codes, sequencing issues, coordination between providers and other partners, implementation of security and privacy requirements, and compliance strategies.

***Reshaping the Roadways***—HIPAA implementation planners foresee opportunities to streamline business processes because HIPAA is encouraging electronic transactions and automation of activities. Take advantage of the need for a HIPAA solution to consider how e-business could help your practice. There will also be greater use of the Internet for communications. Data standardization will inspire new ways to conduct data exchange. Is your office or medical business looking at these opportunities for business improvement? Take for instance checking eligibility. Conducting this function electronically could save your office staff time that otherwise would have been spent on the phone on hold waiting for the same information.

***Life after Loss of Local Codes***—HIPAA eliminates the use of Local Codes. Only Standard Code Sets named in the Rule may be used. Since most payers have created Local Codes for procedures, drugs, provider types, and many other data fields, and these codes are drivers for many automated processes, payment logic, and reports, creative

changes to operations and systems must be developed to compensate for the missing data. HIPAA adopts specific national code sets many of which are already in use today. To find out what clinical codes sets have been adopted as standardized codes sets under HIPAA, refer to the attachment at the end of this paper.

***Dealing with the Testing and Implementation Process*** — Coordinating with Providers and Other Partners—The Y2K efforts between providers and payers proved that coordination is possible. However, HIPAA “ups the ante” and requires more joint planning 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 changes required.

The following list discusses some of the testing and implementation issues:

1. *There is no mandated national implementation plan. The Workgroup for Electronic Data Interchange (WEDI's) Strategic National Implementation Process (SNIP) has a number of white papers on HIPAA available on their website at [www.wedi.org](http://www.wedi.org). 38 States have formed local SNIP organizations to address the issues of HIPAA implementation. To find out if your state has a local WEDI-SNIP affiliate go to: <http://www.wedi.org/snip/public/articles/index%7E8.htm>*
2. *There are no requirements for implementing one standard transaction before another so long as you are ready to test your systems internally no later than April 16, 2003 and are prepared for the compliance date of October 16, 2003 for using the standardized transactions. Timing requires serious planning between providers and payers. For a paper on “sequencing” that discusses the suggested order for implementing the transactions see the WEDI website link above.*
3. *If the timing of implementing transactions and resolution of local code changes are not synchronized, payers and providers will need 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.*
4. *Providers who will receive updated vendor software and load it onto their systems may have to be prepared to continue operating under old systems until their payers are ready to accept transactions in HIPAA compliant format.*

The testing and implementation issues addressed above makes it critical to begin forming coalitions of providers and other payers now, and continue throughout the multiple waves of HIPAA implementations until all end-to-end testing is completed.

***Do You Need an Appropriation to Build the New Road?—Impact on Budgets and Resources***—Estimates of costs to implement HIPAA are all over the map. Much depends on the strategy selected and the amount of other system enhancements undertaken. If you have budget and resource constraints it is important to have a contingency plan, discuss your problems with your payers, and document your situation.

***All Roads Lead to Rome.... Renovate? Replace? Install Translator? Use***

***Clearinghouse?*** —There is no single solution. Each provider has to establish its own strategic plan. Whatever the overall direction, some amount of information systems strategic planning, and consideration of e-business opportunities is likely to be part of the picture. If you use a billing service or clearinghouse, you should take a proactive interest in gaining assurance from these contractors that their systems are compliant. If you are uncertain what first steps you should be taking to prepare for the Electronic Transactions and Code Sets Requirements, use our *Provider Readiness Checklist* located at: <http://www.cms.hhs.gov/hipaa/hipaa2/ReadinessChkLst.pdf>.

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 Administrative Simplification 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 HIPAA. 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 could be far greater. In order to achieve Administrative Simplification, you need a road map. At the end of the road lies greater efficiency, modernized operations, operational savings, and a health care system benefiting as a whole from enabling technology.

## **ATTACHMENT 1 - Clinical Code Sets Standards**

- Diagnoses and Inpatient Hospital Services - ICD-9-CM (International Classification of Diseases, Revision 9, Clinical Modification). This is a 3-5 character code most of which are numeric, but some of which are alphanumeric. ICD-9 is maintained by the Department of Health and Human Services (HHS).
- Physician and All Other Services – CPT (Current Procedural Terminology)-4/HCPCS (Healthcare Common Procedure Coding System). The CPT is a proprietary medical code set maintained and copyrighted by the American Medical Association, and consists of 5 numeric characters. HCPCS Level I codes are the CPT-4 codes.
- The Healthcare Common Procedure Coding System, or HCPCS, is a non-proprietary medical code set for health related procedures and services, equipment, supplies and durable medical equipment that is maintained by HHS. It is a 5-character code: an initial letter followed by 4 numbers. These codes comprise Level II of HCPCS.
- Drugs, Biologics– NDC (National Drug Codes). This is an 11-character code. The standard is maintained by the HHS Food and Drug Administration in collaboration with drug manufacturers. The NDC is used by retail pharmacies.
- Dental Services – Code on Dental Procedures and Nomenclature, referred to as the CDT, a dental code set maintained and copyrighted by the American Dental Association. It consists of 5 characters: an initial letter “D” followed by 4 numbers.

Each adopted code set maintainer must adhere to certain requirements:

- Codes must be updated as needed
- Codes must have a low cost and efficient distribution mechanism