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United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-256778

April 20, 1994

The Honorable John D. Rockefeller IV
Chairman, Subcommittee on
Medicare and Long-Term Care
Committee on Finance
United States Senate

Dear Mr. Chairman:

As part of an overall strategy to improve the efficiency and effectiveness of Medicare operations, the Health Care Financing Administration (HCFA)--the agency within the Department of Health and Human Services that administers Medicare--has contracted for the design and development of a new automated claims processing system called the Medicare Transaction System (MTS). MTS is intended to replace the multiple claims processing systems currently used by Medicare contractors with a single government-owned system.

In January 1994, we issued a report at your request that described the benefits HCFA expects from deploying MTS and the procurement safeguards needed to assure that MTS is designed and implemented as planned.[1] The report noted that inherent risks are associated with implementing a system the size and complexity of MTS, including cost overruns, schedule delays, and system deficiencies. To help address these concerns, we recommended continuous top management involvement and annual progress reports to congressional committees.

Because the Congress is considering legislation to reform our nation's health care system at the same time that HCFA is developing a new claims processing system, concerns exist about whether MTS will be able to accommodate potential health care reform changes. As discussed with your staff, this letter provides additional information

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[1] Medicare: New Claims Processing System Benefits and Acquisition Risks (GAO/HEHS/AIMD-94-79, Jan. 25, 1994).

about HCFA's plans to incorporate health care reform changes into MTS. Specifically, we discuss (1) how the major health reform plans would affect the Medicare program and (2) HCFA efforts to assure health care reform provisions can be incorporated into MTS.

To determine how health reform might affect Medicare and MTS, we reviewed six legislative proposals[2] offering a broad spectrum of approaches to health care reform. For each plan, we identified proposed changes that would affect the Medicare program. We also reviewed documentation from HCFA groups responsible for overseeing the MTS project to determine how HCFA was assessing health reform proposals and considering how they would affect MTS. We reviewed the MTS contract and supporting documentation to determine whether the contract contained the flexibility to accommodate changes from health care reform. Finally, we discussed these issues with HCFA officials.

SUMMARY

Clearly, much uncertainty exists about the specifics of health care reform and how Medicare will be affected. However, except for the single-payer plan--which would eliminate Medicare entirely--and the Stark amendment--which would significantly expand Medicare--pending legislation is not expected to radically change the program. In addition, HCFA officials have stated that MTS can accommodate the changes proposed by the Administration's health care reform plan, as well as those proposed by most other plans.

Because most plans call for some changes to Medicare payment methods and benefits and the implementation of administrative simplification initiatives, it is important that HCFA continuously monitor health care reform developments and periodically assess how changes would affect MTS capabilities. HCFA is attempting to do so. HCFA recently established a group to identify how the reform plans under consideration by the Congress affect Medicare and to provide this information to MTS project personnel. The MTS contract also provides that the MTS design be flexible enough to incorporate health care reform

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[2]The six proposals are (1) H.R. 3600/S.1757, referred to as the Administration's plan; (2) H.R. 3704/S. 1770, the W. Thomas/Chafee plan; (3) H.R. 3222/S.1579, the Cooper/Breaux plan; (4) H.R. 1200/S.491, the McDermott/Wellstone plan; (5) H.R. 3080/S. 1533, the Michel/Lott plan; and (6) H.R. 3698/S. 1743, the Stearns/Nickles plan.

changes.[3] However, the timing of reform could significantly affect whether HCFA can efficiently incorporate any needed changes into MTS.

HOW HEALTH CARE REFORM PLANS AFFECT THE MEDICARE PROGRAM

The reform proposals that we reviewed envision profound changes in the financing and delivery of our nation's health care. However, under most plans the Medicare program would retain its current structure and require relatively modest claims processing changes. Two exceptions are the single-payer McDermott/Wellstone plan and the Stark amendment to the Administration's plan. McDermott/Wellstone would eliminate Medicare entirely, while the Stark amendment would establish a new Medicare part C, adding considerably to the number of persons receiving Medicare benefits. Other changes that would potentially affect the Medicare program and MTS include revisions to payment methods and the program's benefits package, and actions to simplify the program's administration.

Specifically, while Medicare's system for delivering and reimbursing health care would remain largely fee-for-service under most plans, three plans[4] would amend Medicare law to encourage expanded enrollment in health maintenance organizations (HMOs) or other managed care arrangements.[5] Also, two of the plans[6] contain provisions that would expand the Medicare benefits package. For example, the Administration's plan provides a new prescription drug benefit.

In addition, all six plans incorporate provisions to reduce administrative costs by establishing national standards for health care transaction information. Generally, administrative simplification proposals call for (1) standardized enrollment, claim, and encounter information

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[3]The MTS contract provides HCFA with an opportunity to negotiate any needed health care reform changes into MTS.

[4]The Administration, Michel/Lott, and W. Thomas/Chafee plans.

[5]As of March 1993, about 6.7 percent of Medicare beneficiaries received their care under HMO arrangements.

[6]The Administration and Cooper/Breaux plans.

as well as the electronic transmission of this information; (2) unique identifiers for providers, plans, employers, and enrollees; and (3) security and privacy safeguards.[7]

Table 1 summarizes the proposed changes to Medicare in the six plans we reviewed.

[7]Administrative simplification also includes a beneficiary health information card containing, for example, identification and enrollment information.

Table 1: A Comparison of Health Care Reform Provisions Affecting the Medicare Program

Health bill	Changes to payment methods and benefit package	Administrative simplification
H.R. 3600/S. 1757 (Administration)	With the Department of Health and Human Services' (HHS) approval, allows states to incorporate Medicare beneficiaries into health alliances. Provides that person enrolled in alliance managed care plan could elect at age 65 to continue receiving health care through the plan. Encourages enrollment in managed care arrangements. Adds the following benefits: prescription drugs (beginning in 1996), and expanded coverage of services provided by advance practice nurses.	Provides for uniform data standards (within 2 years of enactment); electronic data network (within 2 years of enactment); unique identifiers; health security cards; confidentiality and privacy safeguards (within 2 years of enactment).
H.R. 1200/S. 491 (McDermott/ Wellstone)	Eliminates Medicare.[a]	Eliminates Medicare[b].
H.R. 3080/S. 1533 (Michel/ Lott)	Provides for Medicare-only HMOs; allows enrollment in plans that provide Medicare benefits through provider networks and with lower cost-sharing.	Provides for uniform data standards (within 1 year of enactment); standards for electronic transmission of information (within 2 years of enactment); unique identifiers (by 1995); health identification cards; confidentiality and privacy safeguards.
H.R. 3222/S. 1579 (Cooper/ Breaux)	Provides for additional preventative services and prescription drugs.	Provides for uniform data standards; confidentiality and privacy safeguards.
H.R. 3698/S. 1743 (Stearns/ Nickles)	HHS would study the feasibility of permitting future Medicare beneficiaries to retain private insurance coverage and receive, in lieu of Medicare benefits, certificates for purchasing private insurance.	Provides for uniform data standards; standards for electronic transmission of information; confidentiality and privacy safeguards.
H.R. 3704/S. 1770 (W. Thomas/ Chafee)	Facilitates enrollment in managed care arrangements.	Provides for uniform data standards; electronic transmission of information; unique identifiers; confidentiality and privacy safeguards.

[a]The elderly would receive the same comprehensive benefits as all other persons.

[b]McDermott does address administrative simplification. The bill provides for uniform data standards, electronic identifiers, health security cards, and confidentiality/privacy safeguards.

HOW HCFA WILL ENSURE THAT MTS INCORPORATES HEALTH CARE REFORM CHANGES

Until reform legislation is enacted, HCFA will not be in a position to define the specific system requirements associated with reform. However, HCFA officials have stated that MTS can accommodate the changes proposed by the Administration's health care reform plan and those of most other plans. HCFA has established a staff with responsibility for identifying how the reform plans would affect Medicare and providing this information to the MTS project personnel. Also, the MTS contract provides flexibility to incorporate adjustments reflecting health care reform changes into MTS.

However, timing is key to how efficiently HCFA can incorporate health care reform changes. The further the contractor proceeds in designing and developing MTS, the higher the risk that costly adjustments may become necessary to implement health care reform changes. This adds to the inherent risks associated with the MTS project due to its size and complexity, as we pointed out in our January 1994 report. On the other hand, if changes need to be implemented before MTS is deployed, HCFA could be required to change the 14 existing systems--a costly and inefficient process.

Organizational Structure Is Established to Identify Health Reform Changes

The Special Analysis staff, within the Office of the Associate Administrator for Policy, is responsible for tracking health reform proposals that affect Medicare and analyzing how HCFA will deal with the reforms. Because the staff was formed only recently, on March 16, 1994, written information on its membership and activities was not available. However, HCFA officials told us that two representatives from the Bureau of Program Operations--the HCFA component responsible for managing the MTS project--have been assigned to this staff to ensure that MTS project personnel are aware of potential health care reform proposals. These representatives serve on steering and oversight groups that help direct 10 MTS workgroups.[8]

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[8]MTS workgroups are (1) Provider Information; (2) Claims Payment Inputs; (3) Beneficiary and Provider Relations; (4) Edits and Exceptions Processing; (5) Medical Review, Fraud and Abuse, Audit; (6) Coordination of Benefits; (7)

These workgroups are responsible for analyzing and documenting the current claims processing system and identifying transition problems. They are also tasked with recommending processing system improvements and considering how legislative changes and health care reform affect MTS.

To ensure that MTS is designed to incorporate administrative simplification proposals, HCFA officials told us they are closely coordinating their efforts to define national standards with MTS project personnel. HCFA is an active member of the Workgroup for Electronic Data Interchange (WEDI).[9] HCFA also participates in American National Standards Institute (ANSI)[10] efforts to develop national standards for health care transaction information. HCFA officials pointed out that a member of the MTS project is responsible for keeping other project personnel aware of WEDI and ANSI standardization activities.

Flexibility is Provided in MTS Contract

The MTS contract provides that the MTS design have the flexibility to incorporate future legislative and policy changes. The contract states the MTS design shall provide flexibility "by allowing for changes in claim types, volumes, and turnaround times which may be defined by future legislation and/or HCFA policy. Additionally, the MTS design shall be flexible enough to allow for possible changes in alignment and/or distribution of beneficiaries, claims, and providers."[11] Similarly, another contract section indicates that the MTS design be able to adjust to future legislative or other changes requiring significant expansion in health care claims processing capability.[12]

HCFA Oversight; (8) Management Controls; (9) Financial Management; and (10) Telecommunications.

[9]WEDI is a public/private task force, formed in late 1991 to identify actions necessary to allow health care participants to exchange information electronically.

[10]ANSI is a private, nonprofit organization that coordinates the U.S. voluntary consensus standards system and approves American national standards.

[11]MTS Contract, Section C.3.b(2)(e).

[12]MTS Contract, Section C.3.b(2)(j).

HCFA officials anticipate that the MTS contractor will design the system to permit incorporation of changes in payment methods and benefits. For example, under prepaid managed care plans, HCFA officials expect MTS will be able to collect and process data on services provided to beneficiaries. Currently, health care information provided by Medicare prepaid managed care plans, such as HMOs, is much less detailed than that provided by fee-for-service providers. Because Medicare HMOs often do not submit claims and bills for specific services furnished to beneficiaries, HCFA does not currently receive information needed to conduct outcomes analysis[13] for beneficiaries enrolled in HMOs. HCFA anticipates that comparable payment and quality data for both fee-for-service and prepaid health plans will be collected under MTS.

However, even if additional detail is required for prepaid plans, problems with data completeness and accuracy are possible because providers in a prepaid system may not have an incentive to file timely and accurate data because payment is not dependent on doing so. We believe this problem is inherent in a prepaid managed care approach to paying for health care. It is a challenge HCFA would face with or without MTS.

The MTS contract also requires MTS to incorporate administrative simplification proposals. The contract requires that MTS be designed to process standard forms using a nationally approved electronic format, incorporate unique identifiers for providers and beneficiaries, and meet security and privacy standards.

Timing of Reform Can Affect MTS Efficiencies

Although the MTS contract provides that the MTS design be flexible to allow incorporating health care reform changes, the implementation schedule for these changes is critical to determining whether HCFA can economically and efficiently accomplish the changes.

The MTS analysis phase is scheduled for completion in March 1995. Agreeing on reform decisions before then would enhance the probability that the new system's design can accommodate these changes. If Congress' decision occurs

[13]Outcomes analysis refers to a process of devising measures to assess the effectiveness of treatments and procedures for a number of conditions and diseases.

after the analysis phase, then the probability of costly adjustments to MTS would increase.[14]

On the other hand, Medicare's existing computer systems would have to be reprogrammed if changes under health care reform are required before MTS' start up date. These changes would have to be independently incorporated into as many as 14 different systems--a costly and inefficient process. A major rationale for MTS is its potential to save administrative costs because only one system change would be needed to respond to legislative initiatives.

For example, if a prescription drug benefit, as suggested in the Administration's plan, were implemented before MTS is deployed, HCFA would need to change each of the eight part B systems that currently process Medicare claims or enter into separate contracts for drug claims processing. The change also could require inclusion of prescription drug information in the Medicare Common Working File. Under MTS, a prescription drug benefit should be able to be added more efficiently because only one system must be changed.

The timing of administrative simplification implementation is of a lesser concern. WEDI estimates that an aggressive effort could lead to implementing electronic transmission of information proposals by October 1996. ANSI's standards development schedule calls for national claim standards to be approved in late 1995. HCFA officials stated that by March 1995, when the MTS analysis phase is scheduled to be completed, the ANSI standards will have been nearly finalized and can be easily incorporated in MTS. If ANSI standards have not been approved in time to be incorporated into MTS, the contract calls for the system to use the current standards.[15] However, the contractor is also

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[14]The contract prescribes a method for determining the additional costs of legislative changes and other design changes due to new requirements. Generally, these would be negotiated by the contractor and HCFA and added to the original contract cost.

[15]Currently, Medicare program and existing computer systems as well as large segments of the industry are using HCFA developed standards. ANSI has often used HCFA standards as the starting point for developing national standards.

required to ensure that the system can be easily modified to accept revised standards.

HCFA officials told us that the Special Analysis staff will attempt to monitor the timing of health care reform proposals to help assure consistency with the MTS design and to identify potential problems. Also, MTS project personnel will continuously analyze the effect of health care reform proposals. HCFA officials, in response to our January 1994 report, also agreed to implement several planning and acquisition strategy changes to reduce MTS risks. For example, top management will periodically review MTS' progress at key decision points, such as the completion of the requirements analysis, design, and development phases. These reviews will allow HCFA the opportunity to make appropriate changes, including any changes resulting from health care reform, to the MTS design and development schedule.

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If you have any questions regarding this information, please call me on 202-512-7119.

Sincerely yours,

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