Financing Your EHR Implementation

Options to bridge the ARRA reimbursement gap

White paper

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Executive summary

Under the American Recovery and Reinvestment Act of 2009 (ARRA), healthcare providers who invest in electronic health records (EHR) technology may be eligible to benefit from more than $36 billion in financial incentives. However, because incentive dollars arrive *after* implementation, many practices continue to see cost as a primary barrier to adoption. To bridge the gap, practices may need to arrange for financing, and may want to do so quickly; implementing EHR systems in the first year provides for the maximum incentive payout. And while speed is of the essence, so is making an informed decision. HP helps practices navigate this decision-making process by explaining the full range of financing options and providing a list of key questions to consider for each one.

Introduction

Paying for EHR investments in advance of incentives

Prior to passage of the American Recovery and Reinvestment Act of 2009 (ARRA), with its Electronic Health Records (EHR) incentive program, medical practices have been slow to implement EHR technology. One of the most common reasons cited by practices for not using EHR systems was cost. That's understandable. The average IT budget for a medical practice is well below the initial cost of purchasing and implementing an EHR system .[1, 2] Considering the financial burden, it's no wonder practices have for so long been reluctant to invest in EHR.

The EHR incentive program goes directly to the heart of this concern, by offering medical practices payments of up to $44,000 over five years per Medicare practitioner (or up to $63,750 per Medicaid practitioner) to invest in EHR systems. Yet recent reports indicate that cost continues to be one of the main barriers to adoption. For example, in an Ingenix survey conducted months after the passage of ARRA, 82% of 1,001 physicians and physician practice administrators ranked cost as one of the top three risks in EHR deployment.[3] And more than a year after ARRA passed, *Mass High Tech: The Journal of New England Technology* named money as the first of five key barriers to adopting EHR technology.[4]

The problem is that the federal dollars come *after* initial investment, once a practice has implemented a system and demonstrated its meaningful use of EHR technology. The practice management company Physicians Practice observes that various concerns are inhibiting physicians, including the requirement that they invest in EHRs before receiving any subsidies.[5]

A common misconception about ARRA is that the U.S. government will write checks to thousands of physician practices, to purchase EHRs, as a recent article in *Cardiovascular Business* pointed out. The reality is that practices will have to acquire, install and then demonstrate meaningful use of EHRs before applying for Medicare or Medicaid incentive payments.[6]

The good news is that there are many options for financing EHR systems in advance of payments from the government's EHR incentive program. But the existence of all these options presents a challenge, too. With many choices available, from bank loans to vendor leasing, it can be difficult to determine the optimum choice for a particular practice. This paper examines the broad range of financing options and provides guidance for informed decision-making.

Preliminaries

Being prepared to take advantage of incentives and financing

Before looking at financing, be sure you're positioned for EHR incentive program participation. Understand when you need to act, what you need to finance and how to qualify for the program.

Timing is everything
There is a fairly small window for benefiting from maximum EHR incentives, within which medical practices must meet certain requirements to qualify. Therefore, there is a limited amount of time to arrange for any necessary financing. As the timeline in Figure 1 shows, payments for Year 1 of the program (Calendar Year 2011) can begin as early as May 2011 for practices that can demonstrate that they have adopted, implemented or upgraded EHR technology in Year 1. (Until recently, there was a requirement of 90 continuous days of reporting on efforts to adopt, implement or upgrade EHR technology, but that has been moved to the second year, which should make it easier to collect incentives in 2011.)

Figure 1: Physician Incentive Program Milestones

Year 1 payments stop abruptly on February 29, 2012, so financing and implementation in 2011 are critical to receive the maximum benefit of five years of payments. Payments for Medicare physicians end in 2016, so that doesn't leave much time to benefit. And payments drop by $4,000 in 2012, 2013 and 2014 (and by $2,000 in 2015), so the earlier you begin to collect them, the greater the benefit through the course of the program.

Think beyond software
As you prepare for financing, keep in mind that effective EHR systems do not begin and end with software. Software licenses may be the most obvious component of an EHR implementation, since software provides the essential functionality for keeping records electronically. But to be most effective, that software needs to run on the right hardware. That's why it's so important to refresh hardware as part of an EHR implementation, whether it's a site-installed EHR with significant hardware requirements or a Web-based implementation with reduced hardware needs. As explained in detail in the HP white paper "**Making (the Most of) Technology Transitions",** a PC technology refresh can put in place not only the latest desktops and workstations, but also notebooks, tablets and handhelds to support mobility – enabling a reliable, secure, high-performing EHR implementation that also costs less to maintain and support than one based on older technology. In planning for financing, therefore, plan for an investment not only in software, but also in the hardware that will enable that software to deliver on its full potential. This can influence the financing vehicle you choose, as detailed starting on p. 6 of this paper.

Eligibility requirements
Become familiar with the eligibility requirements for providers within medical practices, if you haven't already, to be sure your practice meets them. For Medicare providers, an eligible professional (EP) as defined by the Centers for Medicare and Medicaid Services (CMS), is a non-hospital-based doctor of medicine or osteopathy, doctor of dental surgery or dental medicine, doctor of podiatry, doctor of optometry or chiropractor. For Medicaid providers, an EP is defined a non-hospital-based physician, nurse practitioner, certified nurse-midwife, dentist or physician assistant. Medicaid EPs must furnish services in a Federally Qualified Health Center or Rural Health Clinic led by a physician assistant. They must also meet one of the following specific criteria:

- Have a minimum 30% Medicaid patient volume;
- For pediatricians, have a minimum 20% Medicaid patient volume; or
- Practice predominantly in a Federally Qualified Health Center or Rural Health Center and have a minimum 30% patient volume attributable to needy individuals. [7]

Registration requirements
When you register your practice for the program in 2011, you will need to meet the following requirements. If you don't, visit www.cms.gov for more information on how to meet them. Also check the site for announcement of specific dates for registration.

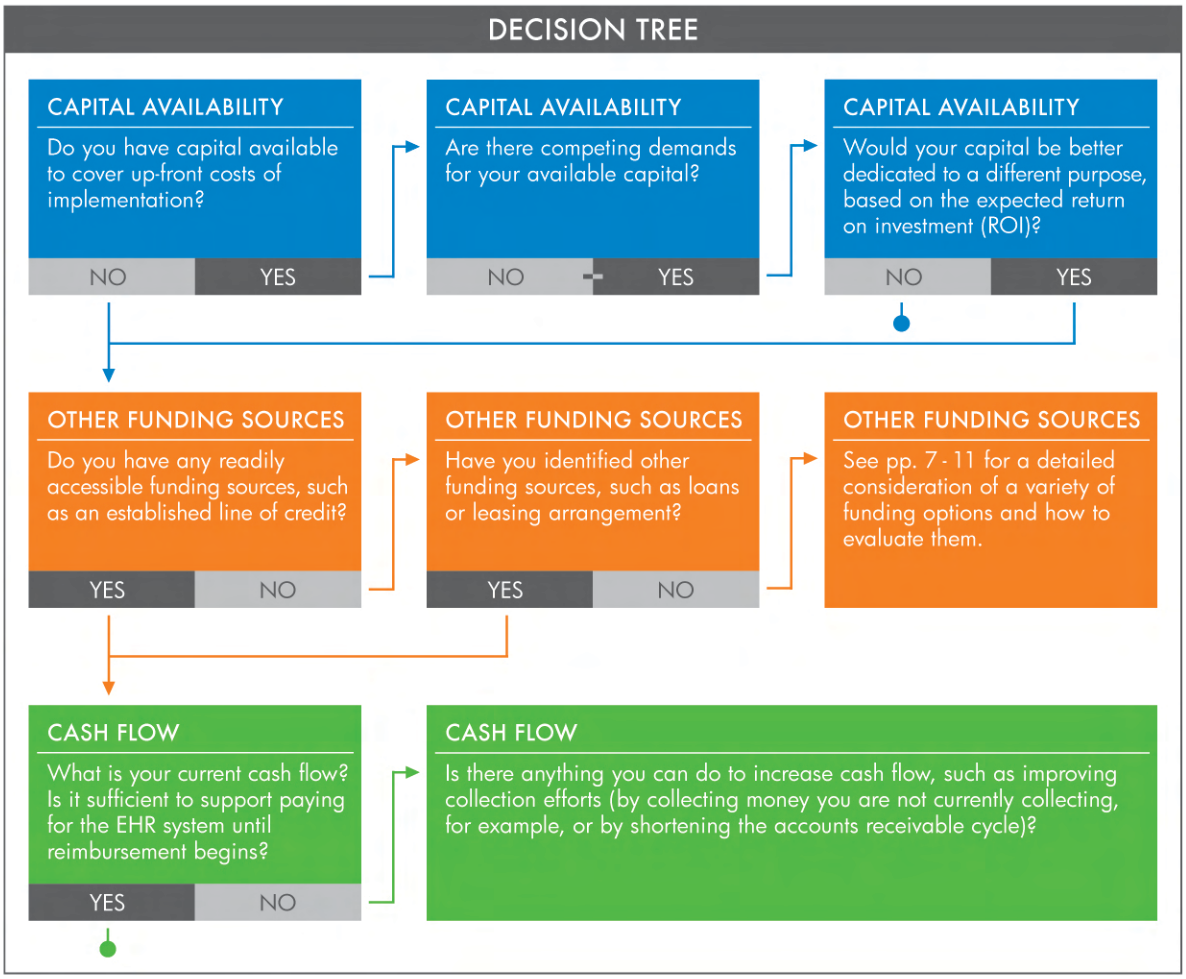
- A National Provider Identifier (NPI)
- Enrollment in the CMS Provider Enrollment, Chain and Ownership System (PECOS), unless you are participating in the Medicaid program only
- An active user account in the National Plan and Provider Enumeration System (NPPES)

Assessment

Establishing a baseline for financing decisions

When you take into account all the potential components of a complete EHR implementation (EHR software, hardware to support it optimally, implementation services), the scope of the investment you may be making becomes apparent very quickly. This scope may vary somewhat depending on whether you are operating in a traditional client/server environment, a Web-based environment with less extensive hardware needs or a hosted environment with little or no software investment – but it's likely to be significant in any case. Assessing your practice's financial readiness for an investment in EHR technology is the first step to take before you can make an informed decision about how to finance it. The following are questions to consider in consultation with your financial advisors.

Figure 2: Medical Practice Funding Decision Tree



Options

Choosing the right payment vehicle for your practice

How to pay for EHR technology until federal incentive payments arrive depends on your practice's specific situation. The following describes the main choices that are available to you, reviews the pros and cons of each, and suggests questions to consider before making a decision.

Cash purchase

Some medical practices routinely use operational cash to pay for technology purchases, particularly smaller purchases such as printers and other peripherals. But cash may not be the best option for a larger purchase like an EHR system. Assuming you have sufficient cash to pursue it, you'll still want to think about how much cash this will leave for other purposes and what else you could be doing with it. For example, could you use it for something else that will bring a rapid, significant return on investment (ROI) instead? Also, if you're thinking of using cash to avoid having long-term loan or lease payments for new software and hardware, keep in mind that you may be able to arrange for a loan or lease that will defer repayment for a period of time. Finally, remember that when you pay cash, you also miss out on advantages of hardware manufacturer financing such as planning for what to do when equipment reaches the end of its useful life.

CASH PURCHASE	
PROS	CONS
• Avoid loan or lease commitments • No effect on credit standing	• Negative impact on practice's cash reserves • Opportunity cost of not purchasing something that offers more immediate ROI • Unnecessary cash outlay if deferred loan or lease payments are available • Missed advantages of manufacturer financing, such as hardware asset recovery

Key questions:

- How much cash do you have available? Is it enough to pay for the EHR system and still have some cash reserves?
- How much will you have left for emergencies or other contingencies after this cash outlay?
- Will you have enough cash left to take advantage of any short-term financial opportunities that could bring more immediate financial benefit to the practice?
- Are you considering cash to avoid having loan or lease commitments, especially if they could affect your credit standing? Have you looked into a loan or lease that doesn't require you to pay back anything until your incentive payments come in instead?
- How easy will it be for you to take appropriate steps to deal with hardware that has reached the end of its useful life?

Bank loan or line of credit

Medical practices often borrow from banks or tap into lines of credit to support technology purchases. Depending on the cost of financing this way, it can be a good alternative to dipping into cash reserves. A line of credit can also be less time-consuming and require less paperwork than a new loan. But if you use a credit line alone, you may end up using most of the credit available so it's important to think through what your practice might need credit for in the next year. If you do go this route, you might consider combining a loan with a new line of credit that will be there to handle unforeseen needs. Keep in mind, too, that choosing either of these options means that you will not have the advantage of financing with terms that can be conveniently tied to hardware refresh timing or software upgrade cycles.

BANK LOAN OR LINE OF CREDIT	
PROS	CONS
• Access to funds to bridge the reimbursement gap • Rapid access to funds through credit line	• Cost of financing (down payment and interest rate) • 100% coverage of all costs may not be available • Extensive loan paperwork and potentially long approval turnaround • Risk of stretching credit line to the limit • Missed advantages of financing that's tied to hardware refresh timing or software upgrade cycles

Key questions for decision-making:

- How favorable an interest rate can you negotiate? Will you have to make a sizable down payment to get a better rate?
- What about terms? Can you get loan payments deferred until reimbursement?
- Will your bank cover 100% of your anticipated cost per physician for EHR technology, or will you need to use cash to supplement the loan?
- Do you need your credit line for other purposes, such as unexpected expenses or to provide working capital for other needs?
- Would it be convenient for you to have the term of your loan coincide with hardware refresh or software upgrade timing?

Alternative loan program

Some states have special funds dedicated to making loans for EHR investments, especially to small or rural medical practices or others for whom the cost of implementing EHR systems may be prohibitive. Examples include the North Carolina Health and Wellness Trust Fund, the Wisconsin Department of Health Services EHR Technology Loan Fund Program and the Minnesota Department of Health EHR Loan Program. Some of these loans may offer lower interest rates (depending on creditworthiness and other factors). Or they may have flexible repayment terms that enable you to defer repayment long enough for incentive payments to start coming in.

ALTERNATIVE LOAN PROGRAM	
PROS	CONS
• May include special low-interest options • May have more flexible repayment terms than a conventional bank loan	• May have greater paperwork requirements and longer approval turnaround than a conventional bank loan • Finite amount of funding ("when it's gone, it's gone") • Availability may be limited to practices of a certain size or geographical circumstances

Key questions for decision-making:

- Does the loan program offer a better interest rate than what is available from the bank?
- Are repayment terms more favorable than the bank's?
- Do you have the time and resources to go through what might be a more demanding application or approval process?
- If your local program has certain conditions related to practice size or location, do you meet those requirements?
- How important is it to you to be able to easily trade in or dispose of hardware at the end of its useful life?

Software vendor financing

EHR software vendors may offer loans for their products, but keep in mind that if you refresh hardware as a part of your EHR project, a software vendor loan will not cover that aspect of the project. You will need to have a separate hardware loan or leasing arrangement. (If you are working with a Web-based model, where software capabilities are delivered over the Internet, your hardware needs will be reduced. In that case, software vendor financing makes sense – especially from a vendor who can tie financing to software upgrade timing.) In addition, a software vendor without the extensive financing resources of a bank may require a higher down payment, charge a higher interest rate on a loan or have less flexible repayment terms. You will also need to be careful to ensure that any financing agreement you sign with a software company does not give the company the right to repossess their product – including your data – in the event of a payment dispute or other problem.

SOFTWARE VENDOR FINANCING	
PROS	CONS
• May be a viable choice for Web-based projects with reduced hardware requirements • Ability to tie financing to timing of major upgrades	• Covers software only; will need separate financing to cover hardware refresh, increasing overall complexity of financing • May require a higher down payment or charge a higher interest rate than a conventional bank loan • Risk of data loss in the event of a payment dispute or other problem

Key questions for decision-making:

- Are you doing a hardware refresh as part of your EHR deployment, necessitating financing that the software vendor cannot provide?
- Do the down payment, interest rate and repayment terms compare favorably with a bank's?
- Does the financing agreement allow repossession by the vendor, potentially putting your patient data at risk?

Hardware manufacturer financing

If you are refreshing hardware as part of your EHR implementation, it makes sense to seek a loan or lease from a hardware manufacturer who offers financing for all components of the implementation, so that you won't have to deal with multiple agreements. Also, with financing from the manufacturer, you will likely have the opportunity to enjoy benefits that don't come with a conventional bank loan, such as formal programs for what to do with hardware at the end of its useful life. Financing from the manufacturer may also be conveniently tied in with hardware lifecycles, so that you finish your loan or lease obligation at the same time that it makes sense to do a hardware refresh. The question then becomes which manufacturer financing program is best for you. For example, some manufacturers contract for financing with a third party who may not offer the financial stability you seek, or whose financial interests may not always align with your financial and technology needs. As part of your assessment of manufacturer financing opportunities, carefully review and take into account the key questions for decision-making below.

HARDWARE MANUFACTURER FINANCING	
PROS	CONS
• Comprehensive coverage without multiple financing agreements • Choice of loan or lease, with the latter offering potential tax benefits over the lease term • Potential for faster approval than with conventional bank lending • Formal programs for trading in, recycling or otherwise disposing of hardware at the end of its useful life • Ability to tie financing to hardware lifecycle • Potential for flexible terms with payments deferred for a period of time • Secure disposal of data as part of asset recovery	• Not applicable if there is no major hardware refresh associated with your EHR investment • Risk of manufacturer using a self-interested third party to provide financing

Key questions for decision-making:

- Does your EHR project include both software and a hardware refresh?
- Are you looking for a capital-conservation alternative to a traditional bank loan?
- What does your accountant say about the effect of leasing vs. buying on initial capital costs and on taxes over the lease term?
- How long does your manufacturer expect approval to take? How does that compare with other financing options you're checking into?
- Is your manufacturer willing to offer a payment schedule that coincides with incentive payments you're expecting to receive?
- Does the manufacturer use the services of a third party for lease financing? If so, is their pricing competitive with other alternatives? Are their qualification thresholds higher due to recent adverse economic circumstances?
- If there's a third party involved, are their interests in line with yours? For example, at the end of a certain amount of time, will they support financing for a technology refresh, or try to extend your existing lease because it's in their financial interest?
- How important is it to you to know in advance what you will do with hardware when it comes to the end of its useful life?
- Would it be convenient for you to have financing tied to your hardware lifecycle, so that, for example, you loan or lease comes up at the same time that a hardware refresh would be beneficial?
- Assuming your manufacturer has an asset recovery program, does it include secure data disposal at the end of the hardware's useful life, to help you comply with HIPAA and other regulatory requirements?

Reseller financing

If a major hardware refresh is part of your plan, you may be considering buying hardware from a reseller with whom you already have a relationship. This may be a good choice for you, depending on the size of the purchase; it may be bigger than you have made in the past with this source. Your choice may also depend on whether you are purchasing a hosted or web-based solution. In a hosted environment, there is no software investment other than annual licensing fees, so you need hardware financing only. Otherwise, you may need two financing arrangements, one for hardware and one for software, since few resellers are likely to have the resources to offer both hardware and software financing. (Some, however, may require you to include a services component in the financing.) Also, consider that resellers, like some hardware manufacturers, generally contract for the financing component of a deal with third parties who may not be financially stable, or whose priorities may differ from yours.

RESELLER FINANCING	
PROS	CONS
• Existing trusted relationship	• May be a larger financing requirement than the reseller is equipped to make • Unlikely to offer both hardware and software financing • May require buyer to include a services component in financing • Risk of reseller using a third party for financing • May not be able to defer first payments

Key questions for decision-making:

- Are you doing a complete technology refresh to optimize your EHR implementation? How large will the hardware investment need to be?
- Are you pursuing an outright software purchase, Web-based solution or hosted arrangement?
- If the reseller uses a third party for financing, is their pricing competitive with alternatives? Are their qualification thresholds higher?
- Can you get financing that defers payments for a period of time until the incentive money starts coming in?

Conclusion

While there are multiple ways to finance EHR systems before incentive payments kick in, choosing the best route to pursue can be a challenge. In addition to taking eligibility, registration and budget details into account, practices must consider their planned software environment (client/server, Web-based, hosted solution) and whether to additionally consider a hardware refresh. These answers lead to new questions, such as whether to use available cash reserves, secure a bank loan, or pursue financing from software or hardware manufacturers or resellers. Your answers will be unique, based on needs of your business and discussions with your financial advisors. This guide, provided by HP to help you understand and navigate your financing options, can help.

About HP for healthcare

Healthcare organizations across the nation depend on HP's industry-leading healthcare technologies. HP brings to the healthcare landscape a 50-year history of innovation; end-to-end, tailored solutions based on best-in-class technology; and rock-solid IT that delivers the high reliability, security and manageability that healthcare environments demand.

Financing from HP Financial Services

Many of the organizations that rely on HP systems for healthcare also look to HP Financial Services for leasing and financial services to help them manage their technology investments. HP Financial Services is the second-largest captive information technology leasing company in the world, with comprehensive solutions that cover everything from planning and acquiring systems to replacing and retiring them.

As a source of financing for EHR systems, HP Financial Services offers the advantage of providing one arrangement for all aspects of implementation, including software, hardware and services. This simplifies financing by eliminating the need for separate leasing and/or loan arrangements for each component – each with its own financing and repayment terms to keep track of. And HP Financial Services terms are competitive, including special low-rate offers on financing for EHR systems.

Unlike some manufacturers, HP Financial Services does not contract with third parties to provide financing. This eliminates the risk that EHR system financing will be tied to a financial organization that may have higher approval thresholds or financing costs in place as a result of losses suffered in the recent economic downturn. HP Financial Services is a financially stable organization that suffered no such losses and whose lending and leasing practices have in no way been affected by an adverse economy.

Complete EHR Support with HP EHReady

Specifically to support EHR adoption, HP has developed the HP EHReady program, which provides an end-to-end solution of hardware, software and IT services to help guide hospital-affiliated physicians through EHR implementation. The program covers everything including assessments, network and device installation, training and financing (through HP Financial Services). It's designed to deliver EHR solutions that may help healthcare professionals meet the meaningful use objectives established by CMS and the US Department of Health and Human Services (HHS) for the federal EHR incentive program.

For more information

To read more about HP technology for small and medium-sized medical practices, please visit: http://www.hp.com/sbso/solutions/healthcare.

Notes

1 Based on the average allowable first-year cost of $25,000 for purchasing and implementing an EHR cited in the Health Information Technology for Economic and Clinical Health (HITECH) Act portion of ARRA. www.gpo.gov/fdsys/pkg/PLAW-111publ5/pdf/PLAW-111publ5.pdf, p. 492.

2 Based on estimates of $25,000 to $50,000 per physician for hardware, software and implementation costs, attributed to Stratis Health in Docs told to beware of cheap financing for IT upgrades, *Modern Physician,* March 8, 2010.

3 Financial Consideration Dominate Physician Attitudes Toward EHRs, Ingenix Research Brief, October 30, 2009.

4 5 key barriers to adopting electronic medical records today, *Mass High Tech: The Journal of New England Technology,* April 28, 2010.

5 EHR Incentives Update: Meeting the criteria for stimulus funding entails some big challenges, Physicians Practice, February 1, 2010.

6 Financing Opens Up in Push to Install EHRs, *Cardiovascular Business*, January 28, 2010.

7 CMS Eligibility for Individual Medicaid Providers.
https://www.cms.gov/EHRIncentivePrograms/20_Eligibility.asp

4AA3-2148ENA, December 2010