Budgeting for ICD-10: Hardware Costs Should be Peaking Next Year, Contract Support Rising

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Breaking down costs by category helps tackle a complex task. Different expenses will peak in different years, and not all costs will be obvious.

Implementing ICD-10-CM/PCS will be one of the most expensive endeavors the healthcare industry has faced in recent history. Costs for the entire implementation will range from the obvious modifications to hardware and software applications to not-so-obvious costs resulting from decreased productivity in processing approved claims.

Financing the implementation encompasses multiple project budgets that vary with each individual year in the timeline. Assuming the organization is following a progressive implementation schedule across multiple years, each year's budget should include expenses incurred within that year as well as added funds to a contingency reserve. Expenses can be divided into the following six categories.

Hardware

An early step in the implementation program should be an inventory of all systems that require modifications to support ICD-10-CM/PCS. That analysis likely discovered the need to upgrade applications, resulting in the need for more robust hardware.

Servers, workstations, and monitors may all need to be upgraded or replaced to support the production environment. Additional hardware may also be necessary. Throughout implementation, the organization will require servers and hardware to support the extensive testing efforts, and hardware will be required to support processing dual codes (both ICD-9 and ICD-10) until all claims in ICD-9 format have been settled.

Hardware, and even workstations, will need to be installed prior to loading software, which places the purchase of hardware before or during the 2011 fiscal year. Hardware is the foundation of the technology infrastructure for current regulatory requirements and will require a comprehensive plan to coordinate the various technology upgrades. These costs may not directly hit the HIM budget depending on the organization; however, they should be considered for the overall program budget.

Software

Vendors may charge additional fees for application upgrades as well as support services accommodating the ICD-10 code sets. In mid- to late 2011 vendors may begin to implement test applications, including interfaces, requiring deposits and implementation fees along the way.

Budgeting for these expenses will span through 2012 due to the variations in vendor delivery schedules. Budgeting correctly for software expenses requires working with the internal contract management team to understand each vendor contract terms. Then the organization must work with its vendors to identify additional technology and implementation service fee schedules.

Vendors may require deposits ahead of delivery and collect payments over several months throughout the year. Budgeting for comprehensive software costs can be challenging, as services and software fees may be billed separately. The IT leadership team can help plan appropriately for software expenses. Finally, the overall ICD-10 program budget includes a cross check on

software fees across the organization. Due to the number of vendors and contracts affected by the change, double checking helps.

Breaking Down Costs by Type and Stage

It will aid budgeting to consider costs in separate categories and plot the peaks and valleys of those costs by implementation stage. Hardware costs, which will peak early, should be minimal by the 2013 deadline. Loss of revenue due to productivity slowdowns will become a budgeting factor close to implementation and may continue to rise through the first year before staff gain experience and productivity recovers.

Actual implementation costs will depend on the size of the facility or enterprise, of course, and organizations that get a late start on their transition programs will have a compressed timeline-the more compressed the schedule, the more compressed the expenses. AHIMA offers a recommended implementation timeline at www.ahima.org/icd10.
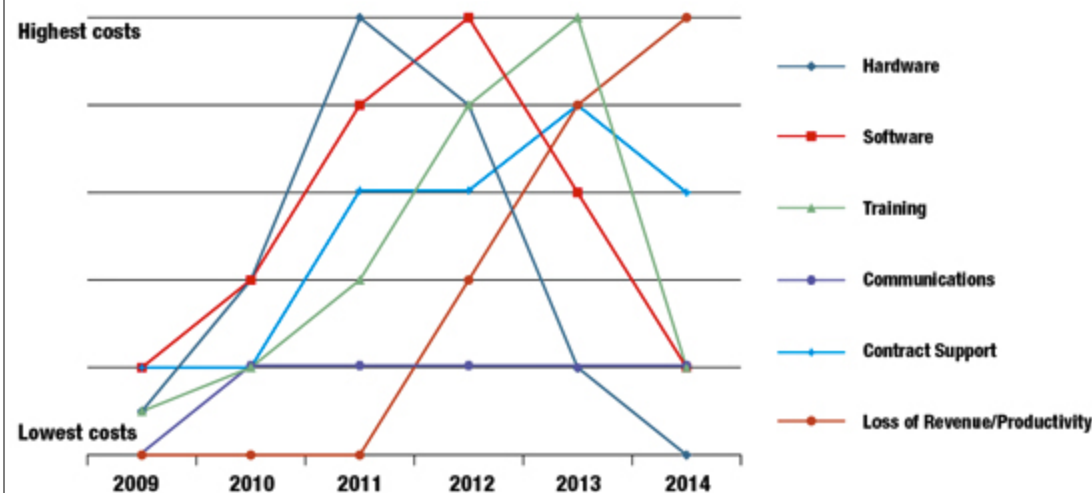
Training

The largest share of training costs will occur late in the program-it is recommended that coding professionals receive training on ICD-10-CM/PCS at least six months prior to go-live. However, training and education expenses should be budgeted from the start of the program. Knowledge of the code sets is very important to making educated business decisions early in the implementation process.

Knowledge of the regulation may also require participation in webinars, meetings, and possibly conventions to fully comprehend the extent of change the code set is requiring. At a minimum, provider documentation will need to be evaluated for compliance with the expanded terminology as well as coding and billing practices.

Organizations that educate a few coding professionals each year through 2013 will enable trained coders to hone their grasp of the code set throughout the implementation process instead of at the last minute while they are juggling multiple duties. HIM departments should plan to budget staff training for 2011 and send key resources to ICD-10 education opportunities in preparation for the testing and key business decisions to come over the next few years.

Communication

Best practice in program management calls for clear, concise, and timely communication that delivers the right message to the right people at the right time. This is true of an ICD-10 program, which is built from multiple projects all coordinating their efforts and schedules together in a master plan. Communication will likely be the most consistent expense across the life of the implementation.

Assuming that the implementation committee or team has already built awareness and urgency around ICD-10 within the organization, surveys and messages to external providers may be the only form of communication disseminated to resources outside of project teams in 2011.

Budgets may require some allocation for tools to automate survey collection. These can take the form of fees or outright purchase if necessary for a thorough provider and outreach training gap analysis.

Initiating external communication to the organization's provider groups, if applicable, should also be completed within the year. Reaching out to busy professionals typically takes various methods. A communications plan will help budget for expenses such as printing and mailing.

Contractor Support, Supportive Services

The organization may require contract services for a range of tasks that include program or project management, training, application development and support, and operations reengineering. Identifying the need for contractor support will be easy for these projects; however, assessing the level of support required may be more complicated.

Most organizations will require some type of outside resource assistance throughout the implementation, and in 2011 this assistance may be more focused on technology assessment and analysis. Coordinating the services required in 2011 could encompass multiple departments outside of HIM, and the level of support required for each will vary depending on needs and available funding. HIM leadership may begin to plan for coding assistance to reduce backlogs and enable key staff to participate in educational opportunities.

Drilling Down into the Categories

Budgeting categories can be considered in two classes. Direct implementation costs, such as hardware upgrades and contractor services, are easier to estimate. Management costs are harder to pin down. They include lost revenue due to temporary productivity loss following the implementation, unexpected expenses, or underfunded items.

Implementation

Communication and marketing

- Internal communication
- External communication
- Printing and postage
- Survey or data gathering (software purchase or fee-based services)

Hardware

- Software modifications that require hardware changes
- Production server
- Test server(s)
- Workstations
- Testing workstations

Software

- Vendor contractual fees (software upgrade)
- New software
- Interfaces
- Software programming
- Testing application

- Supporting applications (e.g., project management, quality control, or budget management software products)

Supportive resources

- Program management

    - Overall program management
    - Project management (HIM, IT, operations training, business office/revenue cycle)
    - Assessment/gap analysis activities
    - Technology upgrades, implementation, and testing

- Subject matter expertise

    - ICD-10
    - X12 v.5010/D.0 Transaction Standard
    - Software systems
    - Interface
    - Hardware and network infrastructure
    - Testing
    - Change management
    - Operations optimization

Training

- Regulation awareness and understanding
- Coding format, anatomy and physiology

    - Classes, software, books, materials, travel expenses, etc.

- Procedural changes

    - Admitting
    - Provider
    - Coding
    - Billing

Management

Revenue loss
(due to temporary productivity decreases)

- Lowered coding productivity
- Slow adjudication, slower turn-around for payment
- Increased claim rejections

Contingency reserve
(to cover unexpected expenses or underfunded costs)

- Hardware
- Software
- Training
- Communications
- Supportive resources
- Revenue

Contingency Reserve

ICD-10 will have an impact on every organization's bottom line, requiring careful financial planning to stay out of the red. Each year funds should be added to a contingency reserve as a means of preparing for unexpected expenses, lowered revenue, and delayed reimbursement that the industry has forecasted.

Contingency reserve funds are a parachute that keep organizations financially on track in difficult times. Funds allocated to this type of account typically equal 10 to 20 percent of the total expenses, depending on the organization's risk management strategy and financial situation.

Organizations should consider adding to a designated fund each year to mitigate financial risks over the course of the implementation and prepare for any challenges that may arise after go-live.

The budgeting process for any program or project is nearly always one of great pressure and stress followed by extreme relief when it is done. Approaching the ICD-10-CM/PCS budget thoroughly and carefully will help lower the stress and increase the relief as the 2013 deadline approaches.

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