Virginia Institute
for Public Policy

TELEHEALTH
Policy Primer

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TELEHEALTH:

Bringing Healthcare Into the 21st Century

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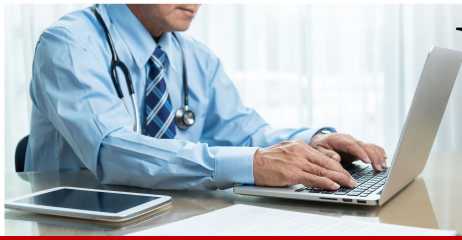

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SUMMARY

The most fundamental concern of modern healthcare is not reimbursement, but supply. Today's healthcare market is crippled by government regulation and a command/control structure which slows the market's natural tendency toward innovation, investment, and scale. Many of these concerns may not be addressed in our lifetime. However, we can start by controlling costs that focus on innovation, new delivery systems, licensing restrictions, and the decertification of state-sanctioned monopolies. By addressing supply concerns today, we can begin to develop opportunities for medical service providers to expand outside of the prevailing third-party insurance model, which has reigned for the last 80+ years.

TELEHEALTH INITIATIVE

"Despite per capita expenditures exceeding those of any other country, the U.S. healthcare system has problems with access, cost, and quality. These deficiencies have proven refractory despite the efforts of policy experts and politicians and the desires of an increasingly concerned public." This is the opening statement of a 2018 Mercatus working paper by Jeffrey Flier, Distinguished Service Professor at Harvard University, and Jared Rhoads, Research Project Manager for the Dartmouth Institute for Health Policy. Their sentiments echo problems that have been addressed repeatedly in the media, in academia, and in the household budgets of Americans for more than a decade. While the healthcare market seems ripe for innovation and growth, the shift has been slow, failing even to keep up with those advancements in

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technology and communications which might best serve patients and practices.

As many states have expanded Medicaid over the last decade, a significant question was never answered. How are patients and payors going to address the inevitable increase in the per-service cost of healthcare? For every dollar used for patient coverage under the Medicaid system, there is an increase in the demand for medical services. As demand increases alongside Medicaid spending, and supply remains unchanged, the per-service costs of healthcare necessarily increase for all payers, whether they be patients who pay cash, insurance companies who are renegotiating rates, or the states via Medicaid reimbursements. In other words, for every dollar spent in the Medicaid system, service costs will increase at some point in the supply chain - this is how economics works. It's quite simply a question of supply and demand.

The supply of service providers, however, is not so easily addressed. The short/mid-run horizon of accessibility remains unyielding for two reasons. First, training new medical personnel is a costly and time-consuming activity. This is what economists refer to as "highly inelastic supply." It is challenging for a medical service provider to simply expand operations like, say, a restaurant might do during the busy hours of the day. In effect, this inelastic supply of healthcare providers exacerbates the rising costs caused by the increase in demand.

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One solution for this problem is to employ those innovations, such as telehealth, which allow providers to

increase their efficiency and decrease the time and opportunity cost of each service. To illustrate, remote patient monitoring technologies have been shown to decrease the intermittence of emergency department visits by patients with one or more chronic conditions. Remote patient monitoring allows providers to triage these particularly demanding cases without overwhelming emergency room staff and facility limitations.

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Public policy is the second reason for a hesitant and unyielding supply curve. Often, legislative and regulatory restrictions hinder the healthcare market's ability to innovate and build high-efficiency platforms which will positively affect the supply of service providers or make services more efficient to perform.

The outcome of the Virginia Institute's Healthcare Freedom Initiative is ultimately to create an atmosphere where the per-service cost of healthcare can moderate over the short term. An appropriate state-level healthcare policy must necessarily focus on the realities of the supply of medical services to improve accessibility. For more than a decade, the conversation has centered on payment methodology – i.e., private health insurance, Medicaid/Medicare, single-payer, etc. Health insurance, however, is correlative to neither healthcare nor health outcomes. Health insurance, healthcare, and health are three very different matters that need to be attended to as such. This initiative addresses outcomes related to the accessibility of healthcare directly. In following these policy recommendations, the state can better achieve its objective of improved societal health outcomes by strengthening relationships between doctors and their patients.

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TELEMEDICINE DEREGULATION

For telemedicine to expand, three policy avenues require considerable improvement.

The first is the geographic limitations of medical licensure, which has a direct effect on the supply of professionals within a state. Every doctor who receives a degree from Johns Hopkins University or the University of West Virginia is qualified to be licensed in every state in the nation. In fact, licensure requirements vary only marginally from state to state. Telemedicine can provide an untapped supply of medical professionals, as well as a way for in-state practitioners to streamline their operations by utilizing telehealth as an innovative and agile triage for their patients. Inherent to telehealth is the distinct benefit of shrinking the world of medicine.

Secondly, the Commonwealth of Virginia currently mandates that private insurers reimburse telemedicine companies at parity with similar in-person services. This means that private insurance companies must pay the same rate for similar services regardless of whether they are offered in-person or via telecommunications technologies. These types of mandates prevent cost savings from being passed on to the consumer, in this case insurance companies; cost savings that may go a long way to developing the infrastructure necessary for telehealth services to develop into their fullest potential. Recent research performed by both the Rand Corporation, a nonprofit think tank, and Teledoc, a telehealth provider, found the per-service savings are often as high as 45 percent. Telemedicine's ease of use does tend to increase service utilization over the short-term, which generally moderates to a 13 percent increase in

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service usage. This represents massive potential savings to healthcare consumers and payors, including the state.

Thirdly, during the COVID-19 pandemic, numerous temporary regulatory waivers have been granted, allowing the expansion of telehealth to meet both the increased demand for medical services as well as the need to maintain social distancing, particularly at the doctor's office. These waivers were largely effective, but their temporary nature disincentivizes further investment into current and new technologies. The Virginia Institute for Public Policy supports a "fresh start" for COVID-19 related telehealth waivers, allowing many of these critical provisions to become permanent. As Virginia clarifies the stability of telehealth offerings within the medical service offerings in the Commonwealth, it will draw investment to develop these services as well as their necessary peripheries (broadband access, for instance).

FREQUENTLY ASKED QUESTIONS

Q. How will the adoption of telemedicine affect Virginia's budget?

A. There is a common misconception specific to healthcare that the more supply is available, the more demand there will be for medical services. This is, of course, irrational. Numerous studies have shown that, following the adoption of telehealth and telemedicine service modalities, the utilization rate increases approximately 13 percent, but the cost savings to payers is between 40 to 45 percent. Much of these savings occur within the realm of long-term care for those patients who have one or more chronic conditions. Not only does the use of telehealth and telemedicine eliminate unnecessary trips to the emergency department, but the efficacy of these services often decreases the morbidity rates for these patients.

To state this simply, the reimbursement of telehealth delivery modalities by Medicaid/Medicare will create a net-savings to Virginia's healthcare budget.

Q. What is the difference between telehealth and telemedicine?

A. This question has very different answers depending on whom you ask. From a regulatory standpoint, telehealth is an umbrella term that includes any medical service offered via the medium of telecommunications technology. In contrast, telemedicine includes only those services that currently have an in-person counterpart – dermatological or behavioral health visits, for instance. Within the Code and regulatory language, both terms are essential to provide new space for innovation, which may develop as

investment grows in the medical telecommunications markets.

Q. What is keeping telehealth from being used today? Can't we just call our doctors and have a visit over the phone?

A. There are multiple concerns that keep us from simply engaging in telehealth with our doctors today. First, oftentimes third-party payors like insurance companies or Medicaid/Medicare refuse to reimburse for services offered via telehealth, despite these services usually being considerably less expensive. The solution to this problem is often patients communicating with their insurance companies to make it clear that telehealth service would make their lives easier and less costly. Secondly, and most concerning, health care legislation at the state and federal level is often written from the perspective that everything is illegal until sanctioned by the law. This is not only irresponsible but is also completely unreasonable in a free country. This rhetorical direction has been embedded in the law for well over fifty years and will take some time to unknot, but we must continuously work to "move the ball down the field," so to speak. Opening legal avenues for innovations like telehealth and telemedicine gives us opportunities to begin to turn the tide against the use of command-and-control language in the Code.

POLICY RECOMMENDATIONS

The key elements of the Virginia Institute for Public Policy's Healthcare Initiative include:

- The removal of restrictions on telemedicine services within Virginia's healthcare markets, including geographic licensure barriers, and opening the language for Virginia's regulatory and statutory codes in such a way as to allow the market to innovate as freely as possible in the future.
- Address liability concerns in the case of telehealth facilitators providing consumers with appropriate recourse in those rare cases of medical malpractice.
- Sunset Virginia's Certificate of Need program, in its entirety, within three years to remove hindrances to the competitive development of medical service capacity.
- Provide budget-neutral (or positive) tax incentives for healthcare businesses to enter and develop the telemedicine market in a competitive and consumer-focused atmosphere.

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