



FOLEY & LARDNER LLP

2014 Telemedicine Survey

Executive Summary

November 2014



2014 Telemedicine Survey Executive Summary

As health care executives transform operations to comply with the Affordable Care Act, they are gearing up for the next monumental shift in the industry: telemedicine.

Technology has influenced nearly every sector of the economy, and the health care industry is following suit. Among telemedicine's many benefits are the potential to exponentially expand a provider's geographic footprint, use doctors' time more efficiently and dramatically reduce the barriers to patient interaction.

Health care leaders tell us that their organizations are committed to continuing to implement telemedicine programs, even as they face challenges such as getting doctors to buy into the programs and insurers to pay for them. Why? For the majority of respondents, it's simple — they believe telemedicine will help them keep patients healthier.

This report is based on feedback from health care leaders, the majority of whom are C-level executives from for-profit and nonprofit care providers, including hospitals, home health organizations and physician group practices. We asked them to evaluate the prospects for improved patient care and streamlined operations through telemedicine advancements, as well as regulatory hurdles and obstacles to reimbursement.

Executives Are Embracing Telemedicine

Telemedicine is not a distant possibility; it is here and in play now. The vast majority of leaders (90 percent) report that their organizations have already begun developing or implementing a telemedicine program. Most also say that offering meaningful telemedicine services will be critical to the future success of their organizations.

- » Eighty-four (84) percent of respondents felt that the development of telemedicine services is either very important (52 percent) or important (32 percent) to their organizations. Virtually none said they considered the technology to be unimportant (3 percent).
- » While just 6 percent of respondents categorized their telemedicine programs as "mature," only 8 percent said they had none at all. The remainders of responses are clustered somewhere in the middle: 34 percent are under consideration or in development, 18 percent are in the optimization phase, and the remaining 36 percent are being piloted or implemented.
- » A majority of respondents already offer remote monitoring (64 percent), store and forward technology (54 percent), and real-time interaction capabilities (52 percent). Additionally, 39 percent say they have services that qualify as mHealth — patient-driven apps and online portals.



The Affordable Care Act Is Driving Telemedicine Advancements

This attitude is partly due to the shift in financial and payment incentives under the ACA. As health care providers move from a fee-for-service model to one that reimburses based on positive patient outcomes, providers bear a greater share of the risk — and potential reward — for keeping their patients healthy. In addition, the level of responsibility shifts even more for providers in risk-bearing contracts or capitated arrangements, in which payments are made per person rather than per service. For executives under pressure to find cost-effective methods of engagement with their patients, telemedicine offers ways to streamline operations and create multiple touch points with patients, making it one of the most reliable methods for transitioning to a post-ACA, forward-looking reimbursement model.

- » Executives are most excited about telemedicine's potential to keep patients healthier. Half of respondents (50 percent) ranked improving the quality of care as their number one rationale for implementing telemedicine. Another 18 percent were most excited about reaching new patients.
- » Despite the cost savings tied to telemedicine, health care leaders do not expect an immediate economic return on investment. A minimal percentage of respondents ranked the potential for increased revenue/profitability (11 percent) and getting a jump on the competition (4 percent) as their top motivators.

Reimbursement Is the Primary Obstacle to Implementation

Although leaders fully endorsed the robust prospects of telemedicine, they were less confident about its immediate adoption. The widespread use of telemedicine requires doctors to be willing to transform the look and feel of the traditional, in-person patient visit. Meanwhile, the customary fee-for-service environment makes it challenging to be paid for medicine practiced outside the traditional spheres of interaction.

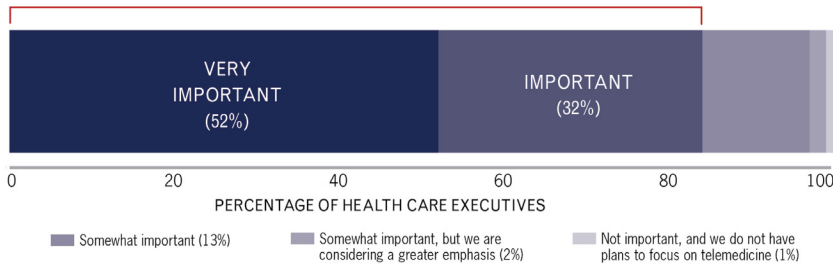
- » Being paid for telemedicine remains an uphill battle, as indicated by 41 percent of respondents who said they are not reimbursed at all for telemedicine services, and 21 percent who reported receiving lower rates from managed care companies for telemedicine than for in-person care.
- » Aside from reimbursement challenges, 48 percent of executives say they are more concerned with convincing doctors about the credibility of telemedicine than they are with convincing doctors that they will be adequately compensated for practicing it (36 percent).
- » This uncertain environment led 87 percent of respondents to report that they do not believe a majority of their patients will be using any of their organization's telemedicine services three years from now. Almost one-quarter said they anticipated fewer than 10 percent of their patients utilizing their organization's services.



Executives Are Embracing Telemedicine

HOW IMPORTANT IS THE DEVELOPMENT OF TELEMEDICINE SERVICES TO YOUR ORGANIZATION?

84% OF HEALTH CARE EXECUTIVES THINK TELEMEDICINE IS IMPORTANT TO THEIR ORGANIZATION

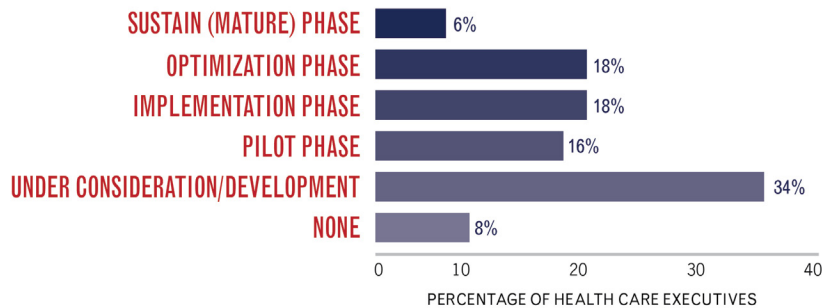


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Overwhelmingly, 84 percent of respondents indicated that the development of telemedicine services is either very important (52 percent) or important (32 percent) to their organizations. With this in mind, most are already piloting some suite of telemedicine products and more than half have developed some set of standards and guidelines to steer the implementation of services. A majority of respondents already offer remote monitoring (64 percent), store and forward technology (54 percent) and real-time interaction capabilities (52 percent).

WHAT IS THE CURRENT STATUS OF YOUR TELEMEDICINE PROGRAM?

9 OUT OF 10 PROVIDERS ARE PURSUING TELEMEDICINE PROGRAMS



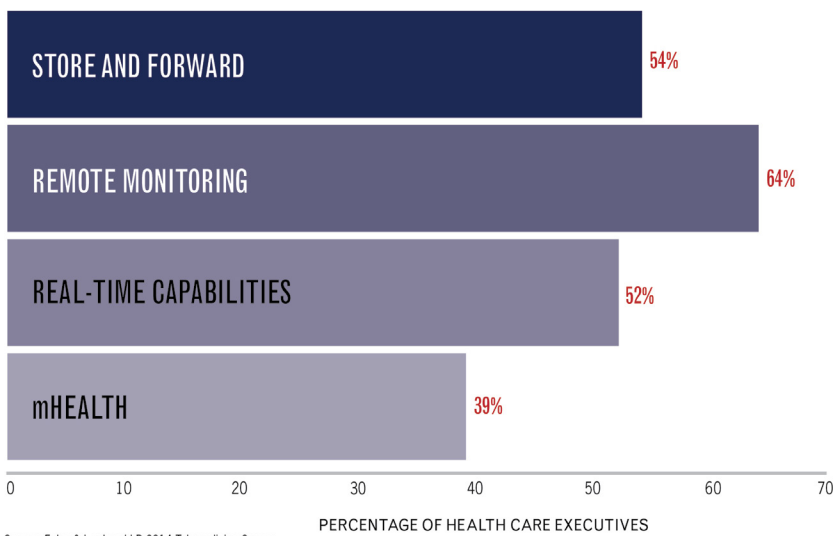
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Why do such a large majority of executives believe that the future success of their organizations is tied in part to telemedicine? From dramatically increasing a specialist's geographic footprint to enabling chronic care management outside the hospital, telemedicine can transform an industry that is ripe for disruption. Nearly every other arena of the economy has been reshaped by technology, and medicine is catching the drift.

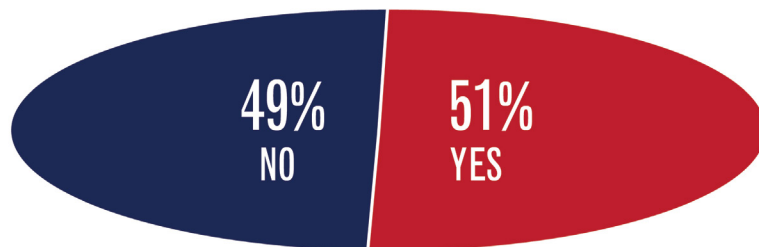


WHICH OF THE FOLLOWING TELEMEDICINE PRACTICES ARE CURRENTLY AVAILABLE TO PATIENTS THROUGH YOUR ORGANIZATION?

PLEASE SELECT ALL THAT APPLY.



DOES YOUR ORGANIZATION HAVE TELEMEDICINE PRACTICE STANDARDS/GUIDELINES IN PLACE FOR DELIVERING TELEMEDICINE SERVICES?



This excitement is reflected in a venture capital market whose interest in telemedicine technologies has grown significantly in recent years, including a **\$50 million funding round** by eVisit firm Teladoc in September 2014. Teladoc’s competitor Doctor on Demand raised \$21 million in August 2014. According to Mercom Capital Group, since 2010, the two quarters with the largest amount of funding raised for health care IT — a term synonymous with telemedicine — were **Q2 and Q3 of 2014**.

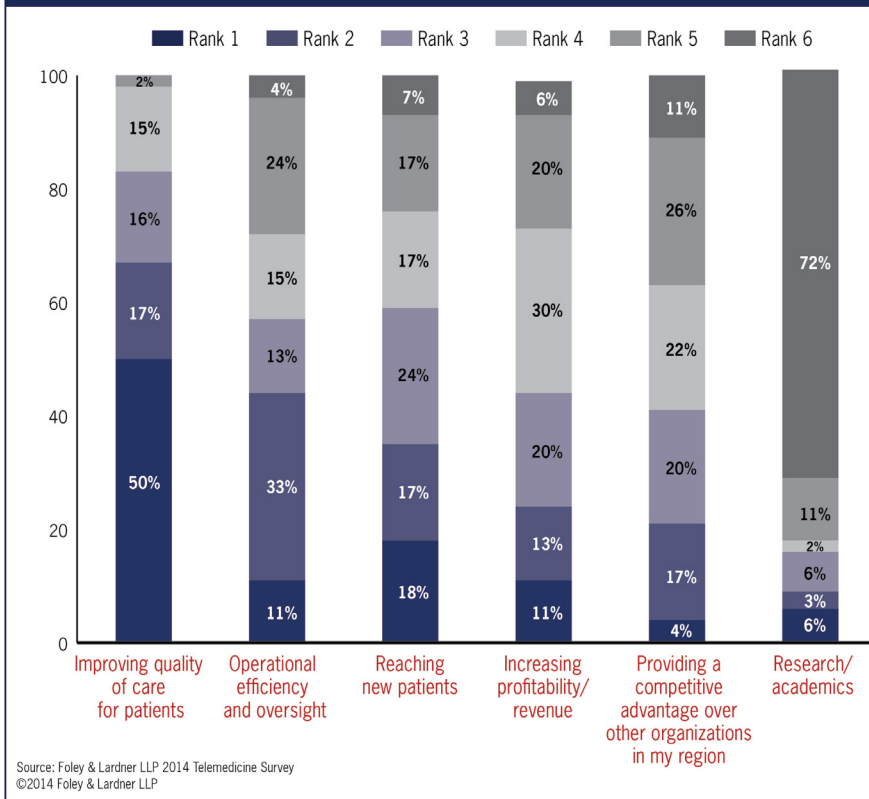
Indeed, many Americans already participate in telemedicine in ways they may not recognize. This gradual adoption is already enabling executives to embark on more ambitious projects that embrace technologies in ways less familiar to patients and doctors, such as teleconferencing between patient and provider. Deloitte predicts that in 2014, there will be as many as **75 million such visits** in North America. As with all technologies, executives appear to think the growth curve is more likely to be exponential than linear.



The Affordable Care Act Is Driving Telemedicine Advancements

WHAT IS YOUR ORGANIZATION'S PRIMARY MOTIVATION FOR IMPLEMENTING TELEMEDICINE CAPABILITIES?

RANK IN ORDER OF 1 BEING THE MOST IMPORTANT TO 6 BEING THE LEAST.



In the wake of the ACA, an ounce of prevention is now truly worth — in American dollars — a pound of cure. Models like capitation, in which a provider receives a flat fee per patient, and bundled payments, in which patients pay a one-time charge for a procedure, are moving out of the margins and into the mainstream.

Because the ACA penalizes hospitals for excessive numbers of readmissions and hospital-acquired conditions, health care executives are more focused on keeping their patients healthy, a priority supported by their primary reasons for implementing telemedicine services. When given a list of six possible motivations for adopting telemedicine, a full half of respondents said the improvement of the quality of care for patients was their number one rationale.

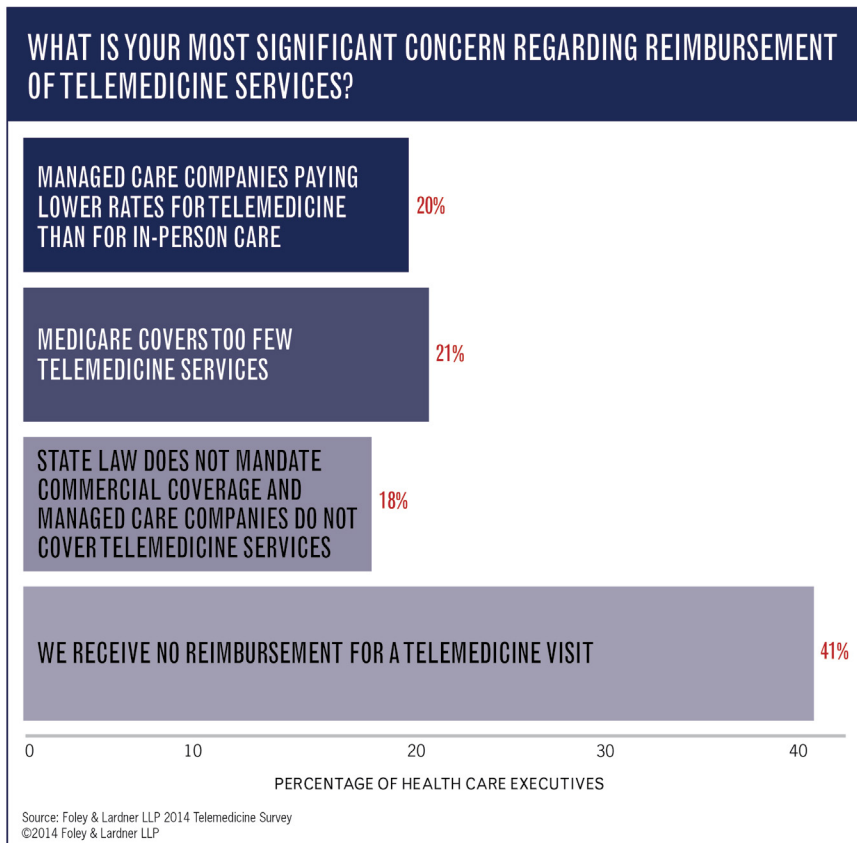
With its ability to multiply patient points of contact at a significantly

reduced cost, telemedicine enables physicians to keep closer tabs on their patients, whether it is monitoring blood pressure from a distance or ensuring day-to-day medication adherence. That is a primary reason why almost two-thirds of respondents said they already had remote monitoring programs in place, which allow providers to gather vital patient information and provide chronic care management remotely.

Simultaneously, telemedicine lowers the barriers to entry for patients to receive advice and support from medical professionals. The rural, the homebound and the elderly no longer have to make the trip to the office, and national experts can now weigh in on the maladies of patients from out of state using remote consultations. Executives charged with delivering both financial sustainability and their organizations' social mission see these benefits and consequently embrace the patient-centered opportunities that telemedicine provides.



Reimbursement Is the Primary Obstacle to Implementation



When it comes to the spread of telemedicine, there remains a gulf between the aspirations and the regulatory environment. Even as the vast majority of executives endorse telemedicine as an important part of their future, 87 percent of respondents do not think the majority of their patients will be using their organizations' telemedicine services three years from now, and almost a quarter say fewer than one in 10 patients will. There are a host of reasons for these concerns, but three stick out: trouble with reimbursement, a lack of physician buy-in and a regulatory landscape that is erratic at best.

Respondents were most disheartened by the difficulties of seeking and receiving reimbursement, with approximately half identifying these troubles as their primary obstacle to implementation. The

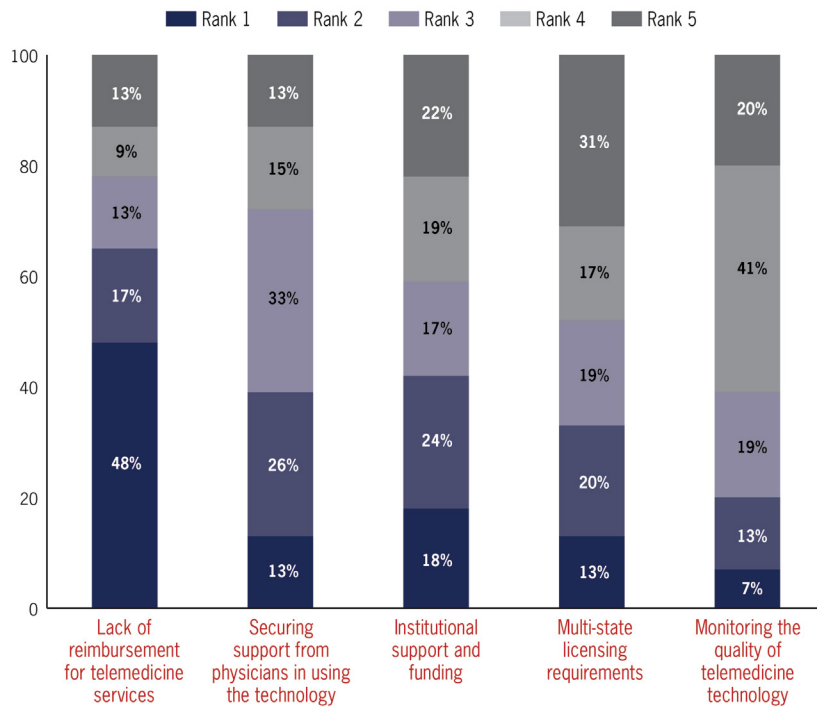
reality corresponds to the sentiment, as 41 percent said their organizations receive no reimbursement for a telemedicine visit. Another one in five said they received lower rates for telemedicine than in-person care from managed care companies.

Nor was the government's rate of reimbursement sufficient to incentivize executives to roll out telemedicine on a broader scale. One in five indicated that Medicare's thin coverage practices for telemedicine was their biggest reimbursement concern; 18 percent said they were most uneasy about state laws failing to mandate that commercial coverage companies pay for telemedicine services. Compounding these concerns are several restrictions that fuel the pessimistic outlook respondents harbor. Primary among them is the requirement that a provider obtain licensure in whatever state he or she provides telemedicine services. Internal concerns abound as well, from the need to amend existing corporate structures to the necessity of building supervisory structures that will mitigate the potential for fraud and abuse.



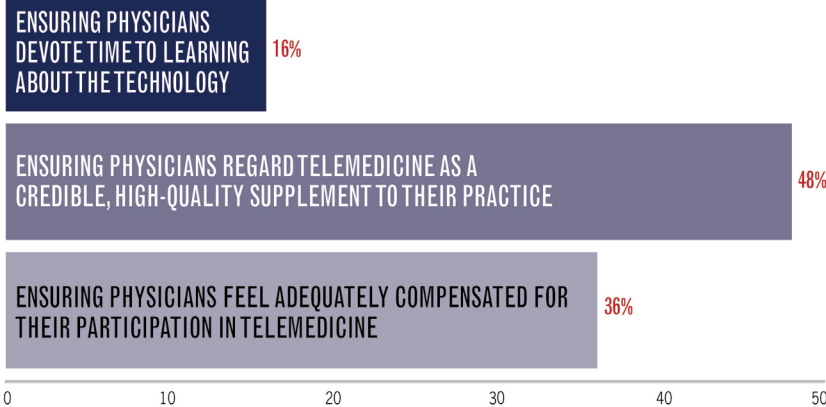
WHICH OF THE FOLLOWING HAS BEEN A CHALLENGE TO IMPLEMENTING TELEMEDICINE PRACTICES IN YOUR ORGANIZATION?

RANK IN ORDER OF 1 BEING THE MOST CHALLENGING TO 5 BEING THE LEAST.



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WHICH OF THE FOLLOWING ISSUES IS MOST SIGNIFICANT TO YOUR ORGANIZATION REGARDING PHYSICIANS' ACCEPTANCE OF TELEMEDICINE?



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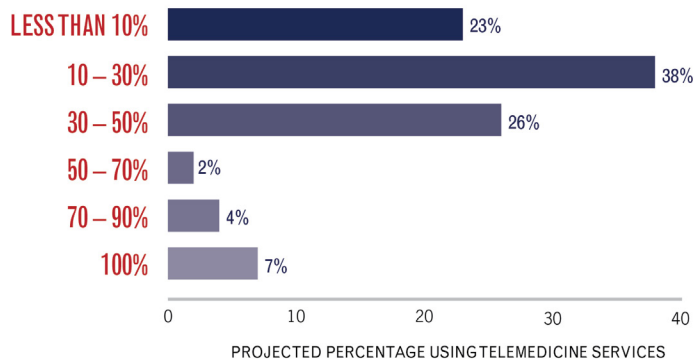
PERCENTAGE OF HEALTH CARE EXECUTIVES

The medical boards of **Georgia** and **Florida** are the latest to provide a set of guidelines for the practice of responsible telemedicine. In September 2014, **California** enacted a law that loosened the consent requirements for practicing telemedicine. However, the ultimate solution for both a legal and reimbursement framework will likely be a federal one. There is hope in Washington: According to the American Telemedicine Association, there are **55 pieces of legislation pending** that will address telemedicine in one way or another. The most comprehensive of these, the **Medicare Telehealth Parity Act**, was introduced this summer.

Physicians have a reputation for being slow adopters to new avenues of care — particularly to those that they see as untested. Our survey shows that telemedicine is no different. Almost half of those surveyed worried that physicians would not regard telemedicine as a credible and high-quality supplement to their practice. Given the visceral differences between palpating a patient in the examination room and chatting about symptoms through a laptop camera, health care providers will have to work to make their doctors comfortable with new technology.



THREE YEARS FROM NOW, WHAT PERCENTAGE OF YOUR PATIENTS WOULD YOU PROJECT WILL BE USING YOUR ORGANIZATION'S TELEMEDICINE SERVICES?



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Questions about reimbursement and physician support do a lot to account for why half of respondents reported that their telemedicine programs were in the earliest stages – 34 percent that were still pre-operational, with 16 percent in the pilot phase.



Methodology and Demographics

Foley distributed the 2014 Telemedicine Survey to health care executives throughout the United States in September and October 2014. The survey was completed by 57 executives, and results were tabulated, analyzed and released in November 2014.

Respondents

- » C-suite executives – 34 percent
- » Director, vice president, or manager – 34 percent
- » Administrator – 11 percent
- » In-house attorneys/corporate counsel – 11 percent
- » Other professionals – 10 percent
- » Managed care – 4 percent
- » Municipal hospitals – 4 percent
- » Other (medical assistance, service provider and etc.) – 10 percent

Health Care Organizations – Types

- » Non-profit hospitals – 44 percent
- » Provider groups – 13 percent
- » Long-term care management – 11 percent
- » For-profit hospitals – 8 percent
- » Physician group practices – 6 percent

Health Care Organizations – Size

- » More than 10,000 full-time employees – 19 percent
- » More than 1,000 full-time employees – 28 percent
- » Between 501 – 1,000 full-time employees – 20 percent
- » Between 101 – 500 full-time employees – 11 percent
- » Between 1 – 100 full-time employees – 22 percent

For More Information

To learn more about Foley's Telemedicine Survey, please contact Linda Yun at 312.832.4755 or lyun@foley.com, or Ashley Hutchinson at 312.832.5789 or ahutchinson@foley.com.

