

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF DIRECTOR

ACTION REFERRAL

TO <i>Piese</i>	DATE <i>1-13-12</i>
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DIRECTOR'S USE ONLY	ACTION REQUESTED
1. LOG NUMBER <i>100264</i>	<input type="checkbox"/> Prepare reply for the Director's signature DATE DUE _____
2. DATE SIGNED BY DIRECTOR <i>CC: Mr. Heck cleared 1/24/12, letter attached. ✓</i>	<input checked="" type="checkbox"/> Prepare reply for appropriate signature DATE DUE <i>1-23-12</i> <input type="checkbox"/> FOIA DATE DUE _____ <input type="checkbox"/> Necessary Action

APPROVALS (Only when prepared for director's signature)	APPROVE	* DISAPPROVE (Note reason for disapproval and return to preparer.)	COMMENT
1.			
2.			
3.			
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BY EMAIL

December 5, 2011

Mr. Anthony E. Keck, Director  
South Carolina Department of Health and Human Services  
P.O. Box 8206  
Columbia, South Carolina 29202

**RECEIVED**

JAN 12 2012

Department of Health & Human Services  
OFFICE OF THE DIRECTOR

Dear Director Keck,

You and your senior managers have repeatedly encouraged us to think innovatively about ways to reduce costs and improve quality. You introduced us to Harold Miller. BZ Giese, in a meeting several months ago, welcomed our ideas. And in forming the committee to explore the Milliman results, you have again challenged us to this task.

We have taken this to heart. This letter summarizes our current thoughts, some large and some small. One would require grant funding and take several years to mature. Others would be less arduous, requiring changes in contracts and/or administrative changes.

These proposed initiatives are not intended to be proprietary, rather to benefit membership across all medical homes, and, to the degree allowed, dual eligibles.

**NICU Management.** As you know, the Center for Medicare and Medicaid Services (CMS) recently announced funding opportunities for innovative approaches to providing care to Medicare, Medicaid and CHP beneficiaries. CMS will provide up to three years of grants to entities that develop new approaches of delivering health care that can favorably impact quality and cost.

Under the grant guidelines, states are not eligible to receive grants directly but may be indirectly involved as a participant in a project.

We would like to discuss with you a NICU management program. Carolina Medical Homes (CMH) would apply for a grant. It would be the entity responsible for organizing the participants necessary to build the program, including SCDHHS, hospitals, physicians, and other providers in the state.

This program would provide a "bundled" payment for admissions to the NICU. The goal would be reduction in costs and improvement in quality of care to newborns. There would be intense care management, alignment of provider incentives, and concurrent coordination of all medical care. This would be a multi-year project. A more detailed but still high level explanation of this program is attached.

**Transition Management.** SC DHHS data from Milliman (unadjusted for risk mix) show that MHNs are experiencing 20-30% higher inpatient days than MCOs. Contributing, no doubt, is the fact that MHNs receive no "real time" notification of admissions and thus have no way of impacting length of stay or

transition management. That coordination efforts should be focused on this issue is not in doubt. Among all efforts at care management, transition management has perhaps the strongest evidence in the literature of effectiveness (Bodenheimer, Robert Wood Johnson Research Synthesis No. 19; December 2009). A SC DHHS administrative solution to this issue would be in the best interest of all constituencies.

**MedSolutions.** The leadership of CMH has a long history with MedSolutions. We brought them into the state when we were managing a commercial HMO in South Carolina in the early nineties. Later, when we were in senior management at CIGNA, we engaged them in many CIGNA markets around the country. MedSolutions now has a national contract with CIGNA. We support the current DHHS/MedSolutions agreement, which favorably impacts MHN costs -- and may not have been in place in time to impact the Milliman analysis.

Casting about for ideas, we entered an informal conversation with our acquaintances at MedSolutions. We are attaching a document that resulted from that conversation. In summary, MedSolutions estimates that in an expanded relationship it can produce for SC DHHS almost \$6M (\$2. 17 PMPM) in additional annual savings across the medical homes membership. These estimated savings do not include amounts that would come from including dual eligibles. Our understanding is that other states increasingly, are finding ways to include dual eligibles in these cost management programs.

**Pharmacy cost reduction.** Milliman data demonstrates that pharmacy costs for MHN enrollees, after risk adjustment, are substantially higher than for MCO enrollees, offsetting medical homes savings on other services. At least some of this difference is explained by a higher volume of scripts for MHN enrollees. This may indicate better management of utilization and costs by MCOs, as a group, than SC DHHS's pharmacy benefits manager. Perhaps this provides an opportunity for SC DHHS to re-bid and or re-contract for this service.

We would like to meet with you discuss these ideas; explore your interest in them; and assist in defining a path forward on those of interest. We look forward to hearing from you.

Sincerely yours,

Timothy Fitzgerald, Partner

Catherine F. Middleton, Partner

Francis G. Middleton, Partner

2 attachments

## South Carolina Experience

Since 2002, MedSolutions has successfully provided utilization management services in South Carolina to commercial populations. Our clients in South Carolina include CIGNA and Aetna.

In 2011, MedSolutions became the sole utilization management partner for the South Carolina Department of Health and Human Services (SCDHHS), providing SCDHHS with our Advanced Imaging Benefits Management program, which addresses CT, MR, PET, and Nuclear Cardiac imaging requests.

MedSolutions currently serves over 300,000 lives in South Carolina, and 79 percent of the state's providers submit prior authorization requests to MedSolutions. This level of provider participation means that the majority of providers are accustomed to MedSolutions' processes. MedSolutions also maintains a 97 percent satisfaction rating with providers in the state.

## Unmatched Medicaid Experience

MedSolutions is the undisputed leader in providing utilization management services to fee-for-service state Medicaid programs. MedSolutions partners with 12 state Medicaid programs – more than any other radiology management provider – covering over 7.2 million lives. MedSolutions' state Medicaid clients include:

- |             |                  |                  |
|-------------|------------------|------------------|
| • Alabama   | • Nebraska       | • South Carolina |
| • Florida   | • North Carolina | • Texas          |
| • Louisiana | • Oklahoma       | • Vermont        |
| • Missouri  | • Rhode Island   | • Wisconsin      |

In addition to state Medicaid programs, MedSolutions works with 20 managed Medicaid clients.

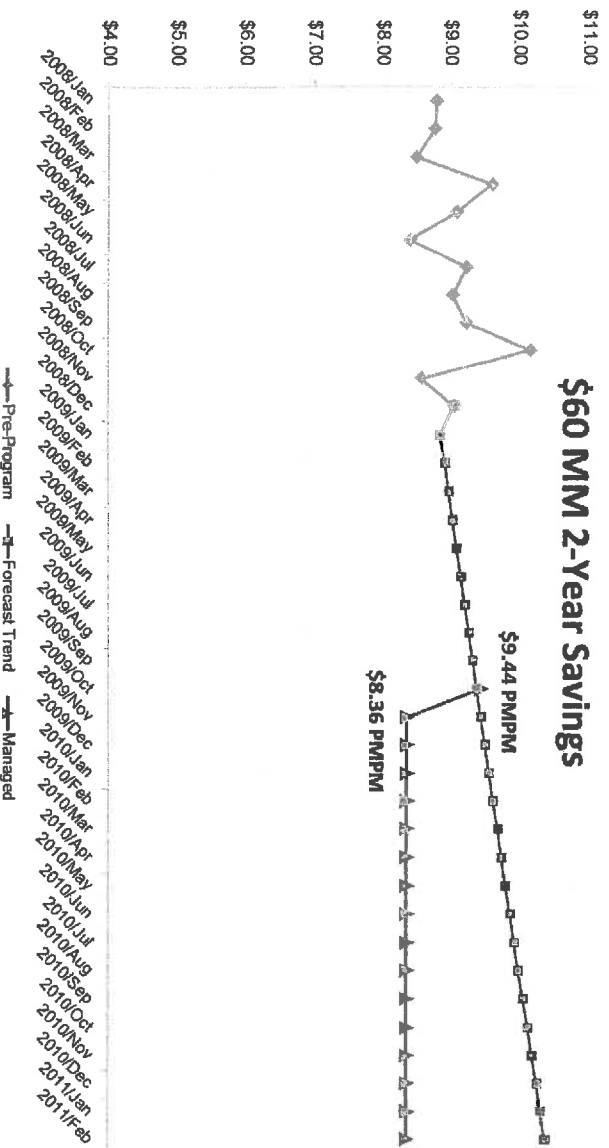
### Examples of Medicaid Savings with MedSolutions' Programs

- In 2006, MedSolutions implemented the nation's first Medicaid advanced imaging utilization management program in Texas. Since then, Texas has experienced more than \$171 million in savings. The original program covered MR and CT imaging; however, due to its success, Texas expanded the program scope to include PET and Nuclear Cardiac imaging.
- In just 2 years, MedSolutions saved North Carolina \$60 million through our Advanced Imaging Benefits Management and Ultrasound Benefits Management programs.

## Results from North Carolina Medicaid's Program

### Management of MR, CT, PET and Ultrasound

#### \$60 MM 2-Year Savings



North Carolina achieved these savings through a full-risk agreement. To achieve similar savings, MedSolutions recommends converting South Carolina's current administrative only service (ASO) contract to a full-risk contract.

### Benefits of a Full-Risk Agreement

Through a full-risk agreement, MedSolutions can offer SCDHHS **additional, guaranteed savings from day 1 of the full risk agreement start date**. In our full-risk model, MedSolutions would negotiate a mutually agreeable per member per month (PMPM) rate with SCDHHS that is lower than the amount the state paid prior to the implementation of a utilization management program. The PMPM rate will include all costs for the imaging modalities covered under the selected program. This agreed upon rate will be locked in and guaranteed not to exceed that amount in the first year. By establishing and locking in a guaranteed PMPM, SCDHHS will experience projectable savings, and lawmakers and administrators will have a stable annual cost. All of MedSolutions' program fees are included in the PMPM rate, which means SCDHHS will pay nothing upfront. MedSolutions accepts full financial risk if the program exceeds the established rate.

### Expanded Programs through a Full-Risk Agreement

MedSolutions would be willing to convert SCDHHS' contract from the current ASO model to a full-risk agreement that includes SCDHHS' existing program, as well as additional solutions. The full-risk agreement would include the following programs:

- Advanced Imaging Benefits Management
- Cardiac Imaging Benefits Management
- Ultrasound Benefits Management

The following provides additional information on MedSolutions' proposed program suite.

## Utilization Management Solutions Implemented with Medicaid Programs

MedSolutions is the leader in providing innovative utilization management programs to state Medicaid clients. We have implemented the following utilization management programs in state Medicaid:

### Advanced Imaging Benefits Management

MedSolutions' Advanced Imaging Management program works with state Medicaid clients to determine the clinical appropriateness of high-tech imaging procedures. This program assists members in receiving the tests that will best inform the diagnostic process while reducing the tests that do not, including duplicate tests and inappropriate uses of technology. More than 55 plans across America participate in our Advanced Imaging program. MedSolutions' program delivers an **18 percent to 20 percent reduction in advanced imaging expenditures.**

MedSolutions' full Advanced Imaging program addresses the following studies:

- MRI
- MRA
- CT
- CTA
- PET

### Cardiac Imaging Benefits Management

MedSolutions provides cardiac imaging services to 24 million lives nationally. Specific to Medicaid, over 3.2 million state Medicaid lives are covered by the Nuclear Cardiac imaging portion of our program, and 335,000 benefit from our full Cardiac Imaging Management program. This experience has established MedSolutions as a leader in cardiac imaging utilization management. Results are achieved through decreased utilization of inappropriate cardiac imaging tests, reduced test duplication, and the elimination of high cost, poor quality studies that generate more downstream cost and clinical risk. MedSolutions' Cardiac Imaging Management program delivers up to a **13 percent reduction in cardiac imaging expenditures.**

MedSolutions' full Cardiac Imaging program addresses the following studies:

- Nuclear Cardiac (SPECT)
- Transthoracic Echocardiography
- Transesophageal Echocardiography
- Stress Echocardiography
- EBCT/Calcium Scoring
- Coronary CTA
- Cardiac MRI
- Cardiac PET and PET/CT
- Cardiac SPECT/CT
- Diagnostic Left Heart Catheterization
- Diagnostic Right Heart Catheterization

### Ultrasound Benefits Management

MedSolutions' Ultrasound Benefits Management program covers 2.2 million lives nationally and over 1.4 million lives within our Medicaid clients. MedSolutions' program provides standardized guidelines for the proper use of low-tech imaging, helps ensure appropriate use, captures significant cost savings, and offers a streamlined

process that yields high satisfaction for providers. Our claims process captures additional savings by flagging inappropriate billing codes. MedSolutions' program addresses both obstetric and non-obstetric ultrasound imaging. Our Ultrasound Management program delivers at least a **9 percent reduction in ultrasound spend**.

MedSolutions' full Ultrasound program addresses Obstetrical and Non-Obstetrical Ultrasounds for the following studies:

- |                          |                               |
|--------------------------|-------------------------------|
| • Fetal Echocardiography | • Abdomen and Retroperitoneum |
| • Adult Echocardiography | • Spinal Canal                |
| • Gynecological          | • Extremity                   |
| • Head and Neck          | • Arterial and Venous         |
| • Breast                 | • Pediatric                   |

## Solutions to Deliver Additional Savings to Medicaid Programs

### Lumbar Spine Surgery Benefits Management

Experts estimate that 80 percent of the population will experience back pain in their lifetime.<sup>1</sup> Low back pain is the fifth most common reason for doctor visits. Payors spend \$18.8 billion on lumbar spinal fusion surgery to treat low back pain each year, yet long-term outcomes are similar to results achieved from conservative management. In fact, studies show that most cases can be resolved with 4 to 6 weeks of conservative management.<sup>2</sup> MedSolutions' Lumbar Spine Surgery Benefits Management program determines whether surgery should occur and what level is appropriate. Reducing the number of vertebrae fused has been shown to reduce the ongoing costs of complications. MedSolutions' program can deliver up to a **21 percent reduction in expenditures for spinal fusion surgeries**.

### Implantable Cardioverter Defibrillator Surgery Benefits Management

Implantable Cardioverter Defibrillators (ICDs), including cardiac resynchronization therapy devices, represent a \$6 billion market in the United States. At up to \$45,000 per procedure, inappropriate implantations represent a significant expense<sup>3</sup> and carry serious risks, including cardiac perforation, infection, and even death.<sup>4</sup>

MedSolutions' ICD Surgery Benefits Management program identifies the clinical appropriateness of ICD implantation and can also direct members to the most qualified physicians and facilities if desired by the client. MedSolutions' program can deliver a **10 percent to 15 percent reduction in ICD expenditures**.

### Sleep Benefits Management

More than 70 million Americans suffer from some type of sleep disorder – increasing their risk of heart disease, stroke, and other serious conditions while adding millions in cost each year.<sup>5</sup> With an estimated 19 million people suffering from undiagnosed moderate to severe Obstructive Sleep Apnea (OSA),<sup>6</sup> costs continue to rise. Research shows that patients who are tested for sleep apnea in their homes do as well on therapy as patients who are tested in labs – but at a fraction of the cost and at greater convenience for the patient.<sup>7</sup> MedSolutions'

<sup>1</sup>Vallois B. Acute, Subacute and Chronic Low Back Pain: Clinical Symptoms, Absenteeism and Working Environment. Scan J Rehab Med Suppl 1985; 11: 1-98.

<sup>2</sup> Physical Therapy Best for Low Back Pain. <http://news.todayinpt.com/article/20110314/TODAYINPT04/10311016>. HealthGrades, downloaded 1/21/2011.

<sup>3</sup>National ICD Registry Annual Report 2009.

<sup>4</sup>Research on Sleep and Sleep Disorders. National Institutes of Health. 2010

<sup>5</sup> The Price of Fatigue: The Surprising Economic Costs of Unmanaged Sleep Apnea. Harvard Medical School. Sleep Medicine. Dec. 2010

<sup>7</sup> In Brief: Study Compares Sleep Success Rates, MedPAC Debuts New Members. HME News. May 21, 2010.

Sleep Management program currently covers 1.3 million lives nationally. MedSolutions' program delivers at least a **25 percent reduction in expenditures**.

### Radiation Therapy Benefits Management

Cancer is now the second most common cause of death in the U.S. Demographics point to a surge in cancer treatment with nearly 1.5 million new cancer cases expected this year alone.<sup>8</sup> Already, more than 900,000 Americans undergo radiation therapy each year, representing nearly two-thirds of all cancer patients.<sup>9</sup> Radiation therapy is expected to grow 45 percent over the next decade.<sup>10</sup> MedSolutions' Radiation Therapy Management program uses evidence-based guidelines to reduce variability in treatment and drive more appropriate use of technologies to yield better, more predictable outcomes while lowering the cost of care. MedSolutions' program can deliver a **25 percent reduction in expenditures using a prior authorization model and a 15 percent reduction in expenditures using a consultative model**.

#### Covered procedures:

- |   |                       |
|---|-----------------------|
| • 2-D/3-D Conformal Radiation           | • Radiotherapy        |
| • Intensity Modulated Radiation Therapy | • Brachytherapy       |
| • Stereotactic Radiosurgery             | • Proton-Beam Therapy |

MedSolutions program covers an expansive list of cancers:

- |                             |  |
|-----------------------------|--|
| • Central nervous system    | • Breast                                       |
| • Thoracic (including lung) | • Lymphomas/Leukemia                           |
| • Gastro-intestinal         | • Musculoskeletal (including bone metastasis)  |
| ▪ GIST                      | • Genito-Urinary                               |
| ▪ Colon                     | • Head and Neck (including thyroid)            |
| ▪ Rectal                    | • Gynecologic (including cervical and ovarian) |

<sup>8</sup> American Cancer Society, *Cancer Facts and Figures 2008*.

<sup>9</sup> 2004 IMV Medical Information Division.

<sup>10</sup> *Sgt2 Analysis, 2009*.



**Projected Results from Additional Solutions (based on 219,000 South Carolina lives)**

	PMPM Cost	PMPM Savings	Total 1st Year Savings
Cardiology*	\$5.15	\$0.67	\$1,759,446
Ultrasound*	\$3.94	\$0.35	\$931,889
ICD (projected)	\$1.20	\$0.18	\$473,040
Spine (projected)	\$1.13	\$0.24	\$623,624
Sleep (projected)	\$0.80	\$0.20	\$525,600
Radiation Therapy (projected)	\$2.10	\$0.53	\$1,379,700
<b>Total</b>	<b>\$14.32</b>	<b>\$2.17</b>	<b>\$5,693,299</b>

\*In May of 2009, MedSolutions received 3 years of claims data from South Carolina that showed current utilization, average cost, PMPM data and trends for Cardiology and Ultrasound. The actual PMPM trend from 2007 – 2008 for Cardiology was 51% and 23% for Ultrasound. These trends are not sustainable. We have reduced these trends using a sustainable level to 10% for Cardiology and 6% for Ultrasound. The actual PMPM cost for Cardiology in 2008 was \$3.87. Using a sustainable trend of 10% increased the PMPM to \$5.15 in 2011. For Ultrasound the actual PMPM cost was \$3.31 in 2008. Using a sustainable trend of 6% increased the PMPM to \$3.94. Below are comparisons of other State Medicaid plans that we have analyzed during the same timeframe as South Carolina.

PMPM Benchmarks	VA	MD	KY	LA	NC
Cardiology	\$2.25	\$1.71	\$3.32	\$1.65	\$1.78
Ultrasound	\$4.31	\$7.84	\$3.83	\$2.55	\$2.76

## **Proposed NICU Management Program**

### **Partners/Participants**

NICU Hospitals, Physicians, Home Health Agencies, South Carolina Department of Health and Human Services (SC DHHS), and Carolina Medical Homes (CMH), Primary Care Physicians.

### **Scope**

This project will bring together the above groups and build capabilities to better coordinate the health care services for premature and medically complex newborns admitted to the Neonatal Intensive Care Units of hospitals statewide.

CMH will apply to the Centers for Medicare and Medicaid (CMS) for a grant that will fund the early, formative years of the program. This phase will focus on Medicaid Medical Homes beneficiaries. Additional payers, such as Medicaid managed care (MCO) and commercial organizations, could be included in as the program matures, and at the discretion of the MCOs and others. The payment mechanism for medical services will change from a FFS base to a bundled payment approach, or global capitation. This will include hospital services, physician and other medical professional and ancillary services. A model of shared savings will be developed to include the participating providers. This will be funded by the bundled payment or capitation amount.

Carolina Medical Homes will build the infrastructure and the multidisciplinary care team needed to facilitate and coordinate the healthcare services provided to these newborns. Using an evidence based approach CMH will work to decrease unnecessary gaps and fragmentation of care. CMH will develop the coordination tools that will allow the providers to work together to promote quality and efficient care.

CMH will partner with SC DHHS to build the necessary contract structure and the administration of the program – including Healthcare IT solutions; contracts and claims; medical economics and finance; and service.

### **How the Program Will Work**

- As intermediary for SC DHHS (or as an “IPA”) CMH will develop a network of hospitals, physicians, and other medical providers to provide care to SC DHHS beneficiaries. Reimbursement for services to participants may be FFS or on a case rated (capitation) basis.
- Payment options are to be determined. SC DHHS could make a bundled payment to CMH for both management and provider services; or, SC DHHS could continue direct provider payments (FFS), pay CMH for management services, and develop a shared savings program for participants
- When a beneficiary has been identified for the program, CMH will bring together a multidisciplinary care team that includes partners/participants to develop the care plan.

- CMH (or SCDHHS) will pay for and coordinate medical services that are managed in the program until such time as the member has been released from the program and transferred to the care of their PCP and other community providers.
- If payments have continued FFS and savings are generated compared to contract budgeted (“phantom”) capitation amount, then providers will receive a distribution of savings (“up side only”). If payments have been by capitation, loss or gain is included in the capitation.

### **Funding for the program**

We envision start up funding for the program through a CMS innovation grant. The grant will run for up to three years. If value is demonstrated, funding by SC DHHS, and perhaps other payers, would replace CMS funding.

### **Staffing and Budget Assumptions:**

- Medical Director
- Network contracting and management
- Project manager
- Care coordinators
- Care coordinator management
- Healthcare IT systems
- Medical economics and financial management
- Annual budget estimated at \$2 million

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF DIRECTOR

ACTION REFERRAL



TO <i>Giese / Campbell</i>	DATE <i>1-18-12</i>
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DIRECTOR'S USE ONLY	ACTION REQUESTED
1. LOG NUMBER <i>400264</i>	<input type="checkbox"/> Prepare reply for the Director's signature DATE DUE _____
2. DATE SIGNED BY DIRECTOR <i>Cc: Mr. Keek</i>	<input checked="" type="checkbox"/> Prepare reply for appropriate signature DATE DUE <i>1-23-12</i>  <input type="checkbox"/> FOIA DATE DUE _____  <input type="checkbox"/> Necessary Action

APPROVALS (Only when prepared for director's signature)	APPROVE	* DISAPPROVE (Note reason for disapproval and return to preparer.)	COMMENT
1. <i>J. Campbell</i> <i>1/19/12</i>	<i>gob</i> <i>1/19/12</i>		
2. <i>BS J. J. J.</i> <i>1/29/12</i>			
3.			
4.			

January 26, 2012

Francis G. Middleton, MD  
Carolina Medical Homes  
6691 Point Farm Road  
Wadmalaw Island, South Carolina 29487

Dear Dr. Middleton:

Thank you for your letter on improving quality and reducing costs in Medicaid. I appreciate your taking the time to outline these suggestions.

I would like to comment on each of your ideas separately. As you are aware, we are currently working with hospitals, Managed Care plans and individual providers statewide to address improving birth outcomes in South Carolina. Our Birth Outcomes Initiative's (BOI) goal is to avoid medically unnecessary inductions and Cesarean sections before 39 weeks of pregnancy to reduce the risks of developmental problems associate with pre-term births. The success of BOI should directly impact NICU management costs. Therefore, at this time, while we appreciate your initiative in this area, we believe that it will replicate some of the efforts currently being undertaken and suggested by the BOI team.

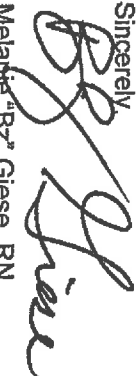
I agree with your comments on Transition Management. While we looked into alternative solutions to address case management issues, we have procured a QIO that will be giving prior authorizations for in-patient hospitalizations in the Medical Home Networks (MHN) and Fee for Service (FFS) population with the ultimate goal of reducing length of stays, readmissions and over utilizations. I would encourage you to work with your network of physicians to have them strengthen their relationships with specialists and hospitals that admit beneficiaries to hospitals for them and have them provide more timely notice of admission to your physicians.

As you may be aware, SCDHHS is already contracted with MedSolutions, effective July 1, 2011 to provide prior authorizations for high-tech radiological procedures for fee for service beneficiaries. The prior authorization request applies to all high-tech imaging studies that are received in an outpatient setting that are elective, non-emergency, and diagnostic procedures. Prior authorization requests are not required for high-tech imaging studies that are performed in an emergency room or an inpatient hospital or for a 23-hour observation stay. The Executive Staff met with MSI last week to discuss possible partnerships in their other areas of expertise.

We are reviewing policy in other states with regard to addressing Medicaid pharmacy cost reductions which include carving out pharmacy in the Managed Care Organization (MCO) model. Since cost containment is being discussed at our monthly Coordinated Care Improvement Group, we will continue to research our options.

Thank you again for keeping us informed of your innovative ideas and efforts. We look forward to our continued working relationship with you.

Sincerely

  
Melanie "Bz" Giese, RN  
Deputy Director

MG/cb

cc: Timothy Fitzgerald, Partner  
Catherine F. Middleton, Partner