STATE OF ARKANSAS
MIKE BEEBE
GOVERNOR

August 10, 2011

The Honorable Kathleen Sebelius
U.S. Department of Health and Human Services
330 Independence Avenue, S.W., Room 4257
Washington, DC 20201

Dear Madam Secretary:

I am writing to update you on Arkansas's payment-reform initiative and to request a meeting in the near future between your leadership team and ours. The purpose of the meeting is to discuss our progress to date, to find ways to ensure that our work furthers your national improvement efforts, and to brainstorm about the best ways that your department can support our work here.

As you know, the **Arkansas Health Care Payment Improvement Initiative** is moving the health-care financing system from a fee-for-service model to an episode-based, bundled-payment strategy, aligning payment incentives for delivery of high-quality, coordinated care and active management of existing conditions, while retaining the actuarial risk of new conditions with Medicaid/private-insurance carriers. The strategy is intended to move the entire Arkansas delivery system to a new and sustainable model of health-care financing and to stimulate needed system reform.

To my knowledge, ours is currently the only statewide payment-reform effort involving all major public-and-private payers. While Arkansas represents only 1% of the U.S. population, the characteristics of the State — largely rural with areas of low population and provider density — are similar to more than half of the U.S. states, many of which lack integrated delivery systems. When successful, Arkansas could be a model for other states' replication and scalable achievement, particularly in areas of the nation where global capitation may face barriers.

Since submitting the initial concept paper, we have made considerable progress in both refining the initiative and laying the groundwork for development and implementation. Specifically, our leadership team has accomplished the following:

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- Had productive, ongoing discussions with your team, led by Diane Gerrits. These discussions have initially focused on gaining access to Medicare data to ensure that we have a complete picture of the health status and utilization patterns of Arkansans. I am pleased that a data-sharing agreement is now in place.
- Had discussions with, and submitted ideas to, the Center for Medicare and Medicaid Innovation regarding state payment-reform efforts and the Innovation Centers' interest in, and capacity to support, those reforms.
- Met with more than 30 provider-and-advocacy organizations in Arkansas to discuss the initiative and gain insight into methods that can be most successful. These meetings have resulted in substantive changes to our initial concept, further detailed below.
- Included private-sector payers as full partners in the initiative. This includes weekly meetings with leaders of BlueCross BlueShield of Arkansas, United Healthcare, and QualChoice of Arkansas to develop strategies, priorities, and data-sharing agreements.
- Included the Arkansas Department of Health to ensure that prevention and wellness remain core components of our strategy.
- Conducted considerable data analysis and made available to stakeholders aggregate clinical data that describes Medicaid expenditures by diagnosis, provider type, and clinical service. We believe that greater understanding of program data, in combination with the experience of other health-care payers, will lead to a more accurate understanding of clinical need and allow us to model different concepts of episodes, profile service delivery, and examine practice variation.
- Examined existing payment-reform approaches considered and underway across the U.S.

As noted above, our research and discussions with Arkansas stakeholders have resulted in modifications to the approach outlined in my February letter to you. Most notably, we initially proposed three content areas under the definition of clinical "episodes" and payment "bundles". These included 1) wellness or healthy care; 2) acute- and chronic-condition care; and 3) supportive care. We also suggested a sequence of development and implementation of healthy care, followed by acute- and chronic-condition care, and finally supportive care. However, we now believe there are conditions in each of the three areas that could be prioritized for examination, developed concurrently, and deployed as soon as possible, followed by more difficult and/or complex conditions that may require more effort.

To that end, we have now identified a number of priority areas that appear to hold significant potential for early success and impact in moving from fee-for-service to

episodic payments. These priorities, which we are targeting for implementation in July 2012, include the following: pregnancy and neonatal care; attention deficit hyperactivity disorder; type 2 diabetes; back pain; cardiovascular disease; upper respiratory infections; developmental disabilities; long-term care; and prevention.

Successful transformation on this scale requires concurrent work in a number of areas, including:

1) Data Analytics: the analysis of Arkansas data to assess utilization; current pricing; payment distortions; informal partnerships; regional variations; existing networks; utilization review rules, patterns of practice, etc.; to analyze Arkansas claims data using Ingenix ETG software to identify episode-treatment groups; identify patient-risk stratifications; create pricing models; create partnership scenarios; etc.;

2) Literature & Best Practices Review: to research national models and best practices regarding episode-treatment groups; bundled payments; pricing strategies related to ETGs; etc.; and to recommend modifications and scale to Arkansas needs;

3) Payment and Regulatory Challenges: to assess state and program legal implications regarding topics, such as partnership development; payment structures; legislative issues and timeline/approvals; need for waiver application(s); etc. ;

4) Stakeholder Groups and Local Expert Coordination: to work with stakeholder groups and local experts in workgroup format; to lead workgroup plans and strategy; to provide data analyses for workgroup discussions; and to develop communication strategies;

5) Identifying Current System Strengths and Needs: to identify and consider other statewide resources and system supports; to identify utilities needed to support smaller practices and/or care for specified populations (medical neighborhoods; practice support; coordinated care; etc.).

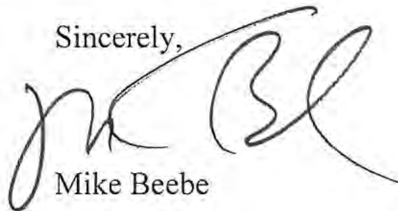
To accomplish these tasks, Arkansas and its partners are assembling a full-time project team that, in turn, will draw on assistance from local consumers, advocates, and providers. However, we will also require sustained support from a team of national experts in fields such as episode development, payment methodology, and data analytics. BlueCross and BlueShield of Arkansas has generously agreed to provide initial funding for this outside expertise from McKinsey and Company, and we are soliciting additional support from other stakeholders in Arkansas.

Supporting this transformation beyond the initial stages will require considerably more financial support than is available in our State, and that is where we hope we can count on the significant assistance of CMS, perhaps through the Innovation Center.

Rather than make the deep program cuts seen in other states, our goal is to align payment incentives to eliminate inefficiencies and improve coordination and effectiveness of care delivery. We will do this, in large part, by moving away from a fragmented, volume-driven, fee-for-service system to one that pays teams of providers for episodes or bundles of care. With HHS as our partner, we will soon have a new public- and private-sector model, replicable in many states, that both improves care and gives taxpayers and private payers more value for their health-care dollar.

We look forward to discussing our plan in more detail with your team in the near future. To that end, John Selig, Director of the Arkansas Department of Human Services, is now working with Diane Gerrits to schedule a time for our team to visit with your leadership team. Thank you, as always, for your partnership with us in our efforts toward true health-system transformation.

Sincerely,



Mike Beebe

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