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February 20, 2012

Mr. Roy Hess  
Deputy Director of Finance and Administration  
Department of Health and Human Services  
1801 Main Street  
Columbia, SC 29202-8206

**RE: PROVISO 21.48 COST SAVINGS MEASUREMENT REPORT – Q2 SFY 2012 SUMMARY**

Dear Roy:

Milliman, Inc. (Milliman) was retained by the South Carolina Department of Health and Human Services (SCDHHS) to assist with quarterly monitoring of the Medicaid Assistance expenditure savings generated from the savings initiatives implemented during calendar year 2011 through July 2011. This correspondence documents the development of year to date savings estimates through 2<sup>nd</sup> quarter SFY 2012 (ending December 2011) as required by Proviso 21.48.

**LIMITATIONS**

The information contained in this letter has been prepared for SCDHHS. The letter may not be distributed to any other party without the prior consent of Milliman. Any distribution of the information should be in its entirety. Any user of the letter must possess a certain level of expertise in actuarial science and healthcare modeling so as not to misinterpret the data presented. The terms of Milliman's contract with SCDHHS effective July 1, 2011 apply to this letter and its use.

To the extent that Milliman consents to the distribution of this letter, we make no representations or warranties regarding the contents of this letter to third parties. Likewise, third parties are instructed that they are to place no reliance upon this letter prepared for SCDHHS by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties.

In the development of the data and information presented in this letter, Milliman has relied upon certain data from the State of South Carolina and their vendors. To the extent that the data was not complete or accurate, the values presented in the letter will need to be reviewed for consistency and revised to meet any revised data.

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## **OVERVIEW OF SAVINGS MONITORING MODEL**

This report provides a comparison between the Baseline Forecast (prior to savings initiatives), the SFY 2012 Budget and actual financial expenditures (MMIS with adjustment to SAP) for the combined first and second quarters of SFY 2012. (Please note that our previous Q1 analysis reflected only a comparison to MMIS expenditures from the CCA8500 report rather than SAP expenditures.) Enclosure 1 contains a table and graphs illustrating the year to date results.

*Actual composite SAP savings of \$364.4 exceeds the targeted savings of \$285.2 million for the combined 1<sup>st</sup> and 2<sup>nd</sup> quarters of SFY 2012 by \$79.2 million. However, certain savings components are more likely payment delays (e.g. UPL timing) which will be resolved by fiscal year end. Ultimately, we estimate that the savings targets have been exceeded by approximately \$48.5 million during the first six months of the fiscal year after adjustment for these paid claims timing shifts.*

The Baseline Forecast in the savings monitoring model was developed from the seasonally adjusted version of the Summer 2011 Medicaid Assistance Forecast. The Baseline Forecast illustrates projected expenditures prior to implementation of the calendar year 2011 savings initiatives.

The SCDHHS Budget corresponds to the SFY 2012 Budget referenced in the October 5, 2011 Budget Request for SFY 2013. We allocated the SCDHHS Budget by quarter based upon the projected expenditure distribution in the seasonally adjusted Summer 2011 Medicaid Assistance Forecast.

The attached expenditure comparison is limited to Medicaid agency expenditures and does not reflect potential savings from Medicaid expenditures for Other State Agencies.

## **SAVINGS BY BUDGET CATEGORY**

In each section below, key savings initiatives have been highlighted followed by comments related to emerging expenditures and savings.

### ***Coordinated Care***

- Applicable February, April and May 2011 savings initiatives reflected in the April 2011 capitation rates
- Inpatient Psych carved into MCO cap rate – *estimated at approximately \$0.4 million in savings for Q2 SFY 2012 (approximately \$3.3 million in additional MCO cost, offset by approximate savings of \$3.7 million in Inpatient Hospital FFS expenditures)*
- April 2011 capitation rates – administration to be reduced from 12.0% to 10.5%
- Additional 1% savings for MCO capitation rates for April 2011
- Applicable July 2011 initiatives reflected in updated capitation rates effective July 2011
- Pharmacy: AWP and dispensing fee changes not applied to capitation rate development since capitation rates already assume AWP and dispensing fee reductions consistent with managed care environment
- One month payment shift for MCO and MHN

Coordinated Care expenditures create savings in excess of targeted savings amounts after normalization of emerging enrollment for MCO versus MHN. The excess is consistent with expectations because base data changes in the April 2011 capitation rate development resulted in savings in excess of the 1% targeted by the cost containment initiatives.

### ***Hospital Services***

- 3% across the board reduction in April 2011
- 4% reduction in reimbursement for Hospital services in July 2011
- Reduce NICU/PICU average length of stay
- Reduce Hospital Inpatient readmissions
- Reduce C-Sections/Inductions through prior authorization before 39 weeks

The Summer 2011 Forecast assumed most gross adjustments would be distributed equally across all four quarters. Consequently, \$17.5 million in Inpatient Hospital cost settlements and \$7.5 million in Outpatient Hospital cost settlements were assumed for the combined Q1&Q2 SFY 2012 time period. Actual cost settlements for the six month period have been approximately \$1.1 million combined. The difference between actual versus forecasted cost settlements accounts for a large portion of the difference between actual and budgeted expenditures in Enclosure 1.

### ***Disproportionate Share (DSH)***

- DSH payments are not included in the attached savings model

### ***Nursing Facility***

- 3% across the board reduction in April 2011
- 5% Reduction in Nursing Facility Medicaid days corresponding to reduction in Medicaid permit days effective July 2011 - *appears to be unrealized*
- Reduction in reimbursement for hospice room and board services provided in nursing facilities to 95% of the April 2011 payment rates

Nursing Facility expenditures have not decreased as much as anticipated for the first six months of SFY 2012. Given that no Nursing Facility UPL payments were made in the first half of the fiscal year, the results are even more unfavorable than indicated by the difference between actual and budgeted expenditures. Preliminary incurred data for SFY 2012 through December 2011 indicates that the 5% reduction in Nursing Facility Medicaid days was not realized.

### ***Pharmaceutical Services***

- Reduce non-institutionalized adults pharmacy benefits by one override as of February 2011
- Prior authorization for mental health, cancer and HIV drugs as of February 2011
- 3% across the board reduction in April 2011
- Copay change in May 2011 from \$3.00 to \$3.40 per script
- Pharmacy: AWP – 13% reimbursement decreased to AWP – 16% in July 2011 - expected to save an average 3.4% of Pharmaceutical expenditures
- Pharmacy: Dispensing fee reduced from \$4.05 to \$3.00 in July 2011

Comparison of actual expenditures to baseline forecast indicates that Pharmacy cost savings initiatives have met or exceeded targeted savings values. Even after normalization of emerging enrollment for MCO versus MHN in the non-Dual Disabled population.

### ***Physician***

- 3% across the board reduction in April 2011
- Copay change from \$2.30 to \$3.30 in July 2011
- Reimbursement changes effective July 2011
  - Pediatric Subspecialist excluding Neonatologist – 2% rate reduction
  - Reduce Labor and Delivery reimbursement from \$1,164 to \$1,100 for Vaginal delivery and \$1,000 for C-section delivery
  - Family Practice, General Practice, Osteopath, Internal Medicine, Pediatrics, Geriatrics - 2% rate reduction
  - Anesthesiologist – 3% rate reduction
  - All other physicians excluding Obstetrics, OB/GYN, Maternal Fetal Medicine - 5% rate reduction

Actual savings has exceeded targeted savings for Physician related expenditures. One key reason for the positive comparison is that savings for the Dual eligible population related to reimbursement reductions was not included in targeted savings. The reimbursement changes have in fact reduced expenditures for the Dual eligible population with a leveraged impact.

### ***Community Long-Term Care (CLTC)***

- 2% reduction in reimbursement for Home and Community Based Waiver services in July 2011

### ***Dental***

- Elimination of Adult Dental in February 2011 - *estimated at \$6.6 million in savings through the end of Q2 SFY 2012*
- 3% Reimbursement Reduction in April 2011
- 3% reduction in reimbursement for Dental services in July 2011

### ***Clinic Services***

- 3% across the board reduction in April 2011 excluding FQHC and RHC expenditures
- 4% reduction in reimbursement in July 2011 excluding FQHC and RHC expenditures
- Copay change from \$2.30 to \$3.30 in July 2011

### ***Transportation***

- 3% across the board reduction in April 2011 for Non-Broker Transportation
- 4% reduction in reimbursement for Non-Broker Transportation services in July 2011
- New Transportation Contract – *Baseline Forecast reflects the savings related to the re-procurement of transportation for Medicaid beneficiaries. Consequently, the savings does not show up in the comparison between the Baseline Forecast expenditures and actual expenditures. Fiscal year 2012 first half savings related to the new contract are approximately \$0.6 million.*

- Year to date broker payment appear to be understated by approximately \$3.4 million.

The majority of the difference between actual and budgeted expenditures is related to continued delay of a portion of the expected broker payments.

### ***Medical Professional Services***

- February 2011 Program and Policy Changes –
  - Elimination of optional programs/ services - Adult Podiatry and Vision - *estimated at \$2.2 million in savings through the end of Q2 SFY 2012*
  - Limit adult behavioral health services to 12 outpatient visits (24 units) annually
  - Reduce chiropractic services from 8 to 6 visits annually
- April 2011 Program and Policy Changes –
  - Reduce private rehab therapy visits from 75 per therapy type to 75 visits across all therapies annually
  - Eliminate adult day health care nursing – relied directly upon SCDHHS’s savings estimates in Total \$ column for April 2011 initiatives
- 3% across the board reduction in April 2011
- Reimbursement changes effective July 2011
  - Podiatrist, Audiologist, Speech, Physical and Occupational Therapist, Licensed Independent Professional/Behavioral Health providers, Psychologist, Chiropractor - 7% rate reduction
  - Optometrist - 5% rate reduction (based on state regulations requiring parity with Ophthalmologist) (including any waiver services offered by this provider)
  - Certified Registered Nurse Anesthetist (CRNA) – 3% reduction reflected from Anesthesiologist rate
  - Nurse Practitioner, Nurse Midwife and Licensed Nurse Midwife – reduction reflected as a percentage of applicable physician rate

First half savings for Medical Professional Services are very close to target savings.

### ***Durable Medical Equipment & Supplies***

- February 2011 Program and Policy
  - Reduce diabetic shoes from 2 pairs to one pair annually
  - Discontinue coverage for Syvek Patch
  - Discontinue coverage for insulin pumps for Type II Diabetics
  - Increase the time between power wheelchair replacement from 5 years to one every 7 years
  - Discontinue coverage of many items for wheelchairs such as umbrella holder, pillows, and crutch/cane holder
- 3% across the board reduction in April 2011
- DME – state specific fee schedule 9% estimated reduction in July 2011

### ***Lab & X-Ray***

- 3% across the board reduction in April 2011
- 7% reduction in reimbursement for Lab & X-Ray services in July 2011

***Family Planning Services***

- 3% across the board reduction in April 2011
- 3% reduction in reimbursement in July 2011 for Family Planning Services
- Pharmacy: AWP – 13% reimbursement decreased to AWP – 16% in July 2011 - expected to save an average 3.4% of Family Planning Rx expenditures
- Pharmacy: Dispensing fee reduced from \$4.05 to \$3.00 in July 2011

***Hospice***

- No direct impact savings initiatives modeled

***Program of All-Inclusive Care (PACE)***

- No direct impact savings initiatives modeled

***EPSDT Services***

- 3% across the board reduction in April 2011
- 2% reduction in reimbursement in July 2011 for EPSDT Services

***Home Health***

- Reduce home health visits from 75 to 50 annually effective February 2011
- 3% across the board reduction in April 2011
- 4% reduction in reimbursement for Home Health services in July 2011
- Copay change from \$2.30 to \$3.30 in July 2011

***Integrated Personal Care (IPC)***

- 3% across the board reduction in April 2011
- 7% reduction in reimbursement for IPC services in July 2011

***Optional State Supplemental (OSS) – 100% State Funded***

- No direct impact savings initiatives modeled

***Premiums Matched, Premiums 100% State Funded***

- No direct impact savings initiatives modeled

***MMA Phasedown Contributions***

- No direct impact savings initiatives modeled

The MMA Phase-down payment made in October 2011 for September 2011 pharmacy costs is significantly low in the MMIS data. Instead of the expected payment of approximately \$6.6 million, the data indicates payment of approximately \$2.2 million. November and December 2011 payments do not offset the entire short fall. We expect an additional \$3.5 million in payments will be made.



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Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet the qualification standards for performing the analyses in this report.

If you have any questions regarding the enclosed information, please contact me at (317) 524-3512.

Sincerely,

A handwritten signature in black ink that reads "Robert M. Damler". The signature is written over a faint, light blue watermark that says "ELECTRONIC SIGNATURE".

Robert M. Damler, FSA, MAAA  
Principal and Consulting Actuary

RMD/lrb



## **ENCLOSURE 1**

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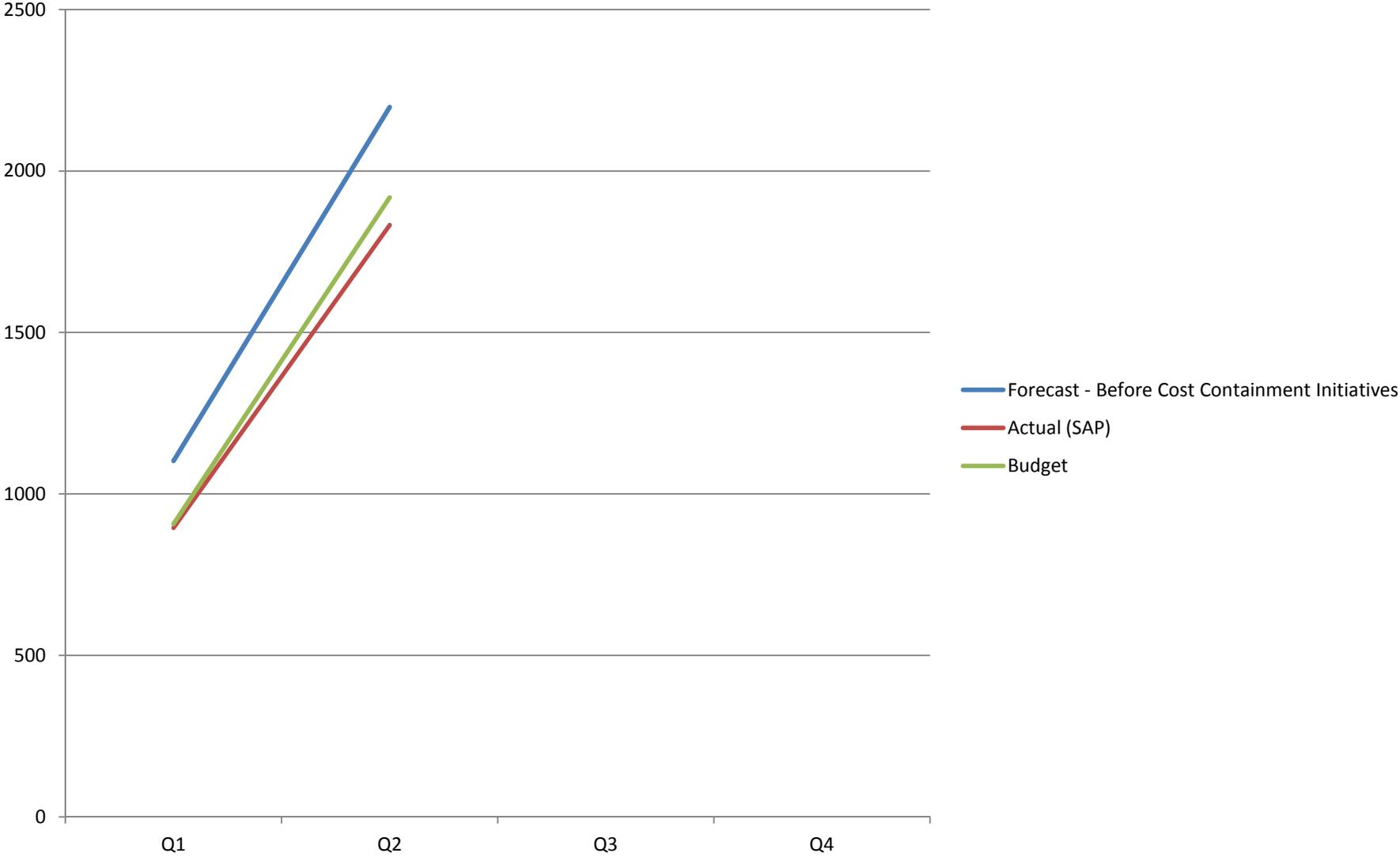
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**State of South Carolina  
Department of Health and Human Services**

**Summary of DHHS Medicaid Assistance - Expenditure Savings Monitoring  
FY2012 Through December 31, 2011  
State & Federal Dollars (in millions)**

	<u>Baseline Forecast</u>	<u>Actual</u>	<u>Budget</u>
Coordinated Care	814.9	620.0	632.9
Hospital Services	424.6	370.4	402.0
Nursing Home Services	263.7	254.9	250.9
Pharmacy Services	126.3	103.7	109.8
Physician	104.4	82.9	95.1
Community Long Term Care	85.8	79.3	79.7
Dental	60.2	52.2	48.9
Clinic Services	33.7	32.3	34.6
Transportation	32.7	28.3	27.6
Other Medical Professionals	27.4	18.8	22.4
Supply & DME	24.3	19.0	20.7
Lab & X-Ray	15.8	13.1	15.9
Family Planning Services	12.8	11.2	11.2
Hospice	6.6	6.1	5.9
PACE	6.5	6.0	5.9
EPSDT	5.0	4.7	5.3
Home Health	4.5	3.5	3.5
Integrated Personal Care (IPC)	3.0	2.6	2.6
Optional State Supplement (OSS) - 100% State	8.4	8.4	8.6
Premiums Matched	91.0	93.2	87.1
MMA Phase Down Contributions - 100% State	37.8	34.3	38.4
Premiums - 100% State	8.6	8.8	8.4
<b>TOTAL MEDICAID SERVICES (MMIS)</b>	<b>2,197.9</b>	<b>1,853.7</b>	<b>1,917.5</b>
MMIS to SAP Expenditure Transfers	N/A	(20.2)	N/A
<b>TOTAL MEDICAID SERVICES (SAP)</b>	<b>2,197.9</b>	<b>1,833.5</b>	<b>1,917.5</b>

# South Carolina Department of Health & Human Services FY2012 Medicaid Assistance Expenditure Comparison Cumulative YTD (\$millions)



# South Carolina Department of Health & Human Services FY2012 Medicaid Assistance Expenditure Comparison by Quarter (\$millions)

