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Eliot Fishman, Ph.D.
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Center for Medicaid and CHIP Services
Centers for Medicare & Medicaid Services
U.S. Department of Health and Human Services
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Baltimore, MD 21244

Dear Dr. Fishman:

Jane Beyer and I appreciate the opportunity we had to speak with you on June 7, 2016, regarding the issues raised during a Milbank Memorial Fund (MMF) convening held on March 3-4, 2016. The convening brought together six states who have or are applying for Delivery System Reform Incentive Payment (DSRIP) waivers and Medicaid managed care organizations (MCOs) from those states who are members of the Association of Community Affiliated Plans (ACAP). The meeting was convened at the request of ACAP after consultation with several states who supported ACAP's request. Medicaid agency representatives from Texas, Virginia, Washington, California, New Jersey, and New York attended the convening. The meeting provided an opportunity for identifying and exploring key issues related to the role of Medicaid managed care organizations in state DSRIP initiatives. As you requested, this letter will review MMF's observations on what emerged from the discussion.

The meeting took place in the context of CMS' priorities related to:

Movement to Value-based Alternative Payment Methodologies: Given Secretary Burwell's goals for movement to alternative payment methodologies in Medicare, passage of the Medicare Access and CHIP Reauthorization Act in April 2015, and establishment of the Health Care Payment Learning and Action Network, it is fully understandable that the goal of moving toward alternative payment methodologies would be integrated throughout the Department of Health and Human Services (HHS) health care transformation activities, including Medicaid. Expectations to increase the use of alternative payment methodologies linked to quality are being integrated into DSRIP waivers and relied upon as a key means to achieve sustainability of DSRIP projects and initiatives.

Sustainability: CMS' intent that DSRIP not become another form of long-standing supplemental funding, such as Disproportionate Share Hospital or Upper Payment Limit payments, is clear. DSRIP funding fosters innovations to transform the way that existing Medicaid dollars are spent. Federal support, in the form of both SIM and DSRIP funding, is key to facilitating implementation of new payment models.

Strategically defined DSRIP projects: Since the earliest approved DSRIP waivers, the program has evolved. CMS is clear that it is now seeking scalable and defined projects focused on the goals of moving providers to value-based payment, enhancing quality of care and improving health outcomes for Medicaid clients. These projects are intended and designed to achieve clear process and outcome metrics that will move DSRIP states toward program sustainability.

With these CMS initiatives in mind, the states and MCOs that attended the convening had in-depth discussions on a number of issues. Several themes emerged:

- **General Guidance for future DSRIP projects:** General guidance from CMCS for states applying for or renewing DSRIP waivers that identifies key CMS priorities for DSRIP initiatives and base parameters for program design can help set appropriate expectations for states and other local stakeholders, support development of waiver applications, and increase the likelihood of mutually satisfactory waiver negotiations.

- **Alternative payment methodologies (APMs) as a key strategy to transformation and sustainability:**

  - Alternative payment methodologies. The participating states' Medicaid agencies are using, or working to design, APMs that are consistent with HHS's goals that can drive quality, with a focus on specific needs of Medicaid clients and Medicaid-specific services, such as home and community-based services. The APMs should be locally designed in consultation with stakeholders to yield performance improvements, but be informed by national experience and evidence. They can be articulated in each state's waiver standard terms and conditions (STCs) negotiated with CMS through the waiver application process.

    For their part, Medicaid MCOs at the meeting shared the overall goal for delivery system reform facilitated by APMs. They were eager to share their experiences as part of APM design and development work. States that are later in the DSRIP development and approval process appear to have a planning process that incorporates more MCO input than earlier waivers. MCOs interested in implementing APMs with their provider networks can be supported in this work through STCs that balance a commitment to movement to APMs with flexibility around design so states can implement them appropriately.

  - MCO rate setting and its impact on DSRIP Initiatives. There was significant discussion related to the potential impact of the final managed care rules' rate setting provisions on state efforts to advance new models of care and APMs through Medicaid managed care contracting. In particular, the rate setting process should support reinvestment of savings resulting from successful APMs into infrastructure development or access to alternative non-clinical/ non-encounter based services to address social determinants of health that are critical to improving health outcomes for Medicaid managed care enrollees.

The Medicaid MCOs attending the meeting expressed a concern that medical savings resulting from investments in non-Medicaid services incentivized through APMs will reduce Medicaid billable encounters and yield future rate reductions. Furthermore, any shared savings arrangements or other APM-related provider payment incentive mechanisms should also ensure that MCOs will not be penalized in future rate setting for their successes in reducing medical expenses. As we noted during our call, this issue is not unique to DSRIP states.

- **DSRIP Timeframes**: DSRIP waivers are intended to yield comprehensive delivery system transformation. The DSRIP states share that goal. This system change, however, will not occur overnight or even over several years. States and plans were concerned about a five-year horizon for substantial delivery system reform and a subsequent cliff in incentive payments. During our call, we discussed CMS's willingness to consider waiver extension negotiations, albeit with an approach that phases down DSRIP funding over the course of the five-year waiver extension period.

- **CMS infrastructure:** The states fully understand CMS' limited staff resources and noted that additional CMS resources are critical to making DSRIP initiatives a success. With the $162 billion spent in 2014 on Medicaid managed care contracting, which has only grown as a result of state adoption of the ACA Medicaid expansion and the trend toward moving more Medicaid client groups into managed care, CMS staff are working as hard as they can to meet the needs of the states and ensure Medicaid program integrity. State and MCO officials both note that additional resources are necessary to support this critical work at CMS.

These observations are the Fund's, and not necessarily those of the participants—who were candid and constructive in their discussions that day. I hope this letter is useful to CMS officials as you continue your important work helping state Medicaid programs reform their delivery systems. Please contact me with any questions.

Sincerely,

Christopher F. Koller