March 22, 2018

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM ADMINISTRATION (AHCCCS)
ATTN: Jennifer Roberts, Senior Procurement Specialist
Procurement Office (First Floor)
701 E. Jefferson, MD 5700
Phoenix, AZ 85034

Re: AHCCCS, Response to Request for Proposal (RFP), Third Party Liability and Recovery Audit Services for Proposal (RFP)

Dear Ms. Roberts:

Health Management Systems, Inc. (HMS®) is pleased to present our detailed proposal for First Party Liability and Third Party Liability (TPL) recovery services, Medicaid Recovery Audit Contractor (RAC) services, and Commercial Insurance Coverage Verification/Data Match on behalf of AHCCCS. We present an integrated, comprehensive proposal that describes in detail our ability to perform all scope of work requirements, including:

- First Party Liability and Third Party Liability:
  - Casualty and Tortfeasor
  - Restitution
  - Estate Recovery
  - TEFRA Liens
  - Trusts
  - Annuities
  - Workers' Compensation
  - Credit Balance Recovery Program
  - Commercial Insurance Recovery
- Commercial Insurance Coverage Verification/Data Match
- Medicaid Recovery Audit Contractor RAC Services

Since entering the TPL arena in 1985, HMS has acquired and developed the specialized resources and systems required to fulfill AHCCCS's service goals as described in the RFP. In 1993, we began to leverage our expertise on behalf of Arizona. As the incumbent vendor providing the core scope of work for AHCCCS for more than 25 years, we have demonstrated our ability to implement and administer industry best processes and tools that maximize cost containment results. We intend to build on our national and Arizona-specific successes to deliver a comprehensive recovery services solution that responds to the current and future challenges facing AHCCCS.

HMS Strengths

We Are AHCCCS's Full-Service Cost Containment Partner

As the State's TPL contractor since 1993, HMS has the experience and proven results for the scope of work described in the RFP. We have demonstrated our understanding of the unique healthcare environment in Arizona and the financial needs of its healthcare programs. HMS is the cost containment partner best suited to achieve results for AHCCCS.

We have developed our expertise supporting recovery and cost avoidance efforts in Managed Care Organization (MCO) environments throughout our long history in Arizona. We apply that knowledge in other states—including Iowa, California, New Jersey, New York, Pennsylvania, and Tennessee—but also use the experience from those states to develop and implement best practice solutions for Arizona. HMS has the demonstrated capability to bill encounter data to all payers (medical, pharmacy, and dental) to drive significant results. It would take another vendor an estimated 12-18 months to establish encounter billing and in addition to the delay in operations, a large portion of recovery and cost avoidance will be lost.

HMS Current Contact Performance
From 2013-2018, HMS secured more than $866.2 million in total recoveries and cost avoidance savings for AHCCCS. In state fiscal year 2017 alone, we provided more than $11.2 million in TPL recoveries and an estimated $154 million in cost avoidance savings for AHCCCS.

Actual state experience with two other Medicaid programs where a lower cost new vendor took over TPL programs resulted in $100 million recovery loss for a large Medicaid program and $7 million recovery loss for a small Medicaid program in the first year. These losses were not delays, but liability that was never identified by the vendor. Our understanding of the Arizona's MCO model and associated processes enables HMS to meet evolving service needs, as we have demonstrated in the current contract with Judicial Foreclosures, website availability for trauma code mailer responses, and automated total plan identification. In a new contract, we will continue to identify and present new and innovative ways to support the Arizona TPL and payment integrity programs, always with the goal of maximizing the benefits to AHCCCS.

We Are the Most Experienced Partner in the TPL Industry

HMS pioneered the use of data matches to locate TPL for Medicaid agencies. Our best practice approach and extensive established and expanding national commercial eligibility database has been supporting Medicaid agencies' TPL efforts since 1985 without interruption.

Today, HMS is the nation's recognized leader in delivering comprehensive TPL identification and recovery services. We are the market leader in innovation, technology, reliability, and solutions that

generate results. Each year we recover more than $1 billion in overpayments and save billions more in cost avoidance for our government-sponsored healthcare clients.

With our 30-year history of providing comprehensive TPL services for Medicaid programs and our 25-year partnership with Arizona, HMS has earned our record of accomplishment by delivering the complete scope of work as described in the RFP.

We Deliver Ongoing TPL Success in Arizona

We offer AHCCCS a no-risk solution, as we have consistently created measurable value for the State. During the current contract term (2013-2018), HMS secured more than $866.2 million in total recoveries and cost avoidance savings for AHCCCS, a record no other vendor can approach. In state fiscal year (SFY) 2017 alone, we provided more than $11.2 million in TPL recoveries and an estimated $154 million in cost avoidance savings for AHCCCS. Our implemented recovery and cost avoidance systems facilitate the delivery of results Day One of the new contract term. This assures AHCCCS uninterrupted direct dollars and savings while avoiding the increase in AHCCCS IT and policy resources that would be required to support a new vendor's implementation and testing efforts.

We Apply Actual TPL Service Expertise That No Other Vendor Can Match

AHCCCS needs a qualified and experienced vendor that has demonstrated its ability to maximize results. HMS is the nation's leading provider of comprehensive TPL services for over 40 Medicaid and State agencies. No other vendor has that breadth of experience.

Our expertise positions us to offer the unique and specialized methodologies needed to benefit the Arizona Medicaid program, fulfill its federal mandate to remain the "payer of last resort", and to produce real dollars and cost savings – thereby securing these essential services for additional Arizonans. As the incumbent vendor, we have established and operational processes and systems in place that produce value for AHCCCS. HMS provides a reliable stream of cost avoidance, commercial insurance billing, subrogation, and additional activities for cost containment that the State can rely upon without interruption.

Our key project management personnel currently supervise successful day-to-day TPL operations in our local Phoenix office. We have proven our ability to leverage our decades of scope-specific experience and large-scale technology resources to meet the evolving needs of clients such as AHCCCS. This innovation includes newly established process options described in proposal **Sections 9.0 and 9.1** that we are confident will boost the overall value of the State's cost containment results.

HMS has partnered with AHCCCS for over 25 years and has collaborated on the precise details to create and ensure the cost containment solution meets its needs. By selecting HMS as its TPL vendor to fulfill the entire scope described in its RFP, AHCCCS will ensure continued high-level cost avoidance and recovery savings and avoid the following risks and incremental expenses associated with an untested vendor in Arizona:

- **Additional Implementation Resources.** An untested vendor will require considerable resources during the start-up phase of contract operations. While processes and systems are set-up and tested, the flow of recoveries and cost savings to the state will be interrupted. Even a conservative estimate of a 10% reduction represents a risk of over a $16 million in the first year.

- **Additional Training Resources.** Project Management and Operations team members will all require extensive training for them to understand the unique environment in which Arizona's healthcare programs operate. They will also need to receive in-depth training on all aspects of healthcare programs operations and associated cost containment specifications to ensure contract compliance. The cost of training is estimated at $500,000 but the additional risk of noncompliance could be much higher.

As described in detail in proposal **Section 8.0**, our years of experience have produced unique expertise that is a service strength that no other vendor can match.

Key Features of HMS's Proposed Approach

TPL Recoveries

We are committed to continuing to maximize third party liability recoveries for the AHCCCS. As described in proposal **Sections 9.0 and 9.1**, using our established TPL program assures AHCCCS of consistent, continued results in the new contract term.

We employ proven processes to identify cases and use our specialized web-based case management system, Maestro™, to manage all facets of the recovery process for casualty and tortfeasor, restitution, estate recovery, TEFRA liens, trusts, and annuities. Maestro supports case management and analysis by consolidating all of the various case information for all projects into an easily accessible and relatable platform. This interconnectivity allows a caseworker to distinguish if a member has multiple cases, such as a trust and an estate case. We use data matching and customized, web-based systems to manage carrier payments for commercial insurance. HMS's credit balance auditors engage with providers and manage all facets through a system designed specifically to support credit balance recoveries. During the new contract term, AHCCCS and their Health Plan contractors will benefit from having established systems and processes already in place.

Casualty and Tortfeasor

HMS has over 25 years of experience in the Arizona casualty market and a thorough knowledge of Arizona specific requirements, such as Total Plans, that are a required process to be a successful partner with AHCCCS. HMS's Casualty and Tortfeasor program has recovered over $12.9 million in the current contract term.

Restitution

As the incumbent, HMS has established relationships with probation officers and the courts. During the current contract term, the Restitution project recaptured $701,000 for the AHCCCS program.

Estate Recovery

Our estate recovery caseworkers understand the importance of both court filings and liens to protect AHCCCS's recovery rights. Our estate recovery solution has returned more than $9.4 million in post-death recoveries in the current contract term alone.

TEFRA Liens

The TEFRA Lien solution has been delivering results to AHCCCS by protecting the State's interest in the real property of permanently institutionalized members. A TEFRA Lien is recovered when the property is transferred. Although most recoveries occur after the member has passed away, pre-death reimbursements totaled $2.5 million during this current contract term.

Trusts

HMS has provided trust recovery services to AHCCCS for over a decade. HMS has the data matching and systems in place for successful trust recovery. In the current contract, repayments from trusts amounted to well over $4.3 million.

Annuities

Since the Deficit Reduction Act of 2005 (DRA), AHCCCS's right to recover on annuities was strengthened. HMS has the needed experience and relationships to perform this work. Annuity recoveries totaled over $290,000 in the current contract.

Credit Balance Recovery

Our credit balance specialists understand that credit balance work performed on behalf of AHCCCS and its Health Plan contractors is unique to Arizona and they have customized service resources to fulfill all requirements. HMS's procedures and State-established policies have resulted in the recovery of $7.2 million during this contract term. In proposal **Sections 9.0.07 and 9.1.7**, we describe our successful approach to performing credit balance work that includes the following scope components and needs:

- Overpayment Identification
- Initial Provider Notification and Requests for Additional Information
- Entering Claim Credits or Adjustments
- Referrals to the AHCCCS Office of the Inspector General
- Adjustment Forms Preparation and Submission
- Credits or Adjustments Against Recoveries
- Payment Recordings
- Non-Responsive Provider Referrals to the AHCCCS
- Adjustment Forms for Overpayment Write-Off
- Monthly Reporting

Commercial Insurance

A critical feature of any effective TPL program is identifying other coverage for AHCCCS members. HMS's proven approach, as described more thoroughly in the Cost Avoidance section below, will continue to enable AHCCCS to reclaim payments that are the legal responsibility of others.

Our pay and chase processes, further described in **Sections 9.0 and 9.1,** take full advantage of our TPL identification results enabling HMS to recover a significant number of overpayments made by the State. We bill commercial insurance sources for claims that AHCCCS has paid, but for which the program is not the financially liable party. We use a combination of electronic billing interfaces—developed for the specific purpose of Medicaid Commercial Insurance reclamation—and paper claims to submit claims to carriers for adjudication. HMS's systematic and detailed recovery process is recognized industry-wide for accuracy, integrity, and subsequent results.

Yield management (also known as billing follow-up) is the unique process we use to monitor and follow up on unresolved billed claims. HMS started providing yield management services to AHCCCS in 2011. Our dedicated team uses a comprehensive, systematic process for claims follow-up, appealing underpayments and inappropriate denials, and conducting rebilling activities. Our specialized yield management efforts work to recover each dollar owed to the AHCCCS. As the incumbent, HMS has returned over $6.2 million to AHCCCS that was the responsibility of a different payor.

Cost Avoidance and Verification

Identifying other coverage is the hallmark of any effective TPL program and HMS's proven approach will continue to help AHCCCS avoid paying claims that are the legal responsibility of others. In SFY 2017 alone, HMS delivered over 370,000 thousand policy and segment updates while enabling AHCCCS to cost avoid over $157 million in claims.

As described further in proposal **Section 9.0 and 9.1**, the features of our approach include:

- Our National Eligibility Database, which houses more than 1.4 billion insurance carrier eligibility records from 1,250 payers, is a highly-accurate dataset enabling HMS to verify nearly 18 million insurance policy segments for Arizonans
- A data-sharing network that extends beyond the top 20 commercial insurance carriers in Arizona and includes local, regional, and national commercial insurance companies, Third Party Administrators (TPAs), Pharmacy Benefit Managers (PBMs), employers, unions, and a host of specialty health coverage plans, such as Long-Term Care and behavioral health payers
- HMS currently receives eligibility data from payers covering more than 99% of Arizona's insured residents
- Our proprietary data match process that identifies matches other solutions would miss
- The iMatch process applies more than 130 proprietary algorithms successively, resulting in comprehensive, validated identification of other coverage with 99.99% match accuracy
- A reliable, multi-process approach for verifying other coverage directly with third parties using our **COB***connect* solution
- A data validation process that enables us to assess the integrity of each match and taking the steps necessary to investigate near-matches for confirmation or elimination

HMS Recovery Audit Contractor Experience

HMS performs cost control, hospital bill, and recovery audits across federal, state, and commercial health markets. Our past performance, as follows, demonstrates that we can successfully achieve AHCCCS's Medicaid RAC program goals:

- Participating for more than 13 years in the Medicare Recovery Audit program—from the original demonstration project to our current high performance as the RAC Region 4 contactor
- Providing recovery audit services, including both pre- and post-payment claim review, for more than 58 commercial health plans
- Providing recovery audit services, including both pre- and post-payment claim review, for more than 16 Medicaid agencies

We will anchor our data analysis capabilities with a solid understanding of AHCCCS's Prepaid Medicaid Management Information System (PMMIS) and program data. Years of providing recovery and cost avoidance services for AHCCCS have given us the required insight. Our knowledge of Arizona data will allow us to continue our analysis and recovery processes with minimal formatting requirements and demands on AHCCCS or its program resources.

Our approach, described further in **Sections 9.0 and 9.3,** includes nationally-accepted methods and protocols. It adheres to federal and State program rules, regulations, and laws. Our data analysis capabilities range from general utilization/cost modeling analytics to highly specific clinical algorithms. The general analytics can compare AHCCCS claims with national benchmarks for service type to identify unexpected areas of program cost and growth. Specific algorithms can target abnormal diagnosis and utilization patterns related to specific procedure codes. Our algorithms apply logic across all claim types.

Ongoing Innovation

As demonstrated through our delivery of TPL best practices, HMS is committed to applying new and improved processes and tools to maximize the results that we deliver to the State. Our ongoing goal remains to grow and expand our service offerings in order to respond to the evolving needs of AHCCCS. One example of service innovation that increases process efficiencies: cost avoidance beginning at Point of Enrollment (POE). POE enables us to identify, verify, and transmit TPL coverage data for new AHCCCS members within 24 hours. POE has the potential to lower costs and reduce capitation payments while reducing providers' administrative burden as they participate in the Coordination of Benefits process. POE is just one cutting-edge solution that we look forward to presenting to AHCCCS. It is one of many features of our valuable partnership with the State and one example of our efforts to continually offer innovative ways to support its healthcare cost containment initiatives.

Summary

As our proposal describes, HMS is uniquely qualified to help AHCCCS achieve its cost containment objectives. We successfully deliver a comprehensive scope of work, maximize results, provide excellent customer service, and share our valuable insight as the nation's leading provider of TPL and RAC services for Medicaid. We have the specialized methodologies and tools as well as the client-specific knowledge and experience required to best meet all service objectives described in the RFP.

The Healthcare Payer Industry consistently selects HMS as the partner of choice for government-sponsored healthcare programs seeking to recover overpayments for services provided that are the liability of a third party. We look forward to continuing our long-standing partnership with AHCCCS and remain committed to helping it improve the quality of its programs.

By submitting this proposal, we certify our compliance with the following requirements:

Request for Confidential/Proprietary Determination

Please see included enclosure, which provides required summarization of confidential material and page numbers.

Notification of Add-On Proposal

HMS has included under separate cover an Optional Add-on Services proposal.

Offer Acceptance Period

HMS understands and accepts that we shall hold our offer open for one-hundred and twenty (120) days from the offer due date stated on the Solicitation. We also acknowledge that we shall hold our offer open for one-hundred and twenty (120) days from the Best and Final Offer due date.

Marnie Basom, Vice President, State Government Solutions, will continue to serve as our Accountable Executive for this project. Please contact her via telephone at 208.639.8202 or email at mbasom@hms.com with any questions about HMS or our services. We appreciate the opportunity to present our proposal and look forward to continuing to serve AHCCCS recovery services needs throughout a new contract term.

Sincerely,

Jeff Sherman
Executive Vice President, Chief Financial Officer, and Treasurer

Enclosure