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McKESSON
Empowering Healthcare

August 16, 2005

The Honorable Governor Sundquist
Chair, Medicaid Commission
Centers for Medicare & Medicaid Services
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, DC 20201

Dear Governor Sundquist:

On behalf of McKesson Corporation, I am pleased to submit recommendations to the Medicaid Commission regarding ways to improve the quality and delivery of care to Medicaid beneficiaries while removing unnecessary costs. As the largest distributor of pharmaceuticals and the largest health information technology (IT) company in the world, McKesson offers a broad and unique perspective on solutions to help the Commission achieve its stated goal of saving \$10 billion over five years and proposing long-term changes to the program to better serve its beneficiaries. We commend the Secretary of Health and Human Services and all of the members of the Medicaid Commission for their commitment to this worthy objective.

For over 170 years, McKesson has led the industry in the delivery of medicines and healthcare products to drug stores. Today, a Fortune 15 corporation, we deliver vital medicines, medical supplies, and health IT solutions that touch the lives of more than 100 million patients in healthcare settings that include over 200,000 physician practices, 25,000 retail pharmacies, 10,000 extended care facilities, 5,000 hospitals, 750 homecare agencies, and 600 healthcare payors. In addition, McKesson employs more than 1,400 healthcare clinicians, including physicians, nurses and pharmacists, to develop solutions that aid in the delivery of safe, efficient and high-quality care.

Enhanced Use of Technology

E-Prescribing

Providing incentives to develop an information technology infrastructure can enable improved efficiency and enhanced quality. Dr. David Brailer, National Coordinator for Health Information Technology, recently estimated that development of the IT infrastructure of healthcare could result in a 10 percent cost savings, over time, in administrative and clinical savings. Electronic prescribing (e-prescribing), electronic medical records and related technologies for eligibility verification and claims processing can effectively contribute not only to controlling costs but also to enhancing quality of care.

Efforts to improve Medicaid's efficiency and quality should include provisions and incentives to implement and encourage e-prescribing by providers who care for Medicaid beneficiaries. Specifically, e-prescribing provides the following benefits:

- Confirms beneficiary eligibility in the physician's office and ensures that all written prescriptions will be both clinically accurate and fully compliant with program directives on preferred medications and fulfillment sources;
- Permits physicians to review program formularies and view contraindications based on patient medical history and existing medication history;
- Informs clinicians of appropriate medication alternatives, provides opportunities for appropriate generic substitution, and supports patient education at the point of service; and
- Captures and transmits prescription data to ensure timely and efficient financial transactions.

As providers begin to implement the e-prescribing requirements in the Medicare Modernization Act (MMA), the Medicaid program has a unique opportunity to extend similar and valuable e-prescribing benefits to Medicaid beneficiaries.

Utilization Management Criteria

Software solutions that use pre-programmed logic to evaluate and manage care utilization can also enable improved efficiency and enhanced quality of care. As one example of this type of technology, McKesson's InterQual criteria contain evidence-based clinical and psycho-social logic to support appropriate decision making related to patient-specific medical services. The criteria address the full continuum of medical and behavioral health services, spanning all inpatient and outpatient levels of care and services including procedures, imaging, use of durable medical equipment (DME) and referrals to specialists.

This software can be used prospectively, concurrently and/or retrospectively as part of a Medicaid utilization management program. Today, it is utilized by more than 80 healthcare organizations serving Medicaid patients. The core content evolves with the medical evidence and is driven by a development process that involves an internal team of McKesson clinicians and a consultant panel of more than 800 clinicians. InterQual has demonstrated the following benefits:

- **Healthcare Savings:** significant improvements can be realized by assessing the appropriateness of hospital admissions and length of stay as well as reducing utilization levels of various high cost/high volume procedures, imaging services, durable medical equipment (DME) and referrals to specialists;
- **Healthcare Efficiency:** support for appropriate sequencing of services and reduced over-utilization of specific services when used as a pre-certification tool. Additionally, these products assist with discharge planning, optimize the length of stay in alternate levels of care, and support data collection to identify opportunities for quality improvements.

Claims Auditing Solutions

McKesson recommends that the Commission adopt some of the best business practices utilized by commercial health insurers to control expenses. These include commercial code auditing solutions to assure that physician claims are paid accurately and quickly. By automating the

manual claims processes, claims auditing tools improve the accuracy and efficiency of the adjudication process.

Our claims auditing tools are currently utilized by over 300 private payors, 15 state Medicaid programs and ChampVA. The average savings realized by customers is between 3 and 5 percent of total dollars paid on professional claims.

Disease Management

As public and private sector payors expend increased resources to treat patients with chronic illnesses, they are adopting disease management programs to enhance health outcomes while lowering overall costs. By providing proactive care, disease management services can help slow the progression of chronic illnesses. Clinicians provide assistance to patients in managing their conditions by encouraging more rapid adoption of evidence-based standards of care which, in turn, reduces the need for acute care interventions.

A 24 hour/7 day a week triage hotline can also help patients safely address their health problems at home by providing general health information, symptom assessment, care advice and self-care instructions on more than 1,200 topics. Registered nurses or other qualified clinicians help beneficiaries avoid unnecessary trips to the emergency room, while encouraging immediate medical attention for those whose symptoms warrant it.

McKesson recommends greater utilization of disease management programs as an important way to enhance health outcomes while concurrently reducing the cost of delivering better care. Currently, we provide disease management services to 10 state Medicaid programs, and we were recently selected to administer a chronic care improvement demonstration project for Medicare beneficiaries. Our programs have resulted in a net savings, on average, of \$3,089 per person per year. Based on our experiences, we know the benefits that can be achieved through disease management programs and strongly advocate their rapid adoption.

We also strongly encourage the Commission to modify the federal Medicaid waiver requirements that present an unnecessary barrier to states that would like to maximize the benefits of disease management.

Home Healthcare and Telehealth

Home health and hospice care support the goals of the Medicaid Commission to decrease resource consumption, improve efficiency, and enhance the quality and delivery of patient care. Use of homecare services decreases emergency room and hospital stays by providing care in the patient's home, a less intrusive and more cost effective environment. Telehealth solutions allow clinicians to remotely track patient health trends on a daily basis and to provide care more proactively, which minimizes unnecessary emergency room visits and hospitalizations.

Telehealth technology provides patients with continuing education about their diagnosis and the appropriate treatment of their condition. This knowledge empowers patients to be involved in their own care, which improves outcomes and patient satisfaction. Telehealth technology also

allows a single clinician to oversee the care of many more patients than would be possible in a “traditional visit” model, which allows the agency to manage resources more effectively.

Industry studies indicate that the use of telehealth solutions has produced significant savings in reductions of re-hospitalizations and emergency room visits. For example, Mercy Health Center in Laredo, Texas implemented McKesson’s telehealth technology to treat a population of indigent border area residents with congestive heart failure. The study indicated, on average, a savings of \$13,159 per patient per year due to a 41 percent reduction in inpatient admissions. Medicaid may realize significant savings with greater utilization of telehealth technology.

Appropriate Medication Reimbursement and Management

McKesson is an active member of the Healthcare Distribution Management Association and supports the comments submitted to the Medicaid Commission on August 16, 2005. In particular, we recommend that any changes to the reimbursement methodology for pharmaceutical products should address the following:

1. Reforms should include incentives to dispense lower-cost generics;
2. Reimbursement should appropriately include costs associated with the distribution of the product as a valuable and legitimate component of the final product cost;
3. Pharmacies should be fairly compensated for the final product purchase price, dispensing costs and medication therapy management services; and
4. Reimbursements should be market-based, and updated daily to reflect current prices paid by pharmacy.

McKesson also recommends that Medicaid reimburse pharmacies for all purchases of unit-dosed medications, including both blister packs and pre-filled punch cards. The current lack of reimbursement forces pharmacies to re-package onsite, which inflates medication costs and introduces inefficient and error-prone packaging processes. Through reimbursement of unit-dosed medications, pharmacies will be encouraged to purchase more unit-dosed medications which will have the following benefits:

- **Improved Patient Compliance:** The use of unit-dosed medications results in improved patient compliance and, thus, efficacy of the medication. Although the price per dose dispensed increases slightly, the number of medications and cycles of treatment will be reduced;
- **Decreased Packaging Onsite:** In many cases, onsite packaging is inefficient and error prone, which can lead to mispackaging, misrepresentation, diversion, and medication loss. Conversely, unit-dosed medications are packaged by the manufacturer or repackager in cGMP compliant, FDA approved facilities under strictly enforced Standard Operating Procedures; and
- **Increased Use of Bar-Coded Medication:** The vast majority of manufactured, unit-dosed medications are bar coded. It is widely believed that use of bar-coded products decreases the number of medication errors and adverse drug events at the dispensing level.

McKesson Corporation
Medicaid Commission Recommendations
August 16, 2005

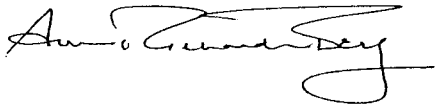
Conclusion

McKesson appreciates the opportunity to share its views with the Medicaid Commission. As a company highly committed to improving the delivery of care and enhancing patient safety and drug dispensing efficiencies in every healthcare setting, we believe that several initiatives could, and should, be implemented in the Medicaid program to help achieve the Commission's goals. These include enhanced use of technology, such as e-prescribing, utilization management software criteria, and claims auditing tools; disease management programs; telehealth and home care services; and reforms to ensure appropriate medication reimbursement and management.

We applaud your efforts and share your commitment to ensure that the Medicaid program delivers high-quality care at a sustainable pace, and we look forward to working with the Commission, the Administration and the Congress to implement these much needed reforms.

Should you have questions or need further information, please do not hesitate to contact me at 415.983.8494 or ann.berkey@mckesson.com.

Sincerely,



Ann Richardson Berkey
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