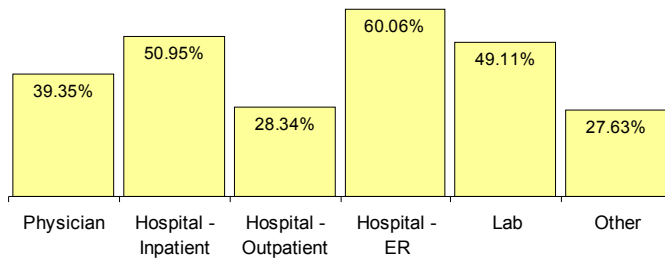


THE KENTUCKY CORRECTIONS HEALTH SERVICES NETWORK

October 2004

In October 2003, the Kentucky Department of Corrections (KDoC) initiated the Kentucky Corrections Health Services Network (KCHSN), a public/private partnership between the KDoC, University of Kentucky, and CorrectCare, a private sector health management firm. The KCHSN manages a statewide health network that delivers hospital and specialty care for approximately 17,000 state inmates in a cost-effective, medically appropriate manner. Prior to the establishment of KCHSN, specialty and hospital care for state inmates housed in 12 prisons and 75 full-service local jails was obtained in an ad hoc manner by each institution with limited control and coordination by the Medical Branch at the KDoC central office in Frankfort. As the charts below document, this new network, with discounts based on provider competition for patients and with proven and effective information systems, is producing substantial savings of KDoC health care dollars while continuing to provide effective specialty care to inmates, and maintaining control of specialty health care by the KDoC.

Savings as a Percentage of Charges



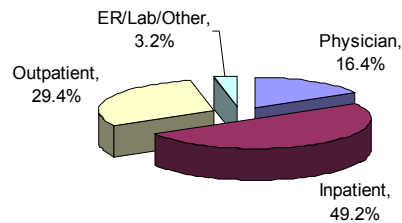
Payment data from the first eleven and a half months of KCHSN claims shows an overall 45.7 percent reduction in costs over UCR. This includes a 50.9 percent savings as a proportion of eligible charges for hospital inpatient services and a 39.4 percent savings for physician services. As the chart below shows, these two provider categories account for approximately two-thirds of the total charges for outside services. Also, these data do not include

cost-savings from reductions in unnecessary care produced by the pre-authorization process and effective case management processes, and possible savings from reduced travel and other security and personnel expenses.

To manage this new network, KDoC partners with UK to: (1) monitor and evaluate the effectiveness of the project and network; (2) contract for a private sector network coordinator to implement a statewide network and provide administrative services; and (3) develop clinical and other applied research projects. Dr. Phil Roeder, Professor at UK, serves as the UK Network Monitor and is funded by a Memorandum of Agreement between UK and KDoC that provides the necessary resources and support to administer the project. UK partners

with CorrectCare, Inc. (CC), a private sector health management firm chosen through a competitive bid process to (1) act as Network Coordinator and provide network coverage throughout the state utilizing several existing health networks and, (2) ensure availability of hospitals, clinics, MDs, and other providers as requested by KDoC and prison officials. The Network Coordinator is responsible for two key management functions: (1) data management including outcomes assessment, ad hoc reporting, and third party administration, and (2) case management including utilization review, care pathways, and continuous quality improvement.

Distribution of Charges



A fundamental component of the KCHSN is that existing health networks in Kentucky such as Anthem, CHA, Bluegrass Family Health or any health management firm affiliated or partnered with these existing networks were not eligible through the UK bid process to be selected as the Network Coordinator. To

maintain effective KDoC control through the UK Memorandum of Agreement and ensure competition for corrections health care dollars, the Network Coordinator must be independent of any single health care network and therefore have the ability to change networks or develop contracts and relationships with any network or individual physician, physicians group, hospital, or other service provider. With this system, the Network Coordinator can use providers outside any network, help bring new providers into an existing network, or choose not to use available providers in a contracted network. KDoC and KCHSN can “shop around” to find the best providers for their needs without being tied contractually to just one network or set of providers.

Similar to a traditional HMO network, the KCHSN pays for medical procedures at a significantly discounted rate; allows only procedures documented as necessary; ensures that only procedures performed are paid for; and uses a state-of-the-art information system to track, monitor, and report all referrals, procedures, and claims activity. The private claims processing system with an effective information system implemented by the third party administrator eliminates procedure unbundling, payment of non-authorized procedures, and payment of duplicate bills. Also, these management and monitoring systems ensure that hospital length of stay is kept to a minimum resulting in a substantial projected reduction in hospital and procedure cost. Not only has utilization of the private sector pre-authorization process resulted in an immediate reduction in unnecessary procedures, it also, because of clear identification of community standards as applied in the private network pre-authorization process, is expected to help limit inmate lawsuits. Inmates are now participating in a private health care network with services, procedures, and providers identical to those available to large groups of private-pay, non-incarcerated individuals and families.

Although the primary benefit of the KCHSN project is cost control with a substantial projected savings of KDoC dollars accompanied by improved quality of care for inmates, additional benefits include expected increases in clinical revenues to medical facilities at the research universities, and the possibility of increased external funding for university faculty and KDoC working jointly on clinical and management research projects. Many of the benefits and cost savings will result from the implementation of management information systems that facilitate the collection and analysis of comprehensive data pertaining to medical activity.

There are transition costs in moving from the previous, ad hoc, system to the new public/private partnership, however the complexities and costs of initiating and administering the KCHSN are mostly known and are outweighed by the cost-savings and improved quality of care resulting from the network. Although too soon for definitive conclusions on overall project benefits, in the initial stage of implementation, network management systems are operational and effective, and preliminary data analysis demonstrates that projected cost-savings are occurring. In summary, the KCHSN is a model suitable for adoption by corrections agencies in other states as well as other types of state and local government agencies in that it produces the monetary savings expected from a privatized system while still maintaining effective government control.

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