

SMDL #02-003

March 7, 2002

Dear State Medicaid Director:

I am writing to you regarding the Administrative Simplification Compliance Act (ASCA), P.L. 107-105, signed into law by President Bush on December 27, 2001. This new law enables health plans, including the plans administered by the single state Medicaid agencies, to obtain a one-year delay in the date by which they must comply with the requirements of the rule titled "Standards for Electronic Transactions," published at 65 F.R. 50312, August 17, 2000. Under the delay legislation, a health plan, clearinghouse, or provider otherwise required to come into full compliance with the Transactions Rule by October 17, 2002, may obtain the one-year extension by filing a compliance plan with the Secretary by October 16, 2002. HHS will promulgate a model form to use for filing these plans on or before March 31, 2002. Our intent is to make the process as simple and straightforward as possible.

The extension is intended to provide time for all of the affected parties to achieve full compliance. Obviously this is a very large task, which needs to be pursued aggressively if states and their trading partners are to implement the standards for electronic transactions successfully by October 16, 2003. Any delay in state implementation activities is likely to jeopardize success and also increase the ultimate cost of achieving compliance. The ASCA requires that your compliance plan include a timeframe for testing that begins not later than April 16, 2003. If your HIPAA activities are stopped or severely curtailed, your agency may not even be able to meet these new compliance deadlines. We note also that the ASCA does not delay the compliance date for the HIPAA Privacy Rule, which remains April 14, 2003 for all covered entities (April 14, 2004 for small health plans). Delays by Medicaid agencies in implementing the Transactions rule may lead to delays in meeting the requirements of the Privacy Rule.

We recognize that all states are facing severe fiscal constraints for the coming year and possibly beyond. It is critically important that you maintain your level of effort to achieve HIPAA compliance. There are a wide variety of reasons why you should continue your efforts:

- The Centers for Medicare & Medicaid Services has approved enhanced funding at the 90-percent Federal financial participation level for many of the Medicaid Management Information Systems (MMIS)-related HIPAA gap analysis and remediation activities.

- Using HIPAA standards to process crossover and third party liability (TPL) claims will accelerate reimbursement and facilitate the use of

electronic data interchange. Any delay may prevent you from realizing significant cost savings anticipated from the use of a standard coordination of benefit and TPL process and may exacerbate state fiscal pressures.

• Standardization of health care transaction information is expected to greatly facilitate fraud detection, which has been estimated to cost payers as much as eleven cents of every health care dollar spent.

• It is essential to maintain state leadership in national HIPAA workgroups and standard setting organizations. Lack of state representation reduces your ability to get modifications adopted by national standard-setting organizations, modifications that are critically needed to meet Medicaid business needs within the mandated HIPAA standards.

• HIPAA implementation does not lend itself to being stopped and then restarted later without serious project compromises, inefficiencies, and cost increases.

It is important to keep in mind that the HIPAA administrative simplification requirements are expected to result ultimately in substantial savings to health providers and payers, including Medicaid agencies. Thank you for your efforts to date, and I look forward to succeeding together in meeting the initial HIPAA challenge.

Sincerely,

/s/

Dennis G. Smith

Director

cc:

State Chief Information Officer

State HIPAA Coordinator

CMS Regional Administrators

CMS Associate Regional Administrators for Medicaid and State Operations

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American Public Human Services Association

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