Draft Recommendation for Adjustment to the Differential

June 13, 2018

Health Services Cost Review Commission
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This document reflects the Draft Recommendation to increase the Public Payer Differential effective January 1, 2019. Please send all written comments to hscrc.payment@maryland.gov no later than June 27, 2018.

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PROPOSED COMMISSION ACTION

Staff will be asking the Commission to consider the draft recommendation to increase the public-payer differential, effective January 1, 2019.

Draft Recommendation for Increasing Public-Payer Differential

Increase the differential by 1.7 percentage points (from the current 6.0 percent to 7.7 percent) to eliminate the allocation of the higher bad-debt write-offs occurring in Commercial coverage to Medicare and Medicaid.

BACKGROUND

The Maryland Health Services Cost Review Commission (HSCRC) is a state agency with unique regulatory authority. The HSCRC is legally authorized to set the rates to be charged by all Maryland hospitals. These rates form the basis of payment by all payers for the provision of hospital services in Maryland. The federal government has granted Maryland the authority for HSCRC to set hospital payment rates for Medicare as part of its all-payer hospital rate-setting system. This all-payer rate-setting approach, which has been in place since 1977, eliminates cost-shifting among payers, while also appropriately accounting for certain differences among payers.

Since the 1970s, the State of Maryland has employed a differential, whereby public payers (Medicare and Medicaid) pay 6 percent less than other payers (primarily commercial payers). Hospital charges are adjusted to ensure that the differential's reduction in charges to public payers does not result in a decline in hospitals' total revenue.

The State of Maryland's current All-Payer Model contract requires that the differential "be at a minimum 6.0%." This is to account for Medicare's "business practices and prompt payment practices."

The purpose of this report is to present analyses and make a recommendation to increase the public-payer differential in order to correct for excess bad-debt write-offs for commercial coverage that shift costs onto Medicare and Medicaid. This adjustment will result in a more equitable distribution of uncompensated care costs. The HSCRC staff is recommending an effective date of January 1, 2019 to allow for implementation by the Medicare intermediary as well as other payers. This proposed change is not meant as a mechanism to create additional room for all-payer rate updates in future years. This change is being proposed for equity purposes.

In the future, staff may also offer a draft recommendation to increase the differential to ensure that the realignment of hospital cost allocations does not increase combined payments to hospitals by Medicare and Medicaid. However, more analyses are required to quantify the effects of such cost realignment.

ASSESSMENT

Over the past few years, uncompensated care for commercially insured individuals has been increasing as a result of commercial plan design changes that increase the level of patient deductibles and co-pays. While the plan design changes are aimed at encouraging individual attention to cost levels, the HSCRC does believe it equitable to have the related uncompensated care allocated to all payers.

Until recently, HSCRC did not have any data to evaluate the impact of increased bad debts for these changing plan designs. The HSCRC used a regression adjustment to estimate predicted bad debt levels for hospitals. Medicaid payer percentages were used to estimate expected charity levels. With the expansion of Medicaid under the Affordable Care Act, the relationships used in

the regression were no longer valid. In 2016, HSCRC collected actual write-offs at the account level and matched the write-offs to the case mix data. Upon collection of this data, HSCRC was able to create new and more accurate estimates of predicted uncompensated care. It was also able to evaluate differences in write-offs of patient balances for insured patients. The HSCRC now has several years of actual data collected and analyzed. The data shows a consistent pattern that of Commercial payer write-off rates that are significantly higher than Medicare and Medicaid write off rates.

Using FY 2017 data collected by HSCRC, commercial payers' bad-debt write-off rate (3.6 percent) is much higher than the combined rate for Medicare and Medicaid (1.8 percent). Applying these percentages to FY 2019 revenues translates to approximately $100 million more in write-offs for commercial payers than for Medicare and Medicaid. Of this amount, approximately $67 million would be allocated to Medicare and Medicaid through uncompensated care payments.

The HSCRC staff believes that this allocation should be corrected through an increase in the differential by 1.7 percentage points in CY 2019. This would result in:

- A lower cost to Medicare of approximately $40 million;
- A lower cost to Medicaid of approximately $27 million; and
- An increase in overall commercial payer costs of $67 million. Assuming hospital costs are approximately one-third of total commercial costs, this would increase overall commercial payer costs by an estimated 0.4%.

This adjustment will ensure more equitable cost allocation going forward, consistent with the HSCRC's statutory mandate.

RECOMMENDATION

Based on the assessment above, staff recommends the following, effective January 1, 2019:

1) Increase the differential by 1.7 percentage points (from the current 6.0 percent to 7.7 percent) to more equitably allocate higher uncompensated care costs incurred by commercially insured patients.