Discussion Document of Selected Transition Policies for Maryland All-Payer Model
Effective January 1, 2014

Maryland Health Services Cost Review Commission

HSCRC
Health Services Cost Review Commission

Overview

I. Transition policies for 1/1
   - Monitoring revenue growth limits
   - Transitional reimbursement models
   - Modification to Variable Cost Factor
   - Volume Governor
   - Overage Policy
   - Workgroups
   - Recommendations

All-Payer revenue growth limits

- Monitor 3.58% per capita all-payer limit
  - Gross revenue for Maryland residents in Maryland Hospitals-All Payer Regulated
    - Base year of calendar year 2013
    - Data from new hospital financial submissions
  - Population Growth from Department of State Planning
  - Limit = Base Revenue for Maryland residents in Maryland Hospitals X 1.0358 (Growth Limit) X ~1.006 (Population Growth)

Approach for January 1- Transitional Hospital Revenue Model Modifications

- Approaches in place effective January 1 that assure hospital revenues that are under the All-Payer Limit within the maximum requirements for calendar year 2014
- Use existing frameworks with some modifications to allow for transitional changes effective January 1 (initially effective through June 30, 2014)
  - Modified global budget framework based on approach used in Total Patient Revenue agreements, with fixed total allowed revenue

OR

  - Existing charge-per-episode structure with lower variable cost factor applied concurrently, and a volume governor(s) to reduce allowed revenue if maximum revenue targets are exceeded

Transitional Variable Cost Factor Modifications

Policy Effective 1/1/2014

- Policy-Transition from Volume to Value, Revenue within Limit
- Reduce revenue under All-Payer limit not in global models from 85% variable to 50% variable
  - New Germantown Hospital not subject to volume policy
  - Revenues from residents outside of Maryland subject to same rates and quality policies, not revenue limit policies
- Concurrent volume adjustment—requires adjustment to charges in current year
  - Change from current approach that adjusts volume in subsequent year

Volume Governor

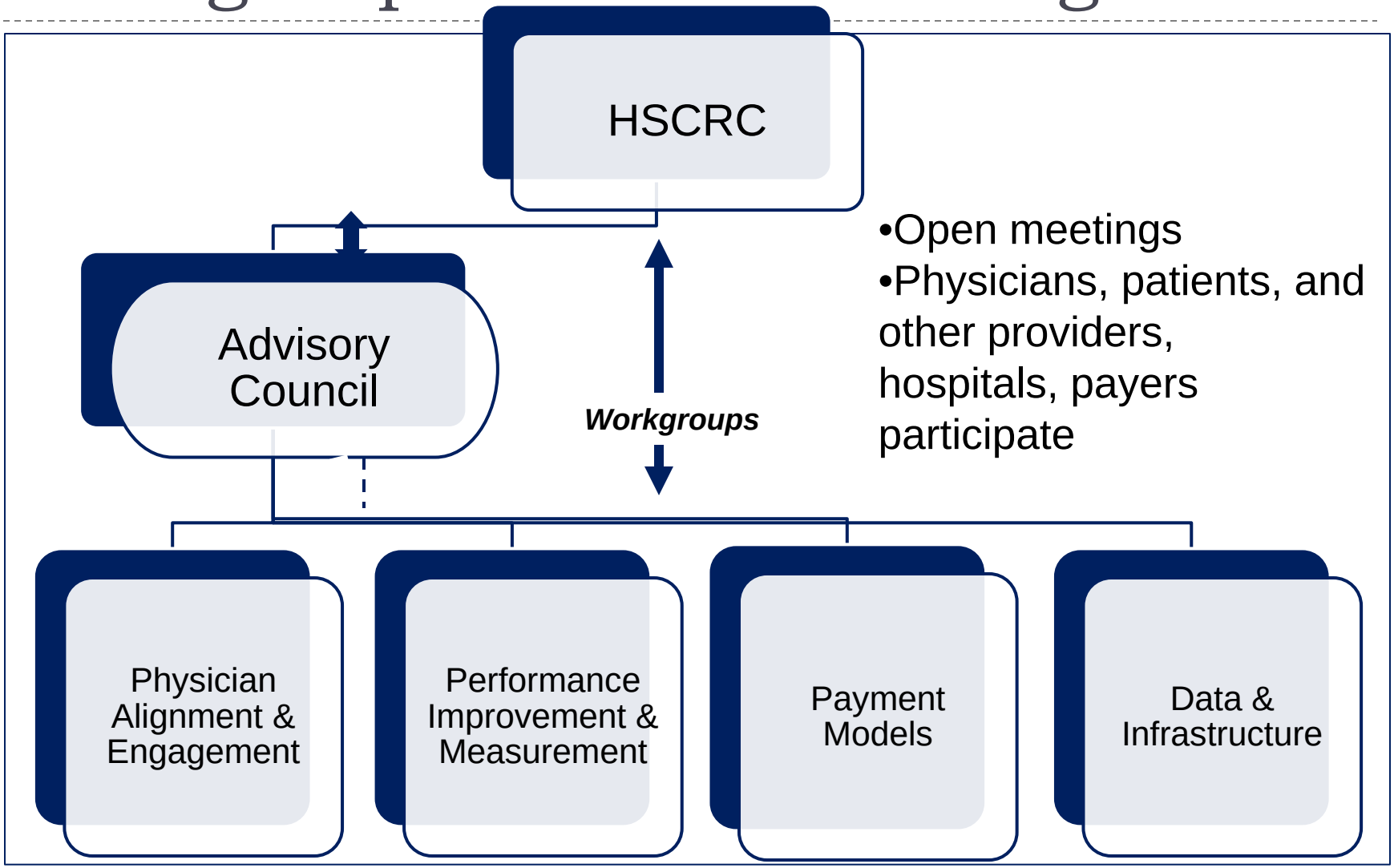
- Assures that the limits of HSCRC policy and the All-Payer model are not exceeded
- Similar to case mix governor
- Applied to non-global revenues under All-Payer Limit
  - New Germantown Hospital exception
- Make midcourse adjustment if necessary

- Volume governor for 1/1/14-6/30/14
  - Level 1--Case mix governor of .5%
  - Level 11--Total volume governor (incl. .5% case mix) at ~2% to 2.5%, (annual) depending on population growth areas in CPC
  - Once volumes reach 2%-2.5%, increase, scaled back proportionately
  - Effectively limits revenue for volume increase overall to 1% to 1.25%

Overage

- Unforeseen
- Make midcourse adjustment if necessary
- If occurs, prorate over hospital's revenues as prospective adjustment.

Workgroup activities starting



Summary of Recommendations

- Choice of models
  - Global budget (including retention of TPR); OR
  - Existing charge-per-episode model/unit price models with changes in volume policies
- Volume Policies Applicable to non-global revenues under limit
  - Reduce variable cost factor from 85% to 50%, concurrently applied
  - Volume governor to limit revenue growth of 1.0% to 1.25%, inclusive of case mix governor of .5%
- Overage policy to reduce rates in unforseen circumstances
- All policies subject to workgroup review and may be changed after July 1, 2014