DRAFT: Update Factors Recommendations for FY 2015

Health Services Cost Review Commission
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These draft recommendations are for Commission consideration at the May 2014 Public Commission Meeting. No action is required. Public comments should be sent to Dennis Phelps dennis.phelps@maryland.gov. For full consideration, comments must be received by June 2, 2014.

DRAFT: Recommendations on Update Factors

INTRODUCTION

Overview

On July 1 of each year, the HSCRC updates hospitals' rates and approved revenues to account for inflation, policy adjustments, and other adjustments related to performance and settlements from the prior year.

On January 10, 2014, the Center for Medicare & Medicaid Innovation (CMMI) approved the implementation of a new All-Payer Model for Maryland. The All-Payer Model has a three part aim of promoting better care, better health, and lower cost for all Maryland patients. In contrast to the previous Medicare waiver that focused on controlling increases in Medicare inpatient payments per case, the new All-Payer Model focuses on controlling increases in total hospital revenue per capita. The Model establishes both an All-Payer limit of 3.58% annual per capita growth for Maryland residents for the first three years of the Model and a Medicare savings target of $330 million over the initial five-year period of the Model.

The update process needs to take into account all sources of hospital revenue that will contribute to the growth of total Maryland hospital revenues for Maryland residents in order to meet the requirements of the All-Payer Model and assure that the annual update approved by the HSCRC will not result in a revenue increase beyond the limit. In addition, HSCRC needs to consider the effect of the update on the Model's Medicare savings requirement and the total hospital revenue at risk for quality, care delivery, and value enhancement. While rates and global budgets are approved on a fiscal year basis, the All-Payer Model revenue limits and the Medicare savings are determined on a calendar year basis. Therefore, it is necessary to account for both calendar year and fiscal year revenues in establishing updates for the fiscal year.

There are three categories of hospital revenue under the All-Payer Model. The first two categories are under full rate setting authority of HSCRC. The third category of hospital revenue includes hospitals where HSCRC sets rates, but Medicare does not pay on the basis of those rates. The three categories are:

1. Hospitals/revenues under global budgets, including the Global Budget Revenue (GBR) agreements initiated in conjunction with transition policies and Total Patient Revenue (TPR) agreements for 10 hospitals that were renewed July 1, 2013 for their second three-year term.

2. Hospital revenues that are not included under global budgets but are subject to rate regulation on an All-Payer basis by HSCRC, including hospitals that remain on a Charge-Per-Episode (CPE)/Charge-Per-Case (CPC) agreement and hospital revenues excluded from a global budget, such as revenues for non-residents.
3. Hospital revenues for which HSCRC sets the rates paid by non-governmental payers and purchasers, but where CMMI has not waived Medicare's rate setting authority to Maryland. This includes psychiatric hospitals and Mount Washington Pediatric Hospital.

This report includes draft recommendations for fiscal year (FY) 2015 updates.

STAKEHOLDER INPUT

HSCRC staff has worked with the Payment Models work group to provide input and review of its draft recommendations regarding updates and short-term adjustments. A draft work group report entitled "Report on Balanced Update and Short-Term Adjustments" was presented to the Commission at the April public meeting. A copy of the draft report is included as an attachment to this recommendation to facilitate reference and review.

ANALYSIS

Calculation of Update Factors for Revenue Categories 1-3

In this draft staff recommendation, we are focused on recommending the update factor that will be provided for inflation/trend for hospitals or revenues in each of the three categories. There are separate staff reports that provide recommendations on uncompensated care and shared savings relative to readmissions.

Updates for both categories 1 and 2 start by using the actual blended statistic of 2.41% growth, derived from combining 91.2% of the 2014 estimates of 2.5% from Global Insights for market basket increase with 8.8% of the capital growth estimate of 1.5%. For those revenues that are not subject to global budgets, additional subtractions are made to reflect productivity and an additional reduction provided under the Affordable Care Act for Medicare. The 0.5% reduction for productivity is 0.1% above the amount used in the Medicare adjustment, but Medicare makes other adjustments that have not been applied. As a result, the proposed rate adjustment would be as follows:

	Global Revenues	Non-Global Revenues
Proposed base update	2.41%	2.41%
Productivity adjustment		-0.50%
ACA adjustment		-0.20%
Proposed update	2.41%	1.71%

For psychiatric hospitals and Mt. Washington Pediatric Hospital, we turn to the proposed psychiatric facility update for Medicare. Medicare applies a 0.7% reduction for productivity and ACA savings mandates to a market basket update of 2.7% to derive a net amount of 2.0%. HSCRC staff proposes to use that same factor for the Maryland psychiatric hospitals and Mt. Washington Pediatric Hospital.

Medicare Growth

Under the previous waiver, HSCRC focused on cost per case. Under the new All-Payer model, the Medicare savings requirement is driven by changes in Medicare payments per beneficiary in Maryland relative to changes in per beneficiary payment nationally.

HSCRC staff obtained per beneficiary projections from the Office of the Actuary, reviewed proposed and actual updates for PPS, and reviewed the 2014 MedPac repot for use in its evaluation. The table below presents the estimates received from the Office of the Actuary. These tables were provided based on projections used for the federal budget as of February 2014. The most significant factor driving per beneficiary increases is outpatient volumes. As discussed in the following paragraphs, the impact of Medicare's Disproportionate Share adjustment (DSH) is significant while also being difficult to ascertain. Medicaid enrollment increases may cause the allowance to go up while the law mandates a reduction in the levels paid, decreasing the allowance[1]. Actual Medicare cost increases could vary significantly from the estimates.

HSCRC staff will be working with CMS staff to monitor the actual results and will be acquiring actuarial and other assistance from outside vendors to help monitor these factors on an ongoing

[1] MedPac estimates a 0.7% increase in DSH payments in 2014 followed by more than a 2% decrease in DSH payments in 2015. The CMS website indicates, "As part of the PPACA, Medicare DSH payments will be reduced 75 percent by 2019, or $49.9 billion. The 2015 proposed rule would cut overall Medicare DSH payments by 1.1 percent in FY 2015, compared with FY 2014. Medicare DSH payments would continue to be distributed under the new policy, which is based on hospitals' uncompensated care amounts."

basis. HSCRC staff will confer with MedPac and CMS staff gain additional insights where possible.

Per Capita Hospital Spending Projections

[Based on the President's FY 2015 Budget]

	Annual Per Capita Expenditures			Per Capita Trend		
CY	Inpatient	Outpatient	Total Hospital	Inpatient	Outpatient	Total Hospital
2013	3,704	1,085	4,789			
2014	3,724	1,144	4,868	0.5%	5.5%	1.7%
2015	3,730	1,221	4,952	0.2%	6.8%	1.7%
2016	3,759	1,306	5,065	0.8%	6.9%	2.3%
2017	3,843	1,389	5,233	2.2%	6.4%	3.3%
2018	4,022	1,481	5,503	4.6%	6.6%	5.2%

Proposed updates to federal Medicare inpatient rates for 2015 have just been published in the Federal Register. These will not be finalized for several months and could change. A summary description of proposed changes is attached. Additional subtracting from the CMS updates include value based purchasing, HAC, and readmission adjustments, as well as the DSH adjustment. The Medicare figures below do not include a provision for volume increases. The inpatient adjustment becomes negative when considering the other adjustments to the base.

Federal FY 2015	Proposed IP	Estimated OP based on IP
Base Update		
Market Basket	2.70%	
Productivity	-0.40%	
ACA	-0.20%	
Coding	-0.80%	N/A
	1.30%	2.10%

In its December 2013 report, Staff estimated updates of 0.2% for inpatient (effective 10.1.2013) and 1.7% for outpatient (effective 1.1.2014).

Evaluation of the Balanced Update

Staff has inserted the figures above into the balanced update model that was presented in the Draft Payment Models Workgroup Report on Balanced Updates and Short-Term Adjustments.

The table has been reordered to facilitate the understanding of the impact of uncompensated care and assessments on the results. A section has been added to the table to compare the update results to the CareFirst model that projects the impact of the update on the Medicare savings estimates.

RECOMMENDATIONS

The preliminary recommendations of the HSCRC Staff are as follows:

1) Provide update for the three categories of hospitals and revenues as follows:
   a) Revenues under global budgets--2.4%.
   b) Revenues not under global budgets but subject to Medicare rate setting waiver--1.7%.
   c) Revenues for psychiatric hospitals and Mr. Washington Pediatric Hospital--2.0%.

2) Since the new All-Payer model operates on a Calendar Year, review the results from contracting to determine any impact on the recommendations that would result from the global budget agreements and report at June Commission meeting.

3) Establish update factor for 6 month period, to allow for consideration of calendar year performance and unanticipated changes under the new model. Monitor and review results on an ongoing basis and make changes as needed on January 1.
   a) Complete guardrail policy recommendations from workgroup relative to approaches to make adjustments when targets are not being met.

4) Ensure that other policy recommendations are implemented that assure the overall targets, including the readmissions savings policy and the uncompensated care adjustment that are under review in providing a final recommendation.

The HSCRC Staff expects to present final recommendations at the June 2014 HSCRC meeting, with expected implementation effective July 1, 2014. Comments can be sent to Dennis Phelps at dennis.phelps@maryland.gov. For full consideration, comments must be received by June 2, 2014

Balanced Update Model as of 5/12/14

Maximum allowed growth

Maximum revenue growth allowance	A	3.58% per capita
Population growth	B	0.71%
Maximum revenue growth allowance ((1+A)*(1+B)	C	4.32%

Components of revenue change-increases

	Proportion of Revenues	Allowance	Weighted Allowance
Adjustment for inflation/policy adjustments			
-Global budget revenues	90%	2.41%	2.17%
-Non global revenues	10%	1.71%	0.17%
			2.34%
Adjustment for volume			
-Global budget revenues	90%	0.80%	0.72%
-Non global revenues	10%	1.20%	0.12%
-Market share adjustments			
			0.84%
Infrastructure allowance provided			
-Global budget revenues except TPR	80%	0.33%	0.26%
CON adjustments-			
-Opening of Holy Cross Germantown Hospital			0.40%
Net increase before adjustments			3.84%
Other adjustments (positive and negative)			
-Set aside for unforeseen adjustments			0.50%
-Reverse prior year's shared savings reduction			0.20%
-Positive incentives			0.00%
-Shared savings/negative scaling adjustments			-0.40%
Net increases attributable to hospitals			4.14%
Per Capita			3.41%

Components of revenue changes-net decreases not hospital generated

-Uncompensated care increase	0.38%
-Uncompensated care reduction, net of .06% differential	-1.02%
-MHIP adjustment	-0.45%
-Other assessment changes	
Net decreases	-1.09%
Net revenue growth	3.05%
Per capita revenue growth	2.33%

Balanced Update Model-Medicare Savings Requirement

Maximum Increase that Can Produce Medicare Savings (CareFirst Formula)		
Medicare		
Two year average of Medicare growth (CY 2014 + CY 2015)/2	D	1.70%
Savings Requirement for Year 2/2 years	E	-0.50%
Maximum growth rate that will achieve savings (D+E)	F	1.20%
Conversion to All-Payer		
Difference statistic between Medicare and All-Payer	G	2.00%
Conversion to All-Payer growth per resident (1+F)*(1+G)-1	H	3.22%
Conversion to total All-Payer revenue growth (1+H)*(1+B)-1	I	3.96%

When using the estimates provided above, the model projects that an update within the parameters of the allowed 3.58% per capita can be derived on an All-Payer basis for the fiscal year and that the Medicare savings can be achieved if the differential statistic of 2% is maintained and if the actuarial projections are reasonable. The Chart below compares the expected maximum All-Payer Growth that could occur to achieve Medicare savings based on the 2% difference statistic model. As stated before, the actual results for Medicare will be different than the projections and those differences may be material.

Comparison of Medicare Savings Requirements to Model Results

Comparison to Modeled Requirements	**All-Payer Maximum to achieve Medicare Savings**	**Modeled All-Payer Growth**	**Difference**
Revenue Growth	3.96%	3.05%	-0.90%
Per Capita Growth	3.22%	2.33%	-0.90%

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President and Chief Executive Officer

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May 9, 2014

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Re: HSCRC DRAFT Recommendation: Update Factors for FY2015

Dear Mr. Colmers and Ms. Kinzer,

I would like to take this opportunity to say that staff did an excellent job engaging all stakeholders, assessing all industry issues and comments and developing an Update Factor recommendation that we believe will favorably position the State of Maryland to meet all the conditions of the Medicare Waiver agreement, especially the All-Payer and the Medicare financial targets.

As CareFirst noted at the April Public meeting, Maryland's Demonstration model is predicated on successfully achieving both the All-Payer target of 3.58% and the Medicare savings target of $330M over five years. As you well know, meeting these dual targets will be challenging given the difference in the historical growth rates of Medicare and All-Payer Maryland hospital expenditures. The Medicare actuaries are forecasting the Medicare cost trend to be 1.7% for fiscal years 2014 and 2015.

In order to achieve the Medicare annual savings, we must curb the Medicare trend in Maryland to approximately 1.2% in each of these years. We believe there is evidence to support an approximate 2.0% differential rate of growth between the All-Payer and Medicare trends, in part due to different service use patterns of Medicare beneficiaries. As a result, we need to be conservative on the All-Payer allowance and at the same time focus utilization control measures most specifically on the Medicare population. This conclusion is included in the recommendation in the draft report. CareFirst strongly supports this overall strategy and believes it will position Maryland to successfully achieve both targets over the course of the Demonstration.

Overall, CareFirst supports the Update Factor recommendation which has been structured to provide hospitals reasonable allowances for inflation, volume, and infrastructure while providing a slight cushion which we believe is necessary given current forecasting uncertainties and the yet unproven ability to manage the utilization specific to the Medicare population. This recommendation will allow time to demonstrate that our new policies, incentives, and reimbursement models are producing the expected results.

Thank you for this opportunity to provide comments on this recommendation.

Sincerely,

Chet Burrell
President and Chief Executive Officer