Payment Model Work Group Update

May 31st, 2018

HSCRC
Health Services Cost Review Commission

Balanced Update Model for Discussion

Components of Revenue Change Linked to Hospital Cost Drivers/Performance

			Weighted Allowance
Adjustment for Inflation (this includes 2.4% for wages)			2.26%
- Total Drug Cost Inflation for All Hospitals*			0.31%
Gross Inflation Allowance	**A**		**2.57%**
Care Coordination			
-Rising Risk With Community Based Providers			
-Complex Patients With Regional Partnerships & Community Partners			
-Long Term Care & Post Acute	**B**		
Adjustment for Volume			
-Demographic Adjustment (0.46%)			
-Transfers			
-Drug Population/Utilization			
Total Adjustment for Volume	**C**		**0.46%**
Other adjustments (positive and negative)			
- Set Aside for Unknown Adjustments	D		0.25%
- Categoricals (net amount for Hopkins/UMMC: 0.23%)	E		0.23%
-Reversal of one-time adjustments for drugs	F =		0.00%
Net Other Adjustments	**G =**	**Sum of D thru F**	**0.48%**
Quality and PAU Savings			
-Reverse prior year's PAU savings reduction	H		1.45%
-PAU Savings	I		-1.75%
-Reversal of prior year quality incentives -QBR, MHAC, Readmissions	J		-0.25%
-Positive incentives & Negative scaling adjustments	K		-0.15%
Net Quality and PAU Savings	**L =**	**Sum of H thru K**	**-0.70%**
Total Update First Half of Fiscal Year 19			
Net increase attributable to hospitals	M =	Sum of A + B + C + G + L	**2.81%**
Per Capita First Half of Fiscal Year (July - December)	N =	(1+M)/(1+0.46%)	**2.33%**
Adjustments in Second Half of Fiscal Year 19			
-Oncology Drug Adjustment	O		0.20%
-QBR	P		-0.38%
Total Adjustments in Second Half of Fiscal Year 19	Q =	O+P	**-0.18%**
Total Update Full Fiscal Year 19			
Net increase attributable to hospital for Fiscal Year	R =	M + Q	**2.63%**
Per Capita Fiscal Year	S=	(1+R)/(1+0.46%)	**2.16%**

Components of Revenue Offsets with Neutral Impact on Hospital Finanical Statements

-Uncompensated care reduction, net of differential	T		-0.35%
-Deficit Assessment	U		-0.19%
Net decreases	V =	T + U	-0.54%
Total Update First Half of Fiscal Year 19			
Revenue growth, net of offsets	W =	M + V	**2.26%**
Per Capita Revenue Growth First Half of Fiscal Year	X =	(1+W)/(1+0.46%)	**1.79%**
Total Update Full Fiscal Year 19			
Revenue growth, net of offsets	Y =	S + V	**2.08%**
Per Capita Fiscal Year	Z =	(1+Y)/(1+0.46%)	**1.62%**

* Provided Based on proportion of drug cost to total cost (drug index 5.3% X 5.9% national weight)

FY2018 Rate Order Estimated vs. Projected Reconciliation

Category	Estimated	Actual	Difference	Note
Net Update Factor (Incl. Net PAU Adjustment -1.45%+1.25%)	*2.48%*	*2.36%*	*-0.12%*	Note 1
Care Coordination	*0.00%*		*0.00%*	
Adjustment for Volume				
-Demographic Adjustment (0.36%)	0.36%	0.37%	0.01%	
-Transfers				
-Categoricals				
- Oncology Drug Utilization	0.20%	0.01%	-0.19%	Note 2
Adjustment for Volume - Total	*0.56%*	*0.38%*	*-0.18%*	
Set Aside for Unknown Adjustments	*0.20%*	*0.35%*	*0.15%*	Note 3
Net Other Adjustment				
- Reversal of one-time adjustments for drugs	-0.10%	-0.10%	0.00%	
-Reversal of prior year quality incentives (QBR, MHAC, Readmissions)	-0.12%	-0.11%	0.01%	
-Positive incentives & Negative scaling adjustments	0.30%	0.23%	-0.07%	
-Uncompensated care reduction, net of differential	-0.18%	-0.17%	0.01%	
-Deficit Assessment	0.00%	0.00%	0.00%	
-Johns Hopkins one-time & other	0.00%	-0.42%	-0.42%	
Net Other Adjustment	-0.10%	*-0.57%*	-0.47%	Note 4
Revenue growth, net of offsets	**3.14%**	**2.53%**	**-0.61%**	Note 5

Note 1	2.48% applied to FY18 permanent and not FY17 YE
Note 2	Oncology Drug Utilization was relatively flat overall
Note 3	$40mil for Hopkins, $14mil for Anne Arundel, $4.9mil for Garrett
Note 4	Net Hopkins Reversals: $30M & Hopkins payback of ($35mil) or -.45% is the bulk of it
Note 5	Without Hopkins adjustment, permanent revenue growth is 3.1% compared to 3.14% budgeted

Estimated Position on Medicare Target		
Actual Revenue CY 2017		17,056,291,338
Step 1:		
Approved GBR FY 2018		17,183,983,214
Actual Revenue 7/1/17-12/31/17		8,421,055,533
Projected Revenue 1/1/18-6/30/18	**A**	**8,762,927,681**
Step 2:		
Estimated Approved GBR FY 2019		17,572,853,817
Permanent Update		2.26%
Step 3:		
Estimated Revenue 7/1/18-12/31/18 (after 49.73% & seasonality)		8,738,980,203
Change in Hopkins Payback		10,000,000
	B	**8,748,980,203**
Step 4:		
Estimated Revenue CY 2018	**A+B**	**17,511,907,884**
Increase over CY 2017 Revenue		2.67%

Comment Letter Concern: Total Cost of Care Guardrail

- CareFirst expressed concern that the State is at risk of exceeding the total cost of care and believes it imperative that the update is low enough to ensure non-hospital expenditures are not underestimated again.
  - Staff modeled updated scenarios as shown in Tables 6A and 6B

Tables 6A and 6B

Maximum Increase that Can Produce Medicare Savings				
Medicare				
Medicare Growth (CY 2018 2.32%)	A	2.32%		
Savings Goal for FY 2019	B	0.00%		
Maximum growth rate that will achieve savings (A+B)	C	2.32%		
Conversion to All-Payer				
Actual statistic between Medicare and All-Payer		0.86%	**Recommendation:**	**Savings:**
Excess Growth for Non-Hospital Cost Relative to the Nation		-0.49%		
Net Difference Statistic Related to Total Cost of Care	D	0.37%		
Conversion to All-Payer growth per resident (1+C)*(1+D)-1	E	**2.70%**	**2.20%**	**0.50%**
Conversion to total All-Payer revenue growth (1+E)*(1+0.46%)-1	F	**3.17%**	**2.67%**	**0.50%**

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Medicare Growth (CY 2018 2.32%)	A	2.32%		
Savings Goal for FY 2019	B	0.00%		
Maximum growth rate that will achieve savings (A+B)	C	2.32%		
Conversion to All-Payer				
Actual statistic between Medicare and All-Payer		0.86%	**Recommendation:**	**Savings:**
Excess Growth for Non-Hospital Cost Relative to the Nation		-0.95%		
Net Difference Statistic Related to Total Cost of Care	D	-0.09%		
Conversion to All-Payer growth per resident (1+C)*(1+D)-1	E	**2.23%**	**2.20%**	**0.03%**
Conversion to total All-Payer revenue growth (1+E)*(1+0.46%)-1	F	**2.70%**	**2.67%**	**0.03%**

Comment Letter Concern: Increase Update by .50%

- MHA and member hospitals believe the update factor should be increased by .50%
  - Staff does not believe future projections can be based on assumption that a past cyclical observation will continue and will not make additional projections based on 3 months of data.
  - Population Growth comes from the Maryland Department of Planning. Staff adjusts for drug cost, categoricals, and actual pop. which results in a larger adjustment for volume growth (.46% vs. approximately .89%)
  - The MPA will not provide a cushion per MHA’s suggestion and it will not be reflected until RY 2020.
  - The PAU increase is modest in comparison to national reductions for productivity and ACA (.3% vs. 1.5%)

Comment Letter Concern: Shifts to Unregulated

- Section IV.B.3a. of the Global Budget Agreement states the following:
  - *"The HSCRC and the Hospital recognize that some services may be offered more effectively in an unregulated setting. When services covered by the GBR model are moved to an unregulated setting, the HSCRC staff will calculate and apply a reduction to the Hospital's Approved Regulated Revenue. At a minimum, the reduction will ensure that the shift provides a savings to the public and Medicare after taking into consideration the payment amounts likely to be made for the same services in an unregulated setting."*
- Furthermore, section VI.3 of the agreement states the following:
  - *Significant changes in the health care delivery system in each of the Hospital's Primary and Secondary Service Areas could influence the appropriateness of the Approved Regulated Revenue established for the Hospital under this Agreement. Therefore, the Hospital agrees to declare and describe, in Appendix G, any financial interest (or control) it holds in other hospitals or entities that provide services, including non-hospital services, in the Hospital's Primary and Secondary Service Areas, as of the Effective Date of this Agreement.*
  - *In addition, the Hospital agrees to inform the HSCRC at least thirty (30) days in advance, in writing, or at the earliest practicable time thereafter, of any acquisitions or divestitures which it undertakes regarding such interests. The HSCRC may request data from the Hospital, on a periodic or ongoing basis, regarding the utilization of the services provided by such related entities, to ensure that the Hospital complies with the GBR constraint through better management of its existing regulated services and not by moving services from the HSCRC-regulated sector to unregulated sectors of the hospital or non-hospital environment in ways that do not comport with the objectives of the GBR model, the Three Part Aim and the final contract between CMMI and the State of Maryland. This would include the purchase or divestiture of physician practices, joint-venture arrangements with other providers to establish unregulated services that duplicate or could substitute for regulated services currently provided by the Hospital (such as, but not limited to, unregulated clinic, urgent care, or ambulatory surgery services), or other non-hospital services.*
  - *The Hospital will provide an annual disclosure and certification report, which is presented in Appendix F and Appendix G, regarding changes in the services it provides. The initial report will be due upon signing of this Agreement, and additional reports will due on an annual basis within 30 days after the end of each subsequent Rate Year.*