



maryland  
**health services**  
cost review commission

---

Payment Model Workgroup

March 1, 2023



maryland  
**health services**  
cost review commission

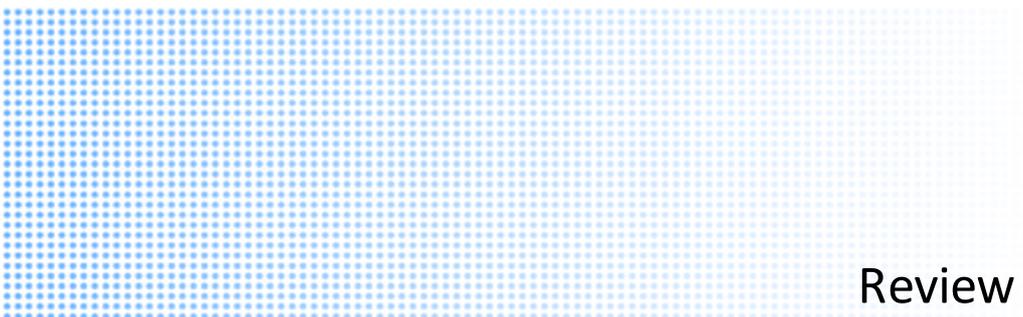
**Payment Models Meeting Agenda**

**March 1, 2023**

**11:00 am -1:00 pm**

**Health Services Cost Review Commission**

- I            Introductions and Meeting Overview
- II           Review of All-Payer/ One-time Adjustments
- III          Current Challenges Facing the State
  - Strategy for RY 2024 Update Factor
  - Affordability Scorecard
  - Inflation Discussion
- IV          Adjourn



# Review of All-Payer/ One-time Adjustments

---

# Stakeholder Feedback from 1st Meeting

- Asked for clarification on the permanency of all-payer reduction in TCOC improvement plan
- Asked staff for an itemization of RY 2022 and RY 2023 one-time adjustments and effect on CY 2023 performance:
- Expressed concerns about the uniqueness of this year's Update Factor and asked staff to provide its strategy/plan for RY 2024
- Asked staff to outline modifications that will be made to estimate national TCOC growth in 2023

## Permanency of All-Payer Reduction

- At the prior PMWG, staff mistakenly noted that the \$40M all-payer reduction was a permanent reduction
- After reviewing the meeting minutes, it is determined that the all-payer reduction was a one-time adjustment.
  - Commissioner Elliott put forth a motion to vote on the amended recommendation to reduce the all-payer reduction from \$80 million to \$40 million [and will be implemented] on a **one-time basis**
- Staff acknowledge this important distinction and plan to reverse the \$40M reduction that was taken in CY 2023 in CY 2024.

# Itemization of RY 2022 & RY 2023 One-Time Adjustments

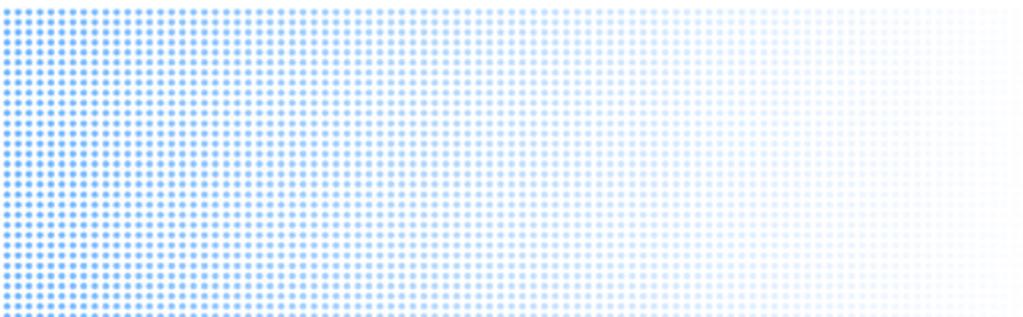
Item	RY2022	RY2023
Prior RY Overcharge/Undercharge To GBR	\$108,635,099	\$20,551,131
Current Year Price Penalty	-\$1,845,612	-\$16,595,322
NSP 1 & 2	\$41,908,703	\$41,893,246
Regional Partnership - Behavioral Health, Diabetes & Transition Funding	\$32,766,220	\$30,216,769
Assessments and User Fees	\$529,364,970	\$533,034,476
NewBorn Testing	\$6,571,576	\$6,647,366
QBR	-\$51,043,421	\$0
MHAC	\$39,910,270	\$0
Readmission Reduction Program	\$33,891,833	\$65,081,927
Patient Safety Center	\$275,840	\$0
OncoRx One Time	-\$7,410,882	\$17,250,162
FY20 GBR Settle Up	-\$66,208,679	\$0
FY21 GBR Settle Up	\$0	\$95,120,451
COVID Surge Funding	\$48,342,193	\$0
Maternal & Child Health Funding	\$11,135,680	\$11,080,279
FY23 Advanced Inflation Funding	\$98,505,808	-\$98,505,808
All Payer Rate Reduction for TCOC	\$0	-\$20,000,000
Hospital Specific Adjustments	\$15,319,352	\$1,573,099
<b>Total</b>	<b>\$840,118,950</b>	<b>\$687,347,777</b>

- RY 2023 was revised from last month to account for changes in January rate orders
- The majority of one-time adjustments are related to provider taxes and user fee assessments
  - ~\$500M
  - These assessments are then reinstated on a one-time basis in RY 2023 in accordance with state law
- Significant reduction in YOY one-time reductions is due to advanced funding

# Itemization of CY 2022 & CY 2023 One-Time Adjustments

Item	CY 2022	CY 2023
Prior RY Overcharge/Undercharge To GBR	\$ 108,635,099	\$ 20,551,131
Current Year Price Penalty	\$ (1,845,612)	\$ (16,595,322)
NSP 1 & 2	\$ 41,901,016	\$ 42,518,251
Regional Partnership - Behavioral Health, Diabetes & Transition Funding	\$ 31,498,378	\$ 32,400,202
Assessments and User Fees	\$ 531,189,815	\$ 537,048,327
NewBorn Testing	\$ 6,609,266	\$ 6,746,538
QBR	\$ (25,659,528)	\$ (26,145,410)
MHAC	\$ 20,062,893	\$ (11,186,056)
Readmission Reduction Program	\$ 17,037,424	\$ 94,147,916
Patient Safety Center	\$ 138,665	\$ -
OncoRx One Time	\$ (7,410,882)	\$ 17,250,162
FY20 GBR Settle Up	\$ -	\$ -
COVID Surge Funding	\$ 24,301,621	\$ -
FY21 GBR Settle Up	\$ 95,120,451	\$ -
Maternal & Child Health Funding	\$ 11,108,129	\$ 11,245,586
FY23 Advanced Inflation Funding	\$ -	\$ -
All Payer Rate Reduction for TCOC	\$ -	\$ -
Hospital Specific Adjustments	\$ 8,483,340	\$ (2,022,518)
<b>Total</b>	<b>\$ 861,170,076</b>	<b>\$ 705,958,808</b>
YOY Savings		\$ (155,211,269)
Medicare YOY Savings (Assumes 1/3 Med FFS Payer Mix)		<b>\$ (51,219,719)</b>

- CY 2023 is a projection due to fluidity of RY 2024
  - Assumed 3% inflation on most items, e.g., HC Fund
  - Removes all-payer reduction from December Commission action
- Advanced Funding has no effect on CY YOY growth, but timing of RY 2021 undercharge adjustments did create major headwinds in CY 2022 and tailwinds in CY 2023
  - \$108M from January to June
  - \$95M from July to December
  - Offset by RRIP rewards
- Staff estimate that larger one-time adjustments in CY 2022 will create Medicare savings of \$51M in CY 2023.



## Current Challenges Facing the State

---

# Current Challenges Facing the State

- The Commission will be facing a number of challenges in the coming year:
  - For first time in the TCOC Model, the State missed the savings target (by ~\$187M in CY 2022), and it is imperative that the State get back on track to achieve \$300M in TCOC savings in CY 2023
    - CY 2023 is a crucial year for the future of the Model, as it will serve as the final evaluation year to inform contract negotiations
  - Inflation last year eclipsed 5%, nearly double the average of the last 9 years, and the RY 2023 Update Factor only provided 4.06%
  - Median hospital operating margins through December 2022 are 0.36%
    - Two systems have nearly 3% operating losses
  - The Commission has taken steps to reduce the extent of dissavings in CY 2023 by approximately \$100M, but they are one-time in nature
  - National TCOC growth in CY 2023 is still very uncertain and prior -year modeling methodologies are not precise

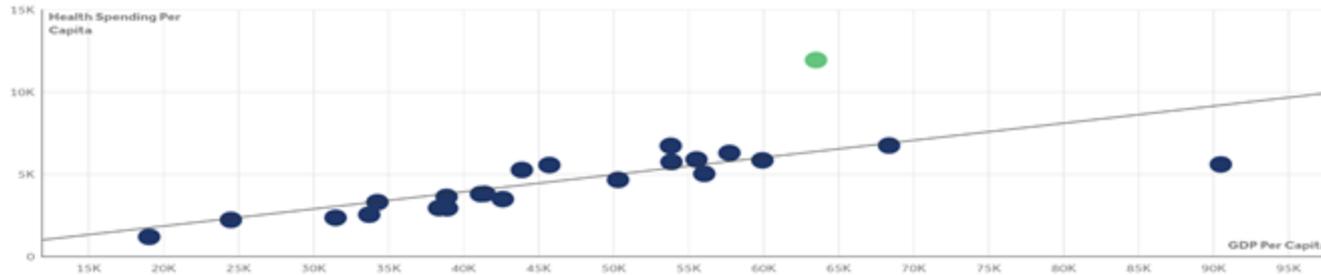
# Strategy to Address RY 2024 Update Factor

- Staff believes the following guiding principles should inform Commission strategy:
  - 1) Ensure State meets ALL of its financial contractual obligations
    - Medicare TCOC Savings of \$300M in CY 2023
    - Savings increment increases by \$33M thereafter
    - All-payer hospital per capita growth less than 3.58%
  - 2) Ensure that hospital services remain affordable for the public
  - 3) To the extent possible, use all-payer policies to meet financial tests AND fully fund inflation in CY 2023 and CY 2024
  - 4) Utilize external data forecasts with caution
  - 5) Adhere to the implementation of existing policies

# Ensuring Affordability for the Public

- The Commission's contractual obligation is to ensure that all-payer hospital per capita revenue growth is less than 3.58%
  - Staff agree this test must be met along with all other financial tests
  - There is concern, however, that hospital services will become unaffordable if the all-payer hospital per capita growth test allows hospital costs to exceed actual, current Gross State Product (GSP), given healthcare already consumes a much larger share of the US economy than other OECD countries

GDP per capita and health consumption spending per capita, 2020 (U.S. dollars, PPP adjusted)



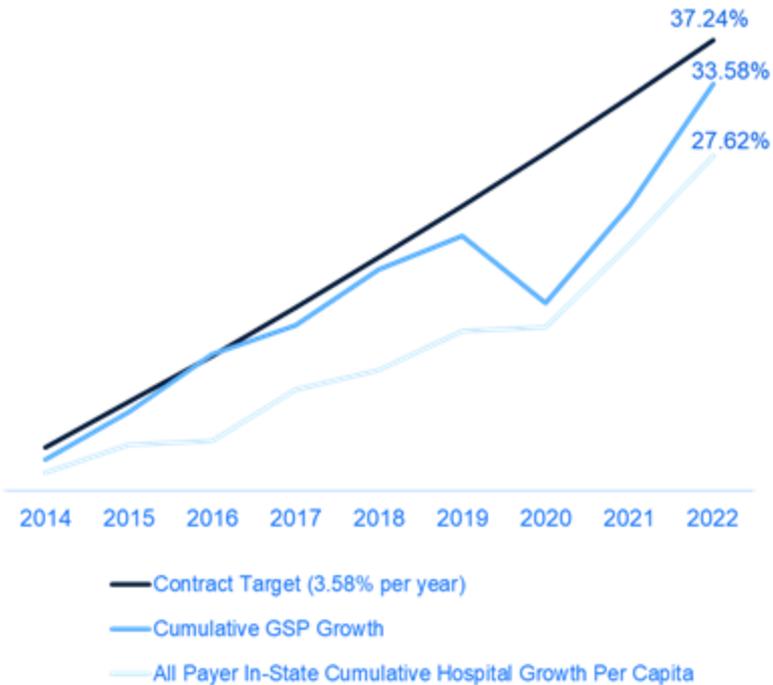
Notes: U.S. value obtained from National Health Expenditure data. Health spending per capita for Czech Republic, Denmark, France, and the Slovak Republic are estimated. For all other countries except the United States, health spending per capita is provisional. Health consumption does not include investments in structures, equipment, or research.

Source: KFF analysis of National Health Expenditure (NHE) and OECD data • Get the data • PNG

Peterson, KFF  
Health System Tracker

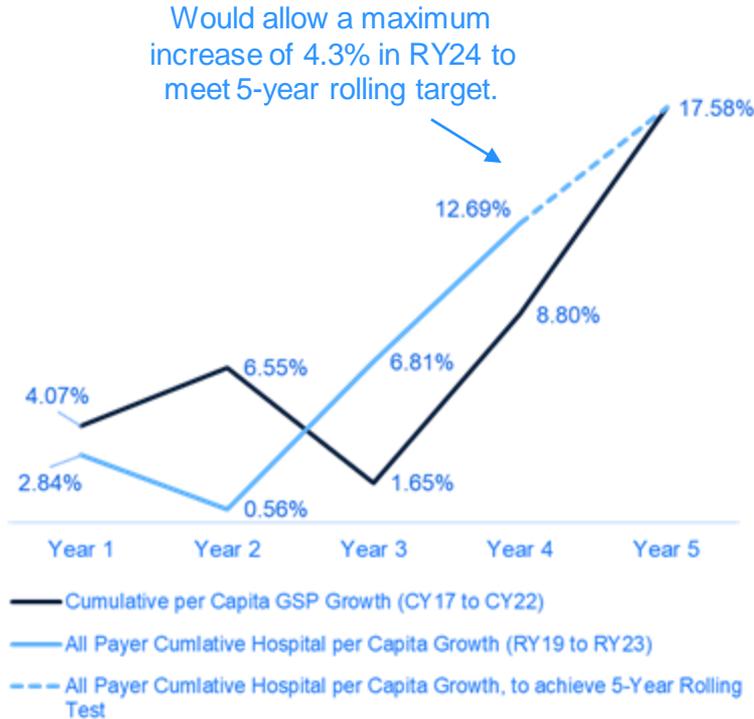
- While staff acknowledge that current GSP growth over a 3-5 year period is not a binding test (like 3.58% per capita or \$300M in Medicare TCOC savings), staff does believe it is an important analytic when considering hospital affordability

## Affordability Scorecard – Cumulative GSP Test



- Under the TCOC Model Contract, all-payer per capita in state revenue is not allowed to exceed annual growth of 3.58%.
- This is a reporting test and is therefore not lagged. The amount used is in-state hospital revenue not total hospital revenue. 2022 amounts are preliminary and may change slightly.
- Chart also shows actual GSP growth, as the 3.58% was a historic number and does not represent actual GSP growth, which is cumulatively about 4 points lower.
- Rate increases have been lower than both the contractual target and actual GSP growth over the life of the contract. Most of the gain occurred in the early years of the contract.

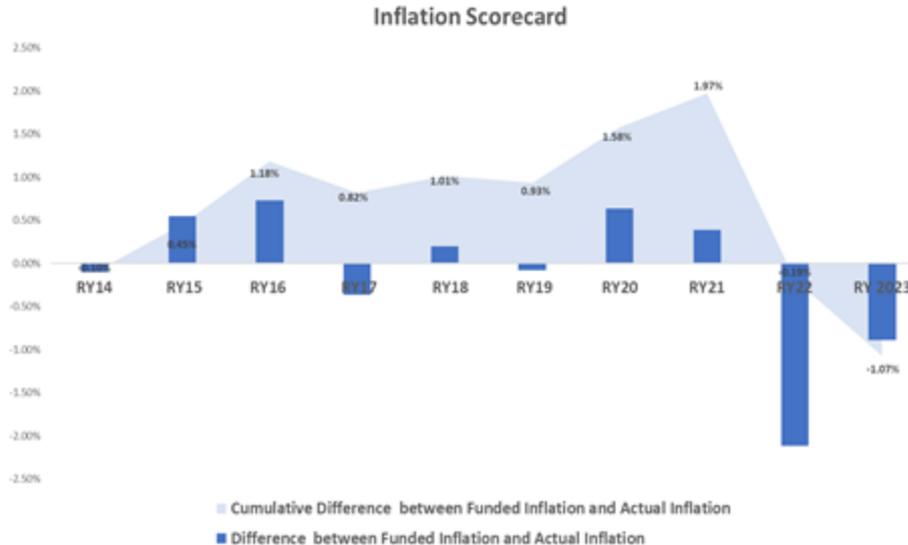
## Affordability Scorecard – 5-year GSP Test



- In prior periods, staff have suggested a rolling 5-year GSP test to ensure hospital costs remain affordable on an ongoing basis.
- Under this test updates would be evaluated based on a comparison to GSP growth through the prior period. RY19 to RY24 growth is evaluated against CY17 to CY22 GSP. The test is lagged to avoid requiring a prediction of GSP.
- This does not need to be a binding test. Commission should retain flexibility in individual periods to avoid outlier increases if the test was met in most periods.

# What Constitutes Full Inflation?

- Industry stakeholders have correctly pointed out that the funded inflation fell below actual in RY 2023 (4.06% versus 4.99%), the second largest delta between these two statistics (-0.89%)
  - Historical assessments of funded inflation relative to actual inflation from RY 2014 to 2023 indicate that the Commission has underfunded inflation by -1.07% (using Q4 book in the following year, e.g, CY22 Q4 book for RY 2022)



- If consideration of cumulative funding of inflation is warranted, staff also believe that averted volume in addition to PAU should be considered, as inflation is applied to revenue, not price per case, and since 2013 volumes have declined.

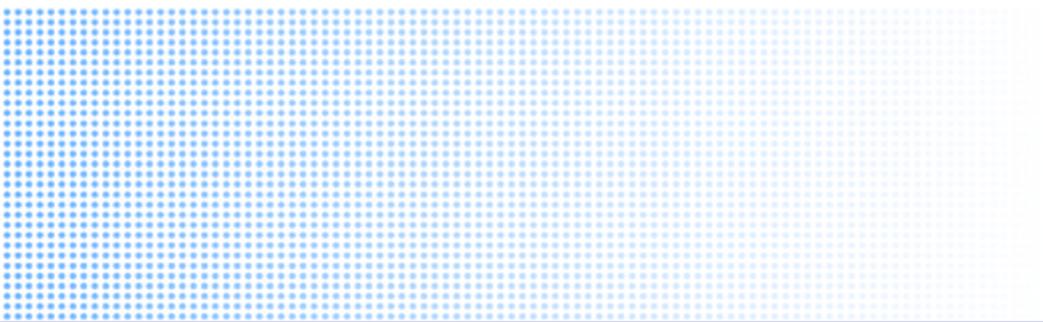
# Outline for RY 2024 TCOC Modelling

- Staff share stakeholder concerns that there is a lot of risk this Update Factor because of the unreliability of TCOC Modelling
- To allay concerns with this approach, staff propose the following:
  - Do not pick a single modeling test based on the fact that it produces savings; consider multiple models in making update factor decisions.
    - Include a scenario that assumes recent low trends repeat in 2023
    - Consider adding back the variance statistic from pre-pandemic updates
  - Target incremental \$ savings via all-payer mechanism to meet contractual targets for CY 2023, unless agreed upon financial condition thresholds are not met.
  - Seek Commission approval to increase Medicare Savings Component in August of CY 2023 if national trends create savings shortfall
  - Hold in abeyance RY 2022 surge funding until formally approved by the Commission, for example when TCOC run rate is back in compliance without one-time December 2022 Commission actions (or future similar actions).

# CY2023 Headwinds and Tailwinds

- Staff will release results of TCOC modelling in future PMWG meetings.
- Tailwinds and Headwinds we expect to consider in 2023 are listed below; on balance, we expect them to be favorable to achieving model goals, assuming
  - National Medicare utilization does not decline too much further and/or
  - Maryland non-hospital growth does not exceed expectations

Headwinds	Tailwinds
RY 2023 RRIP Rewards	Reversal of CY 2022 Released Undercharges
Discontinuation of National Medicare COVID add-on payment	Improving outlook for CY22 TCOC Performance
Continued low national Medicare utilization trends	FFY 2023 4.1% IPPS and 3.8% OPPIPS Price Increase
Excess Maryland non-hospital growth	\$100M TCOC Improvement Actions
FY22 COVID Surge Funding (if not delayed)	2023 MPA (increment vs 2022)



# Conclusion

---

## Topics for Upcoming Meeting

- RY24 Update Factor Modeling
- CY23 Preliminary Modeling
- CY22 TCOC Update
- Surge Funding
- Macro Inflation Trends
- Efficiency Subgroup

**The Payment Model Workgroup will meet on March 29,2023**