Maryland Health Services Cost Review Commission

New All-Payer Model for Maryland Work group Kick-Off Meeting
02/06/2014

HSCRC Rate Setting Background
Jerry Schmith
Health Services Cost Review Commission

- **Origins**
  - Hospitals needed a mechanism to financing Uncompensated Care
  - Business (trustees) wanted a way to contain costs (abandon cost-based payment)
  - Maryland Hospital Association strongly supported legislation

- **Enabling Legislation 1971**
  - Enabling statute – very broad authority and language
  - Created a politically/legally independent agency (“HSCRC” or “Commission”)
  - Unique governance structure - 7 volunteer Commissioners
  - Small experienced staff 28 FTEs (core analytic staff of 10-12)

- **Jurisdiction**
  - Inpatient and outpatient hospital services (no Part B)
  - 46 Acute Care Hospitals - $15 billion in revenue
Fragmented US Financing System
But Maryland’s System Harmonizes Payments

Pluralistic (fragmented) Financing System

Public Payer 1  Public Payer 2  Private Payer 1  Private Payer 2

US Healthcare System
Fragmented Payment System
Creates many problems in the US and contributes to our country’s fragmented and disjointed care delivery system

Maryland HSCRC
Responsible for establishing uniform All-Payer payment levels and approved revenue
Allocations based on reasonable relative resource use by service and by facility
Maryland HSCRC Accomplishments

- Cost containment (all payer)
  - From 26% above the national average cost per case in 1976
  - To 2% below the national average in 2007
- Equitable funding of uncompensated care, payer equity, and equal access
- Stable and predictable payment system for hospitals
- Robust data and comprehensive analytic and rate setting tools
- Transparency through uniform accounting and reporting
- Leader in linking quality and payment (MHAC, QBR)
- Modern health information exchange with real time data on admissions and ER visits and hot spotting capabilities
Key Maryland hospital rate setting principles are articulated by statute

- HSCRC must:
  - Certify the costs of a facility are reasonable
  - Set rates for a service reflecting the cost of that service
  - Set rates without “undue discrimination or preference”
  - Set rates “prospectively”
  - Include a provision in rates for reasonable uncompensated care

Agreement that Uncompensated Care and medical Education are a components of cost
High Level View of Current Rate System

- **Departmental Unit Rates**
  - HSCRC establishes rates for each revenue center, e.g., ICU, OR, LAB, etc. Unit rates relative to underlying cost accounting approach.
  - Hospitals must charge rates to all payers subject to severe penalties
  - Charges to individual patients reflects resource consumption

- **Financial Incentive Programs**
  - Case mix and severity-adjusted charge per case/charge per episode standard (ARR)
  - TPR, PBR
  - MHAC QBR

- **Annual Update**
  - Volume and casemix constraint
  - Productivity and policy adjustments
  - Changes in uncompensated care
HSCRC Sets Prices Per Unit of Service and Constraints Per Case, Per Episode, or Global

<table>
<thead>
<tr>
<th>Functional Center</th>
<th>Approved Rate</th>
<th>Unit</th>
<th>Units of Service</th>
<th>Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical/Surgical Unit</td>
<td>$500</td>
<td>Per day</td>
<td>X 5</td>
<td>= $2,500</td>
</tr>
<tr>
<td>Intensive Care Unit</td>
<td>$1,000</td>
<td>Per day</td>
<td>X 2</td>
<td>= 2,000</td>
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<tr>
<td>Admission</td>
<td>$100</td>
<td>Per case</td>
<td>X 1</td>
<td>= 100</td>
</tr>
<tr>
<td>Operating Room</td>
<td>$15</td>
<td>Per minute</td>
<td>X 150</td>
<td>= 2,250</td>
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<tr>
<td>Radiology</td>
<td>$20</td>
<td>RVU</td>
<td>X 25</td>
<td>= 500</td>
</tr>
<tr>
<td>Pulmonary</td>
<td>$3.00</td>
<td>RVU</td>
<td>X 10</td>
<td>= 30</td>
</tr>
<tr>
<td>Blood</td>
<td>$15</td>
<td>RVU</td>
<td>X 5</td>
<td>= 75</td>
</tr>
<tr>
<td>Lab</td>
<td>$2.00</td>
<td>RVU</td>
<td>X 25</td>
<td>= 50</td>
</tr>
<tr>
<td>Physical Therapy</td>
<td>$16</td>
<td>RVU</td>
<td>X 5</td>
<td>= 80</td>
</tr>
<tr>
<td>Cost of Drugs Sold</td>
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<td>Invoice cost</td>
<td>X patient</td>
<td>= 1,200</td>
</tr>
<tr>
<td>Medical Supplies</td>
<td>$2,100</td>
<td>Invoice cost</td>
<td>X patient</td>
<td>= 2,100</td>
</tr>
</tbody>
</table>

Total Charge per case = $10,885