maryland
health services
cost review commission

Payment Model Workgroup

April 30,2024

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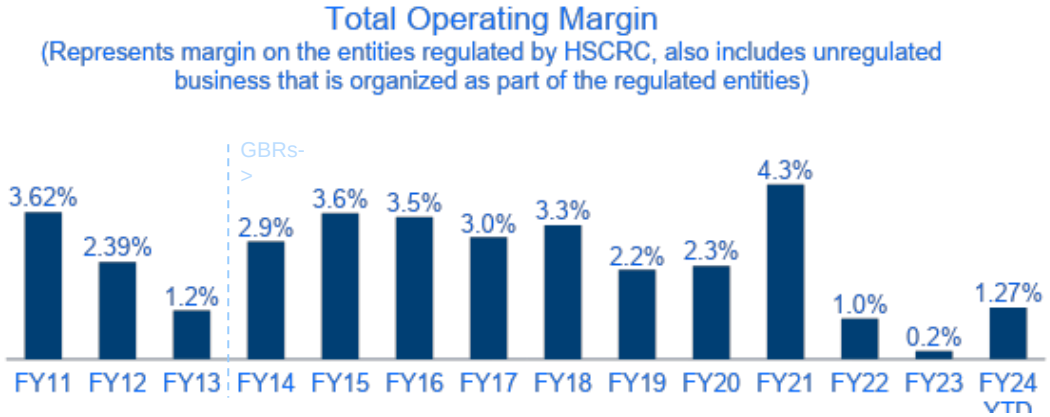
Payment Models Meeting Agenda

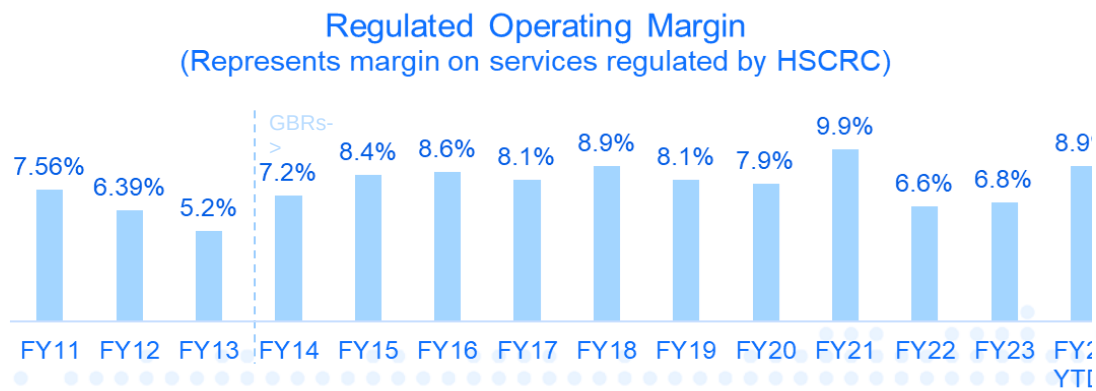
April 30, 20204
1:00 pm – 3:00 pm
Health Services Cost Review Commission

I	RY 2025 Update Factor Overview ● Model Scenarios ● Draft Recommendation Review
II	MHA Presentation
III	Annual Filing Modernization
IV	Adjourn

RY 2025 Update Factor Review

Reasons to Adjust Update Factor Formula





- **Update Factor Formula** = Lesser of Inflation or Revenue Required to Achieve Savings Tests
- Staff is considering deviations from the Update Factor Formula in light of TCOC and all-payer hospital growth performance, as well as the losses hospitals are incurring in recent years

Source: All years except FY24 per Hospital Annual Filings. FY24YTD from unaudited monthly reports through December 2023. Data for Adventist, Garrett, and Western MD from prior year

Requested Adjustments to Update Factor Formula

- MHA has requested the following adjustments to the Update Factor Formula
  - Half of underfunded inflation amount since RY 2020 (1.17%) - other half to be applied in RY 2026
  - Discontinuation of the inflation reduction through the Potentially Avoidable Utilization (PAU) Shared Savings Program (.37% in RY 2025)
  - Total increase of 1.55% to inflation base of 3.15% (4.70%)

- Staff believes this is a good starting point for discussing a deviation from the Update Factor Formula, but required savings tests still need to considered

Inflation Catch Up Methodology

- Staff believe a review of underfunded inflation is warranted, but any adjustments for underfunding of inflation should have the following guiding principles:
  - Consider historical overfunding allowances
  - Allow for two-sided risk
  - Utilize multi-year solutions to ensure savings tests are met
  - Establish formulaic methods that are predictable to hospitals and payers
- Staff's proposed methodology takes these guiding principles into account:
  - Establishes the cumulative overfunding value that the Commission allowed without revising future funded inflation downwards (1.18%), i.e., the two-sided risk corridor or max tolerance.
  - Evaluates current 5 year over/underfunding through 2023 (2.16%)
  - Reconciles current over/underfunding to two-sided risk corridor
  - Yields additional inflation of 0.98%

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Funded Inflation	1.65%	2.40%	2.40%	1.92%	2.68%	2.32%	2.96%	2.77%	2.57%	4.06%
Actual Inflation	1.75%	1.84%	1.66%	2.29%	2.48%	2.40%	2.31%	2.37%	4.79%	5.09%
(Under)/Over Funding	(0.10%)	0.56%	0.74%	(0.37%)	0.20%	(0.08%)	0.65%	0.40%	(2.22%)	(1.03%)
5 Year Cumulative Difference	(0.10%)	0.45%	1.18%	0.82%	1.01%	1.03%	1.12%	0.78%	(1.00%)	**(2.16%)**
Max Tolerance **(A)**	1.18%				Absolute of 5 Year Cumulative 2018-2023 **(B)**			2.16%		
Max Funding Solution **C = B-A**					**0.98%**					

- All additional inflation values still need to be considered against required savings

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Potentially Avoidable Utilization Shared Savings

- The PAU Program was originally a statewide reduction necessary to achieve required savings in the Model and to recoup the ~$200M built into rates for “infrastructure” investments (e.g., care management)
  - Annual reductions were originally not formulaic
  - Advancement in RY2020 tied annual reductions to inflation and population growth
  - To date, the Commission has removed ~$600M through the Shared Savings Program.

- Staff believe the PAU program should continue as a policy to recognize differential margin opportunities in the Model, but staff are concerned that using PAU to generate additional savings is problematic:
  - The Update Factor Formula never outlined that revenue would be set at the Lesser of Inflation **Minus PAU inflation and population growth** or Required Revenue to Achieve Savings Tests
  - To date, the State has generated a 3:1 return on its infrastructure investment
  - Ongoing PAU reductions can compromise access

Hospitals	Current Policy	Staff Proposal (PAU Reduction - Statewide PAU Reduction)
RY 2022 Statewide Reduction	-0.49%	0.00%
Hospital with ~Average PAU Performance (Frederick Hospital)	-0.48%	0.01%
Hospital with Above Average PAU Performance (Atlantic General)	-0.34%	0.15%
Hospital with Below Average PAU Performance (MedStar Good Samaritan)	-0.70%	-0.21%

Potential Access Issues from PAU & Requirements

- Maryland's risk-adjusted Medicare readmission rate is below the national average.

- As of December 2023, Maryland has experienced an 18% decrease across all PQIs from its 2018 baseline rate of 1348 admits per 100k residents
    - The current PQI rate is -3.7% below the 2023 year 5 target rate

- PAU volumes at individual hospitals are low and asking facilities to reduce more through the PAU Shared Savings program could lead to potential access problems
    - Garrett Regional Medical Center: PQI/PDI rate - 8.73; non-PQI readmission rate - 2.49%
    - Calvert Hospital - PQI/PDI rate - 9.84; non-PQI readmission rate - 4.97%
    - Statewide average - PQI/PDI rate -11.74; non-PQI readmission rate - 5.81%

- While staff think this change to the PAU policy is an important step forward, we are also concerned about potential reduced focus on avoidable admissions. Thus, we are recommending the following:
    - An analysis to be funded out of hospital rates of activities of current interventions to reduce PAU
    - Establishment of a single point of executive accountability for the PAU reduction strategy
    - Agreement to engage in future analyses of PAU performance

Full Rate Application Values in RY 2025

- Staff released the draft full rate application values to the industry for data quality assurance review
  - Initial results indicated 4 hospitals were entitled to $36.5M
- Staff are still waiting on final Commercial TCOC figures and any potential data revisions, but in the interim there are several interesting findings that require workgroup input
  - All hospitals that qualified last year for rate funding (AND are not entitled to funding in RY 2025) are within 2.5% of the standard, except for one (GRMC - 6.77% below the standard)
    - **Should staff reevaluate GRMC's rate structure or determine that this variance is not material, especially since average performance is 9.7% below the standard?**
  - 2 hospitals that qualified for funding in RY 2024, qualified for funding again in RY 2025 (Holy Cross Germantown 8.81%; Atlantic General; 1.18%)
    - **Should staff reinstitute an expedited review process? Are there other measures the Commission should employ to reduce repeat rate enhancements (e.g., hospital specific moratoriums, casemix audits)?**

Balanced Update Model for RY 2025

Components of Revenue Change Link to Hospital Cost Drivers /Performance

			Weighted Allowance	All Payer Revenue Increase {Millions}	Medicare Revenue Increase {Millions}
Adjustment for Inflation (this includes 4.00% for Wages and Salaries)			3.05%	$645.1	$212.9
- Additional Inflation Support			0.65%	$137.5	$45.4
- Outpatient Oncology Drugs			0.10%	$21.4	$7.1
Gross Inflation Allowance	**A**		**3.80%**	**$804.0**	**$265.3**
Care Coordination/Population Health					
- Reversal of One-Time Grants			-0.21%	-$45.1	-$14.9
- Grant Funding RY25: RP for Behavioral Health & Maternal and Child Health			0.14%	$29.7	$9.8
Total Care Coordination/Population Health	**B**		**-0.07%**	**-$15.4**	**-$5.1**
Adjustment for Volume					
-Demographic /Population			0.25%	$52.9	$17.5
-Drug Population/Utilization			0.00%	$0.0	$0.0
Total Adjustment for Volume	**C**		**0.25%**	**$52.9**	**$17.5**
Other adjustments (positive and negative)					
- Set Aside for Unknown Adjustments	D		0.15%	$31.7	$10.5
- Low Efficiency Outliers/Revenue for Reform	E		0.00%	$0.0	$0.0
- Complexity & Innovation	F		-0.01%	-$3.1	-$1.0
-Reversal of one-time adjustments for drugs	G		-0.10%	-$21.9	-$7.2
-Capital Funding & Estimated Increase for Full Rate Applications	H		0.17%	$36.5	$12.0
Net Other Adjustments	**I=**	**Sum of D thru H**	**0.20%**	**$43.2**	**$14.3**
Quality and PAU Savings					
-PAU Redistribution (-.37%)	J		0.00%	$0.0	$0.0
-Reversal of prior year quality incentives -QBR, MHAC, Readmissions	K		0.08%	$17.6	$5.8
-Current Year Quality Incentives	L =		-0.12%	-$25.2	-$8.3
Net Quality and PAU Savings	**M =**	**Sum of J thru L**	**-0.04%**	**-$7.6**	**-$2.5**
Total Update First Half of Rate Year					
Net increase attributable to hospitals	**N=**	Sum of A + B + C + I + M	**4.15%**	**$877.1**	**$289.5**
Per Capita	**O=**	(1+N)/(1+0.25%)	**3.89%**		
Components of Revenue Offsets with Neutral Impact on Hospital Finanical Statements					
-Uncompensated care, net of differential	P		0.14%	$29.6	$9.8
-Deficit Assessment	Q		0.00%	$0.0	$0.0
Net decreases	**R =**	P + Q	**0.14%**	**$29.6**	**$9.8**
Total Update First Half of Rate Year 25					
Revenue growth, net of offsets	**S =**	N + R	**4.29%**	**$906.8**	**$299.2**
Per Capita Revenue Growth	**T =**	(1+S)/(1+0.25%)	**4.03%**		
Adjustments in Second Half of Rate Year					
- Transformation Funding					
Total Adjustments Second Half of Rate Year	**U**		**0.09%**	**$20.0**	**$6.6**
Total Update Full Rate Year					
Revenue growth, net of offsets	**V =**	Q + U	**4.38%**	**$926.8**	**$305.8**
Per Capita Revenue Growth	**W =**	(1+V)/(1+0.25%)	**4.12%**		

Revenue Scenarios

Estimated Position on Medicare Test		
Actual Revenue January - June 2023		10,280,594,777
Actual Revenue July-December 2023		10,452,399,742
Actual Revenue CY 2023		20,732,994,519
Step 1:		
Approved GBR RY 2024		21,159,064,172
Actual Revenue 7/1/23-12/31/23		10,452,399,742
Approved Revenue 1/1/24-6/30/24		10,706,664,430
Projected FY24 GBR Compliance		0
Anticipated Revenue 1/1/24-6/30/24	**A**	**10,706,664,430**
Expected Revenue Growth 1/1/24-6/30/24		**4.14%**
Step 2:		
Final Approved GBR RY 2024		21,159,064,172
Reverse All Payer Rate Reduction:		20,000,000
Final Adjusted GBR Base for RY 2025		21,179,064,172
Projected Approved GBR RY 2025		22,086,677,298
Permanent Update RY 2025		4.29%
Step 3:		
Estimated Revenue 7/1/24-12/31/24 (after 49.73% & seasonality)	**B**	**10,983,704,620**
Expected Revenue Growth 7/1/24 - 12/31/24		***5.08%***
Step 4:		
Estimated Revenue CY 2024	**A+B**	**21,690,369,051**
Increase over CY 2024 Revenue		**4.62%**
Per Capita Increase over CY 2024		**4.36%**

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MC FFS Guardrail Tests - Proposed Scenarios

- All scenarios uses HSCRC revenue projection for Part A and Part B MD Hospital
- For MD Non-Hospital and US Hospital and Non-Hospital

Scenario 1: 2023 Trended forward at 2017 - 2019 Trend

Scenario 2: 2023 Trended forward at 2015 - 2019 Trend

Scenario 3: 2023 Trended forward at 2022 - 2023 Trend

Scenario 4: 2019 Trended forward at 2017 - 2019 Trend

Scenario 4a: 2019 Trended forward at 2015 - 2019 Trend

CY 24 Guardrail Scenario 1: 2023 Trended forward at 2017 - 2019 Trend

TCOC Estimate (Scenario 1)

Scenario 1 Guardrail Projections			
	Maryland	US	
2023	$13,972	$12,347	
2024	$14,605	$12,826	Predicted Variance
YOY Growth	4.5%	3.9%	0.6%
Estimated CY2024 Savings Run Rate			$402.2 M

CY 24 Guardrail Scenario 2: 2023 Trended forward at 2015 - 2019 Trend

TCOC Estimate (Scenario 2)

Scenario 2 Guardrail Projections			
	Maryland	US	
2023	$13,972	$12,347	
2024	$14,531	$12,694	Predicted Variance
YOY Growth	4.0%	2.8%	1.2 %
Estimated CY2024 Savings Run Rate			$336.7M

CY 24 Guardrail Scenario 3: 2023 Trended forward at 2022 - 2023 Trend

TCOC Estimate (Scenario 3)

Scenario 3 Guardrail Projections			
	Maryland	US	
2023	$13,972	$12,347	
2024	$14,744	$12,967	Predicted Variance
YOY Growth	5.5%	5.0%	0.5%
Estimated CY2024 Savings Run Rate			$427.4 M

CY 24 Guardrail Scenario 4: 2019 Trended forward at 2017 - 2019 Trend

TCOC Estimate (Scenario 4)

Scenario 4 Guardrail Projections			
	Maryland	US	
2023	$13,972	$12,347	
2024	$14,816	$13,177	Predicted Variance
YOY Growth	6.0%	6.7%	-0.7%
Estimated CY2024 Savings Run Rate			$581.7M

CY 24 Guardrail Scenario 4a: 2019 Trended forward at 2015 - 2019 Trend

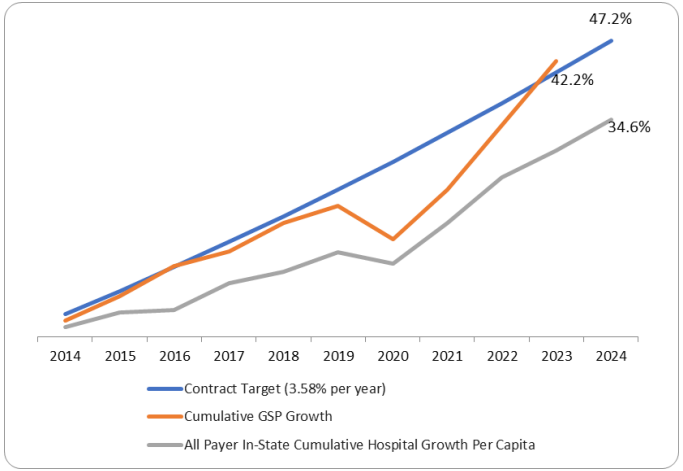
TCOC Estimate (Scenario 4a)

Scenario 4a Guardrail Projections			
	Maryland	US	
2023	$13,972	$12,347	
2024	$14,430	$12,521	Predicted Variance
YOY Growth	3.3%	1.4%	1.9%
Estimated CY2024 Savings Run Rate			$264.9 M

All-Payer Affordability

- The Total Cost of Care contract all-payer test aims to limit all-payer in-state hospital charge growth to 3.58 percent per annum over the life of the contract.
- Actual growth through CY 2024 is 29.8 percent, below the cumulative target of 47.2 percent. When inflated to 2024, it reaches 34.6 percent, indicating Maryland is 13 percentage points below the target.
- In-state hospital charges are not just below the target but also below the actual cumulative GSP growth through 2023 of 42.2 percent, indicating savings generated by the model.
- Staff compared the 5-year cumulative growth in hospital charges (18.7 percent) to the 5-year GSP growth (21.8 percent) to ensure healthcare remains affordable in Maryland. This comparison highlights efforts to control healthcare costs and ensure they do not outpace economic growth, benefiting all payers and consumers.

Table 7
Affordability Scorecard – Cumulative GSP Test with CY 2024 Projection



Update Factor Recommendation for Non-Global Budget Revenue Hospitals

	Psych & Mt. Washington
Proposed Base Update (Gross Inflation)	3.15%
Productivity Adjustment	SUSPENDED
Additional Inflation Support	N/A
Proposed Inflation Update	3.15%

ANNUAL PAYMENT REQUEST

HSCRC Payment Models Work Group

April 30, 2024

Maryland
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FIELD REQUEST

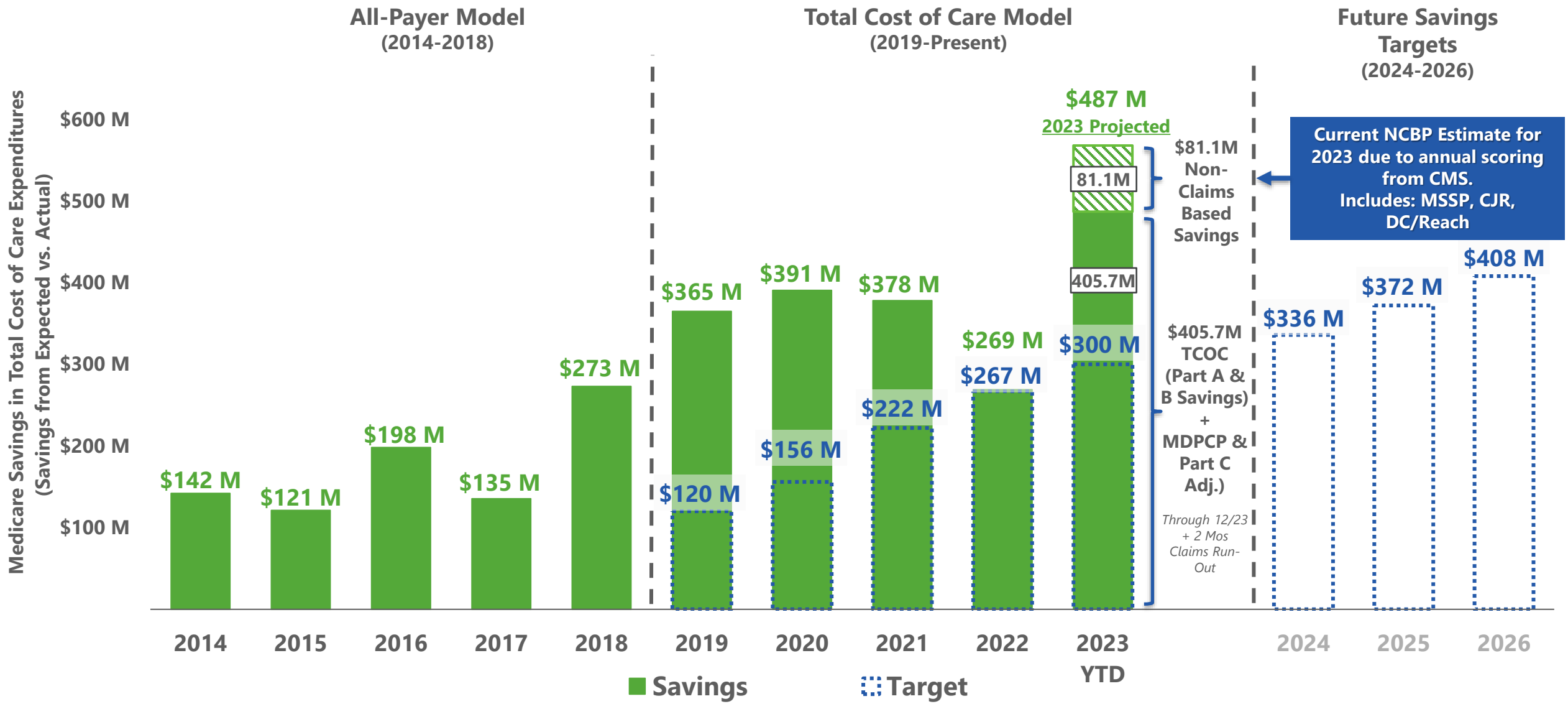
Factor	Amount
Annual inflation	3.15%
Underfunded inflation since FY20	2.34
Less half of underfunded inflation amount (to be paid in FY 2026)	(1.17)
RY 2025 Rate Request	**4.32%**

PROJECTED CY 2023 WAIVER SAVINGS PERFORMANCE

- TCOC savings are projected to be $487M based on:
  - Performance through December 2023 with 2 months of claims run-out and estimated annual non-claims-based payment savings.
  - December 2023 TCOC savings less the impact of the reversal of $64M MPA adjustment in December 2023

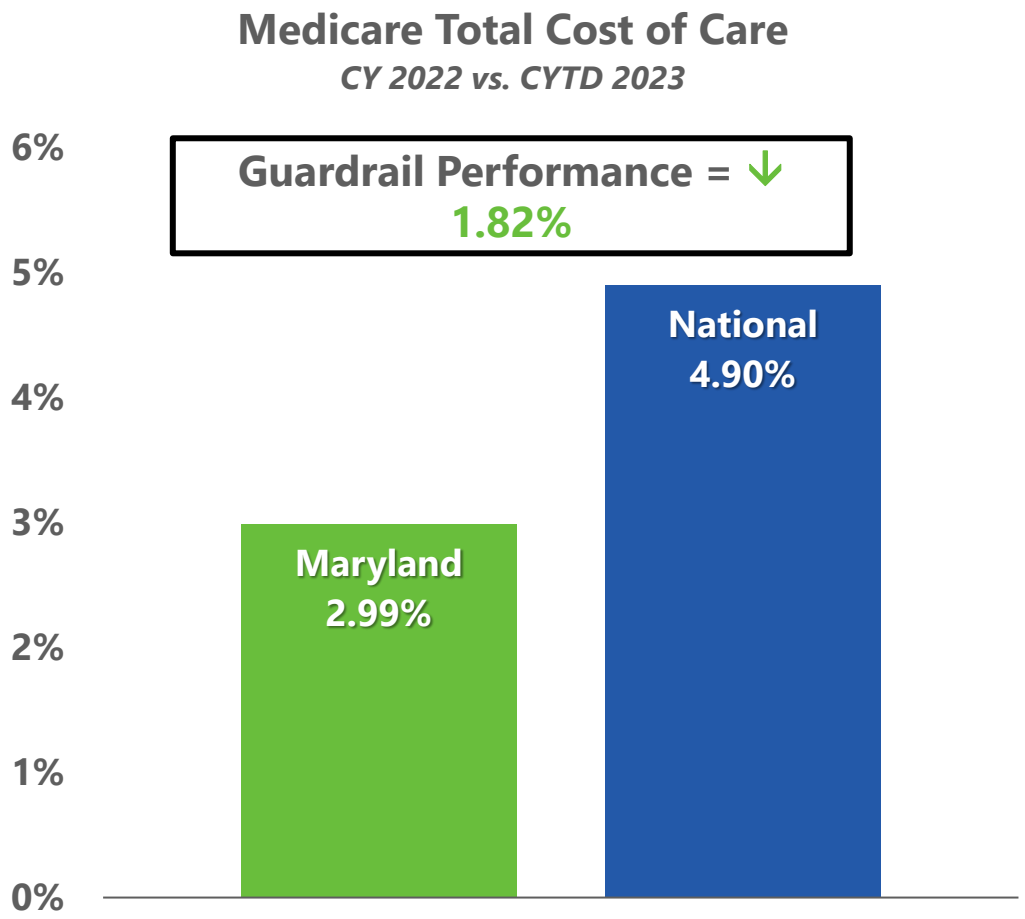
- This estimate represents an overage of system savings of $187M that is lost to the hospital industry at a time when inflation has been underfunded by 2.34% since FY2020

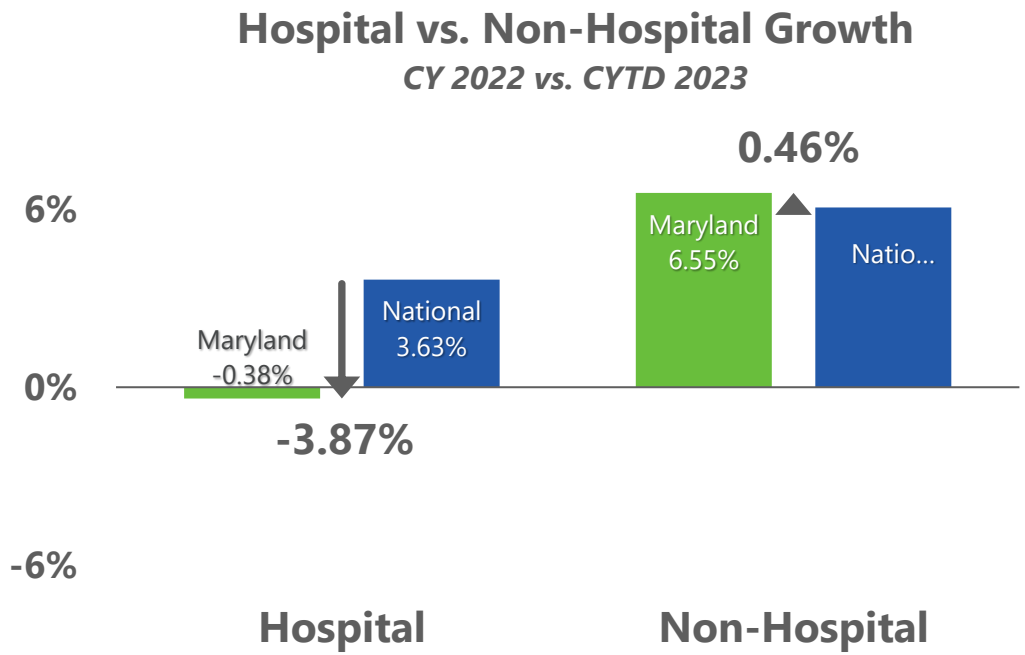
STRONG SAVINGS PERFORMANCE FOR CY 2023



Source: CMS/CMMI Monitoring Data
Note (1): Data contain summaries prepared by HSCRC and CMS/CMMI; data are preliminary and contain lags in claims where there may be material differences in results when final data are received. Savings calculations include addition of Part B non-claims based payments for MDPCP/CPC+ and Part C MA Growth Adjustment. MSSP and other non-claims based state & national programs will be added at the end of performance period.

2023 TCOC SPENDING GROWTH LOWER THAN NATION





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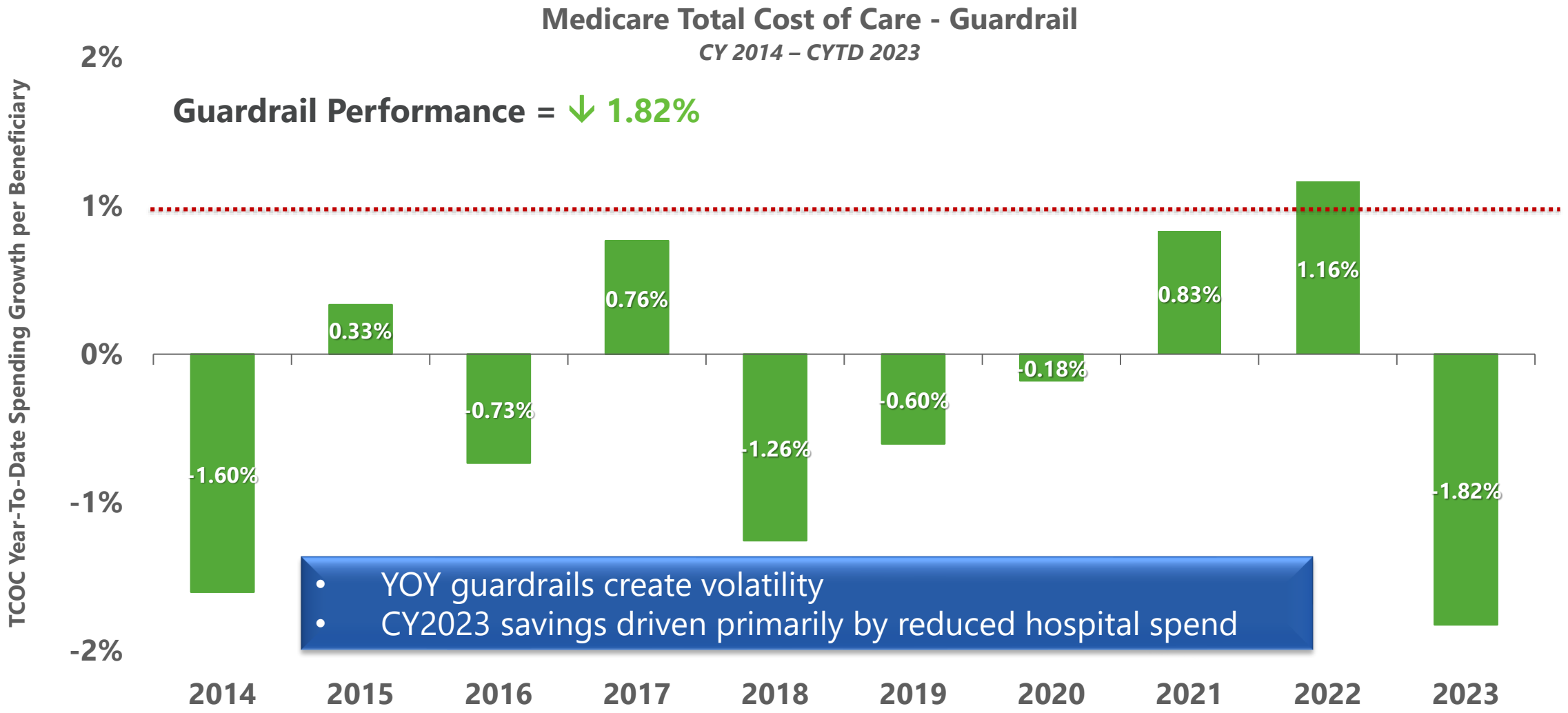
POSITIVE GUARDRAIL PERFORMANCE FOR 2023 YTD



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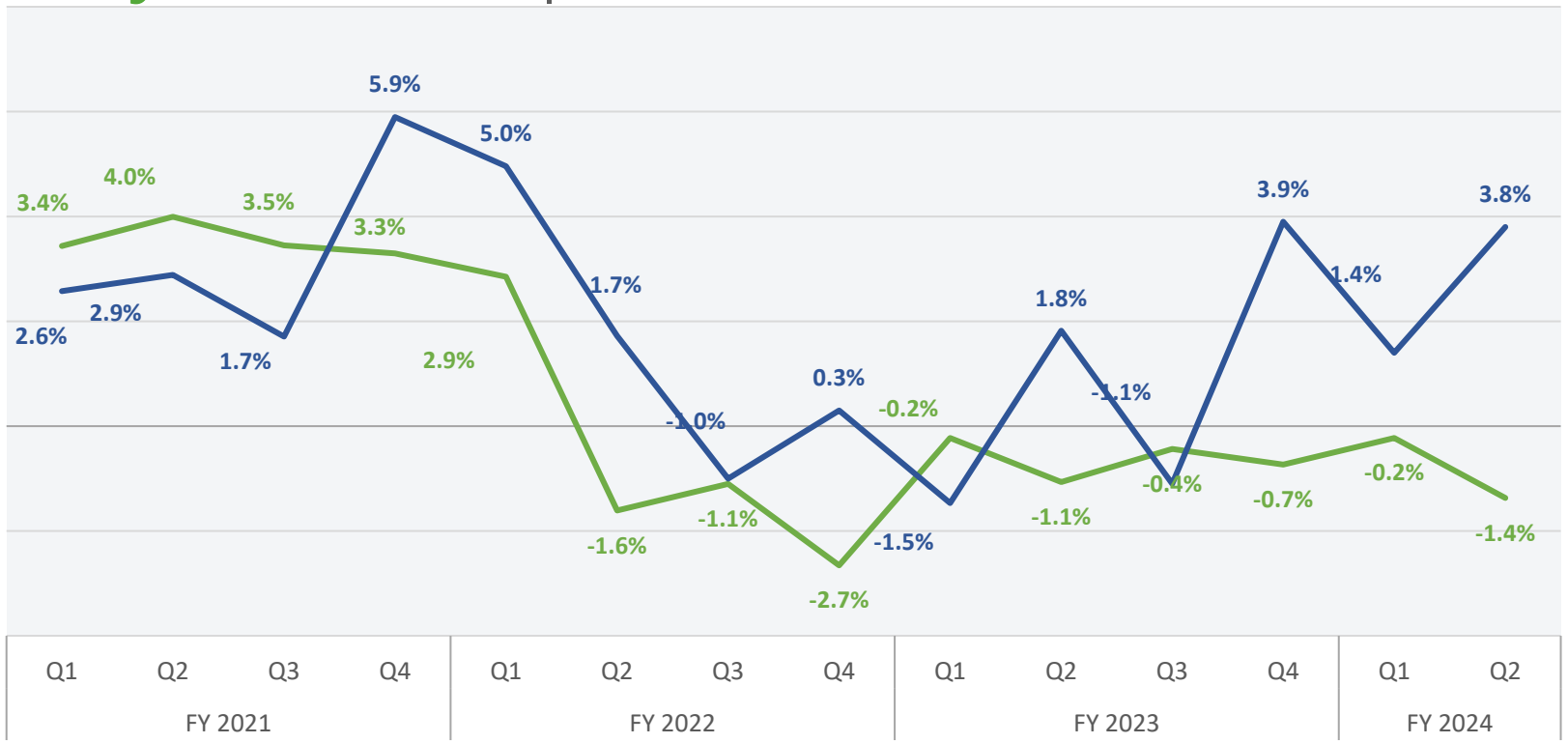
WEAKENED OPERATING MARGINS PERSIST

Maryland Median | National Median

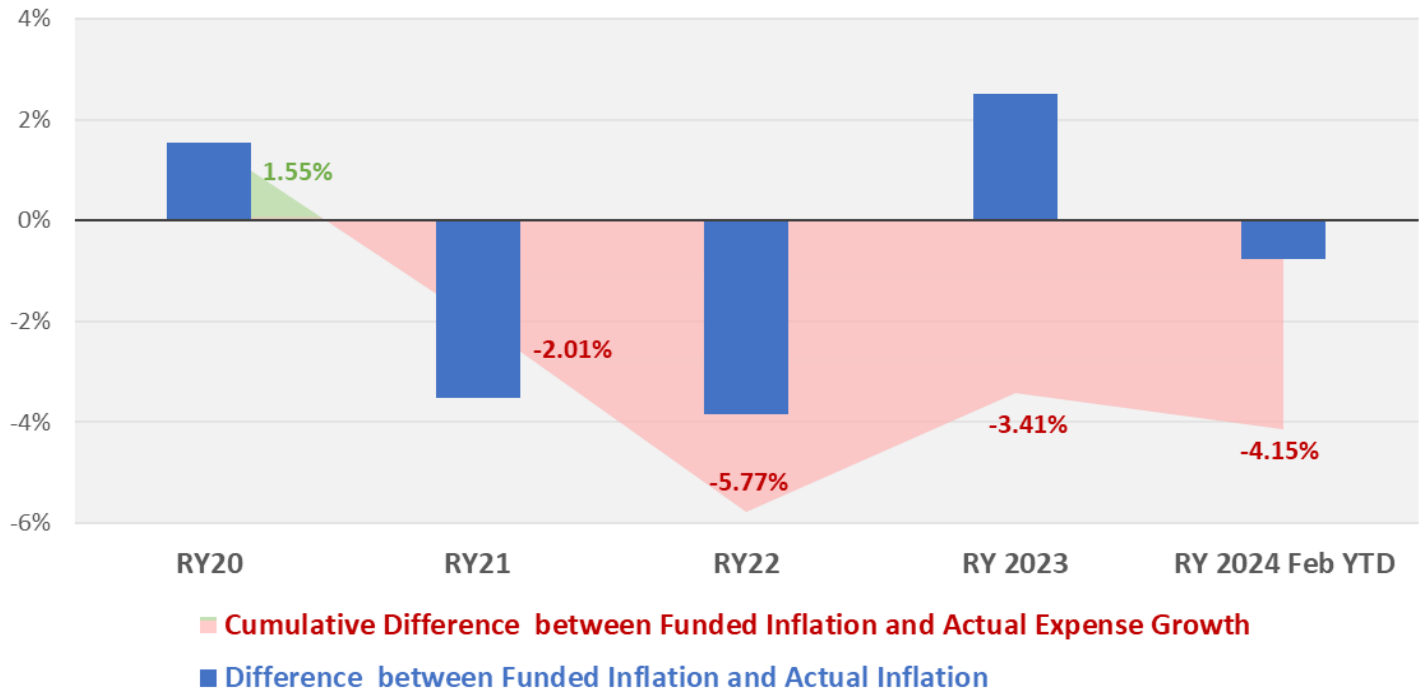


Source:

1. MD: HSCRC audited financial statements
2. Nation: Kauffman Hall flash reports

ACTUAL VS HSCRC FUNDED INFLATION

Hospitals have experienced actual expenses growth 4.15% above the amount of inflation funded in GBR



THANK YOU!

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Annual Filing Modernization

Subgroup 1: Clinician Costs

- Clinician Cost Supplemental Schedule
  - Second Annual Filing Modernization Workgroup held on April 24
    - Draft schedule was included as part of materials
    - Walked through draft schedule and timelines during workgroup
  - Hospitals will be asked to complete schedule twice before it is incorporated into FY25 Annual Filing
    - Tentative Schedule:
      - First schedule to be sent Mid May, due back Mid August
        - Tentatively utilizing stub FY24 data
    - Second schedule to be sent Late Fall/Early Winter
      - Tentatively utilizing final FY24 data