maryland
health services
cost review commission

September 20, 2023

Dear Stakeholder:

Thank you for your interest in Maryland's calendar year 2022 performance under the Total Cost of Care (TCOC) Model contract with the Center for Medicare and Medicaid Innovation (CMMI). CMMI recently sent a letter to HSCRC which contains their findings on Maryland's calendar year 2022 performance under the TCOC Model. The purpose of this letter is to provide information that HSCRC staff believe is important to understanding Maryland's performance in 2022.

TCOC Model Overview:
The Total Cost of Care Model has three components:

1. **Hospital Population-Based Revenue:** Hospitals are paid using population-based revenue (global budgets on revenue or GBRs) with incentives and financial risk for quality performance. The GBRs help control health care cost growth while incentivizing quality improvement. The Model agreement with CMMI allows HSCRC to include Medicare in the hospital all-payer rate-setting system, which supports the GBRs.
2. **Payment and Delivery System Reform:** Hospitals and other providers are incentivized to move into value-based payment systems, which seek to control costs and improve the quality of care. Hospitals are incentivized to create partnerships with non-hospital providers. The popular Maryland Primary Care Program (for primary care practices) and the Episode Quality Improvement Program (for specialist practices) are part of this component of the TCOC Model.
3. **Population Health and Health Equity:** The TCOC Model supports investments in health in Maryland communities, including improvements in diabetes, opioid misuse, and maternal and child health.

The TCOC Model started in 2019 and ends in 2026, followed by a two-year transition period. State staff are currently working to prepare for negotiations with CMMI about the model that succeeds the TCOC Model.

2022 Annual Targets
Under the TCOC Model contract, Maryland is required to meet six annual financial and quality targets. Each of those targets is discussed below.

Annual Medicare Savings TCOC Target: Maryland achieved $269 million in annual TCOC Medicare savings, exceeding the annual target of $267 million. Maryland's TCOC Medicare savings under the Model are measured relative to the growth that would be expected if Medicare expenditures in Maryland grew at the same rate as national Medicare TCOC growth.

Table 1: Annual Medicare TCOC Savings (in millions)

	2019	2020	2021	2022	2023	2024	2025	2026
Target	$120	$156	$222	$267	$300	$336	$372	$408
Actual	$365	$391	$378	$269M	TBD	TBD	TBD	TBD

In the second half of 2022, early data on Medicare fee-for-service (FFS) spending raised HSCRC concerns that Maryland would miss the 2022 Medicare TCOC savings target (item #1 on the list above) and that spending was growing at a rate that would cause the State to fail the 2023 savings target as well. HSCRC's best tool to ensure that the State meets the savings target is to set hospital global budgets at a level that is at or below the expected national growth rate. In 2022, HSCRC relied on national growth estimates from CMS's Office of the Actuary (OACT) in setting hospital rates. The CMS OACT estimates of national Medicare expenditure growth (7.1%) differed significantly from actual national expenditure growth (2.6%). This meant that the amount HSCRC allowed hospitals to spend in 2022 also exceeded actual national expenditure growth.

The amount that HSCRC allowed for hospital growth in FY 2022 included amounts that hospitals were not able to charge in 2020 and 2021 due to reduced hospital volumes during the pandemic. As part of HSCRC's pandemic relief policies, HSCRC allowed hospitals to carry-over the difference between their GBR in 2020 and 2021 and the amount they were able to charge in those years (the "undercharge") to future years, smoothing out the financial impact of the pandemic on hospitals while controlling prices for consumers and payers. The last year that the carry-over from past undercharges appeared in hospital rates was 2022. HSCRC's ability to provide financial support to the hospitals during the COVID-19 pandemic is an important feature of Maryland's global budget system, which limits cost increases over time while it also protects hospitals from financial crisis in unusual situations like the pandemic. This financial support allowed hospitals to focus on patient care during the worst of the pandemic.

In December 2022, HSCRC took actions to adjust hospital rates and related policies to ensure that the State would not miss the savings target in 2023. These changes included reducing all-payer rates, reducing Medicare rates, and increasing the public payer differential (so that commercial payers pay more, and public payers pay less).

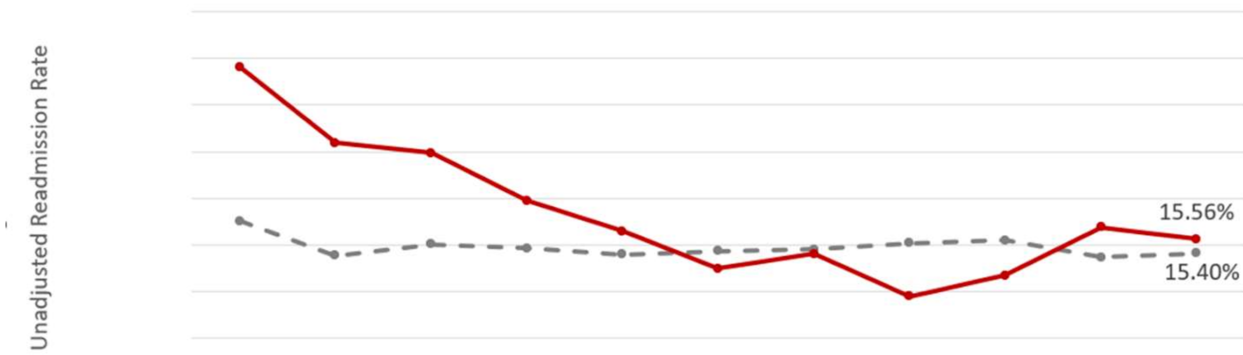
TCOC Guardrail Test: Under the Model agreement, Maryland's Medicare total cost of care spending growth may not exceed the national Medicare total cost of care spending growth per beneficiary by more than 1% in any given year and/or exceed national spending growth for two years in a row. Maryland met this model test in 2019, 2020, and 2021.

In 2021, Maryland's spending growth exceeded the nation by 0.6%. This meant that Maryland could not exceed national growth by any amount in 2022. In part because of Maryland's reliance on the 2022 OACT Medicare expenditure estimates (described above), Maryland's Medicare total cost of care spending exceeded national spending in 2022 by 0.9%. The actions that HSCRC took in December 2022 to control spending (described above) will help to ensure that Maryland meets this target in 2023. As a result of the State's reliance on the OACT estimates and the State's proactive action to cut hospital rates for 2023, CMS provided the State with an exogenous factors exemption for this target for 2022. CMS did not require additional corrective action on this target.

All-Payer Hospital Revenue Growth Per Capita. Maryland is required to maintain all-payer hospital revenue growth at a rate that is less than or equal to 3.58% per capita annually. In 2022, all-payer hospital revenue growth per capital was 2.72% per capita ($1.41 billion below the maximum revenue amount).

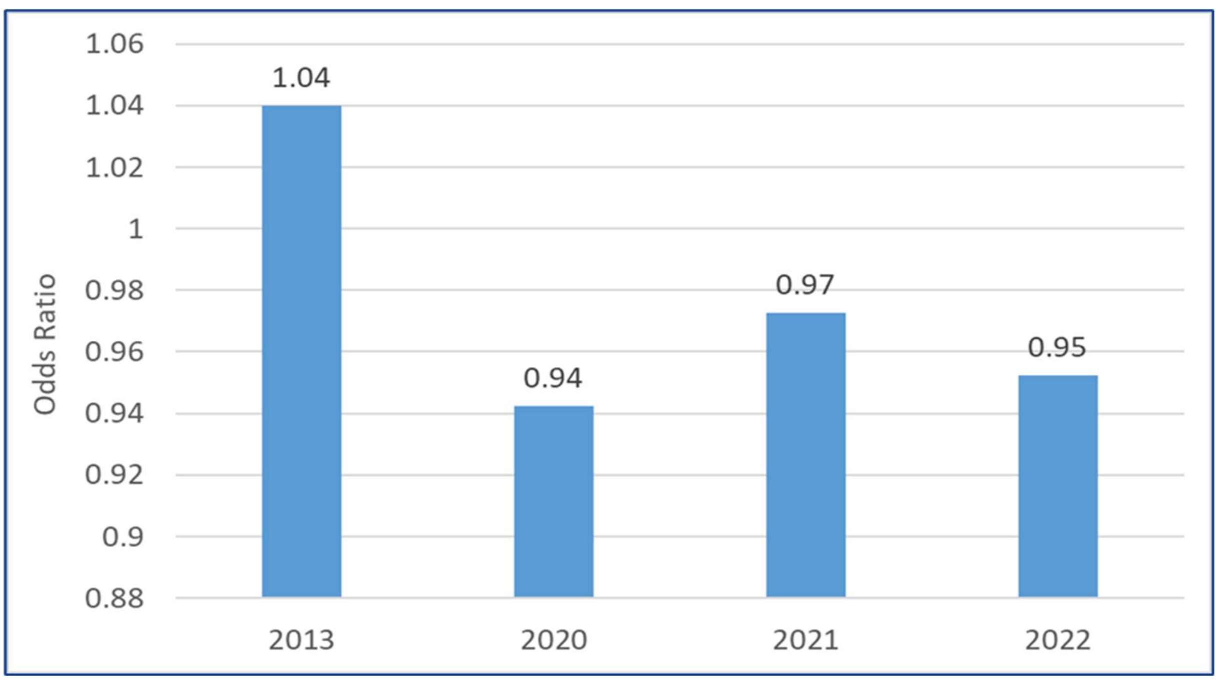
Hospital Readmissions Reductions for Medicare. The State must maintain the improvements achieved under the All-Payer Model (2014-2018) on the aggregate Medicare 30-day unadjusted all-cause, all-site hospital readmission rate for Medicare FFS beneficiaries. Under this annual target, Maryland hospitals must achieve a readmission rate that is equal to or less than the national Readmission Rate for Medicare FFS beneficiaries. Maryland met this target in 2019 and 2020. Maryland missed this target in both 2021 and 2022 (see exhibit 1). Maryland's performance on the readmissions measure did improve in 2022 compared to 2021. CMMI granted an exogenous factor request for missing the 2021 target, partly based on the impacts of COVID-19 on hospital quality measures nationwide. CMMI is using their discretion under the TCOC contract and did not require corrective action by the State for the State's 2022 performance on this measure.

Figure 1: Readmissions: Rolling 12 months through December 2022



	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
National	15.76%	15.38%	15.50%	15.46%	15.40%	15.43%	15.45%	15.52%	15.55%	15.37%	15.40%
Maryland	17.41%	16.60%	16.48%	15.97%	15.65%	15.24%	15.40%	14.94%	15.17%	15.68%	15.56%

Figure 2: Risk-Adjusted Odds, Compared to the Nation, of a Readmission in Maryland



HSCRC and CMMI have been in conversations for at least a year about the limitation of using a measure that is not adjusted for risk to measure Maryland's performance. In part because of the incentives on hospitals under GBRs to treat low acuity patients in the most appropriate non-hospital settings, the acuity of patients in Maryland hospitals is higher than the nation. Higher acuity patients are more likely to experience a readmission. HSCRC believes that a risk adjusted measure for readmissions would be a more appropriate annual target under the TCOC Model contract. Using a risk-adjusted model, in Maryland, Medicare patients admitted to the hospital had 5% lower odds of being readmitted to the hospital compared to the nation (exhibit 2). CMMI has agreed to consider moving to a risk-adjusted measure to evaluate future model performance.

All-Payer reductions in Hospital Acquired Conditions. Maryland is required to improve upon the CY 2018 rates for 14 potentially preventable conditions (PPCs) that comprise Maryland's Hospital Acquired Condition program (MHAC). In 2022, Maryland achieved a 0.2 percentage point reduction in the All-Payer PPC rate compared to CY 2018, meeting the annual target.

Hospital Revenue under Population-Based Payment Methodology. The TCOC contract requires that at least 95% of hospital revenue must be subject to GBRs, Maryland's population-based payment methodology. In 2022, 98% of HSCRC regulated revenues are under a population-based payment methodology, meeting the annual target.

I want to thank all the stakeholders that contribute to Maryland's success under the TCOC model. HSCRC is committed to Maryland's continued efforts to enhance the quality of health care, improve population health and health equity, and control health care costs for Marylanders.

Sincerely,

Jon Kromm
Executive Director

August 17, 2023

Jon Kromm
Executive Director, HSCRC
4160 Patterson Avenue
Baltimore, Maryland 21215

Re: Maryland's Performance on the Total Cost of Care Requirements, CY 2022

Dear Mr. Kromm:

Centers for Medicare & Medicaid Services (CMS) has reviewed the State's performance on the annual requirements specified in sections 6 and 8 of the Maryland Total Cost of Care Model (the Model) State Agreement (the Agreement) and determined that the State has met four of the six annual requirements for CY 2022 (Model Year 4): the All-Payer Revenue Limit performance requirement, the Annual Medicare Savings requirement, the All-Payer Quality Improvement Reductions in Potentially Preventable Conditions performance requirement, and the Hospital Revenue Population Based Payment performance. Maryland did not meet: (1) the TCOC Guardrail requirement and (2) the Readmissions Reductions for Medicare requirement.

On January 31, 2023, the State submitted an Exogenous Factors request as a component of the *Calendar Year 2022 Savings Position and Summary of Commission Action* memo for CMS' consideration in accordance with section 6.g of the State Agreement. The State identified multiple exogenous factors that resulted in a higher Medicare growth rate relative to the nation. The State cited the growth estimates provided by the CMS Office of the Actuary as primary driver for this shortfall. Changes in utilization patterns resulting from the COVID-19 pandemic resulted in lower cost trends for providers in a national volume-based fee-for-service (FFS) reimbursement system compared to a population-based reimbursement system in Maryland using hospital global budgets. Given this factor and pro-active steps taken by the State to correct for the Medicare growth Guardrail shortfall, CMS has used its discretion in accordance with section 12.a of the State Agreement to grant the exogenous factors request and not require additional corrective action.

Additionally, under section 12.c.i.3 of the Agreement, if CMS determines that the quality of care provided to Medicare, Medicaid, or CHIP beneficiaries has deteriorated, CMS may pursue corrective actions for Triggering Events in accordance with section 12.c.ii of the Agreement. While the State's Readmissions Reductions for Medicare performance improved in comparison to CY 2021, the State did not meet the PY 2022 Readmissions Reductions for Medicare requirement. In the Federal Fiscal Year (FFY) 2023 *Quality Waivers Exemption Approval* memo sent December 29, 2022, CMS requested that the State take actionable steps to improve future performance in readmissions, and that the State include their readmissions improvement strategy as a component of the FFY 2024 Hospital Quality Program Exemption request. Consistent with section 12.a of the Agreement and given Maryland's improvement in CY 22 relative to CY 21, CMS has used its discretion to not require additional corrective action at this time in order to allow the State time to implement steps to address the readmissions requirement shortfall as noted in CMS's response to Maryland's PY 2023 Quality Waiver Exemption Request. Additionally, this will allow CMS time to complete its review of the State's request to move to the Medicare 30-day all-cause hospital-wide risk-adjusted readmission measure. The decision to pursue corrective action will be dependent on CMS' review of the State's previously requested steps in the PY 2024 Waiver Exemption Request and CMS's investigation into the risk-adjusted readmission measure.

On May 11, 2023 the United States Department of Health and Human Services (HHS) discontinued the federal Public Health Emergency (PHE) for COVID-19, declared under Section 319 of the Public Health Service (PHS) Act; patient volumes continue to stabilize and the number of COVID-19 cases continue to decline. With the end of the COVID-19 PHE and corrective actions in place, **CMS expects the State to meet all future annual performance requirements of the Model while continuing to mitigate the lingering public health effects of COVID-19.**

1. Annual Medicare Savings (Section 6.c)[1]

The State is required to produce annual savings in Maryland Medicare TCOC per Beneficiary of $267 million for Model Year (MY) 4 (CY 2022). In accordance with the Methodology defined in Section 6.b and Appendix C of the State Agreement, CMS has calculated the annual Medicare TCOC savings per Maryland Medicare Beneficiary to be $269.1 million for CY 2022. CMS considers this requirement of the Model met for CY 2022.

2. TCOC Guardrail (Section 6.e)

The State must not exceed National Medicare TCOC per beneficiary spending growth by more than one percent for any given Model Year and must not exceed the National Medicare TCOC per beneficiary spending growth by any amount for two or more consecutive Model Years. The State's TCOC per beneficiary growth rate was 0.9 percentage point above the National growth rate in CY 2022 and was 0.6 percentage points above the National growth rate in CY 2021. Thus, Maryland did not meet this requirement as Medicare TCOC per beneficiary spending growth exceeded National Medicare per beneficiary spending growth in two consecutive years and is considered an "Other Event" per section 12.d.i.2 of the Agreement.

The State has proactively taken steps to adjust for the shortfall in CY 2023 by implementing a reduction to the All-Payer Rate used to set rates for all Maryland providers, increasing the public payer differential, and reducing each hospital's MPA factor to reduce Medicare payments in CY 2023. Given that CMS agrees with the exogenous factor related to the growth estimates identified by the State and steps taken to reduce growth in MY 4, CMS will exercise discretion and will not request the State take any additional corrective action at this time. CMS believes that the steps taken by the State will reduce growth sufficiently in MY5 and should allow the State to meet their 2023 TCOC Guardrail requirement.

3. All-Payer Revenue Limit (Section 6.f)

Maryland's all-payer regulated gross patient service revenue must be less than or equal to the maximum revenue that Regulated Maryland Hospitals may earn in that Model Year from All Payers. In accordance with the Methodology defined in Appendix B.II of the State Agreement, CMS has calculated the State's all-payer regulated gross patient service revenue for CY 2022 to be $1.41 billion below the maximum

[1] Additional Non-Claims Based Payments were identified and included in the calculation of the Annual Medicare Savings Requirement in accordance with section 2.b.ii of the MD TCOC State Agreement.

revenue amount; therefore, CMS considers this requirement of the Model met. CMS reaffirms that the State met this requirement in prior model years.

4. **All-Payer Quality Improvement Reductions in Potentially Preventable Conditions under the Maryland's Hospital Acquired Condition Program (Section 8.d.1-3)**

The State must maintain improvements seen under the All-Payer Model by not exceeding the CY 2018 PPC rates for 14 Potentially Preventable Conditions (PPCs) that comprise Maryland's Hospital Acquired Condition program (MHAC) in a given Model Year. The HSCRC reported All-Payer PPC performance for CY 2022 yielded a 0.2 percentage point reduction in the All-Payer PPC rate compared with CY 2018 performance. Based on the State's report, CMS considers this requirement of the Model met for CY 2022.

5. **Readmissions Reductions for Medicare (Section 8.d. 1-3)**

The State must maintain the improvements achieved under the All-Payer Model on the aggregate Medicare 30-day unadjusted all-cause, all-site hospital readmission rate for Medicare FFS beneficiaries such that regulated Maryland Hospitals have achieved equal to or less than the national Readmission Rate for Medicare FFS beneficiaries at the end of MY 4. CMS has reviewed the State's calculation and concludes that the State's CY 2022 Readmission Rate of 15.56 percent is above the national CY 2022 Readmission Rate of 15.40 percent; therefore, CMS has determined that the State did not meet this requirement.

CMS used our discretion to not request any additional corrective actions to address the State's readmissions rate performance at this time. CMS considered four main factors that informed this determination. First, in MY 4, Maryland reduced their readmission rate relative to MY 3 and reduced the difference between Maryland's Medicare 30-day unadjusted all-cause, all-site hospital readmission rate and the national rate relative to MY 3. Second, as part of the CMS response to the FFY 2023 Quality Waivers Exemption Request Memo dated December 29, 2022, CMS included steps for the State to develop a strategy to take a more active role in facilitating collaboration between providers and other stakeholders to identify improvements that could be implemented to improve readmission rates. These collaborations included leveraging focus groups and other learning activities to identify lessons learned as well as investigating health equity initiatives that could further improve readmission performance. Maryland did not have an opportunity to implement those steps in MY 4 and CMS will allow the State to pursue those actions before determining if corrective action is needed. The State will provide an update to the recommendations CMS provided as part of the its response to the FFY 2023 Quality Waivers Exemption Request Memo in its FFY 2024 Waiver Exemption Request expected by September 1, 2023. Third, Maryland will increase the total revenue at risk under the MPA from 1% to 2% as part of the rate year 2025 MPA proposal, effective July 1, 2024. A portion of the MPA is determined by a hospital's performance on their quality measures, and an increase to the revenue at risk through the MPA would provide additional incentives to hospitals to reduce readmissions. Finally, Maryland requested that the target measure used in the Readmissions Reductions for Medicare Performance requirement be changed to the Medicare 30-day all-cause hospital-wide risk-adjusted readmission rate, consistent with Section 8.d.i.1 of the State Agreement. HSCRC believes the risk-adjusted measure will more accurately reflect the State's readmissions performance relative to the nation. CMS will respond to the measure change request as part of our response to Maryland's Federal Fiscal Year (FFY) 2024 Quality Waivers Exemption Request Memo.

6. Hospital Revenue Population Based Payment (Section 8.a.)

The State is required to facilitate the movement of Regulated Revenue for Maryland residents into Population-Based Payment. Section 8.a.ii requires that at least 95 percent of all Regulated Revenue for Maryland residents is paid according to a Population-Based Payment methodology. The HSCRC has reported 98.05 percent of Regulated Revenues are under Maryland's 'Rate Setting System' for CY 2022, which CMS has approved as meeting the definition of a Population-Based Payment. Based on the State's report, CMS considers this requirement of the Model met for CY 2022.

In summary, CMS has determined that the State has met or exceeded the annual requirements of the Maryland Total Cost of Care Model across four requirements for the fourth year of the Model (CY 2022) and did not meet the requirements for the TCOC Guardrail and the Readmissions Reductions for Medicare. CMS does not intend to pursue corrective action beyond the efforts already taken by the State to address the TCOC Guardrail requirement shortfall. Additionally, CMS does not intend to pursue any additional corrective action related to the Readmissions Reductions for Medicare requirement and will determine next steps based upon Maryland's response in their annual waiver exemption request and completion of investigation into the Medicare 30-day all-cause hospital-wide risk-adjusted readmission rate. CMS appreciates the State's commitment to achieve the annual performance requirements of the Model and looks forward to our continued partnership.

Sincerely,

Amanda S. Johnson -S
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Date: 2023.08.17 13:29:33 -04'00'

Amanda Johnson
Acting Director
State and Population Health Group
Center for Medicare and Medicaid Innovation
Centers for Medicare & Medicaid Services