

STATE OF MARYLAND  
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**HEALTH SERVICES COST REVIEW COMMISSION**  
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Phone: 410-764-2605 · Fax: 410-358-6217  
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March 14, 2011

Roger C. Herdman  
Institute of Medicine of the National Academies  
Keck Center  
758a  
500 Fifth St. NW Washington, DC 20001

RE: Geographic Variation in Health Care Spending and Promotion of High-Value Care

Dear Mr. Herdman,

The Maryland Health Services Cost Review Commission (HSCRC) finds the new data sets created by the Centers for Medicare & Medicaid Services (CMS) for the Institute of Medicine a very valuable source of information for national comparisons. Of particular concern to us is that Maryland and the health referral regions (HRR) in Maryland appear to have among the highest costs in the nation according to the data.

Upon closer review, we noted that the cost estimates for Maryland are not comparable to the rest of the nation as they exclude needed adjustments that were applied in the other states but not applied in Maryland – specifically, the adjustments for direct and indirect graduate medical education (GME) and disproportionate share (DSH). While Maryland hospitals do not receive DSH payments from Medicare, the State's unique rate setting system does build in extra payments that cover the cost of hospital care for the uninsured and are far in excess of what hospitals receive for DSH nationally. Given this and Maryland's relatively intensive commitment to graduate medical education (the State has 17 teaching hospitals), your current analysis may significantly overstate per capita spending in the State. Although the technical documentation accompanying these results states that, "The only adjustment that we made to Maryland claims was to eliminate the effects of the hospital wage index," the actual data tables do not provide this important caveat.

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HSCRC staff has been in touch with CMS analytic staff, and we are currently working on the development of appropriate adjustment factors to be applied to the Maryland data. Until these adjustments are applied, we respectfully request that a note be added to the data sets indicating that costs attributable to Maryland lack proper adjustments and should not be included in any national comparisons.

While the adjustment factors are an issue of concern to address, the HSCRC recognizes that even after appropriate adjustments for GME and Uncompensated Care are applied, Maryland may appear high relative to other jurisdictions due, in large part, to our high historical use of health services per capita. To address this issue, the HSCRC is pursuing an unprecedented payment reform strategy that includes the implementation of:

- 1) Enforceable global budgets for 10 rural hospitals. These arrangements were implemented in July of 2010 and cover approximately 12% or \$1.4 billion of system revenue. Fixed budgets of this nature provide very strong incentives to reduce unnecessary hospital admissions and readmissions; and
- 2) Episode-based payment for 25 additional hospitals, which covers admissions and all-cause readmissions over a 30 day window. These payment structures, scheduled to be implemented effective July 1, 2011, will apply to \$5.4 billion of inpatient revenue and place hospitals 100% at risk for virtually all readmissions.

We believe these and other global payment initiatives in the State will provide very strong incentives to reduce unnecessary care and lower per capita health care costs. As the nation's only All-Payer rate setting system, Maryland is uniquely positioned to implement these beneficial payment structures, which will facilitate our attempts to bend the cost curve. Taken in conjunction with the HSCRC's current pay-for-performance initiatives (Value Based Purchasing implemented in 2008 and Hospital Acquired Conditions implemented in 2009), these programs provide very strong incentive structures for hospitals to lower costs and improve overall care coordination and quality.

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We are happy to discuss any of the above information in more detail. Please feel free contact me with any questions at 410 764-2605 or [rmurray@hscrc.state.md.us](mailto:rmurray@hscrc.state.md.us).

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert Murray", written in a cursive style.

Robert Murray, Executive Director

cc: Joshua M Sharfstein, MD  
Secretary  
Maryland Department of Health and Mental Hygiene

Eric Rollins  
Office of Policy  
Centers for Medicare & Medicaid Services