Maryland Health Services Cost Review Commission

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

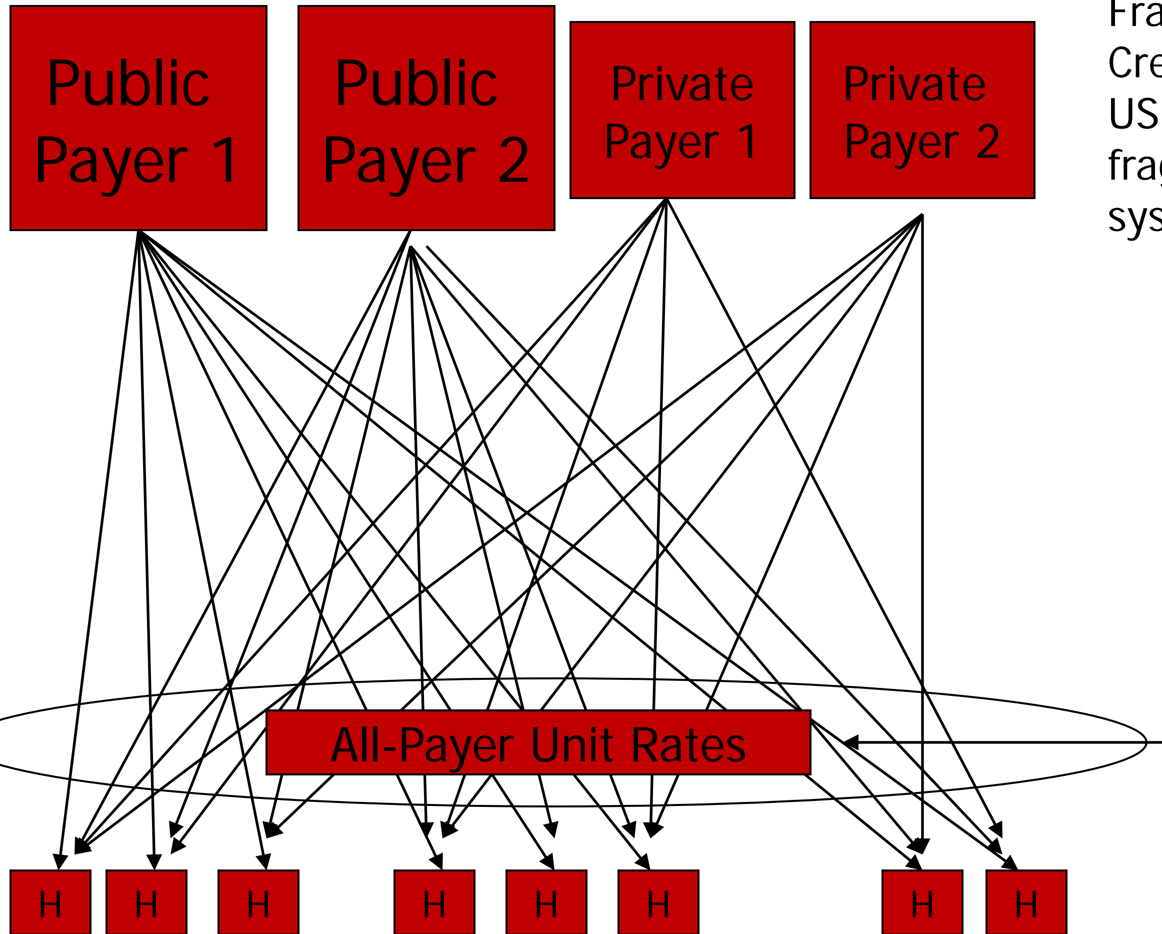
HSCRC Rate Setting Background
Jerry Schmith

HSCRC
Health Services Cost Review Commission

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



<u>US Healthcare System</u>

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

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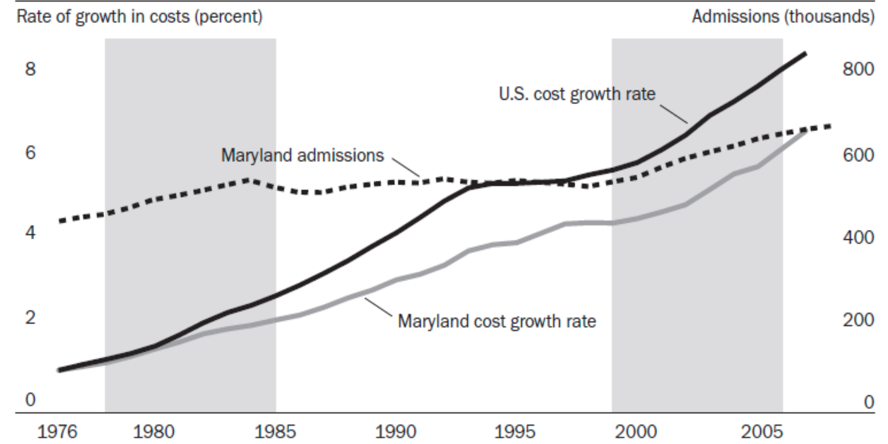
Maryland HSCRC Accomplishments

- Cost containment (all payer)
  - From 26% above the national average cost per case in1976
  - To 2% below the national average in 2007

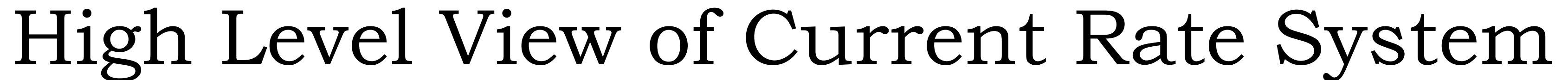


- Equitable funding of uncompensated care, payer equity, and equal access
- Stable and predictable payment system for hospitals
- Robust data and comprehensive analytic and rate setting tools
- Transparency through uniform accounting and reporting
- Leader in linking quality and payment (MHAC, QBR)
- 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



- 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

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HSCRC Sets Prices Per Unit of Service and Constraints Per Case, Per Episode, or Global

Functional Center	Approved Rate	Unit		Units of Service	Charge
Medical/Surgical Unit	$500	Per day	X	5	= $2,500
Intensive Care Unit	$1,000	Per day	X	2	= 2,000
Admission	$100	Per case	X	1	= 100
Operating Room	$15	Per minute	X	150	= 2,250
Radiology	$20	RVU	X	25	= 500
Pulmonary	$3.00	RVU	X	10	= 30
Blood	$15	RVU	X	5	= 75
Lab	$2.00	RVU	X	25	= 50
Physical Therapy	$16	RVU	X	5	= 80
Cost of Drugs Sold	$1,200	Invoice cost	X	patient	= 1,200
Medical Supplies	$2,100	Invoice cost	X	patient	= 2,100
Total Charge per case					$10,885