

# CareFirst's White Paper on Annual Updates: The Annual Allowance Calculation

A Proposed Process for Meeting the Dual Waiver Tests of the Demonstration

CareFirst  
3/20/2014

# The Key Waiver Tests

- The All Payer Ceiling
  - Limits the Growth in Maryland Hospital Charges per Maryland Resident to 3.58% per year
- The Medicare Savings Targets
  - Limit the Growth in total Medicare Hospital Claims per Maryland FFS Beneficiary to the US average adjusted by annual Medicare Savings Targets

# The Provisions for Meeting the Medicare Savings Targets by Increasing the Differential

If in a Performance Year

- The All Payer Ceiling has been met, but
- The Medicare Savings Target has not

The HSCRC may seek the Approval of CMS to  
Increase the Medicare and Medicaid  
Differentials to meet Subsequent Performance  
Year Medicare Savings Targets

# The Implications for Maryland Hospitals of Failing to Meet the Medicare Savings Targets in any Performance Year

- The Medicare Savings Targets
  - Require Cumulative Medicare Savings of \$330m over the Demonstration, or
  - Annual increases in Hospital Claims per Maryland FFS Beneficiary that average approximately .44% below the US Average
- A Failure to Meet the Medicare Savings Target would Disqualify the Demonstration as a Population Health Initiative that Realized the CMS Three Part Aim; including Lower Costs

# The Implications for Maryland Hospitals of Failing to Meet the Medicare Savings Targets in any Performance Year (cont.)

- A Failed Demonstration provides No Clear Basis for the Renewal Application which is:
  - Due by the End of Performance Year 3, and
  - Intended to Extend the Demonstration to a Full Capitation Arrangement for Medicare
- If CMS rejects the Proposed Extension, Medicare Payments will Revert to the IPPS/OPPS, reducing Hospital Payments by \$1.5b

# The Statistics of the Waiver Tests

- In each year:
  - The All-Payer Growth Rate equals the Percentage Increase in the Maryland Hospital Charges per Maryland Resident in the particular year
  - The Medicare Growth Rate equals the Percentage Increase in total Medicare hospital claims per Maryland FFS Beneficiary in the particular year
  - The Difference Statistic, in each year, equals the Difference between:
    - The All-Payer growth Rate, and
    - The Medicare Growth Ratefor the particular year

# Quantifying the Difference Statistic

## Maryland Hospital Charges per Maryland Resident: FY-2008 to FY-2013

Year	Charges to MD Residents (000's)	Resident Population	Charges/ Resident	Annual % Increase
2008	\$11,156,919.4	5,698.9	\$1,958	
2009	\$11,840,901.5	5,736.1	\$2,064	5.4%
2010	\$12,164,303.7	5,773.5	\$2,107	2.2%
2011	\$12,796,126.6	5,811.2	\$2,202	4.5%
2012	\$13,594,378.0	5,848.9	\$2,312	5.0%
2013	\$13,775,975.1	5,886.8	\$2,340	1.2%
% Annual Increase	4.31%	.67%	3.63%	3.63%

# Quantifying the Difference Statistic: Estimating Medicare Hospital Charge Growth per Maryland FFS Beneficiary

Year	Medicare Resident Charges (000's)	Residents 65+ (000's)	Charges/ Resident	Annual % Increase
2008	\$4,174,122.4	659.6	\$6,328	
2009	\$4,410,567.5	683.2	\$6,456	2.0%
2010	\$4,470,476.8	707.6	\$6,317	-2.1%
2011	\$4,765,794.4	732.9	\$6,502	2.9%
2012	\$5,024,054.4	758.2	\$6,626	1.9%
2013	\$5,138,662.1	784.5	\$6,530	-1.1%
% Annual Increase	4.25%	3.53%	.69%	.69%

# Deriving the Difference Statistic 2009- 2013

	(1) All Payer Charges/ Resident (Sch 2)	(2) Medicare Charges/ Resident, Age 65+ (Sch 1)	(3) Difference Statistic (1)-(2)	(4) Absolute Variance from Average (3) – 2.94%
2009	5.4%	2.0%	3.4%	.46%
2010	2.2%	-2.1%	4.3%	1.36%
2011	4.5%	2.9%	1.6%	1.34%
2012	5.0%	1.9%	3.1%	.16%
2013	1.2%	-1.1%	2.3%	.64%
Avg	3.63%	.69%	2.94%	.79%

# Projecting the Difference Statistic: Reconciling the Two Waiver Test Requirements

- The Proposed Methodology for Calculating Annual Allowances has three Key Requirements:
  - The Maintenance of the Difference Statistic based on the Continuation of the Factors Producing its Current Level while Supporting a Conservative Projection of Prior Year Results
  - HSCRC Initiatives designed to Differentially Limit the Growth in Hospital Claims per Medicare FFS Beneficiary (Go for O!), thereby increasing the Difference Statistic, and
  - The Accuracy of the CMS Actuarial Projection of the Growth in Medicare Hospital Claims per FFS Beneficiary in the US

# Projecting the Difference Statistic

## Reasons for a Conservative Projection

- The Estimate of Medicare Claims Growth per FFS Beneficiary (Schedule 2) may be Understated
- The HSCRC Approved Rate Increases in FY-2012 Reduced Inpatient Rates, Depressing Medicare's Relative Increase in Hospital Charges per FFS Beneficiary (because Medicare has a Disproportionate Level of Inpatient Services)
- The Factors Producing Medicare's Relatively Low Increase in Maryland Hospital Claims may not Remain in Full Effect
- As a Statistic, the Difference Statistic is Variable for Reasons that are not Obvious

# Projecting the Difference Statistic Quantifying Variation

- Two Measures of Variation in the Difference Statistic (2009-2013)
  - Average Absolute Difference (the Actual Value Less the Five Year Average as set forth on Schedule 4) is .79%
- The Standard Deviation is 1.04%
- A Statistically Conservative Projection of the Difference Statistic, with an Average of 2.94% (Schedule 4) would be about 2.0% with the Given Variances

# Understanding the Factors Giving Rise to the Difference Statistic: The Distribution of Medicare Services

- Medicare Hospital Charges per Maryland Resident Age 65+ have Grown at a Slower Rate than the All-Payer Growth Rate because:
  - Medicare has a Disproportionate Level of Inpatient Care (77.6%) and
  - Inpatient Charges per Resident have Increased Slower (.93%) than Outpatient Charges per Resident (8.73%) from FY-2008 to FY-2013
  - The Annual Effect is .97 as shown on the next slide

# Medicare Growth in Charges/ Resident Using All Payer Inpatient and Outpatient Growth Rates

	Inpatient	Outpatient	Total
(1) 2008 Charges/ Resident	\$4,910	\$1,418	\$6328
(2) Percent of Total	77.6	22.4	100.0
(3) All Payer: Annual % Increase Charge per Resident 2008-2013	.93	8.73	
(4) Combined Effect (2)x(3)	.72%	1.95%	2.67%
5. All Payer: Annual % Increase in Charges/ Resident 2008-2013			3.64%
6. Annual Medicare Savings attributable to Inpatient/ Outpatient Charge Distribution			.97%

# Understanding the Factors Giving Rise to the Difference Statistic Level:

## Disproportionate Reductions in Discharges

- Maryland Hospital Discharges per Resident Age 65+ have Declined more Rapidly from 2008 to 2013 than the Decline in All Payer Discharges per Resident.
- We estimate the Annual Effect on Medicare of the Disproportionate Reduction in Medicare Discharges to be 1.44% discounted by the Lower Case mix of the Reduced Discharges

# Annual Growth Rates in Charges/ Resident Medicare versus All Payer: The Effect of Differential Reductions in Medicare Discharges/ Resident Age 65+

	2008	2013	Annual % Growth
(1) Medicare Discharges	276,513	257,704	-1.40%
(2) Residents, Age 65+ (000's)	659.6	784.5	
(3) Discharges/ 1000 Residents	419.2	328.5	-4.76%
(4) All Pay Discharges	762,793	678,856	-2.30%
(5) Residents, All Ages (000's)	5698.9	5886.9	
(6) Discharges/ 1000 Residents	133.8	115.3	-2.91%
(7) Different: Medicare All Payer ((3)-(6))			-1.85%
(8) % Medicare Inpatient (2008)			77.6%
(9) Reduction in Medicare versus All Payer Annual Charges per Resident			1.44%

# The Statistics Used to Derive the Annual Allowances in Each Performance Year (PY)

- The Annual Allowance in each PY will be derived from the following Statistics:
  - The Volume Allowance calculated as the weighted average of:
    - The average percentage Volume Allowance (Demographic Adjustment) of the TPR/GBR hospitals
    - The percentage Volume Governor of the CPC Hospitals Payment System
  - The Average Supplemental Service Adjustments including:
    - Incremental CON Expenditures
    - Infrastructure Allowances for GBR Hospitals
    - Incentive Payments for Readmission Reductions
    - Other

# The Statistics Used to Derive the Annual Allowances in Each Performance Year (PY) cont.

- The Productivity Improvements of the Payment System
  - The Impact of the Required Reductions in Readmissions in:
    - Readmissions
    - MHACs
  - The exclusion of PAVs from the Annual Allowance
  - Other
- The Projected Increase in Medicare Hospital Claims per FFS Beneficiary Required by the Medicare Savings Target
- The Projected Difference Statistic
- The Projected Increase in Maryland's Population

# The Calculation of the Annual Allowance Performance Year 1: An Illustrative Example: Baseline Statistics

## 1. The Limit of the Medicare Savings Target: 1.25%

This Limit is the Average of the Projected Increase in Hospital Claims per FFS Beneficiary in 2014 (1.9%) and 2015 (1.6%) Reduced by the 2015 Medicare Savings Target Claims Reduction 1.0%

$$\frac{1}{2} (1.9\% + 1.6\% - 1.0\%) = 1.25\%$$

# The Calculation of the Annual Allowance

## Performance Year 1: An Illustrative Example: Baseline Statistics (cont)

### 2. The Average Supplemental Service Adjustment: 1.00%

This amount would be estimated by the HSCRC staff and would be Primarily Incremental CON Costs, Infrastructure Payments and Other “Slippage”

### 3. The Productivity Improvements: 0.50%

These would also be estimated by the HSCRC staff and would include Reductions in the Demographic Adjustments through Revisions in the Weights; Required Readmission and MHAC Service Reductions; Exclusion of PAVs from the Annual Allowance

# The Calculation of the Annual Allowance

## Performance Year 1: An Illustrative Example: Baseline Statistics (cont)

### 4. Volume Allowances: .8%

These Volume Allowances are a Combination of the GBR demographic adjustments using the Unmodified Weights (.7%) and the CPC Governor (1.0%)

### 5. The Projected Difference Statistic: 2.0%

### 6. The Projected Increase in Population: 0.7%

# The Calculation of the Annual Allowance

## Performance Year 1: Meeting both Waiver Tests

Limit of the Medicare Savings Target	1.25%
Difference Statistic	2.00%
Maximum Increase in Hospital Charges/ Resident	3.275%
Projected Increase in Population	0.70%
Maximum Increase in Hospital Charges	4.00%
Charge Components:	
Volume Allowance	.80%
Average Supplemental Service Adj	1.00%
	1.80%
Offsets:	
Productivity	.50%
Net Charge Components and Annual Allowance	1.30%
Maximum Annual Allowance	2.70%

# Comments Regarding the Proposed Methodology

- The Derived Annual Allowances may not Meet the Medicare Savings Targets because:
  - The CMS Actuaries may Over Project the Increases in Medicare Hospital Claims per FFS Beneficiary in the US
  - a Delayed Application of the Case Mix/ Volume Governor of the Modified CPC System may result in Unanticipated Volume Increases
  - An Open-Ended Market Share Adjustment may produce Excessive Volume Increases while Undermining Global Budget Incentives
  - The Initiatives directed at Limiting Medicare Charge Increases and Maintaining the Level of the Difference Statistic may prove Inadequate.