maryland
health services
cost review commission

Payment Model Work Group

January 21, 2025

Agenda

- Introductions and Meeting Overview
- Update Factor Model Review
- AHEAD Model
- Drug Policy Implementation
- Important Dates Overview

Introduction and Meeting Overview

Update Factor Model Review

Policy Objective and Update Factor Components

- The annual update factor is intended to provide hospitals with reasonable changes to rates in order to maintain operational readiness while also seeking to contain the growth of hospital costs in the State. In addition, the policy aims to be fair and reasonable for hospitals and payers.

- One of the tenets of the update factor determination is to contain the growth of costs for all payers in the system and to ensure that the State meets its requirements under the Medicare Total Cost of Care Agreement.

- CY 2025 is the final year under the Total Cost of Care Agreement. Beginning January 2026 we will be under the AHEAD requirements. Staff will review the fiscal year 2026 recommendation in light of AHEAD requirements during the process.

Components Include:

- Inflation
- Care Coordination
  - Regional Partnerships
- Population and Demographic Adjustments
- Quality/ PAU
  - MHAC, QBR, RRIP
- Other Adjustments
  - Unforeseen Adjustments
  - Complexity & Innovation
  - Capital Adjustments/FRA increases
- Revenue Offsets with Neutral Impact of Financial Statements
  - Deficit Assessment
  - Uncompensated Care

Balanced Update Model for RY 2026

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)			0.00%	$0.0	$0.0
- Additional Inflation Support			0.00%	$0.0	$0.0
- Outpatient Oncology Drugs			0.00%	$0.0	$0.0
Gross Inflation Allowance	**A**		**0.00%**	**$0.0**	**$0.0**
Care Coordination/Population Health					
- Reversal of One-Time Grants			0.00%	$0.0	$0.0
- Grant Funding RY26			0.00%	$0.0	$0.0
Total Care Coordination/Population Health	**B**		**0.00%**	**$0.0**	**$0.0**
Adjustment for Volume					
-Demographic /Population			0.00%	$0.0	$0.0
-Drug Population/Utilization			0.00%	$0.0	$0.0
Total Adjustment for Volume	**C**		**0.00%**	**$0.0**	**$0.0**
Other adjustments (positive and negative)					
- Set Aside for Unknown Adjustments	D		0.00%	$0.0	$0.0
- Low Efficiency Outliers/Revenue for Reform	E		0.00%	$0.0	$0.0
- Complexity & Innovation	F		0.00%	$0.0	$0.0
-Reversal of one-time adjustments for drugs	G		0.00%	$0.0	$0.0
-Capital Funding & Estimated Increase for Full Rate Applications	H		0.00%	$0.0	$0.0
Net Other Adjustments	**I =**	**Sum of D thru H**	**0.00%**	**$0.0**	**$0.0**
Quality and PAU Savings					
-PAU Redistribution (-.38%)	J		0.00%	$0.00	$0.0
-Reversal of prior year quality incentives	K		0.00%	$0.0	$0.0
-QBR, MHAC, Readmissions			0.00%		
-Current Year Quality Incentives	L =		0.00%	$0.0	$0.0
Net Quality and PAU Savings	**M =**	**Sum of J thru L**	**0.00%**	**$0.0**	**$0.0**
Total Update First Half of Rate Year					
Net increase attributable to hospitals	**N=**	Sum of A + B + C + I + M	**0.00%**	**$0.0**	**$0.0**
Per Capita	**O=**	(1+N)/(1+0.00%)	**0.00%**		
Components of Revenue Offsets with Neutral Impact on Hospital Finanical Statements					
-Uncompensated care, net of differential	P		0.00%	$0.0	$0.0
-Deficit Assessment	Q		0.00%	$0.0	$0.0
Net decreases	**R =**	P + Q	**0.00%**	**$0.0**	**$0.0**
Total Update First Half of Rate Year 26					
Revenue growth, net of offsets	**S =**	N + R	**0.00%**	**$0.0**	**$0.0**
Per Capita Revenue Growth	**T =**	(1+S)/(1+0.00%)	**0.00%**		
Adjustments in Second Half of Rate Year					
- Transformation Funding			0.00%	$0.0	$0.0
Total Adjustments Second Half of Rate Year	**U**		**0.00%**	**$0.0**	**$0.0**
Total Update Full Rate Year					
Revenue growth, net of offsets	**V =**	S + U	**0.00%**	**$0.0**	**$0.0**
Per Capita Revenue Growth	**W =**	(1+V)/(1+0.00%)	**0.00%**		

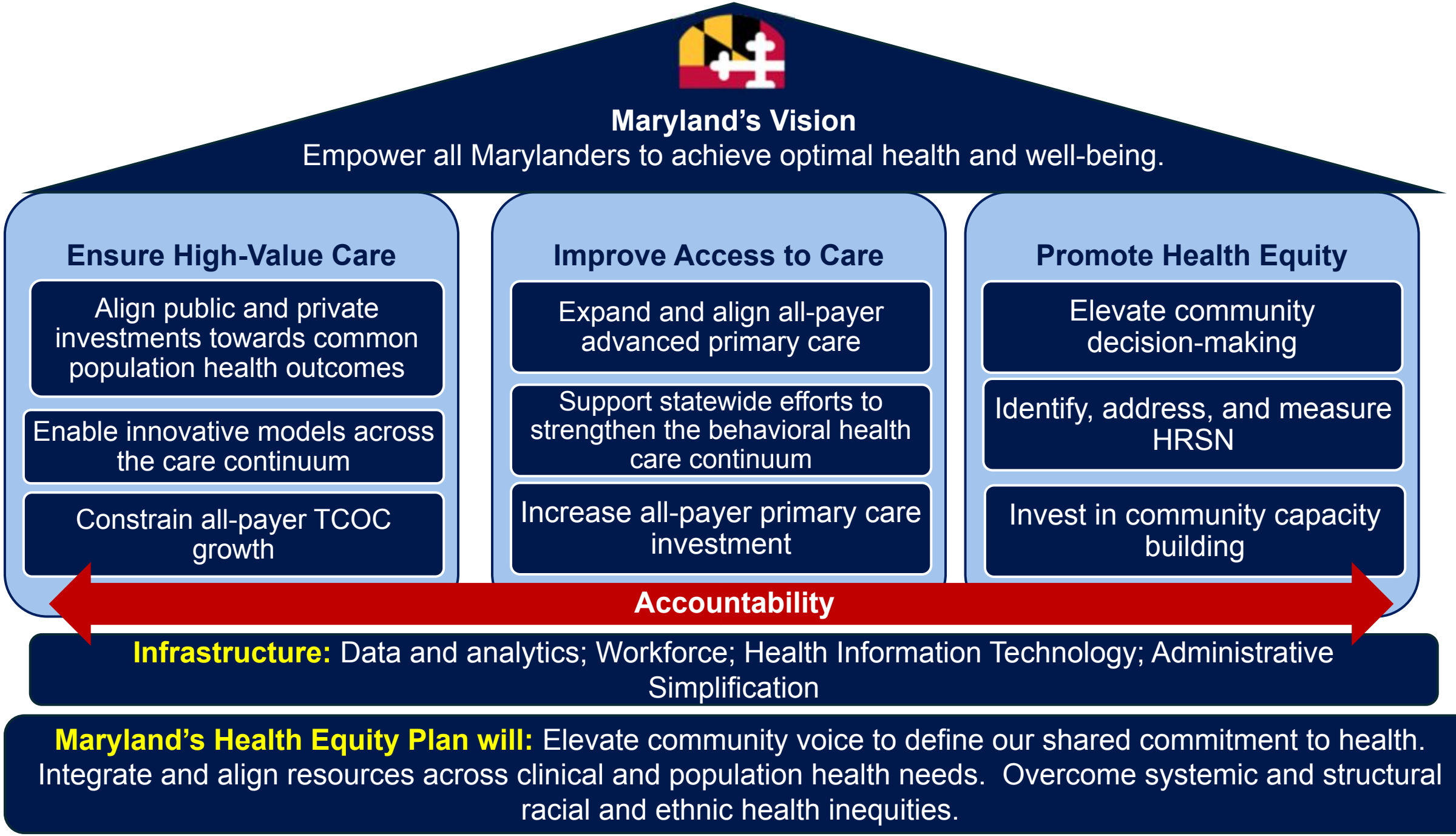
Guardrail Test & Saving Projections

- Maryland's performance on the Guardrail test and Savings are evaluated on a calendar year. HSCRC set rates on a fiscal year.
- In effort to ensure we are balancing the calendar year and fiscal year relationship, staff must convert the recommended RY25 update (Hospital Part A) to a calendar year (CY25) growth estimate.
- Staff model different scenarios to *project* the calendar year guardrail position for TCOC.
  - Estimates are divided into the following buckets: Hospital Part A, Hospital Part B, Non-Hospital Part A, and Non-Hospital Part B.
    - **The only bucket we have control over is the revenue in Hospital Part A.**
    - All other buckets utilize growth estimates are based on historical Medicare data.

AHEAD Model

AHEAD Model Overview

- The AHEAD Model is the multi-state CMMI model that builds upon the successes of the Maryland TCOC in reducing health care cost growth and improving statewide health care quality.
- AHEAD advances the State's vision of empowering all Marylanders to achieve optimal health and well-being.
- The AHEAD Model puts additional focus on statewide alignment for population health and health equity improvement.
- Maryland was awarded a cooperative agreement award in July 2024 to begin the Model pre-implementation period.


Maryland's Vision
Empower all Marylanders to achieve optimal health and well-being.
Ensure High-Value Care
Align public and private investments towards common population health outcomes
Enable innovative models across the care continuum
Constrain all-payer TCOC growth
Improve Access to Care
Expand and align all-payer advanced primary care
Support statewide efforts to strengthen the behavioral health care continuum
Increase all-payer primary care investment
Promote Health Equity
Elevate community decision-making
Identify, address, and measure HRSN
Invest in community capacity building
Accountability
Infrastructure: Data and analytics; Workforce; Health Information Technology; Administrative Simplification
Maryland's Health Equity Plan will: Elevate community voice to define our shared commitment to health. Integrate and align resources across clinical and population health needs. Overcome systemic and structural racial and ethnic health inequities.

AHEAD Model Overview: State Agreement

The AHEAD Model State Agreement creates a framework for partnership between the State and CMMI during the AHEAD pre-implementation and implementation periods. The agreement-

- memorializes CMMI's commitment to Maryland's all-payer hospital rates; and
- Preserves the State's authority to set policy to manage hospital global budgets, population health, the MDPCP, and health equity.

Sections 1-2: Agreement Term & Definitions

Pre-Implementation Period
7/1/2024 – 12/31/2025

There was no pre-implementation period under TCOC

Implementation Period
9 Performance Years, 1/1/2026 – 12/31/2034

This is longer than the 8-year TCOC performance period

Transition Period
After the Implementation Period Ends, up to 60 months (5 years): 1/1/2035-12/31/2039

This is longer than the 2-year transition period under TCOC

Post-Model Options:

- Make the Model permanent,
- test a new Model, or
- transition to national Medicare fee-for-service system

Agreement Term: Date of final signature – two years after the last day of the Transition Period.

Section 8: General Model Participation Requirements

The State must…

Hold commercial payers accountable through all-payer targets (section 10)

NEW

Continue to set global budgets for commercial payers & Medicaid

Same under the TCOC Model

Implement Medicaid Advanced Primary Care Program PCP pre-implementation, to continue each year in Model.

NEW

Ensure that **90%** of all Regulated Revenue for MD residents is paid under global budgets.

Similar under TCOC

(95% under global budgets)

Section 10: Statewide Accountability Targets

The State is accountable for performance on **seven targets**.

***Similar** to the TCOC Model, CMS may consider **exogenous factors** when determining if the State met these targets.*

- Medicare FFS TCOC Target
- All Payer TCOC Growth Target
- Medicare FFS Primary Care Investment Target
- All-Payer Primary Care Investment Target
- Statewide Quality and Equity Targets
- Statewide Population Health Targets
- All-Payer Revenue Limit*

Targets existed in this area under TCOC

NEW

NEW

NEW

NEW

NEW

Targets existed in this area under TCOC

* Hospital revenue only, not included in enforcement provisions.

Section 10: Statewide Accountability Targets - Medicare (MC) Fee-For-Service (FSS) TCOC

☑ The AHEAD Savings Target is lower than the TCOC Savings Target.

AHEAD	TCOC
0.128% incremental reduction versus national trend in MC FFS spending each year, resulting in **~1.1%** savings over the 10 years against a 2023 base	**~4%** savings over prior 10 years

The lower target will allow Maryland to accelerate investments in population health, health equity, quality, and access.

Section 10: Statewide Accountability Targets - Medicare FSS TCOC Methodology

Savings Target parameters provide greater predictability and flexibility, compared to TCOC.

- No year-over-year guardrails in AHEAD
- Current year target is based on estimated rather than actual national spending.
- AHEAD includes a 2-year window to adjust if estimated and actual national spending differ.
- CMS may increase primary care payments if the State is above target.

Outcome Based Credits

continue to provide credits towards the Medicare FFS savings target for performance on population health measures (e.g. diabetes).

Section 11: Hospital Global Budget Methodology

For AHEAD, CMS approved Maryland's existing GBR methodology.

Maryland will maintain State, rather than national, GBR policies (with a similar process for CMS to review/approve new policies).

Key contractual elements-

Medicare Performance Adjustment:
This allows CMS to adjust Medicare payments. AHEAD maintains the current **MPA attribution methodology**, while allowing Maryland to propose an alternative.

Hospital Quality & Value-Based Pay for Performance Programs:

- Similar to the TCOC model, AHEAD will allow Maryland to **administer all-payer quality programs**; these programs must meet or exceed national programs in terms of measures, outcomes, and revenue at-risk.
- AHEAD requires Maryland to adjust hospital GBRs for all-payer quality, including **health equity** goals.

Revised Savings Test

Current Understanding of Proposed AHEAD Expenditure Target

Set to 2023, trended forward to 2025 at national trend

Estimated prospectively for initial target each year. Will be known value at the time of the Update Factor.

Adjusts 50% of misses > 1% in estimated Historical trend in the current year.

Baseline x (1+ (National MC FFS Trend [1] + True Up)

\- Savings Component

Final target is risk adjusted

Expressed as %, see discussion on later slide

Prior year actual experience is only weighted 50% versus expectation, allowing time to adjust

Other considerations

1. Trends are based on published USPCC values.
2. 33% of trends is calculated against national $ and added to MD $ instead of applying trend to MD Base $.
3. Final answer is risk adjusted using HCC scores
4. National trends are derived from USPCC trend adjusted to ensure apples-to-apples between USPCC trend and State TCOC calculations.

1. National MC FFS Trend = Product of Estimated National MC FFS for the current year, the average of the Estimated National MC FFS Trend and the Actual National MC FFS Trend for the prior year and the Actual National MC FFS Trend for previous years.

Example of Trend Calculation

- Example does not consider risk adjustment

Year 3 would replace this term for Y1 with actual Y1 trend and the average of Y2 expected and actual.

Scenario	Expected National Trend Y1	Initial Target Y1	Actual National Trend Y1	Adjustment to Expected Trend	Final Target Trend Y1	Expected National Trend Y2	Cumulative Initial Target Y2
Formulas	A	B = A	C	D = (C-B -1%)/2	E = B+D	F	G = (1 + F) X (1 + (A+C)/2)
Actual National Trend is higher than Expected by > 1%	3.00%	3.00%	4.50%	0.25%	3.25%	3.00%	6.86%
Actual National Trend is lower than Expected by > 1%	3.00%	3.00%	1.50%	-0.25%	2.75%	3.00%	5.32%

Known prior to final Update Factor recommendation for Y1

Known prior to final Update Factor recommendation for Y2

Known prior to final Update Factor recommendation for Y2

CMS Proposed Reductions in FFS Medicare Spending

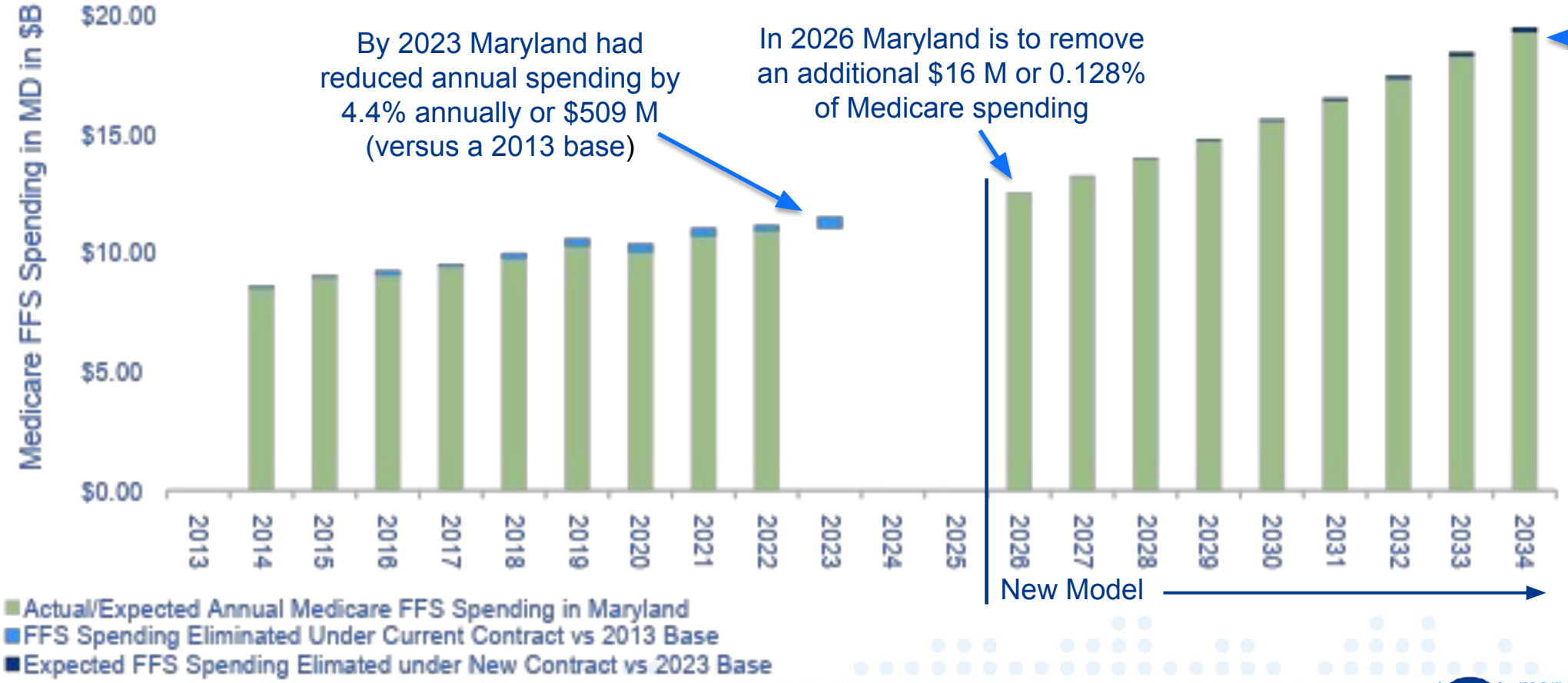
The % savings is the controlling target, versus $ savings in TCOC Model.

An incremental 0.128% savings are required each year thereafter for 8 years

By the last year MD will have reduced Medicare FFS spending by an additional 1.2% annually or $233 M (versus a 2023 base).

By 2023 Maryland had reduced annual spending by 4.4% annually or $509 M (versus a 2013 base)

In 2026 Maryland is to remove an additional $16 M or 0.128% of Medicare spending



Additional Parameters

- While a single year (2023) is effectively used for the baseline, the official calculation is 100%/0%/0% weight for 2023 to 2025. This helps the State because:
  - Baseline savings are already known
  - Each year of the baseline is trended forward to 2025 to create the effective base which must be in 2025 dollars, this is done at national trend (USPCC) meaning any savings generated in these years accrue to the 2026 savings target (see example next slide).
  - CMS trend assumptions generate a savings target for 2026 of $15M. This is below where the State sits in mid-2024.
- A “triggering event”, that puts the contract at risk only occurs if the State misses the savings targets in 2 out 3 years, and there are no guardrails, generating much greater flexibility for the State in year-to-year rate setting.
- All payer and primary care investment targets are not currently triggering events. CMS has indicated the State is already above the Primary Care investment target.

Example of 2026 Savings Target

- Example does not consider risk adjustment or an actual national USPCC that varies from expected in any period.
- HSCRC intends to calculate estimated 2026 target during Update Factor process

Target Calculation		
2023 Spend PBPY	A	$13,000
Actual 2024 USPCC	B	4.00%
Actual 2025 USPCC	C	4.00%
Effective Base Spend	D=A*(1+B)*(1+C)	$14,061
2026 Estimated USPCC Trend	E	4.00%
Savings %	F	0.13%
2026 Target	**G=D*(1+G-F)**	**$14,605**

Example Performance			
2023 Spend PBPY	a	$13,000	
Actual 2024 MD Trend	b	3.49%	Assume MD accrues, $50M of savings in 2024, on 750k beneficiaries
Actual 2025 MD Trend	c	4.00%	Assume MD matches nation in 2025
Actual 2026 MD Trend	d	4.00%	Assume MD matches expected national in 2026
2026 Actual	e=a*(1+b)*(1+c)*(1+d)	$14,551	
MD Better (Worse) Than Target	**f=G-e**	**$54**	
MD % Better (Worse) Than Target	**g=f/G**	**0.37%**	

Drug Policy Implementation

Final Policy Recommendation

To simplify the CDS-A policy, Staff propose to make it more directly volume variable as follows (New/Changed Elements, prior to comment letters, Comment letter impact):

1. Continue to identify high-cost drugs for volume-based funding based on criteria set by Staff in consultation with industry stakeholders
2. Continue to conduct an audit of reported volumes to ensure volume-based reimbursement is fairly stated.
3. Change volume funding to 100% of measured cost change, per the annual audit, effective 1/1 each year.
4. Implement two provisional adjustments for each year, one on March 1st and one on July 1st, to smooth the impact of the increased adjustment size:
    a) The March 1st adjustment will be voluntary and based on a projection of current year spending prepared by the hospital. To be eligible for this funding adjustment the projection must show a cost increase above a minimum threshold established by staff and be subject to staff review and approval.
    b) The July 1st adjustment will be automatic and based on the first 6 months of data from the prior fiscal year. The adjustment will be directly calculated by staff using Casemix data, excluding drugs with outlier dosage counts. No manual adjustments will be made to this adjustment. The impact of any adjustment made in the prior March 1st adjustment will be deducted.
    c) Provisional adjustments will be temporary only, final adjustment derived from the audit will supersede the provisional adjustment and all amounts will be trued up to the final audit.

Final Policy Recommendation, Continued

To simplify the CDS-A policy, Staff propose to make it more directly volume variable as follows (New/Changed Elements, prior to comment letters, Comment letter impact):

5. Implement a new annual report, produced by a consultant, to identify hospital effectiveness in managing CDS-A drugs and assess penalties of 20% of relevant CDS-A drug costs, to hospitals that are not meeting target goals. Prior to the implementation of any penalties a revised version of this policy will be developed, with stakeholder input, that specifies in greater detail the approach for any penalties assessed.
6. Hospitals will continue to be expected to "tier" charges for drugs. Staff will periodically evaluate hospital tiering of drug prices to ensure high-cost drugs are not being loaded with proportionate overhead, resulting in unfair costs to consumers.
7. Continue to audit data reported in Casemix to validate amounts reported and gather appropriate ASP and 340B price data.

High-Cost Drug Funding Next Steps

- In the January 2025 Commission meeting, Commissioners approved Staff's recommendation for High-Cost Drug Funding.
- January Rate Orders include change to 100% VCF
- March 1 adjustments:
  - Staff have determined that in order to qualify for March adjustment estimated drug spend increase must be greater than 5% of total CDS-A drug spend (~0.15% of total GBR)
  - Submissions must be submitted by February 14, 2025, for review
- Drug Tiering Review
  - Informal interviews with select hospitals for knowledge gathering over next two weeks
  - Formal industry wide survey to be distributed as part of Annual Filing Task Force tasks 1-3 survey

Workgroup Meeting Work Plan

Important Spring Dates for Payment Model & Update Factor Season

- **March 5 Workgroup Meeting**
  - Update Factor Table with available draft inputs
  - Annual Filing Redesign

- **April 15 Workgroup Meeting**
  - Update Factor Table with available draft inputs
  - Estimated Position on Medicare Target using FY GBR projections
  - GSP Estimated Impact
  - High-Cost Drug Inflation

- **April 29 Workgroup Meeting**
  - Review of Draft Recommendation
  - Q1 Book for 2025 update inflation
  - Annual Filing Modernization

- **May 8 Commission Meeting**
  - Draft Recommendation Presentation to the Commission

- **May 29 Workgroup Meeting**
  - Review of Comment Letters and Final Recommendation

- **June 11 Commission Meeting**
  - Final Recommendation Presentation to the Commission