



maryland
health services
cost review commission

Payment Model Workgroup

April 02, 2025



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Payment Models Meeting Agenda

April 2, 2025

11:00 am – 1:00 pm

Health Services Cost Review Commission

- | | |
|-----|--|
| I | Update Model Review <ul style="list-style-type: none">• Review of Update Model (Table 2)• Estimated Review of Revenue Calendar Year Increase• Inflation Catch-Up Methodology |
| II | GSP Estimated Impact |
| III | High-Cost Drug Spending |
| IV | Efficiency Policy Update |
| V | Adjourn |

Update Factor Review

TABLE 2

Balanced Update Model for RY 2026					
<u>Components of Revenue Change Link to Hospital Cost Drivers /Performance</u>					
		Weighted Allowance	All Payer Revenue Increase (Millions)	Medicare Revenue Increase (Millions)	
Adjustment for Inflation (this includes 4.0% for Wages and Salaries)		3.32%	\$702.0	\$231.7	
- Additional Inflation Support		0.00%	\$0.0	\$0.0	
- Outpatient Oncology Drugs		0.02%	\$4.7	\$1.6	
Gross Inflation Allowance	A	3.34%	\$706.7	\$233.2	
Care Coordination/Population Health					
- Reversal of One-Time Grants		-0.15%	-\$32.0	-\$10.6	
- Grant Funding RY25: RP for Behavioral Health & Maternal and Child Health		0.04%	\$9.2	\$3.0	
Total Care Coordination/Population Health	B	-0.11%	-\$22.8	-\$7.5	
Adjustment for Volume					
- Demographic /Population		0.25%	\$52.9	\$17.5	
- Drug Population/Utilization		0.00%	\$0.0	\$0.0	
Total Adjustment for Volume	C	0.25%	\$52.9	\$17.5	
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	-0.02%	-\$5.05	-\$1.7	
- Reversal of prior year quality incentives	K	-0.16%	-\$32.9	-\$10.8	
- QBR, MHAC, Readmissions					
- Current Year Quality Incentives	L =	-0.24%	-\$51.2	-\$16.9	
Net Quality and PAU Savings	M = Sum of J thru L	-0.42%	-\$89.1	-\$29.4	
Total Update First Half of Rate Year					
Net increase attributable to hospitals	N=	Sum of A + B + C + I + M			
Per Capita	O=	(1+N)/(1+0.25%)	3.06%	\$647.7	\$213.7
			2.80%		
<u>Components of Revenue Offsets with Neutral Impact on Hospital Financial Statements</u>					
- Uncompensated care, net of differential	P	-0.44%	-\$93.1	-\$30.7	
- Deficit Assessment	Q	0.78%	\$165.0	\$54.5	
Net decreases	R = P + Q	0.34%	\$71.9	\$23.7	
Total Update First Half of Rate Year 26					
Revenue growth, net of offsets	S = N + R	3.40%	\$719.6	\$237.5	
Per Capita Revenue Growth	T = (1+S)/(1+0.25%)	3.14%			
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	3.40%	\$719.6	\$237.5	
Per Capita Revenue Growth	W = (1+V)/(1+0.25%)	3.14%			

Estimated Review of Revenue Calendar Year Increase

Estimated Position on Medicare Test		
Actual Revenue January - June 2024		10,772,404,416
Actual Revenue July-December 2024		11,019,304,349
Actual Revenue CY 2024		21,791,708,765
Step 1:		
Approved GBR RY 2025		22,173,042,114
Actual Revenue 7/1/24-12/31/24		11,019,304,349
Approved Revenue 1/1/25-6/30/25		11,153,737,765
Projected FY24 GBR Compliance		0
Anticipated Revenue 1/1/25-6/30/25	A	11,153,737,765
Expected Revenue Growth 1/1/25-6/30/25		3.54%
Step 2:		
Final Approved GBR RY 2025		22,173,042,114
Reversal of Extraordinary One-Times		-63,946,328
Final Adjusted GBR Base for RY 2025		22,109,095,786
Projected Approved GBR RY 2026		22,861,025,771
Permanent Update RY 2026		3.40%
Step 3:		
Permanent AHEAD Preparation Funding		50,000,000
Estimated Revenue 7/1/25-12/31/25 (after 49.73% & seasonality)	B	11,393,653,116
Expected Revenue Growth 7/1/25- 12/31/25		3.40%
Step 4:		
Estimated Revenue CY 2025	A+B	22,547,390,880
Increase over CY 2025 Revenue		3.47%
Per Capita Increase over CY 2025		3.21%

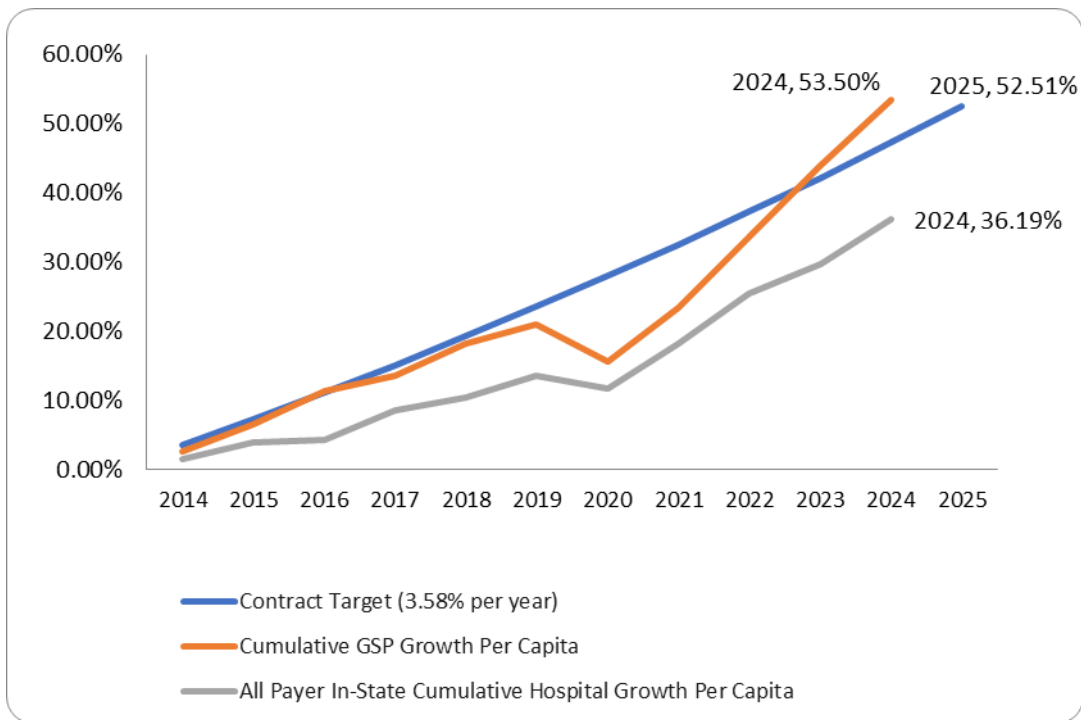
Inflation Catch-up Methodology

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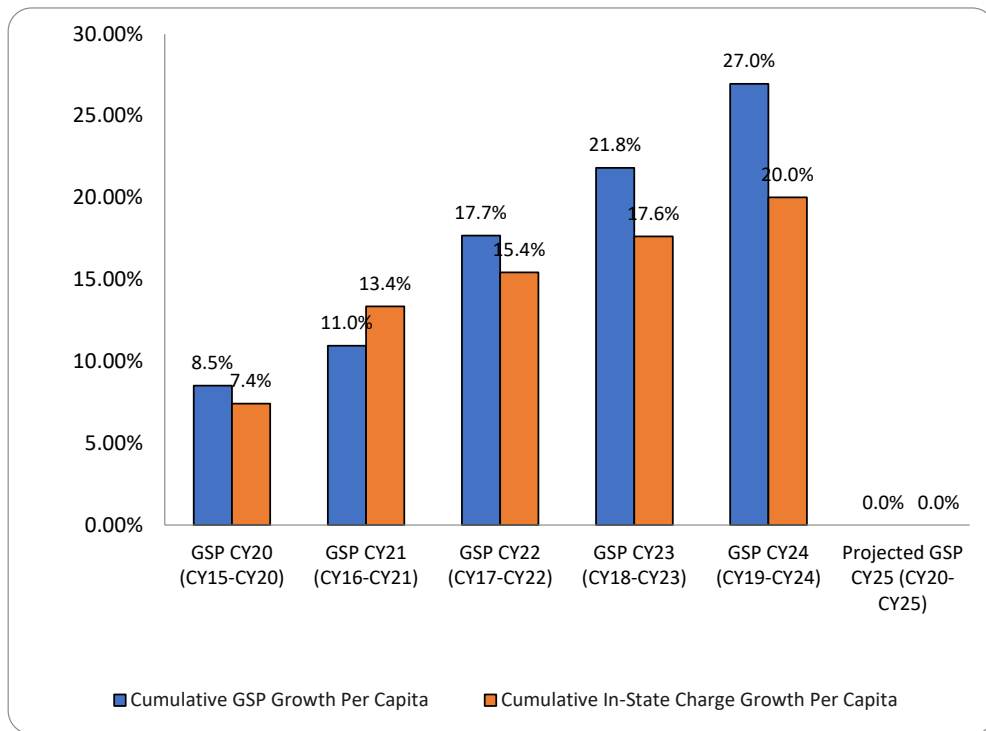
Max Tolerance =		1.00%		1.00%															
HSCRC Scenario/Table 1 - Inflation Resolved after First		Historical										Projected							
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030		
HSCRC Funded Inflation	1.65%	2.40%	2.40%	1.92%	2.68%	2.32%	2.96%	2.77%	2.57%	4.06%	3.35%	3.24%	3.34%	3.34%	3.34%	3.34%	3.34%		
Actual Inflation	1.75%	1.84%	1.66%	2.29%	2.48%	2.40%	2.31%	2.37%	4.79%	5.09%	3.71%	3.24%	3.34%	3.34%	3.34%	3.34%	3.34%		
Actual Inflation Correction												1.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
(Under)/Over Funding	-0.10%	0.55%	0.73%	-0.36%	0.20%	-0.08%	0.64%	0.39%	-2.12%	-0.98%	-0.35%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Cumulative Difference (2014 Base)	(0.10%)	0.45%	1.18%	0.82%	1.01%	0.93%	1.58%	1.97%	(0.19%)	(1.17%)	(1.51%)	-0.52%	-0.52%	(0.52%)	(0.52%)	(0.52%)	(0.52%)		
Guardrail/Tolerance (A)										1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%		
Cumulative Difference with Anticipated Inflation Correction (2014 Base) (B)	(0.10%)	0.45%	1.18%	0.82%	1.01%	0.93%	1.58%	1.97%	(0.19%)	(1.17%)	(0.52%)	(0.52%)	(0.52%)	(0.52%)	(0.52%)	(0.52%)	(0.52%)		
Calculated Inflation Correction (C) = (A+1)/(B+1)-1								1% for stub period		1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Inflation Adjusted Update											3.35%	4.24%	3.34%	3.34%	3.34%	3.34%	3.34%		

GSP Estimated Impact

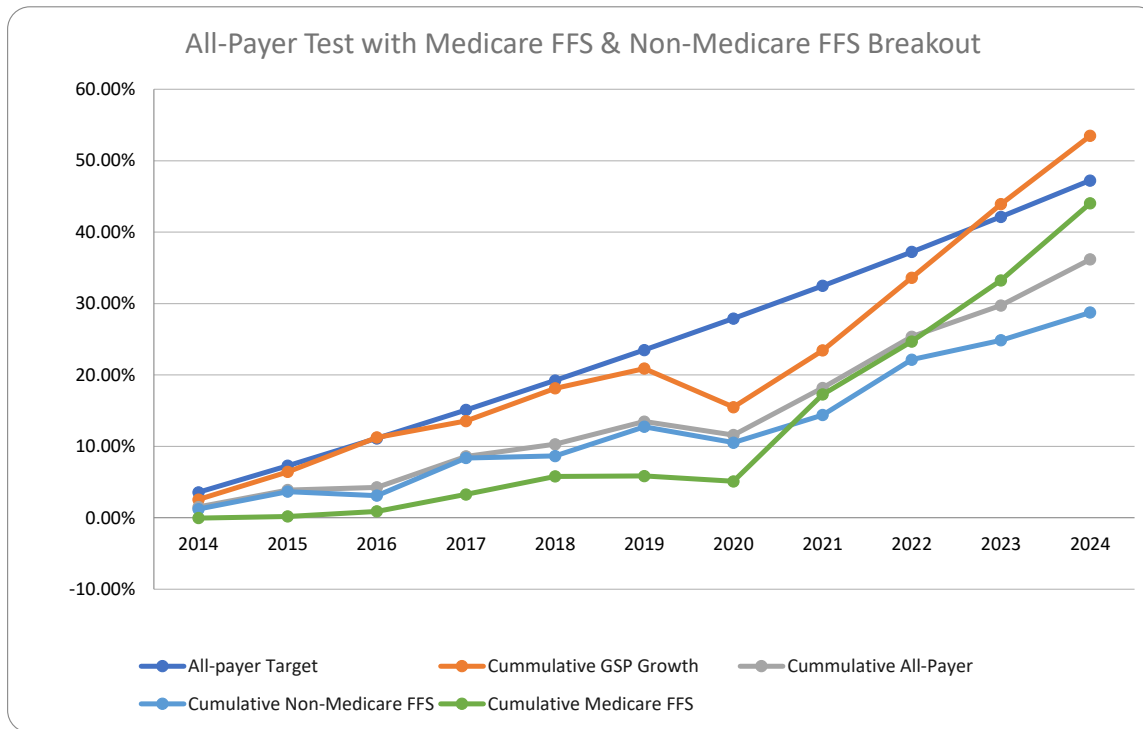
All-Payer Test



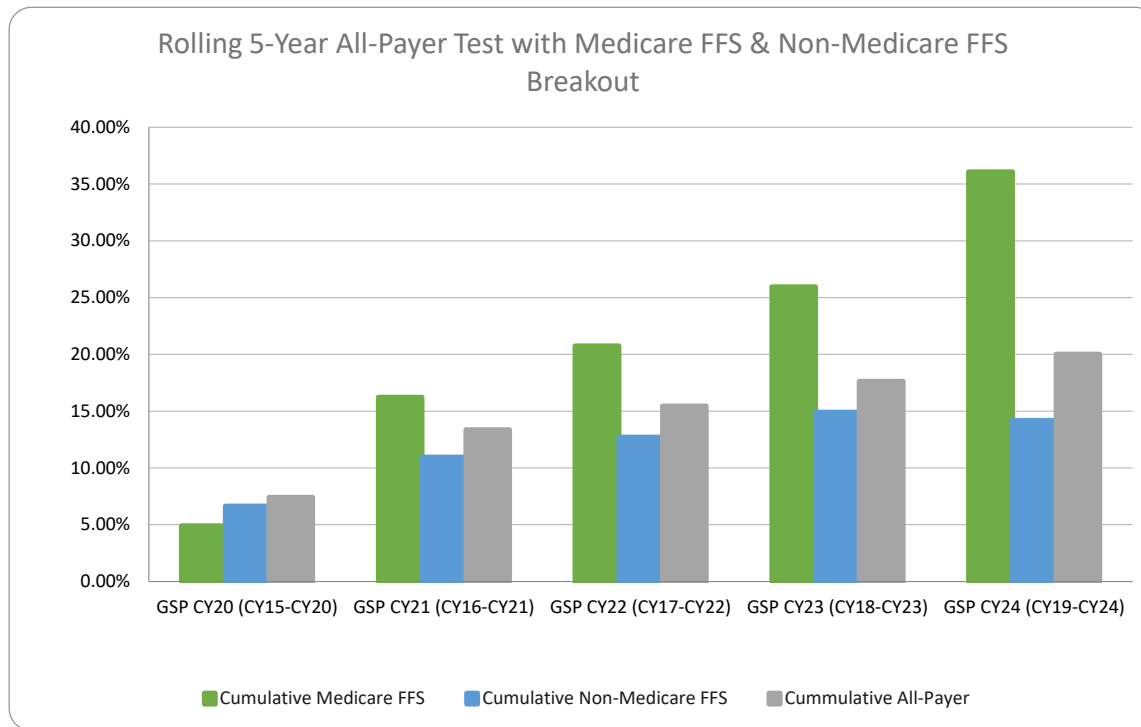
Rolling 5-Year GSP Test



All-Payer Test with Medicare & Non-Medicare FFS Breakout



Rolling 5-Year All-Payer Test with Medicare FFS & Non-Medicare FFS Breakout



High-Cost Drug Spending

Drug Funding in Update Factor

- Effective with FY24 Drug policy was changed to provide 100% reimbursement of changes in drug cost
- Because all volume changes are now funded at current prices, inflation is only needed for “pure price”, that is the price change of each drug at its base year volume (See appendix for example).
- Staff analyze the “pure price” by comparing price changes while holding volume constant at base year mix.
 - Impact of volume shares switching between 340-B and non-340-B is removed as not reflective of underlying trends.

CDS-A Drug Trend, Actual Statewide Experience

- Table shows components of drug trend. Volume and mix-driven price trend is addressed via CDS-A adjustment.
- FY24 trends slowed, in both volume and price
- 4 year rolling pure price trend = 1.2%. HSCRC is proposing to include 1% in update factor for all hospitals based on longer term trends, although most recent year is negative. Values at academic medical centers are similar.
- HSCRC reviewed academic specific trends and price trends were similar.

	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Pure Price	5.6%	-0.5%	0.4%	1.6%	3.8%	2.6%	-2.9%
340-B Switching	-6.1%	-0.2%	-0.7%	0.1%	-2.3%	0.3%	-1.1%
Volume	-12.5%	8.0%	7.2%	3.7%	3.9%	6.6%	4.2%
Mix-Driven Price	18.3%	-3.7%	-5.3%	-1.3%	-2.0%	0.8%	1.3%
Total	3.0%	3.3%	2.5%	4.1%	3.3%	10.5%	1.3%

Update on Annual Evaluation Report

- Report would be compiled by a consultant with expertise in Pharmacoeconomics and other relevant topics. HSCRC has enlisted the assistance of the Prescription Drug Affordability Board (PDAB) in managing the report.
- RFP to be issued shortly – target is first report will be released 12/31/25. HSCRC working with existing contractors on a preliminary report
- Report would assess the following regarding high-cost drugs:
 - Place of service use rates.
 - Generic and biosimilar use rates.
 - Adoption of new drugs.
 - Acquisition pricing
- Report will allow the HSCRC to evaluate whether:
 - The policy change has impacted the efficiency of high-cost drug utilization in Maryland.
 - There are additional opportunities for improved utilization efficiency.
 - Efficacious new drugs are being adopted in at a rate at or better than the national

Update on Drug Tiering Analysis

- Survey of hospital practices complete
- Staff expects to issue guidance later in the spring

Appendix

Drug Cost Scenarios

	Volume Change, Base Year (BY) to Measurement (MY)	Price Change, Y1 to Y2	Volume funding via CDS-A	Price funding via Update Factor
1	None	None	None	None
2	None	Changes	None	Price on Y1 volume funded via GBR Inflation adjustment
3	Volume changes due to use rate of that drug (not substitution impact)	None	Change funded at 100% based on MY price	None
4	Volume changes due to use rate of that drug not a substitution impact	Changes	Change funded at 100% based on MY price	Price on Y1 volume funded via GBR Inflation adjustment
5	Volume changes due to substitution of Drug X for Drug Y	None	Changes in both drugs funded at 100% of MY price.	None
6	Volume changes due to substitution of Drug X for Drug Y	Changes	Changes in both drugs funded at 100% of MY price.	Price on Y1 volume funded via GBR Inflation adjustment

Because all volume changes are funded at current prices, inflation is only needed for “pure price”, that is the price change of each drug at its base year volume. The impact of switching between drugs or volume growth on price is captured by the 100% CDS-A Adjustment.

- Drugs added and removed from the CDS-A list behave exactly like any other volume change because the CDS-A is always calculated using current year’s reporting of prior year volume (not prior year reporting). Funding for the drug that exists at the point of addition or removal is left in place.
- Volume changes are implemented with a one-time adjustment to catch up for the prior period and a permanent adjustment to set the go forward GBR. Price adjustments are all prospective and implemented as part of the update factor.

Criteria for Drugs to be Treated under CDS-A Policy

The state-wide list is composed of Billed High-Cost Physician-Administered Outpatient Infusion, Chemotherapy, & Biological Oncology Drugs meeting all the following criteria:

- 3M's EAPG Class Code of VII or higher in either of the past two fiscal years (to reference relatively high cost per patient visit), and
- State-wide case-mix charges in either of the past two fiscal years of \$2 million or greater (to reference relatively high-cost utilization), and
- Market share by point of service of less than 90% at physicians' offices (to minimize inclusion of drugs best served outside of a hospital setting), and
- An Ambulatory Payment Classification - OPPS Payment Status Indicator of G or K, Paid under OPPS/Separate APC payment (to preclude drugs packaged under other charge codes), and
- Inclusion of alternate codes for same listed drug (so to capture brand, generic, biologic, biosimilar, replacement, discontinued and temporary codes)

Efficiency Policy Update

Integrated Efficiency Policy Background

Purpose

- To formulaically **penalize and reward hospital efficiency** while maintaining:
 - the TCOC Model's incentive to **reduce avoidable utilization**
 - Compliance with the HSCRC's statutory mandate to ensure **that total costs are reasonable** and that aggregate **charges are reasonably related to aggregate costs**
- Will be used to **scale annual inflation for poor performing outliers**; staff can also use the ranking to **evaluate GBR rate enhancement requests**



How it Works

Ranks hospitals on an efficiency matrix according to all-payer cost per case efficiency using a volume adjusted Inter-hospital Cost Comparison (ICC) methodology and Medicare and Commercial TCOC performance



Methodology

- The most efficient hospital receives a rank of 1 under both the ICC and TCOC ranking
 - Total Integrated Efficiency rank is the sum of a hospital's ICC and TCOC rank
- Hospitals are arrayed into quartiles based on overall efficiency -

4th quartile is penalized regardless of performance variance from 3rd quartile



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RY 2025 Integrated Results

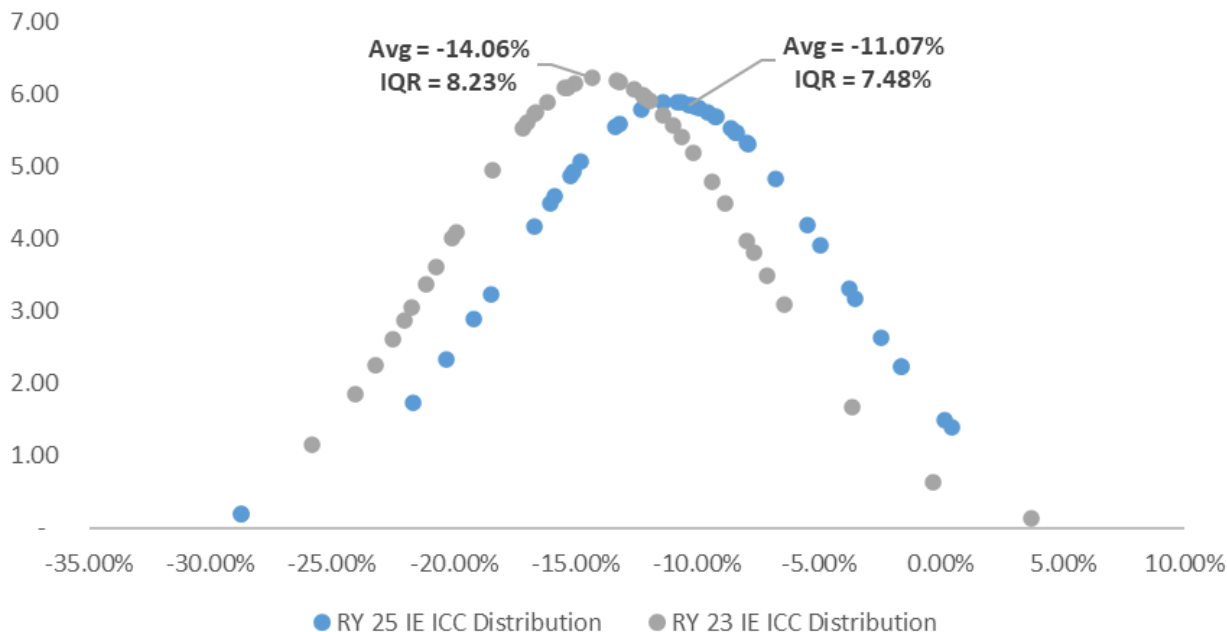
Hospital Name	2024 Volume Adjusted ICC Result	ICC Rank (50%)	2022 Medicare TCOC Rank - Better Of (25%)	2022 Commercial TCOC Rank - Better Of (25%)	Total Rank Points (Low Score is Better)
Holy Cross Germantown	0.78%	2	2	6	6
Peninsula Regional Medical Center	0.45%	3	8	8	11
Howard County General Hospital	-1.63%	5	12	4	13
Holy Cross Hospital	1.04%	1	6	23	16
University of Maryland Charles Regional Medical Center	-2.47%	7	3	15	16
MedStar Southern Maryland Hospital Center	-7.95%	13	7	3	18
Meritus Medical Center	-3.77%	9	1	20	20
MedStar Montgomery Medical Center	-6.81%	12	5	11	20
Atlantic General Hospital	0.15%	4	4	32	22
MedStar Harbor Hospital Center	-3.52%	8	15	13	22
MedStar St. Mary's Hospital	-5.49%	11	13	17	26
University of Maryland Baltimore	-8.00%	14	21	8	29
Washington Medical Center	-11.40%	27	1	7	31
Anne Arundel Medical Center	-10.33%	24	11	5	32
Garrett County Memorial Hospital	-9.59%	20	4	22	33
MedStar Good Samaritan Hospital	-4.93%	10	42	6	34
Doctors Community Hospital	-13.40%	30	10	1	36
Fort Washington Medical Center	-12.33%	28	8	9	37
Johns Hopkins Hospital	-9.32%	19	30	7	38
Washington Adventist Hospital	-10.83%	26	12	13	39
MedStar Franklin Square Hospital Center	-1.64%	6	35	31	39
Shady Grove Adventist Hospital	-15.12%	32	3	12	40
Western Maryland Regional Medical Center	-13.23%	29	19	3	40
MedStar Union Memorial Hospital	-8.43%	15	36	15	41
Northwest Hospital Center	-8.65%	17	30	19	42
Upper Chesapeake Medical Center	-8.48%	16	24	28	42
Calvert Memorial Hospital	-18.17%	38	7	2	43
University of Maryland Medical Center	-10.10%	22	31	11	43
Frederick Memorial Hospital	-14.79%	31	11	14	44
Greater Baltimore Medical Center	-9.25%	18	23	29	44
Mercy Medical Center	-9.95%	21	37	9	44
Prince Georges Hospital Center	-15.23%	33	17	10	44
St. Agnes Hospital	-10.25%	23	28	19	47
Union Hospital of Cecil County	-20.29%	39	17	1	48
University of Maryland St. Joseph Medical Center	-10.64%	25	21	30	51
University of Maryland Medical Center Midtown Campus	-15.85%	34	32	5	53
Carroll Hospital Center	-16.05%	35	14	26	55
Johns Hopkins Bayview Medical Center	-16.69%	36	40	2	57
University of Maryland Shore Medical Center at Easton	-18.49%	37	19	28	61
University of Maryland Rehabilitation & Orthopaedic Institute	-28.74%	42	31	11	63
Sinai Hospital	-21.67%	40	31	25	68
University of Maryland Shore Medical Center at Chestertown	-28.72%	41	20	39	71

RY 2025 Results

- 11 out of 42 hospitals had inflation negatively scaled and/or re-invested through r4r (\$43.3M)
- 5 of the 11 had ICC performance that was worse than one standard deviation from average performance
- Average variance between ICC ranking in each quartile is .4% to .6%, with the exception of 4th quartile (1.50%), suggesting greater distribution in 4th quartile

Concerns with Ongoing Implementation of Integrated Efficiency

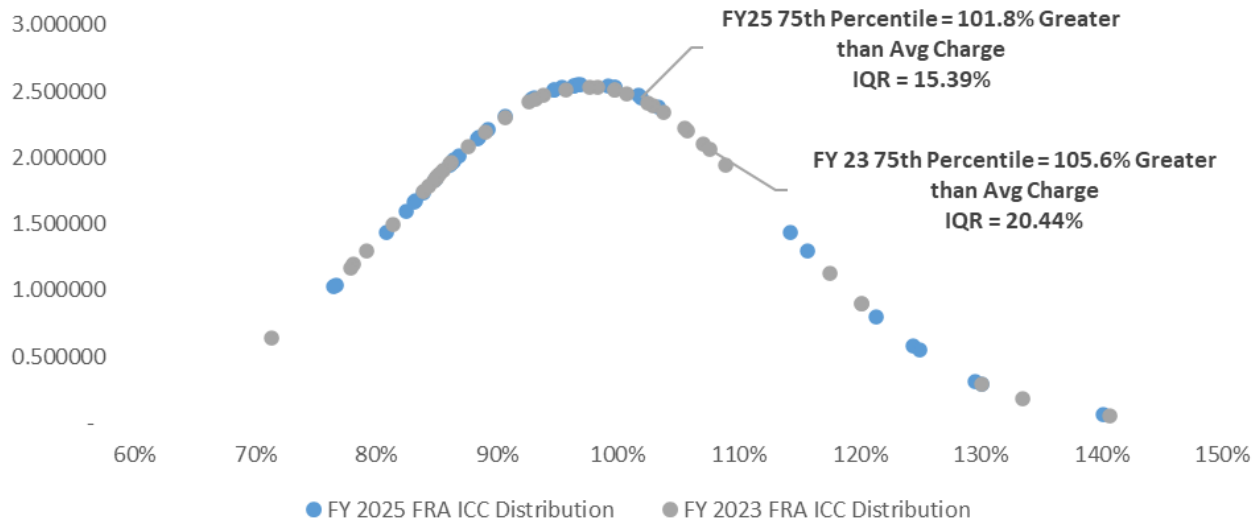
Tightening of IE ICC Performance



- A methodology that relies on ordinal ranking to determine outliers AND continually scales hospitals accordingly may eventually penalize hospitals closer to average performance, i.e., the cliff effect
- A visual tightening of the distribution of ICC performance in the Integrated Efficiency policy and a shrinking Interquartile Range suggest future ordinal ranking approaches may penalize future performers that are not “outliers”

Concerns with Ordinal Ranking

Charge Per Case Distribution
(Only Adjusted for Drug Overhead)



- A review of Hospital's Charge Per Case narrowing further highlights concern about ongoing reliance of ordinal ranking method
- In light of methodology concern, staff are considering creating a threshold by which hospitals will not be penalized in Integrated Efficiency
 - 3rd quartile or better OR
 - Better than one historical standard deviation (6.41%) from Average ICC Performance
- Staff are also considering extending negative scaling to the 3rd quartile but with the same ICC protection

Appendix

Appendix A: FRA ICC Distribution Analysis

Tightening of FRA ICC Performance

