



maryland  
**health services**  
cost review commission

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## Payment Model Workgroup

May 1, 2026



## Update Factor

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**TABLE 2**

Balanced Update Model for RY 2027				
Components of Revenue Change Link to Hospital Cost Drivers /Performance				
		Weighted Allowance	All Payer Revenue Increase (Millions)	Medicare Revenue Increase (Millions)
<b>Adjustment for Inflation (this includes 3.10% for Wages and Salaries)</b>		3.11%	\$746.8	\$246.4
- Additional Inflation Support		0.20%	\$48.1	\$15.9
- Outpatient Oncology Drugs		0.06%	\$15.2	\$5.0
<b>Gross Inflation Allowance</b>	<b>A</b>	<b>3.37%</b>	<b>\$810.1</b>	<b>\$267.3</b>
<b>Care Coordination/Population Health</b>				
- Reversal of One-Time Grants		-0.15%	-\$36.9	-\$12.2
- Grant Funding RY27		0.03%	\$7.8	\$2.6
- HOPE		0.21%	\$50.0	\$16.5
<b>Total Care Coordination/Population Health</b>	<b>B</b>	<b>0.09%</b>	<b>\$20.9</b>	<b>\$6.9</b>
<b>Adjustment for Volume</b>				
- Demographic /Population Standard Policy		0.38%	\$91.4	\$30.1
- Demographic Policy Refinement - RY2026 Incremental Change		0.03%	\$7.2	\$2.4
<b>Total Adjustment for Volume</b>	<b>C</b>	<b>0.41%</b>	<b>\$98.6</b>	<b>\$32.5</b>
<b>Financial Methodologies &amp; Other Adjustments (positive and negative)</b>				
- Set Aside for Unknown Adjustments	D	0.40%	\$96.2	\$31.7
- Low Efficiency Outliers/Revenue for Reform	E	0.00%	\$0.0	\$0.0
- Complexity & Innovation	F	0.16%	\$37.5	\$12.4
- Full Rate Application	G	0.04%	\$9.0	\$3.0
- Reversal of one-time adjustments for drugs	H	-0.06%	-\$14.7	-\$4.9
- Reversal of Surge Funding (RY24-RY25 in RY26 rates)	I	-0.79%	-\$189.6	-\$62.6
- RY26 Respiratory Surge Funding Estimate (6 month)	J	0.22%	\$52.6	\$17.4
- RY25 New Volume Policies	K	0.06%	\$14.3	\$4.7
<b>Net Other Adjustments</b>	<b>L = Sum of D thru K</b>	<b>0.02%</b>	<b>\$5.4</b>	<b>\$1.8</b>
<b>Quality and PAU Savings</b>				
- PAU Redistribution	M	-0.04%	-\$9.62	-\$3.2
- Reversal of prior year quality incentives	N	0.04%	\$9.7	\$3.2
- Current Year Quality Incentives	O	-0.06%	-\$13.2	-\$4.4
<b>Net Quality and PAU Savings</b>	<b>P = Sum of M thru P</b>	<b>-0.05%</b>	<b>-\$13.1</b>	<b>-\$4.3</b>
<b>Total Update First Half of Rate Year</b>	<b>Q = Sum of A + B + C + L + P</b>	<b>3.83%</b>	<b>\$921.9</b>	<b>\$304.2</b>
	<b>R = (1+Q)/(1+0.38%)</b>	<b>3.44%</b>		
<b>Components of Revenue Offsets with Neutral Impact on Hospital Financial Statements</b>				
- Uncompensated care, net of differential	S	0.01%	\$2.4	\$0.8
- Deficit Assessment	T	-0.20%	-\$47.6	-\$15.7
<b>Total Update First Half of Rate Year 27</b>	<b>U = Sum of S thru T</b>	<b>-0.19%</b>	<b>-\$45.2</b>	<b>-\$14.9</b>
Revenue growth, net of offsets	V = Q+U	<b>3.65%</b>	<b>\$876.7</b>	<b>\$289.3</b>
Per Capita Revenue Growth	W = (1+V)/(1+0.38%)	<b>3.25%</b>		
<b>Adjustments in Second Half of Rate Year</b>				
- Medicare Advantage Stabilization*		0.00%	\$0.0	\$0.0
<b>Total Adjustments Second Half of Rate Year</b>	<b>X</b>	<b>0.00%</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Total Update Full Rate Year</b>	<b>Y = V+X</b>	<b>3.65%</b>	<b>\$876.7</b>	<b>\$289.3</b>
	<b>Z = (1+Y)/(1+0.38%)</b>	<b>3.25%</b>		

\*MA Stabilization has a revenue neutral impact on proposed increase to revenues, staff are adding this for awareness due to the adjustment being new in CY27.



# Update Factor Recommendation for Non-Global Budget Revenue Hospitals

	<b>Psych &amp; Mt. Washington</b>
Proposed Base Update (Gross Inflation)	3.17%
Productivity Adjustment	-0.80%
Additional Inflation	0.20%
Proposed Update	2.57%

# Estimated Review of Revenue Calendar Year Update

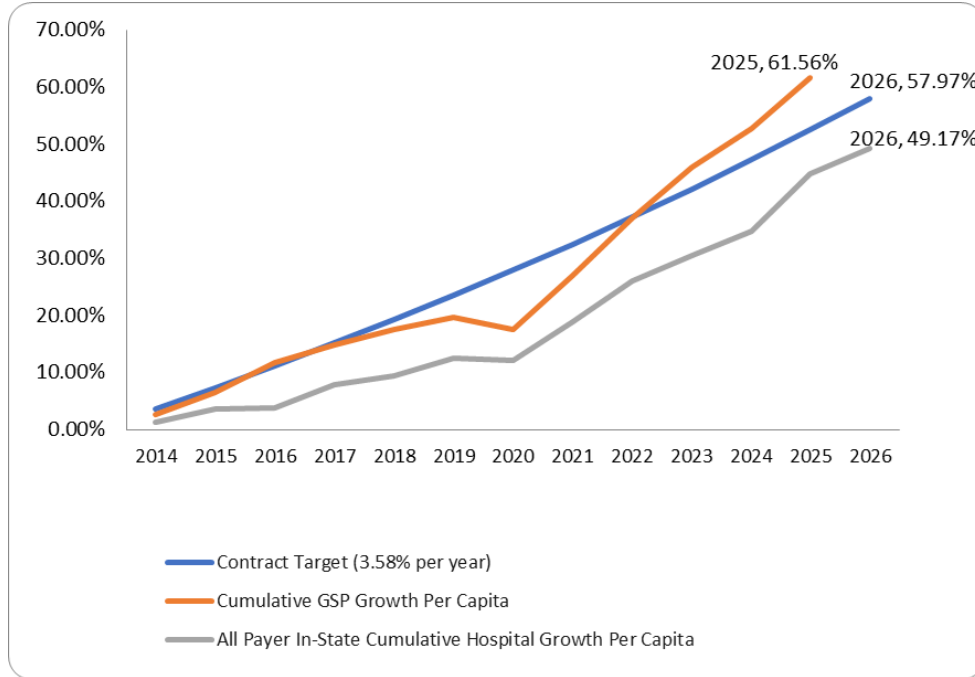
Estimated Position on Medicare Test (in billions)		
Actual Revenue January - June 2025		11,469,777
Actual Revenue July - December 2025		11,856,401
Actual Revenue CY 2025		23,326,178
<b>Step 1:</b>		
Approved GBR RY 2026		24,039,557
Actual Revenue 7/1/25-12/31/25		11,856,401
Approved Revenue 1/1/26-6/30/26		12,183,156
Projected FY25 GBR Compliance		0
Anticipated Revenue 1/1/26-6/30/26	<b>A</b>	<b>12,183,156</b>
Expected Revenue Growth 1/1/26-6/30/26		6.22%
<b>Step 2:</b>		
Final Approved GBR RY 2026		24,039,557
Reversal of Extraordinary One-Times		-92,257
Final Adjusted GBR Base for RY 2026		23,947,300
Projected Approved GBR RY 2027		24,820,647
Permanent Update RY 2027		3.65%
<b>Step 3:</b>		
Estimated Revenue 7/1/26-12/31/26 (after 49.73% & seasonality)	<b>B</b>	<b>12,343,308</b>
Expected Revenue Growth 7/1/26- 12/31/26		4.11%
<b>Step 4:</b>		
<b>Estimated Revenue CY 2026</b>	<b>A+B</b>	<b>24,526,464</b>
Increase over CY 2025 Revenue		5.15%
Per Capita Increase over CY 2025		4.75%



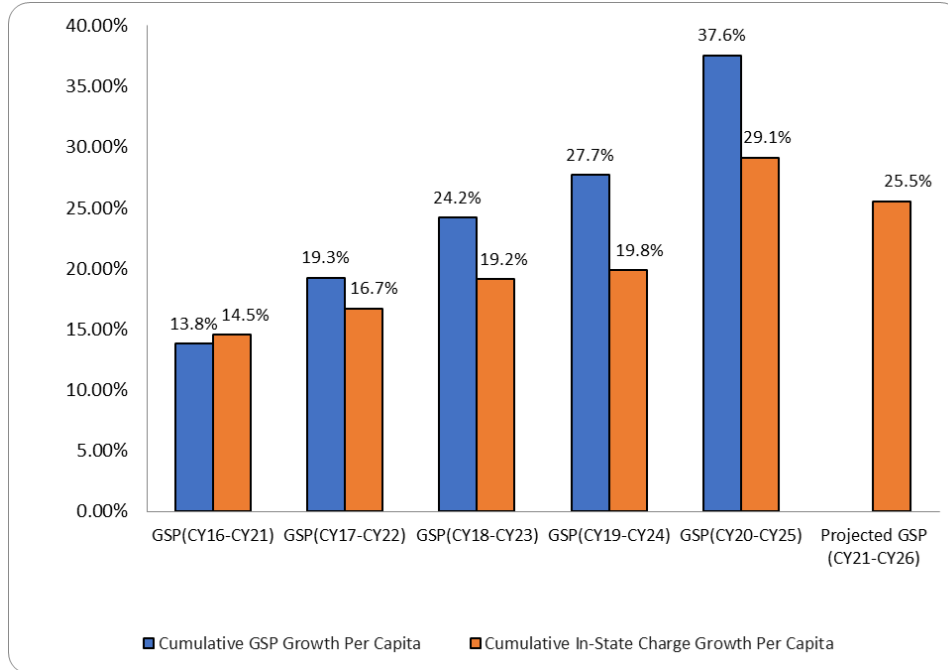
## GSP Estimated Impact

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# All Payer Test Graphic



# Rolling 5-Year GSP Test



# Projected Savings and Guardrail Test Scenarios

# Savings Test Topics

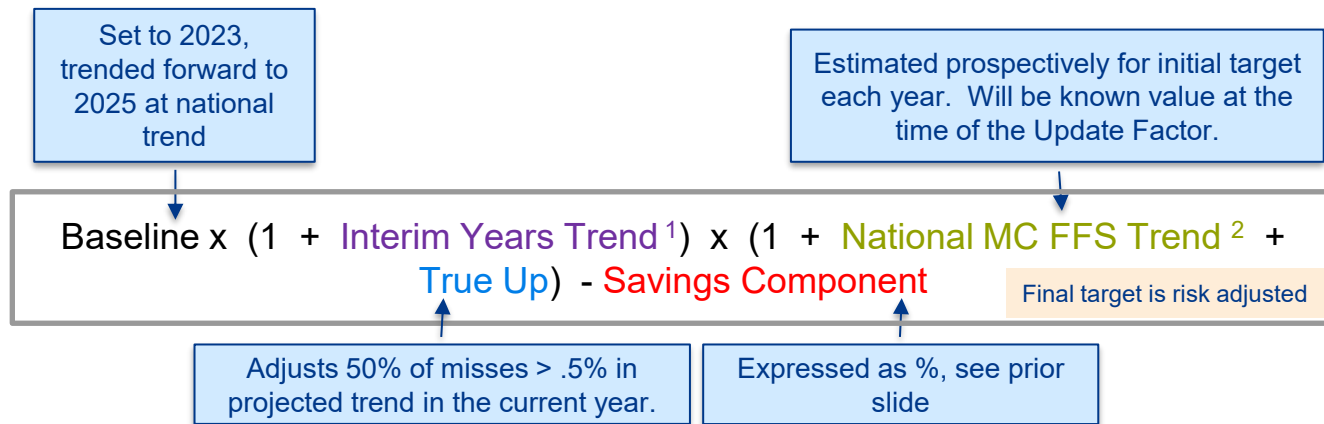
- AHEAD Structure and Official Targets
- 2026 Estimates for Update Factor Evaluation

# Key AHEAD Model Changes: Medicare FFS TCOC Target

Amended and Restated State Agreement (2025)	AHEAD State Agreement (2024)	TCOC Model
<p>Incremental reduction versus national trend in Medicare FFS spending each year, additions each year:</p> <ul style="list-style-type: none"> <li>• PY1: <b>0.13%</b></li> <li>• PY2: <b>0.21%</b></li> <li>• PY3: <b>0.30%</b></li> <li>• PY4: <b>0.38%</b></li> <li>• PY5: <b>0.46%</b></li> <li>• PY6: <b>0.55%</b></li> <li>• PY7: <b>0.63%</b></li> <li>• PY8-10: <b>0%</b></li> </ul> <p>= <b>~2.66%</b> savings over seven years against a 2023 base</p>	<p><b>0.128%</b> incremental reduction versus national trend in MC FFS spending each year, resulting in <b>~1.1%</b> savings over the 10 years against a 2023 base</p>	<p><b>~4%</b> savings over prior 10 years</p>

**NEW:** Any savings beyond these targets must be returned to the State (via hospital global budgets)

# Medicare FFS TCOC Target: Current Understanding



## 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. Actual National MC FFS Trend for 2024 and 2025.
2. The product of:
  - Estimated National MC FFS for the **current year**,
  - Average of Projected and Actual National MC FFS Trend for the **prior performance year**, and
  - Actual National MC FFS Trend for **previous performance years**.

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

# USPCC At-a-Glance

## General Background

- USPCC projects national per capita fee-for-service (FFS) spending based on CMS' most recent Medicare FFS data, mainly for the purposes of setting MA benchmarks
- Includes FFS spending on all Part A and Part B services (except hospice services and kidney acquisition costs, which are not covered by MA plans) as well as all shared savings and losses paid to FFS providers through the Medicare Shared Savings Program, Innovation Center models, and demonstration programs.
- Medicare determined that it was making duplicative payments for MA-related IME and DGME costs (one payment directly to inpatient facilities, and one payment to MA plans through higher benchmarks), so in 2024, CMS began a three-year removal of MA-related IME and DGME spending from the non-ESRD FFS USPCCs.

## Relevance to AHEAD

AHEAD uses USPCC projections (unlike TCOG Model)

AHEAD's savings baseline in 2023  
Removing IME between 2024 and 2026 will result in relatively lower USPCC updates over these years

### Resources:

<https://www.cms.gov/files/document/2027-announcement.pdf> See Table II-2 Current Year values

[https://www.medpac.gov/wp-content/uploads/2025/02/02102025\\_MA\\_PD-AN-CY-2026\\_MedPAC\\_COMMENT\\_v2\\_SEC.pdf](https://www.medpac.gov/wp-content/uploads/2025/02/02102025_MA_PD-AN-CY-2026_MedPAC_COMMENT_v2_SEC.pdf)

<https://www.cms.gov/files/document/2025-announcement.pdf> See page 37

<https://www.commonwealthfund.org/publications/explainer/2024/mar/how-government-updates-payment-rates-medicare-advantage-plans>

# USPCC At-a-Glance

		Release Year					
		2021	2022	2023	2024	2025	2026
USPCC Year		Year - 1	Year 0	Year + 1	Year + 2	Year + 3	Year + 4
	<b>2022</b>	10.62%	9.43%	3.95%	4.04%	4.00%	3.94%
		Year - 2	Year - 1	Year 0	Year + 1	Year + 2	Year + 3
	<b>2023</b>	2.74%	5.41%	8.85%	6.28%	6.16%	5.93%
			Year - 2	Year - 1	Year 0	Year + 1	Year + 2
	<b>2024</b>		4.95%	4.48%	3.54%	7.23%	6.45%
			Year - 2	Year - 1	Year 0	Year + 1	
<b>2025</b>			4.06%	4.18%	4.97%	7.35%	
					Year - 2	Year - 1	Year 0
<b>2026</b>					4.97%	4.29%	3.09%

# Medicare FFS TCOC Target: Estimated 2026 Target

Example Target Calculation – Base Calculation			
2023 Spend PBPY	A	\$14,107	From Maryland's Amended and Restated AHEAD State Agreement.
2023 Spend PBPY at National Acuity	B = A / Normalized State Average HCC Score (.9774)	\$14,433	
Actual 2024 USPCC	C	6.45%	Reflects Year +2 (2026) adjusted observed USPCC number for 2024.
Actual 2025 USPCC	D	7.35%	
2026 Projected USPCC Trend	E	4.29%	Reflects Year +1 (2026) adjusted observed USPCC number for 2025.
Savings Component	F	(0.13%)	
Cumulative Trend	$G=(1+C)*(1+D)*(1+E+F)$	19.02%	This represents the Year – 1 (2025) adjusted projected USPCC number for 2026.  <i>Note: CMMI has indicated that they want to use Year - 1 rather than Year 0 adjusted projected numbers for setting prospective/in-year targets.</i>
Apply Weighted Trend (1/3 US dollars, 2/3 percentage-based/MD dollars for PYs)	H	18.86%	
2026 Target	$I=B*(1+H)$	\$17,155	
<b>2026 Final Target at Maryland Acuity</b>	<b>J=I*Normalized State Average Risk Score (.9788)</b>	<b>\$16,791</b>	
<b>Trend</b>	<b>K = J/B</b>	<b>19.03%</b>	

# Medicare FFS TCOC Target: 2026 Scenarios

		Base Calculation	Scenario 1	Scenario 2
2023 Spend PBPY	A	\$14,107		
2023 Spend PBPY at National Acuity	$B = A / \text{Normalized State Average HCC Score (.9774)}$	\$14,433 (\$11.30B)		
Actual 2024 USPCC	C	6.45%		
Actual 2025 USPCC	D	7.35%		
2026 Projected USPCC Trend		4.29%		
2026 Observed USPCC Trend		4.29%	6.29%	2.29%
Apply True Up (50% of misses > .5%)	E	4.29% (N/A)	5.04%	3.54%
Savings Component for 2026	F	(0.13%)		
Cumulative Trend	$G=(1+C)*(1+D)*(1+E+F)$	19.02%	19.88%	18.16%
Apply Trend 1/3 to US dollars 2/3 to MD Dollars	H	18.86%	19.68%	18.03%
2026 Target	$I=B*(1+H)$	\$17,155	\$17,275	\$17,036
<b>2026 Final Target at Maryland Acuity, PBPY</b>	<b><math>J=I*\text{Normalized State Average Risk Score (.9788)}</math></b>	<b>\$16,791 (\$13.47B)</b>	<b>\$16,908 (\$13.56B or +\$95M)</b>	<b>\$16,674 (\$13.36B or -\$95M)</b>
Trend	$K = J/B$	19.03%	19.85%	18.20%

# 2025 Medicare FFS TCOC Savings: AHEAD vs TCOC Models

	TCOC (2023 Baseline)*			AHEAD Actuals**		
	Part A	Part B	Total	Part A	Part B	Total
Actuals	\$6,586	\$9,416	\$16,002	\$6,586	\$9,453	\$16,039
Target	\$6,536	\$9,735	\$16,271	\$6,421	\$9,632	\$16,052
<b>2025 Savings</b>	<b>(\$43M)</b>	<b>\$227M</b>	<b>\$184M</b>	<b>(\$143M)</b>	<b>\$127M</b>	<b>(\$16M)</b>

*Note: State working to confirm actuals with CMMI and thus better understand what is driving these differences.*

Difference driven by USPCC being lower than actual national derived from claims (7.35% vs 8.39% in 2026 and 6.45% vs 6.70% in 2025).

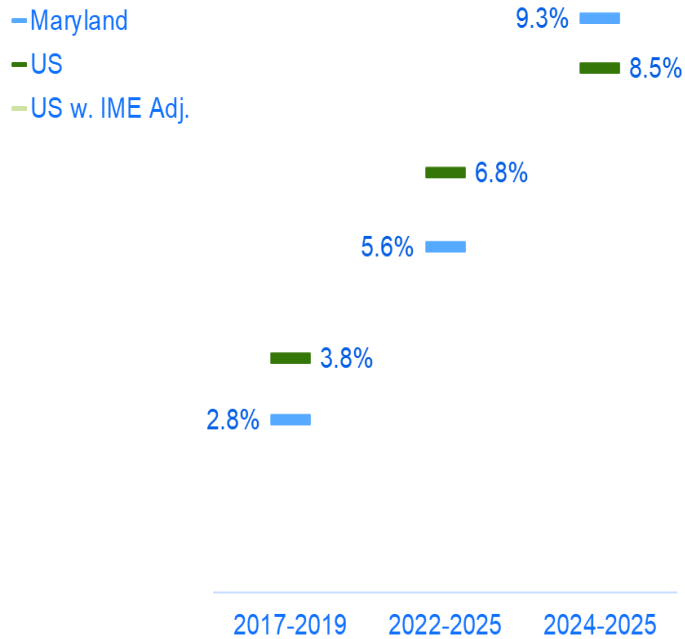
*Note: The State is working with CMMI on differences between USPCC and measured national trend, and whether/how USPCC should be modified when there are technical adjustments that may not apply to AHEAD (e.g. IME).*

\*TCOC results converted to AHEAD Baseline of 2023 and excluding Part C savings, which don't have an analog under AHEAD. Under TCOC 2023 savings were \$509 and estimated 2025 savings are \$715, or roughly \$200M increment.

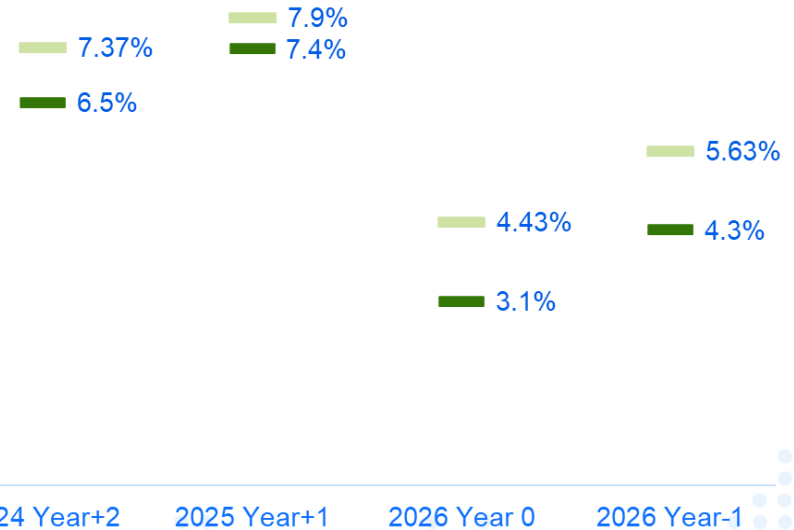
\*\* IME correction is not reflected; it would bring AHEAD trends roughly equal to TCOC trends resulting in ~\$150 M cumulative savings as of the end of CY2025.

# Trend Background

Historic Trend (under TCOC Model)



USPCC Trend



# Medicare FFS Savings Tests - Proposed Scenarios

- All scenarios uses HSCRC revenue projection for Part A and Part B MD Hospital
- For MD Non-Hospital and US Hospital and Non-Hospital

**Scenario 1:** 2025 Trended forward at USPCC Year-1 Trend

**Scenario 2:** 2025 Trended forward at USPCC Year-1 Trend with IME adjustment

- Amounts shown on following slides include \$ savings estimates, actual contract performance will be stated in trend terms.
- Savings amounts should be considered against a target savings of 0.13% or ~\$16 M.
- All amounts are still in process.
  - 2025 values are not complete, particularly some non-claims-based payments
  - Discussions with CMMI on AHEAD scorekeeping specifics are ongoing

# Scenario 1: 2025 Trended forward at USPPC Year-1 Trend

Scenario 1 Guardrail Projections			
	Maryland	Target	Impact (Target)
YOY Growth	5.0%	4.3%	-0.7% (+0.13%)
Estimated CY 2026 Savings Run Rate			-\$113.8 M (\$16 M)

## Scenario 2: 2025 Trended forward at USPCC Year-1 Trend with IME adjustment

Scenario 2 Guardrail Projections			
	Maryland	Target	Impact (Target)
YOY Growth	5.0%	5.3%	0.3% (+0.13%)
Estimated CY 2026 Savings Run Rate			\$206.3 M* (\$16 M)

\*Includes cumulative impact of IME correction, not just 2026 impact.

# Medicare FFS TCOC Target: Points of Discussion with CMMI

- Confirm actuals under AHEAD calculation methodology and
- Confirm calculation of HCC scores (uses v28)
- Confirm HSCRC understanding of the calculation with CMMI
- Confirm timeline for finalization of USPPC values and final savings amount
  - Whether to use observed rather than projected for 2025 (observed is more than 2% higher than projected) – **Current: use observed 2025**
  - Whether to use Year 0 rather than Year – 1 projected for 2026 – **Current: use Year -1**
  - Whether to lock observed USPPC after Year + 1 or continue updating – **Current: continue updating**
- Confirm components of and recent changes to USPPC
  - Remove Technical IME adjustment
  - Inconsistencies to be evaluated
    - Hospice
    - ESRD
    - Other USPPC variances