



RY 2021 Update Factor Recommendation

May 28, 2020



Update Factor Considerations

In considering the system-wide update for the hospitals with global revenue budgets under the TCOC Model, HSCRC staff sought to achieve balance among the following conditions:

- ▶ Meeting the requirements of the Total Cost of Care Model agreement;
- ▶ Providing hospitals with the necessary resources to keep pace with changes in inflation and population;
- ▶ Ensuring that hospitals have adequate resources to invest in the care coordination and population health strategies necessary for long-term success under the Total Cost of Care Model;
- ▶ Incorporating quality performance programs; and
- ▶ Ensuring healthcare remains affordable, per HSCRC mandate

The proposed update factor for hospitals under a global budget is a revenue update that incorporates both price and volume adjustments.

Update Factor Recommendation for Non-Global Budget Revenue

	Global Revenues	Psych & Mt. Washington
Proposed Base Update (Gross Inflation)	2.77%	2.77%
Productivity Adjustment		-0.40%
Proposed Update	2.77%	2.37%

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Components of Revenue Change Link to Hospital Cost Drivers /Performance

		Weighted Allowance
Adjustment for Inflation (this includes 3.10% for compensation)		2.64%
- Rising Cost of Outpatient Oncology Drugs		0.13%
Gross Inflation Allowance	A	2.77%
Care Coordination/Population Health		
- Regional Partnership Grant		0.19%
Total Care Coordination/Population Health	B	0.19%
Adjustment for Volume		
-Demographic /Population		0.16%
-Transfers		
-Drug Population/Utilization		
Total Adjustment for Volume	C	0.16%
Other adjustments (positive and negative)		
- Set Aside for Unknown Adjustments	D	0.25%
- Low Efficiency Outliers	E	0.00%
- Capital Funding	F	0.03%
- Complexity & Innovation	G	0.10%
-Reversal of one-time adjustments for drugs	H	-0.03%
Net Other Adjustments	I = Sum of D thru H	0.34%
Quality and PAU Savings		
-PAU Savings	J	-0.28%
-Reversal of prior year quality incentives	K	0.19%
-QBR, MHAC, Readmissions		
-Current Year Quality Incentives	L	0.41%
Net Quality and PAU Savings	M = Sum of J thru L	0.32%
Total Update First Half of Rate Year 21		
Net increase attributable to hospitals	N = Sum of A + B + C + I + M	3.79%
Per Capita First Half of Rate Year (July - December)	O = (1+N)/(1+0.16%)	3.62%
Adjustments in Second Half of Rate Year 21		
-Oncology Drug Adjustment	P	0.00%
-QBR	Q	-0.32%
Total Adjustments in Second Half of Rate Year 21	R = P + Q	-0.32%
Total Update Full Fiscal Year 21		
Net increase attributable to hospital for Rate Year	S = N + R	3.47%
Per Capita Fiscal Year	T = (1+S)/(1+0.16%)	3.30%
Components of Revenue Offsets with Neutral Impact on Hospital Financial Statements		
-Uncompensated care, net of differential	U	0.12%
-Deficit Assessment	V	-0.09%
Net decreases	W = U + V	0.03%
Total Update First Half of Rate Year 21		
Revenue growth, net of offsets	X = N + W	3.82%
Per Capita Revenue Growth First Half of Rate Year	Y = (1+X)/(1+0.16%)	3.65%
Total Update Full Rate Year 21		
Revenue growth, net of offsets	Z = S + W	3.50%
Per Capita Fiscal Year	AA = (1+Z)/(1+0.16%)	3.33%

Factors Excluded from Medicare Savings

Last year, the Commission committed that the differential change would not provide for Medicare savings that would lead to higher Rate Updates

- ▶ Last year staff analysis used the all-payer inflation in evaluating the appropriateness of the update factor. Using this test the update factor met Medicare targets.
- ▶ However, this year staff needs to adjust actual data from January 1, 2019 to June 30, 2019 to appropriately account for the July 1, 2019 differential change.

Estimated CY 2021 All-Payer Revenue Growth

Estimated Position on Medicare Target		
Actual Revenue CY 2019		17,895,385,316
Adjust for MU Change 1/31/19-6/30/19		106,559,120
Adjusted Actual Revenue CY 2019		18,001,944,436
Step 1:		
Estimated Approved GBR RY 2020		18,383,120,012
Actual Revenue 7/1/19-12/31/19		9,015,458,624
Approved Revenue 1/1/20-6/30/20	A	9,367,661,388
Step 2:		
Estimated Approved GBR RY 2021		19,084,932,442
Permanent Update		3.82%
Step 3:		
Estimated Revenue 7/1/20-12/31/20(after 49.73% & seasonality)		9,490,936,903
Estimated Undercharge Percentage**		(101,553,025)
Projected Revenue 7/1/20-12/30/20	B	9,389,383,878
Step 4:		
Estimated Revenue CY 2020	A+B	18,757,045,266
Increase over CY 2019 Revenue		4.19%

Update Compared to Medicare using CY 2021 Growth (conservative approach)

<u>Maximum Increase that Can Produce Medicare Savings</u>			
<u>Medicare</u>			
Medicare TCOC Growth (CY2019 3.84%)	A	3.84%	
Savings Goal for FY 2021	B	0.00%	
Maximum growth rate that will achieve savings (A+B)	C	3.84%	
<u>Conversion to All-Payer</u>			
Actual statistic between Medicare and All-Payer <i>with conservatism</i>		0.95%	Recommendation:
Excess Growth for Non-Hospital Cost Relative to the Nation <i>with conservatism</i>		-1.10%	Savings:
Net Difference Statistic Related to Total Cost of Care	D	-0.15%	
Conversion to All-Payer growth per resident $(1+C)*(1+D)-1$	E	3.68%	4.03%
Conversion to total All-Payer revenue growth $(1+E)*(1+0.16%)-1$	F	3.85%	-0.34%

Update Compared to Medicare using Jan. to June 2021 Growth (conservative approach)

<u>Maximum Increase that Can Produce Medicare Savings</u>			
<u>Medicare</u>			
Medicare TCOC Growth (CY 2019 3.84%)	A	3.84%	
Savings Goal for RY 2021	B	0.00%	
Maximum growth rate that will achieve savings (A+B)	C	3.84%	
<u>Conversion to All-Payer</u>			
Actual statistic between Medicare and All-Payer <i>with conservatism</i>		0.95%	Recommendation: Savings:
Excess Growth for Non-Hospital Cost Relative to the Nation <i>with conservatism</i>		-1.10%	
Net Difference Statistic Related to Total Cost of Care	D	-0.15%	
Conversion to All-Payer growth per resident $(1+C)*(1+D)-1$	E	3.68%	2.87% 0.81%
Conversion to total All-Payer revenue growth $(1+E)*(1+0.16%)-1$	F	3.85%	3.04% 0.81%

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Update Compared State GDP to Maintain Affordability

Maximum Increase that Maintains Affordability

State Gross Domestic Product per Capita (3 year CAGR 3.39%)

Savings Goal for FY 2021

Maximum growth rate that will achieve savings (A+B)

Conversion to total All-Payer revenue growth $(1+C)*(1+0.16\%)-1$

	A	B	Recommendation:	Savings:
	3.39%	0.00%		
	3.39%		4.03%	-0.64%
	3.56%		4.19%	-0.64%

Proposed Changes to Update Factor

- ▶ In light of conversations with federal partners and concerns that the Commission should not put forward a recommendation that results in Medicare dissavings, staff have reconsidered the formulation of the Update Factor.
- ▶ Specifically, staff propose two changes to the Update Factor Recommendation:
 - ▶ Implementing the Quality Based Reimbursement (QBR) program effective July 1, 2020 as opposed to January 1, 2020 (see slide 11 for more details)
 - ▶ Reassessing the non-hospital excess cost calculation to exclude 2015 through 2017, as non-hospital dissavings have exhibited a lower trend in recent years (see slide 12 for more details).

Implementing QBR July 1st

- ▶ Staff have determined that the statewide estimates provided for the annual update factor have been consistently close to the actual adjustments.

	QBR Estimate for Update factor	Actual QBR
RY 2019	-0.38%	-0.35%
RY 2020	-0.37%	-0.35%
RY 2021	-0.31%	Not available

- ▶ This relationship is fairly similar at the individual hospital, which is important if these adjustments are reflected in rates. Therefore, staff recommends implementing this adjustment July 1st.*

	% Variance	\$ Variance
Average	0.04%	\$147,454
Absolute Average	0.13%	\$416,261
Minimum	-0.29%	-\$962,939
Maximum	0.34%	\$1,748,025
Correlation	0.89	0.98

▶ || *Actual QBR Adjustments will be reflected in January 1st rate orders

Reassessing Non-Hospital Excess Cost Calculation

- ▶ In recent years staff has implemented a non-hospital excess cost calculation (with conservatism) to account for any Medicare dissavings that may occur outside of the hospital and the regulatory oversight of the HSCRC.
- ▶ The proposed value for the RY 2021 Update Factor of 1.10% builds off of last year's formulation by averaging all the years since the All-Payer Model
 - ▶ However, the last two years of dissavings have, upon further review, represented a different trend.

	Non-Hospital Excess Cost Dissavings	Variance between MD and NAT Non-Hospital Per Capita Growth
2015	\$46,617,767	1.21%
2016	\$51,491,158	1.41%
2017	\$52,780,929	1.46%
2018	\$25,248,295	0.89%
2019	\$22,548,744	0.82%

- ▶ Staff, therefore, recommends using a 2 year average for non-hospital excess costs and continue with the 5 year conservatism factor
 - ▶ Combined with QBR, this should produce 0% dissavings to Medicare.

Balanced Update Model for RY 2021		
<u>Components of Revenue Change Link to Hospital Cost Drivers /Performance</u>		
		Weighted Allowance
Adjustment for Inflation (this includes 3.10% for compensation)		2.64%
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Quality and PAU Savings		
-PAU Savings	J	-0.28%
-Reversal of prior year quality incentives	K	0.19%
-QBR, MHAC, Readmissions		
-Current Year Quality Incentives	L	0.11%
Net Quality and PAU Savings	M = Sum of J thru L	0.02%
Total Update First Half of Rate Year 21		
Net increase attributable to hospitals	N = Sum of A + B + C + I + M	3.49%
Per Capita First Half of Rate Year (July - December)	O = (1+N)/(1+0.16%)	3.32%
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Revised Estimated CY 2021 All-Payer Revenue Growth

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Step 2:		
Estimated Approved GBR RY 2021		19,029,783,082
Permanent Update		3.52%
Step 3:		
Estimated Revenue 7/1/20-12/31/20(after 49.73% & seasonality)		9,463,511,127
Estimated Undercharge Percentage**		(101,259,569)
Projected Revenue 7/1/20-12/30/21	B	9,362,251,557
Step 4:		
Estimated Revenue CY 2020	A+B	18,729,912,945
Increase over CY 2019 Revenue		4.04%

Revised-Update Compared to Medicare using CY 2021 Growth (conservative approach)

Maximum Increase that Can Produce Medicare Savings

Medicare

Medicare TCOC Growth (CY2019 3.84%)	A	3.84%
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Conversion to All-Payer

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Excess Growth for Non-Hospital Cost Relative to the Nation <i>with conservatism</i>	-0.92%		
Net Difference Statistic Related to Total Cost of Care	D	0.03%	
Conversion to All-Payer growth per resident $(1+C)*(1+D)-1$	E	3.87%	3.88% 0.00%
Conversion to total All-Payer revenue growth $(1+E)*(1+0.16%)-1$	F	4.04%	4.04% 0.00%



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Revised Update Compared State GDP to Maintain Affordability

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Last year the Update Factor was .40% below the 3 year average GDP estimate.

RY 2021 Update Factor Recommendations

- ▶ **Global Budget Revenues**
 - ▶ 3.50% for Revenue/3.33% per Capita
- ▶ **Non-Global Revenues**
 - ▶ 2.37% (2.77%-0.40% productivity adjustment)
- ▶ **Continue to work with all stakeholders to address specific COVID-19 challenges.**
- ▶ **Commission direct staff to develop guidelines and policies, with Stakeholders, to evaluate and adjust future Update Factors**

Stakeholder Comment Letters Received

- ▶ CareFirst BlueCross BlueShield
- ▶ Maryland Hospital Association
- ▶ Sheppard Pratt
- ▶ Mount Washington Pediatrics Hospital
- ▶ Johns Hopkins Health System
- ▶ University of Maryland Medical Systems
- ▶ Transit Employees' Health & Welfare Fund