

# **Monitoring of Maryland's New All-Payer Model**

## *Biannual Report*

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Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215  
(410) 764-2605

April 2018

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# Executive Summary

## Introduction

Effective January 1, 2014, the State of Maryland and the Centers for Medicare & Medicaid Services (CMS) entered into an agreement to modernize Maryland's unique all-payer rate-setting system for hospital services. This initiative replaces Maryland's 36-year-old Medicare waiver and allows Maryland to adopt new, innovative policies aimed at reducing per capita hospital expenditures and improving patient health outcomes. This biannual report, prepared in accordance with Maryland law, contains a summary of implementation, monitoring, and other activities during the time period from January 1, 2014 through December 31, 2017.<sup>1</sup> The purpose of this report is to inform the Maryland General Assembly on the status of the Maryland All-Payer Model.

## Highlights

The following bullets highlight the progress that the Maryland Health Services Cost Review Commission (HSCRC or Commission) made in the nine reporting areas required by law. They also highlight information related to the progression of the proposed Total Cost of Care Model.<sup>2</sup>

- **Inpatient and Outpatient Hospital Per Capita Cost Growth** – CMS requires Maryland to limit the average annual growth in all-payer hospital per capita revenue for Maryland residents to 3.58 percent. To date, Maryland has met this target, with a growth rate of 1.47 percent between calendar years (CYs) 2013 and 2014, 2.31 percent between CYs 2014 and 2015, and 0.80<sup>3</sup> percent between CYs 2015 and 2016. Per capita revenue grew 3.54<sup>4</sup> percent between CY 2016 and CY 2017. Average per capita growth over the length of the Model is 2.03%, well below the 3.58% limit.
- **Aggregate Medicare Savings** – CMS requires Maryland to achieve an aggregate savings in Medicare spending that is greater than or equal to \$330 million over the five years of the agreement. Per CMS's calculation, Maryland realized \$120 million in savings in CY 2014, \$155 million in CY 2015, and \$311 million<sup>5</sup> in CY 2016. Maryland achieved \$330 million in CY 2017, bringing cumulative savings throughout the life of the Model to \$916 million.
- **Shifting from a Per-Case Rate System to a Global Budget** – CMS requires Maryland to shift at least 80 percent of hospital revenue to global or population-based budgets. Maryland exceeded this target and has shifted 100 percent of regulated hospital revenues to global budget structures.
- **Reducing the Readmission Rate among Medicare Beneficiaries** – Readmission rates continued to steadily decline over the course of the All-Payer Model. With most recent data through CY 2017, the Maryland Medicare FFS Readmission Rate is 0.19 percentage points *lower than* the National Medicare FFS Readmission Rate. The All-Payer Model agreement requires Maryland's hospital readmission rate for Medicare FFS beneficiaries to be at or below the national readmission rate by the end of 2018. Thus Maryland is

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<sup>1</sup> Health-General Article §19-207(b)(9) Maryland Annotated Code.

<sup>2</sup> *Id.*

<sup>3</sup> The all-payer per capita growth rate reflects an adjustment to revenues to account for Maryland hospitals undercharging their global budgets from July to December 2016

<sup>4</sup> *Id.*

<sup>5</sup> The statewide savings noted here reflect an adjustment to account for undercharging that occurred in Maryland hospitals from July to December 2016. This adjustment reduces the amount of statewide savings otherwise shown in CY 2016. CY 2016 hospital savings without the undercharge adjustment is \$336 million.

working to maintain this improvement, as well as to further achieve any additional improvement over the nation.

- **Reducing Hospital-Acquired Conditions (HACs)** – CMS requires Maryland to reduce the cumulative rate of HACs by 30 percent by the end of CY 2018. HSCRC measures HACs using a list of Potentially Preventable Complications (PPCs).<sup>6</sup> Compounded with previous reductions in complications since CY 2013, the state of Maryland has achieved a 52.72 percent reduction in all-payer, case-mix adjusted PPC rates. The reduction in the case-mix adjusted complication rate for Medicare FFS was even higher at 54.41 percent. Staff continue to incentivize reductions in HACs through the quality incentive program.
- **Monitoring Total Cost of Care (TCOC)** – Under the All-Payer Model agreement, the total cost of care growth for Maryland Medicare beneficiaries may not exceed the national growth rate by more than one percent in any given year and may not exceed the national growth for two consecutive years. From CY 2014 to CY 2017, Maryland’s TCOC growth has met the requirements of the All-Payer Model.
- **Workgroup Activities** – The HSCRC continues to broadly engage with stakeholders in guiding policy and methodology development through various Workgroup meetings throughout CY 2017 and 2018. Stakeholders representing consumers, businesses, payers, providers, physicians, nurses, and other health care professionals and experts have participated in these Workgroups. All Workgroup meetings are conducted in public sessions and comments from the public are solicited at each meeting.
- **Actions to Promote Alternative Methods of Rate Determination and Payment** – The All-Payer Model agreement allows Maryland to develop alternative methods of rate determination. The HSCRC developed the Global Budget Revenue (GBR) reimbursement model and has moved 100 percent of acute hospital revenue under global budgets as of April 2017.
- **Reports to CMS** – To date, the HSCRC has met all of CMS’s reporting requirements.
- **Total Cost of Care Model Progression** – The All-Payer Model Agreement required Maryland to submit a new model proposal no later than January 2017, which shall limit, at a minimum, the Medicare beneficiary total cost of care growth rate. In early 2017, the federal government and State officials began negotiations for a new Total Cost of Care All-Payer Model (TCOC Model).<sup>7</sup> The new TCOC Model aims to move beyond hospitals to address patients’ care in the community. In May 2017, the HSCRC concluded negotiations with CMS over the “term sheet” which broadly establishes the goals and expectations for the new TCOC Model. The Commission worked closely with the Maryland Secretary of Health and key State agencies, and also engaged diverse industry stakeholders in developing the terms. To assist in the transition to the TCOC Model, the HSCRC has implemented the Medicare Performance Adjustment (MPA). Additionally, eighteen hospitals are participating in the second performance period of the Care Redesign Amendment programs, which aim to align hospital and provider goals.
- **Reporting Adverse Consequences** – Under the All-Payer Model contract, CMMI monitors the total cost of care in Maryland to ensure that reductions in hospital potentially avoidable utilization (PAU) does not result in unreasonable increases in the total cost of care, which includes costs associated with all other health care providers. The All-Payer Model contract provides that in any one calendar year, Medicare total cost of care growth in Maryland may not grow more than 1 percent above Medicare total cost of care growth nationally. Additionally, in any two consecutive years, Maryland’s

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<sup>6</sup> 3M Health Information Systems developed PPCs. The PPC software relies on “present on admission” indicators from administrative data to calculate the actual versus expected number of complications for each hospital.

<sup>7</sup> Also referred to as the Progression Plan, Phase II of the All-Payer Model, or Enhanced Model.

Medicare total cost of care may not exceed the nation. While the growth of total cost of care in Maryland exceeded that of the nation’s total cost of care growth rate in CY 2015, the growth rate in CY 2016 was below that of the nation’s, ensuring compliance with the terms of the contract. In CY 2016, Maryland’s total cost of care was approximately 0.70 percent below the national growth rate. Total cost of care growth in CY 2017 is again higher than the nation’s by 0.75 percent. The HSCRC will monitor this metric closely in CY 2018 to ensure that the two consecutive year requirement is not breached. The HSCRC will continue to develop monitoring tools, measure performance, and engage stakeholders in order to identify and resolve any adverse consequences that may arise as quickly as possible.

## Introduction

Effective January 1, 2014, the State of Maryland and the Centers for Medicare & Medicaid Services (CMS) entered into a new initiative to modernize Maryland’s unique all-payer rate-setting system for hospital services. This initiative replaced Maryland’s 36-year-old Medicare waiver and allows Maryland to adopt innovative policies aimed at reducing per capita hospital expenditures and improving patient health outcomes. Success of the All-Payer Model will reduce cost to purchasers of care—patients, businesses, insurers, Medicare, and Medicaid—and improve the quality of the care that patients receive both inside and outside of the hospital. The Center for Medicare and Medicaid Innovation (CMMI) oversees the Model under the authority of CMS. The State, in close partnership with providers, payers, and consumers, achieved significant progress in this modernization effort in the past 48 months.

## State and Federal Status Reporting Requirements for Maryland’s All-Payer Model

### State Reporting Requirements for Maryland’s All-Payer Model

This report contains a summary of implementation, monitoring, and other activities to inform the Maryland General Assembly on the status of the Maryland All-Payer Model. This Maryland All-Payer Model Biannual Report, prepared in accordance with Maryland law, discusses the State’s progress during the period from January 1, 2014, through December 31, 2017, based on the most recent available information.<sup>8</sup> The HSCRC updates the report every six months. Figure 1 provides an overview of the reporting that is required by law under the Maryland All-Payer Model.<sup>9</sup>

**Table 1. State Biannual Reporting of Maryland's All-Payer Model**

Section	Achievement Requirement	Accomplishments	Ongoing Activities
I.1.	Limit the annual growth in all-payer hospital per capita revenue for Maryland residents to 3.58%	Per capita revenue for Maryland residents grew 1.47% between CYs 2013-2014; 2.31% between CYs 2014-2015; and 0.80% between CYs 2015-2016. CY 2017 shows a per capita	<ul style="list-style-type: none"> <li>• Ongoing monthly measurement</li> <li>• Continued favorable performance is expected as global budgets result in predictable statewide revenue performance</li> </ul>

<sup>8</sup> Health-General Article §19-207(b)(9) Maryland Annotated Code.

<sup>9</sup> *Id.*

Section	Achievement Requirement	Accomplishments	Ongoing Activities
		growth rate of 3.54%. <sup>10</sup> Average per capita growth over the length of the Model is 2.03%, well below the 3.58% limit.	
I.2.	Achieve aggregate savings in Medicare spending equal to or greater than \$330 million over 5 years	\$120 million in Performance Year (PY) 1 (CY 2014), \$155 million in PY 2 (CY 2015), and \$311 million in PY 3 (CY 2016). <sup>11</sup> CY 2017 savings are \$330 million, yielding a cumulative Medicare savings of \$916 million.	<ul style="list-style-type: none"> <li>HSCRC is working with an analytics contractor to examine and replicate CMS calculations of Medicare savings and per beneficiary growth rates for CY 2018</li> </ul>
I.3.	Shift at least 80% of hospital revenue to a population-based payment structure (such as global budgets)	100% of hospital revenue shifted to global budgets.	<ul style="list-style-type: none"> <li>All hospitals are engaged in global budgets under Global Budget Revenue (GBR) agreements</li> <li>HSCRC continues to refine global budget methodology</li> </ul>
I.4.	Reduce the hospital readmission rate for Medicare beneficiaries to be below the national rate over the 5-year period of the agreement	At the beginning of the model, Maryland's readmission rate was 1.22 percent higher than the nation. Maryland has narrowed its gap from the nation each year of the model and now has a readmission rate that is 0.19 percentage points <b>below</b> the national readmission rate.	<ul style="list-style-type: none"> <li>HSCRC is monitoring progress within Maryland using data it collects from hospitals and is working to maintain improvements and remain below the national readmission rate.</li> <li>HSCRC recently updated its Readmission Reduction Incentive Program (RRIP) for rate year (RY) 2020</li> </ul>
I.5.	Cumulative reduction in hospital acquired conditions (HACs) by 30% over 5 years	Compounded with previous reductions, there has been a 52.72% reduction in all-payer case-mix adjusted PPCs since CY 2013.	<ul style="list-style-type: none"> <li>HSCRC continues to incentivize PPC reductions through the Maryland Hospital Acquired Conditions (MHAC) program, despite having achieved the 30% required reduction</li> <li>HSCRC recently updated its MHAC Policy for RY 2020</li> </ul>
I.6	Monitor Total Cost of Care (TCOC) for Medicare and maintain growth within guardrails	For CYs 2014 through CY 2017, Maryland TCOC growth has met the requirements of the All-Payer Model.	<ul style="list-style-type: none"> <li>HSCRC is continuing to closely monitor TCOC growth trends for hospital and total cost of care to ensure that the two consecutive year requirement is not breached.</li> </ul>
II	Workgroup Actions	The Performance Measurement Workgroup reviewed the annual quality policies that were approved by the Commission in Spring 2017. The Payment Models Workgroup convened in February to discuss the annual update factor. Staff also convened new	<ul style="list-style-type: none"> <li>Active workgroups continue to meet on a regular basis</li> </ul>

<sup>10</sup> The all-payer per capita growth rate reflects an adjustment to revenues to account for Maryland hospitals undercharging their global budgets from July to December 2016

<sup>11</sup> The statewide savings noted here reflect an adjustment to account for undercharging that occurred in Maryland hospitals from July to December 2016. This adjustment reduces the amount of statewide savings otherwise shown in CY 2016. CY 2016 hospital savings without the undercharge adjustment is \$312 million.

Section	Achievement Requirement	Accomplishments	Ongoing Activities
		subgroups to discuss quality policies and rate setting methodologies.	
III	New alternative methods of rate determination	100% of hospital revenue is now under global budget arrangements.	<ul style="list-style-type: none"> <li>Global budget agreements are published on the HSCRC website</li> <li>Staff continues to refine rate setting methodologies.</li> </ul>
IV	Ongoing reporting to CMS of relevant policy development and implementation	The HSCRC provided CMS with the Annual Monitoring Report as required in the All-Payer Model contract, as well as quarterly progress reports.	<ul style="list-style-type: none"> <li>HSCRC continues to provide reports to CMS on an ongoing basis.</li> </ul>
V.	Progress of Total Cost of Care (TCOC) Model	The HSCRC concluded negotiations and finalized a term sheet with CMS for the TCOC Model.	<ul style="list-style-type: none"> <li>HSCRC is pushing for clearance of the model by CMS</li> </ul>
V.1	Medicare Performance Adjustment	The Medicare Performance Adjustment was approved by Commissioners in November 2017 for implementation on January 1, 2018.	<ul style="list-style-type: none"> <li>Stakeholders continue to refine the MPA for future performance years.</li> </ul>
V.2	Care Redesign Amendment	Eighteen hospitals are participating in the second performance period for Care Redesign programs, effective January 1, 2018.	<ul style="list-style-type: none"> <li>Additional care redesign tracks are being considered and developed</li> </ul>

### Federal Reporting Requirements for Maryland’s All-Payer Model

Maryland’s All-Payer Model agreement with CMS establishes a number of requirements that the State must fulfill. CMS must evaluate and provide an annual report on Maryland’s calendar year performance. The HSCRC submitted the Model’s Annual Monitoring Report to CMS in December 2017 and will submit its mid-year Annual Monitoring Report to CMS in June 2018.<sup>12</sup> In addition to the annual report, the HSCRC provides ongoing reporting to CMS on relevant policy and implementation developments. If Maryland fails to meet selected requirements, CMS would provide notification, and Maryland would have the opportunity to provide information and a corrective action plan, if warranted. At this time, CMS has not provided any failure notifications to Maryland.

## Section I – Requirements under the All-Payer Model

### Inpatient and Outpatient Hospital Per Capita Cost Growth

The Maryland All-Payer Model agreement requires the State to limit the average annual growth in all-payer hospital per capita revenue for Maryland residents to the average growth in per capita gross state product (GSP) for the period 2002 through 2012, a 3.58 percent growth rate. Per capita revenue for Maryland residents increased by 1.47 percent between CYs 2013 and 2014 and by 2.31 percent between CYs 2014 and 2015. Per

<sup>12</sup> The annual report is currently submitted in two parts due to timeliness of data availability. A partial report detailing CY 2016 is submitted in June, and a final report with full CY 2016 data is submitted in December, as available.

capita revenue growth grew 0.80<sup>13</sup> percent between CYs 2015 and 2016. Based on final CY 2017 data, the all-payer hospital per capita growth rate is slightly higher than previous years at 3.54<sup>14</sup> percent. Since the beginning of the Model, the average annual growth rate is 2.03 percent, well below the 3.58 percent target. Continued favorable performance is expected as global budgets (discussed at length in Section III) result in predictable statewide revenue performance, enabling the HSCRC to actively manage compliance with the 3.58 percent target.

In addition to the all-payer hospital per capita growth, the HSCRC tracked Medicare FFS per capita cost trends from its own Maryland data. Based on these data, the Medicare FFS per capita revenue declined by 1.12 percent between CYs 2013 and 2014, and grew by 1.14 percent in CY 2015. In CY 2016, the Medicare FFS per capita revenue declined by 0.97<sup>15</sup> percent over the same time period in CY 2015. Medicare FFS per capita has grown by 2.23<sup>16</sup> percent between CY 2016 and CY 2017.

### **Aggregate Medicare Savings**

The Maryland All-Payer Model agreement requires the State to achieve an aggregate savings in Medicare spending equal to or greater than \$330 million over the five years of the agreement. Savings are calculated by comparing the rate of increase in Medicare hospital payments per Maryland beneficiary with the national rate of increase in payments per beneficiary. Currently, CMS completes this calculation and provides an aggregate monthly report to the HSCRC. Maryland realized \$120 million in savings in CY 2014, \$155 million in CY 2015, and \$311 million in CY 2016, and \$330 million in CY 2017, bringing cumulative savings throughout the life of the Model to \$916 million.<sup>17</sup>

### **Shifting from a Per-Case Rate System to Global Budgets**

As of April 2017, 100 percent of Maryland regulated hospital revenues are contained within global budget structures. This exceeds the Maryland All-Payer Model agreement requirement of shifting at least 80 percent of hospital revenue to global or population based budgets. All regulated Maryland hospitals now operate under Global Budget Revenue (GBR) agreements, through policies approved by the Commission. Global budget agreements are available on the [Global Budgets](#) webpage of the HSCRC website.

The HSCRC continues to work with stakeholder Workgroups to refine the GBR methodology and develop a number of policies discussed in Section III.

### **Reducing the Hospital Readmission Rate among Medicare Beneficiaries**

Reducing hospital inpatient readmission rates has been an objective of the HSCRC since 2011. At the beginning of the All-Payer Model, the Maryland readmission rate was 1.22 percent higher than the nation. Readmission rates have continued to steadily decline over

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<sup>13</sup> The all-payer per capita growth rate reflects an adjustment to revenues to account for Maryland hospitals undercharging their global budgets from July to December 2016.

<sup>14</sup> *Id.*

<sup>15</sup> The Medicare FFS per capita growth rate reflects an adjustment to revenues to account for Maryland hospitals undercharging their global budgets from July to December 2016.

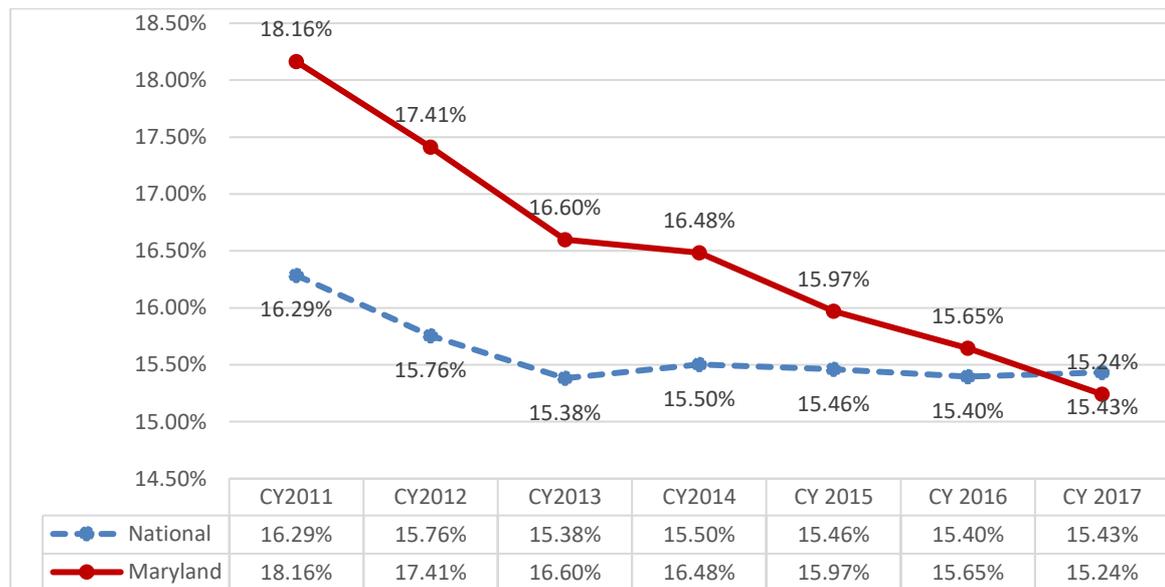
<sup>16</sup> *Id.*

<sup>17</sup> The statewide savings noted in this paragraph reflect an adjustment to account for undercharging that occurred in Maryland hospitals from July to December 2016. This adjustment reduces the amount of statewide savings otherwise shown in CY 2016. CY 2016 hospital savings without the undercharge adjustment is \$336 million.

the course of the All-Payer Model, and, with most recent data through CY 2017, the Maryland Medicare FFS Readmission Rate is 0.19 percentage points *lower than* the National Medicare FFS Readmission Rate. The All-Payer Model agreement requires Maryland’s hospital readmission rate for Medicare FFS beneficiaries to be at or below the national readmission rate by the end of 2018. Thus Maryland is working to maintain this improvement, and to further achieve any additional improvement that the nation experiences. The All-Payer Model requirement uses national Medicare data, which is summarized in

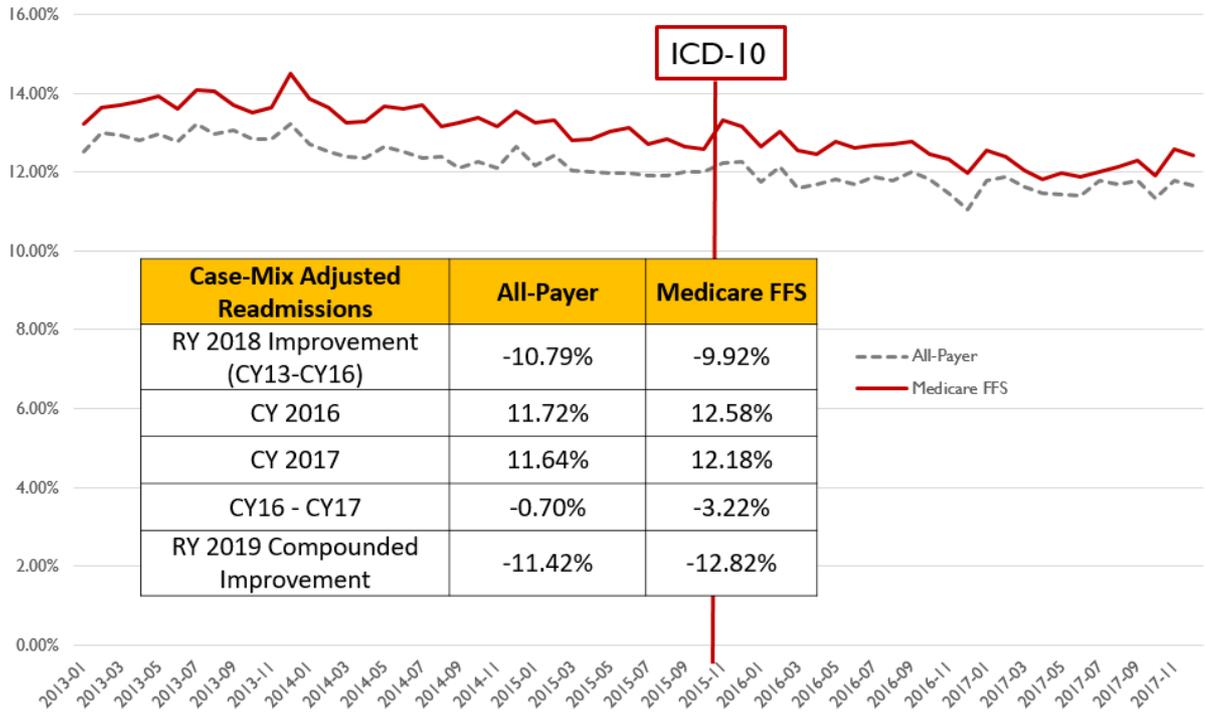
Figure 1 below.

**Figure 1. Medicare Readmissions - Rolling 12 Months Trend, CY 2012-CY 2017**



Additionally, HSCRC’s hospital data show that the monthly case-mix adjusted readmission rate through CY 2017 is substantially improved when compared to CY 2013 (Figure 2). This analysis includes all Maryland inpatient stays, including Medicare FFS. Based on these HSCRC data, the all-payer, case-mix adjusted readmission rate in CY 2017 was 11.64 percent, compared to 11.72 percent during CY 2016, a 0.70 percent reduction. Compounded with previous reductions in readmissions since CY 2013, the state of Maryland has achieved an 11.42 percent reduction in all-payer, case-mix adjusted readmissions. The corresponding compounded readmission reduction for Medicare FFS beneficiaries was slightly higher at 12.82 percent. This reduction highlights the difficulty and time involved in reducing readmissions, as it requires significant effort, investment, and coordination across providers.

Figure 2. Case-Mix Adjusted Readmissions in Maryland, CY 2013 - CY 2017



In the RY 2019 and 2020 policies, hospitals continue to be measured based on improvement and attainment. To help readmission reduction efforts, the HSCRC continues to improve its readmission reporting capability by leveraging resources available in the state Health Information Exchange and providing timely, monthly, and patient-specific data to hospitals.

### Cumulative Reduction in Hospital Acquired Conditions

Maryland hospitals must achieve a 30 percent cumulative reduction in Hospital Acquired Conditions (HACs) by 2018 to comply with the Maryland All-Payer Model agreement. Maryland measures HACs using a list of potentially preventable complications (PPCs).<sup>18</sup> PPCs are defined as harmful events (e.g. accidental laceration during a procedure) or negative outcomes (e.g. hospital-acquired pneumonia) that may result from the process of care and treatment rather than from a natural progression of underlying disease.

The HSCRC approved major revisions to the Maryland Hospital Acquired Conditions (MHAC) program in April 2014 in order to support the goal of reducing PPCs. The MHAC program calculates hospital rewards and penalties for case-mix adjusted rates of PPCs. Specifically, these calculations use observed-to-expected ratios as the basis of the measurement for all PPCs and preset positions on a scale constructed using the base year scores for all PPCs to determine penalties and rewards.

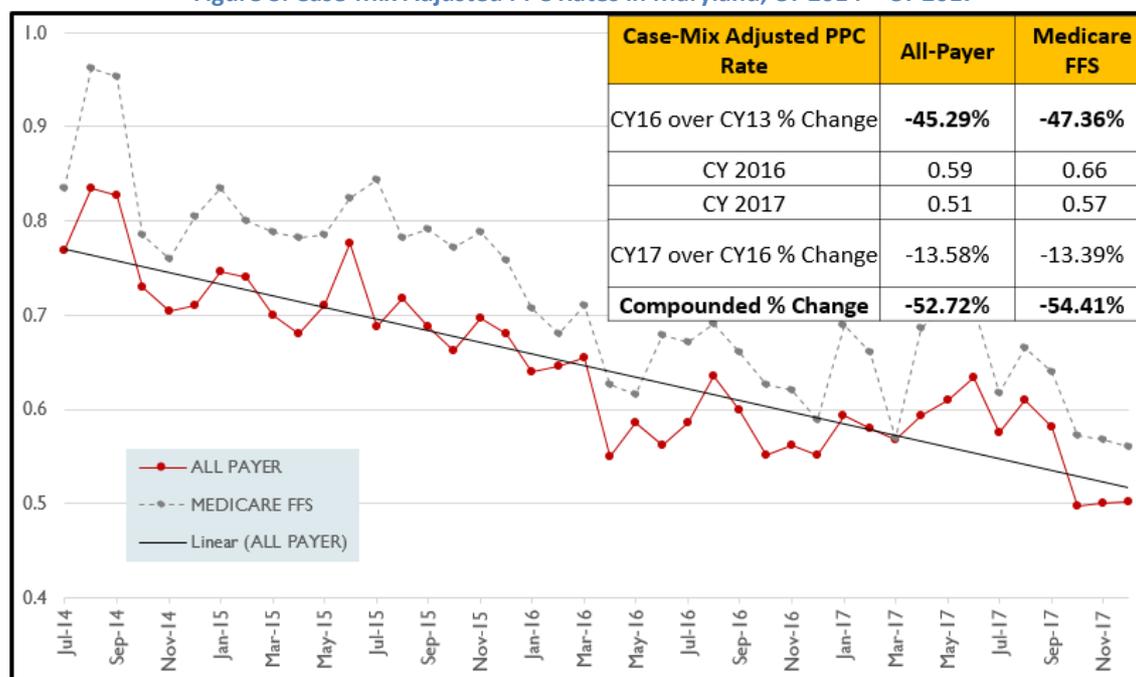
Figure 3 shows the all-payer and Medicare FFS case-mix-adjusted PPC rates by month and year. In CY 2017, the all-payer case-mix adjusted PPC rate was 0.51 per 1,000,

<sup>18</sup> 3M Health Information Systems developed PPCs. The PPC software relies on “present on admission” indicators from administrative data to calculate the actual versus expected number of complications for each hospital.

compared with 0.59 per 1,000 during CY 2016, which is a 13.58 percent reduction. Compounded with previous reductions in complications since CY 2013, the state of Maryland has achieved a 52.72 percent reduction in all-payer, case-mix adjusted PPC rates. The reduction in the case-mix adjusted complication rate for Medicare FFS was even higher at 54.41 percent. While this reduction in the case-mix adjusted complication rate exceeds the new waiver target of 30 percent by 2018, the HSCRC will continue to incentivize hospitals to further reduce hospital-acquired infections and complications in future years. The HSCRC is currently convening a sub-group of clinical and subject-matter experts to examine how best to measure and incentivize improvement on hospital-acquired infections and complications under the Total Cost of Care Model.

The HSCRC staff review annual audits of approximately ten hospitals to ensure coding accuracy with the medical record documentation. If audit issues are found, staff follows up with the hospital to understand the issue(s) and take appropriate action.

**Figure 3. Case-Mix Adjusted PPC Rates in Maryland, CY 2014 – CY 2017**



### Medicare Savings and Total Cost of Care Performance

Under the All-Payer Model agreement, the total cost of care growth for Maryland Medicare beneficiaries may not exceed the national growth rate by more than one percent in any given year and may not exceed the national growth for two consecutive years. The results for Medicare for the first year of the All-Payer Model were positive, while the second year results were mixed. Results for the third year are positive, while results in the fourth year were mixed (see Figure 4 - Figure 6).

- In the first year of the Model, non-hospital costs were contained, and Medicare saved money on both hospital and non-hospital costs.
- In the second year of the Model, Maryland Medicare hospital cost growth remained stable, but non-hospital costs increased and even offset some of the hospital savings achieved in the first year. Maryland exceeded the national

Medicare total cost of care growth rate in CY 2015 by approximately 0.33 percent.

- In the third year of the Model, hospital cost growth rate was favorable compared to the nation, but non-hospital growth continued to be a concern. Medicare total cost of care growth in Maryland was lower than the nation by 0.73 percentage points in CY 2016.
- In the fourth year of the Model, hospital cost growth rate continued to be favorable compared to the nation, and non-hospital growth continued to be a concern. Medicare total cost of care growth in Maryland was above than the nation by approximately 0.75 percentage points in CY 2017. Staff is continuing to monitor growth trends for hospital and total cost of care.

The following figures represent actual growth trends for the current calendar year month versus the prior calendar year month.

Figure 4. Total Cost of Care per Capita, CY 2014-CY 2017

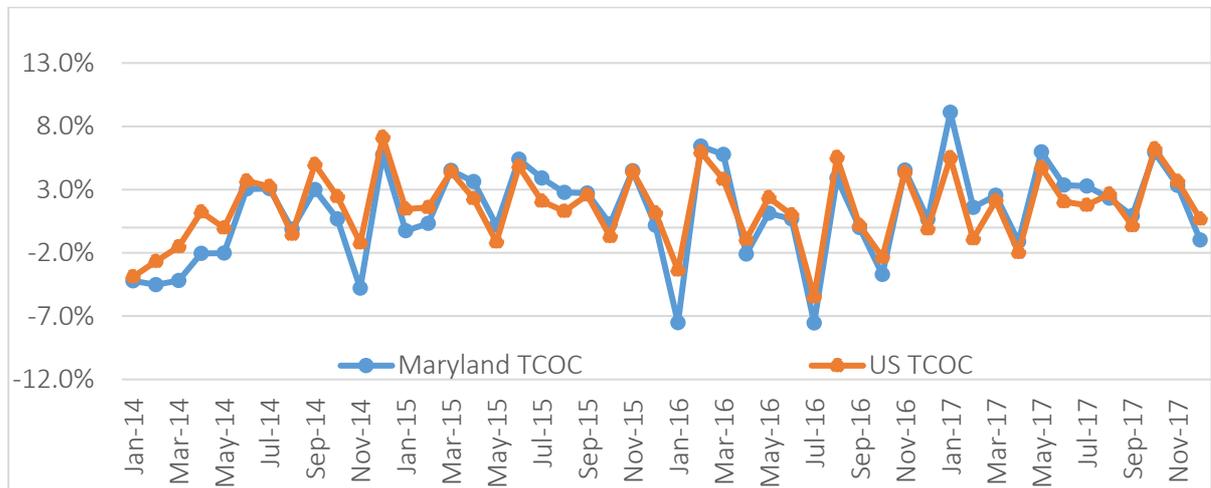


Figure 5. Medicare Hospital Spending per Capita, CY 2014-CY 2017

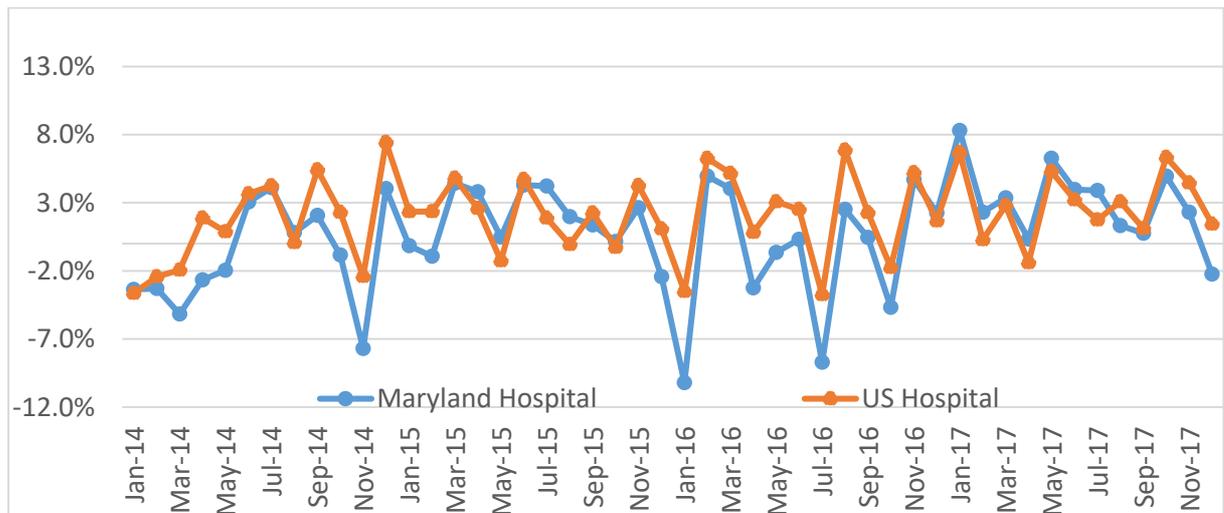
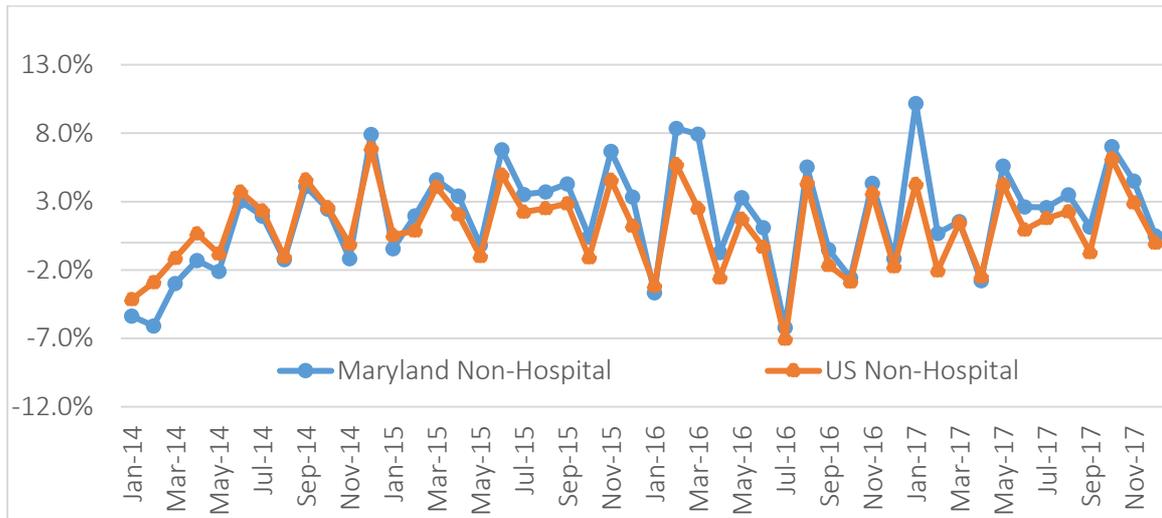


Figure 6. Medicare Non-Hospital Spending per Capita, CY 2014-CY 2017



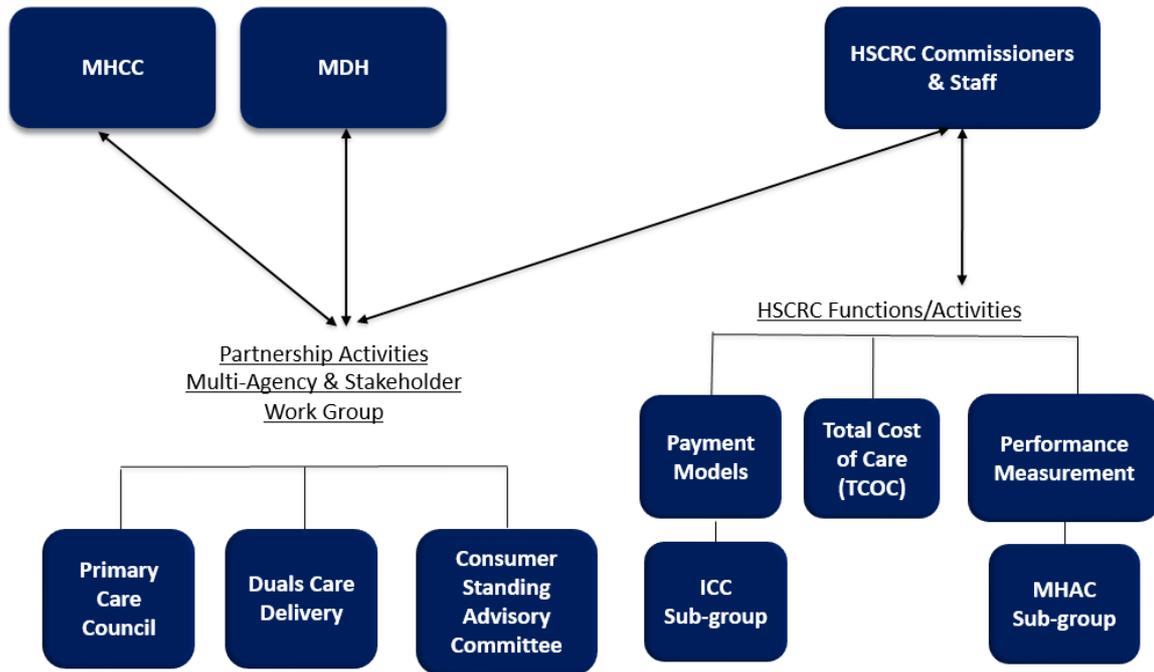
## Section II – Stakeholder Engagement

The HSCRC continues to engage broadly with stakeholders in guiding policy and methodology development through various Workgroup meetings throughout CY 2017 and early CY 2018. The Performance Measurement and Total Cost of Care Workgroups have met monthly and the Payment Models Workgroup re-convened for monthly meetings in February 2018. Various subgroups have been convened to help further refine new policies and methodologies impacting hospitals.

Figure 7 depicts the current structure of the stakeholder engagement Workgroups. All Workgroup meetings are conducted in public sessions, and comments are solicited from the public at each meeting. There are also a number of sub-workgroup meetings and task forces to discuss technical, data-driven matters related to specific policies, which report back to the larger Workgroups. Input is also solicited in informal meetings with stakeholders.

All proceedings and reports of the Workgroup activities may be found on the [Workgroups](#) page on the HSCRC website.

Figure 7. Stakeholder Engagement Structure



### Payment Models Workgroup

The [Payment Models Workgroup](#) is charged with vetting potential recommendations for HSCRC consideration on the structure of payment models and how to balance its approach to payment updates. The Workgroup reconvened in February 2018 to begin work on the FY 2019 Annual Update Factor and other payment policies. In addition to payment policy updates, the group has reviewed analysis of hospital drug cost growth and funding to inform future payment-related policymaking decisions.

### Inter-hospital Cost Comparison Subgroup

The Inter-hospital Cost Comparison (ICC) Subgroup convened in December 2017 and was tasked with reviewing and vetting modifications to the ICC methodology. Taking into account factors such as regional location, hospital size and case mix, the ICC allows HSCRC staff to evaluate and compare within a peer group, efficiency and cost at different hospitals. The ICC is an important component in hospital full rate reviews, discussed in Section III of this report.

### Performance Measurement Workgroup

The [Performance Measurement Workgroup](#) develops recommendations for HSCRC consideration on measures that are reliable, informative, and practical for assessing a number of important quality and efficiency issues. In the second half of CY 2017, the Performance Measurement Workgroup reviewed several policies, including the Maryland Hospital Acquired Conditions (MHAC) Program for RY 2020 and the Quality-Based Reimbursement (QBR) Policy for RY 2020. So far in 2018, the Workgroup has considered the Readmission Reduction Incentive Program (RRIP) for RY 2020 and the Potentially Avoidable Utilization Savings Policy for RY 2019.

### **Clinical Adverse Event Measures Subgroup**

The Clinical Adverse Event Measures Workgroup convened in 2018 to assist in the refinement of Maryland's performance-based payment programs. Maryland operates a complications program that aims to reduce hospital acquired conditions (HACs) and adverse events in hospitals. The workgroup will develop a list of clinical adverse events for use in Maryland's hospital pay-for-performance programs and help define the framework for measuring and reporting these events for use in payment programs under the new Total Cost of Care Model.

### **Consumer Standing Advisory Committee**

The [Consumer Standing Advisory Committee](#) builds on existing consumer engagement and involvement across various HSCRC and MDH Workgroups in an effort to bring together a diverse cross-section of consumers, consumer advocates, relevant subject matter experts, and other stakeholders. Workgroup goals include: ensuring that the consumer perspective is reflected in and remains central to the All-Payer Model and ongoing modernization efforts; promoting understanding of the All-Payer Model and its impact on improving healthcare for patients; and gathering input from consumers to ensure those perspectives are used to inform the policymaking process. The group met several times throughout 2017 to receive updates on ongoing transformation activities and provide insight and feedback on those developments. The committee recommenced meetings in 2018 and received updates on hospitals transformation efforts, care redesign, and discussed consumer messaging and education strategies. Currently, the C-SAC is particularly focused on raising awareness and increasing knowledge of resources and programs that consumers can use to improve their health and the health of their families and communities, as well as consumer opportunity and responsibility under the new Total Cost of Care All-Payer Model.

### **Total Cost of Care Workgroup**

The [Total Cost of Care \(TCOC\) Workgroup](#) is charged with providing feedback to the HSCRC on the development of specific methodologies and calculations for TCOC. The group convened at the end of CY 2016 and met throughout CY 2017 to assist in determining the technical aspects of calculating TCOC for the State's All-Payer Model. During 2017, the TCOC Workgroup focused on the development of the Medicare Performance Adjustment (MPA) to assist the State in the transition to the Total Cost of Care Model. The MPA was approved in November 2017 by HSCRC Commissioners for a January 1, 2018 implementation date. To date, the TCOC workgroup continued to meet in 2018 to further refine methodologies for the MPA and other key technical aspects of the TCOC Model.

## **Section III – Alternative Methods of Rate Determination**

The Maryland All-Payer Model agreement affords the State the ability to innovate by developing alternative methods of rate determination. During the first six months of the Maryland All-Payer Model, the HSCRC developed the global budget revenue (GBR) reimbursement model and engaged all hospitals not already under a total patient revenue (TPR) agreement in GBR. As of April 2017, 100 percent of Maryland regulated hospital revenues are contained within GBR agreements. In addition to regulated acute hospital revenue under global budgets, the HSCRC sets the rates of non-governmental payers and purchasers for psychiatric hospitals and Mount Washington Pediatric Hospital.

The GBR methodology is central to achieving the goals set forth in the Maryland All-Payer Model: promoting better care, better health, and lower cost for all Maryland patients. In contrast to the previous Medicare waiver that focused on controlling increases in Medicare inpatient payments per case, the Maryland All-Payer Model focuses on controlling increases in total hospital revenue per capita. GBR agreements prospectively establish a fixed annual revenue cap for each hospital to encourage hospitals to focus on care improvement and population-based health management.

Under GBR contracts, each hospital's total annual revenue is known at the beginning of each fiscal year. Annual revenue is determined from a historical base period that is adjusted to account for inflation updates, demographic driven volume increases, performance on quality-based or efficiency-based programs, changes in payer mix, and changes in the levels of approved uncompensated care. Annual revenue may also be modified for changes in service levels, market shifts, population growth, or shifts of services to unregulated settings.

### **Refining Global Budget Methodologies**

While the majority of Maryland hospitals transitioned to global budgets during the first six months of the Maryland All-Payer Model, a number of essential policies was not yet finalized to address issues such as adjusting global budgets for market shifts or changes to inter-hospital transfer rates, establishing rates for new hospitals, and providing hospitals flexibility to achieve annual GBR revenue while reducing PAU. As shown in this report, HSCRC staff worked closely with the Payment Models Workgroup, as well as a number of technical sub-workgroups to develop policies to address these issues. Additionally, HSCRC staff and Workgroup members emphasized that these policies will continually progress as underlying data resources improve and the State transitions into the Total Cost of Care Model.

### **Global Budget Charge Corridors**

A unique feature of global budgets that was refined is the capacity of a GBR hospital to increase or decrease its approved unit rates to achieve its overall approved global revenue. This mechanism allows a hospital the flexibility to compensate for fluctuations in service volume over the course of the year and still reach its annual revenue target. The hospital must vary these unit rates in unison and within a defined charge corridor or be subject to penalties. If a hospital is experiencing significant volume declines as a result of reduced PAU, it may submit a request to expand this corridor so that it can achieve the approved global revenue necessary for financial stability and population health investment. HSCRC staff review these charge corridor requests to determine the cause of hospital volume increases and the impact of the charge corridor expansion on the patient population, surrounding hospitals, and other factors related to the goals and requirements of the All-Payer Model.

### **Transfer Case Payment Adjustment Implementation**

An early concern with the expansion of global budgets was the possibility that transfer rates to academic medical centers (AMCs) would increase, and high cost care would leave community hospitals with the associated revenue for cases that had been transferred. Global budget hospitals are encouraged to reduce potentially avoidable utilization (PAU) and promote care management and quality improvement. This could result in hospitals transferring a greater number of complex cases to AMCs in order to

both provide patients with the advanced care they need, as well as to reduce the high costs associated with such cases. The Transfer Case Adjustment addresses these concerns by ensuring that “receiving” hospitals have the capacity to take on a possible influx of complex cases without facing financial penalties under a global budget. The HSCRC established a process to monitor and adjust for changes in transfer rates to AMCs and from sending hospitals on a periodic basis. The Transfer Case Adjustment Policy began in RY 2016.

### **Market Shift Adjustment (MSA) Development**

In CY 2016, the HSCRC worked extensively with stakeholders to understand and adequately account for shifts in market volume, which are reflected rate orders as of RY 2017. Staff believes it is important to move money when patients shift from one institution to another, whereby the receiving institution receives a marginal cost adjustment of 50 percent to care for the larger share of patients. Given the dynamic healthcare market in Maryland, the HSCRC makes market shift adjustments on a semi-annual basis.

HSCRC staff continue to track emergency department volumes and alert trends, whereby patients may be diverted from one hospital’s emergency department to another. Based on its findings, staff may incorporate these data into market shift adjustments. Additionally, staff continues to monitor any services shifting to unregulated sites, which is not represented by the current hospital market shift calculations. As always, the HSCRC will continue to make market shift adjustments when significant events occur (e.g., movement of a service, closure of a service, or other very large shifts).

### **Full Rate Reviews**

A moratorium was issued on full rate reviews in November 2015 and expired on October 31, 2017. In anticipation of that date, the Commission voted in September 2017 to approve an amended process for full rate reviews. Full rate reviews allow staff to initiate or hospitals to apply for a full review of rates across all hospital rate centers. Staff may then adjust rates as appropriate based on review findings. Due to the unique nature of global budgets, former processes and methodologies under the previous rate setting system no longer provided adequate analysis for review. The amended process now allows for a more accurate comparison of hospitals under the new global budget system. Staff are refining additional tools to assist in full rate reviews, such as the Inter-hospital Cost Comparison methodology, discussed earlier in the Stakeholder Engagement section of this report.

### **GBR Infrastructure Support**

In FYs 2014 through 2016, the Commission included over \$200 million in rates to support hospitals in developing services and mechanisms to improve care delivery, population health, and care management. Hospitals submitted reports on these investments with program descriptions, expenditures, and results. Key areas of investment over this time period included: 1) disease management, 2) post-discharge and transitional care, 3) community care coordination, 4) case management, and 5) consumer education and engagement.

Reporting for GBR Infrastructure spending was suspended for FY 2017 to encourage hospitals to focus on developing care redesign initiatives and to avoid diverting staff

attention from those efforts. The report may be incorporated into other hospital reporting requirements at a later time.

### **Transformation Implementation Awards**

As part of its update factor process for FY 2017, the Commission authorized up to 0.25 percent of hospital rates to be used for intensive community-based care coordination activities for chronically ill patients. During the first round of a competitive application process, the Commission awarded \$30 million to nine hospital partnerships to work with community partners to reduce PAU. These programs are above and beyond the care transitions initiatives that were funded in FYs 2014 and 2015. In October 2016, the Commission awarded an additional \$6.5 million in funding to another five partnerships. Awardees submitted a mid-year report in February 2018. Ongoing reporting will be required of all awardees, and the Commission maintains the authority to curtail funding if it is not used in accordance with the proposals as approved by the Commission.

### **Section IV – Reports Submitted to CMS**

The All-Payer Model agreement requires the HSCRC to report to CMS on relevant policy and implementation developments. To date, the HSCRC has met all of the reporting requirements outlined in the All-Payer Model agreement by submitting the following information to CMS.

- **Maryland All-Payer Model Annual Monitoring Report:** This annual report was submitted to CMS in December 2017. An updated report will be submitted in June 2018. It contains data for performance years 2014, 2015, and 2016 as well as 2013 baseline measures.
- **Maryland All-Payer Model Quarterly Monitoring Report:** On a quarterly basis, HSCRC staff prepare a quarterly update report for CMS with brief updates on model tests, metrics and State activities in each fiscal quarter. For a copy of these reports, please contact HSCRC staff.

Please find the most recent annual report submitted to CMS attached to this biannual report.

### **Section V - Progression towards the Total Cost of Care Model**

The All-Payer Model agreement called for Maryland to submit a proposal for a new model no later than January 2017, which shall limit, at a minimum, the Medicare beneficiary total cost of care growth rate. To prepare this proposal, the State engaged in a robust stakeholder engagement process, working with hundreds of stakeholders representing consumers, hospitals, physicians, skilled nursing and post-acute care facilities, payers, experts, and various State agencies. The State also solicited comments from the public. On December 16, 2016, Governor Larry J. Hogan Jr. submitted the “Progression Plan” to CMS, describing Maryland’s proposal to accomplish the Model’s expanded system-wide goals. In early 2017, the federal government and State officials, with input from Maryland health care leaders, began negotiations for a new model that will begin on January 1, 2019. The new Model must move beyond hospitals to address the total costs of Medicare patients’ care in the community.

Under the proposed new “Maryland Total Cost of Care Model,” Maryland will be expected to progressively transform care delivery across the health care system with the objective of improving health and quality of care. At the same time, State growth in Medicare spending must be maintained lower than the national growth rate. The new Total Cost of Care Model will give the State flexibility to tailor initiatives to the Maryland health care context, and encourage providers to drive health care innovation. The Total Cost of Care Model will also encourage continued Care Redesign, provide new tools and resources for primary care providers to better meet the needs of patients with complex and chronic conditions, and help Marylanders achieve better health status overall.

### **Total Cost of Care Model Builds on Existing Momentum**

The new Total Cost of Care Model will leverage the foundation already developed by Maryland for hospitals and build on the investments that hospitals have made since 2014. Maryland will continue to encourage provider- and payer-led development of Care Redesign programs to support innovation. Maryland is also continuing efforts to implement a new Maryland Primary Care Program, which is intended to bring care coordination and support to approximately 400,000 Medicare beneficiaries and 2,000 physicians. The State will commit its public health resources to support population health improvements that are aligned with Model goals and Marylanders’ needs.

### **Medicare Performance Adjustment**

The HSCRC recently implemented the Medicare Performance Adjustment (MPA) to assist the State in the transition to the Total Cost of Care Model, which will focus on controlling TCOC. The MPA will adjust hospital Medicare payments based on Medicare TCOC performance. Commissioners voted on the policy in November 2017 to allow for a January 2018 implementation date, with payment adjustments beginning in July 2019 (RY 2020). The TCOC Workgroup, describe in Section II of this report, continues to refine the methodology of the MPA to guide implementation in CY 2019 and future years.

### **Care Redesign Amendment Programs**

The Commission is also focusing on integrated care incentives, such as integrated care networks, pay-for-performance programs, and gain-sharing programs to achieve the goals of care coordination and provider alignment. In April 2017, the State received approval from CMS for an amendment to the existing All-Payer Model contract to implement specific care redesign strategies and to provide hospitals and providers with the tools and flexibility necessary to achieve the goals of the All-Payer Model and transition to the Total Cost of Care Model.

Two care redesign tracks were designed to encourage hospital and physician alignment: the Hospital Care Improvement Program (HCIP) and the Complex and Chronic Care Improvement Program (CCIP). HCIP aims to facilitate care improvement and efficiency within hospitals, while CCIP focuses on improving care for high-risk and rising needs patients through increased care coordination among hospitals and community physicians. The Chesapeake Regional Information System for our Patients (CRISP) is serving as the administrator of the program. The first performance period (PP1) began on July 1, 2017, with potential gain-sharing payment distributed in CY 2018 for those hospitals that opt for this portion of the given program. In the first performance period (PP1), ten hospitals

participated in HCIP and six hospitals participated in CCIP. The second performance period (PP2) began on January 1, 2018 for hospitals that signed the initial version of the Participation Agreement. All hospitals that participated in Care Redesign programs during PP1 are participating in PP2. As of May 2018, there is a total of 18 unique participants across both tracks, with 15 hospitals participating in HCIP and eight hospitals participating in CCIP.

### **Stakeholder Innovations Group**

To assist in the design of additional tracks for the Care Redesign Amendment, MDH directed Maryland care partners to convene an advisory group to share ideas for innovations and provide input on designing new tracks. The group, known as the Stakeholder Innovations Group (SIG), is composed of hospital representatives, payers, post-acute providers, physicians, and other healthcare providers. The group met every other week throughout 2018 and will continue to meet as-needed to collaborate on and review proposed care redesign tracks. Recommendations from the SIG will be evaluated by MDH and incorporated into the implementation strategy of the TCOC Model.

### **Key Elements of the New Model**

Core requirements and expectations of the new model, which are subject to federal approval, include the following:

- The new Total Cost of Care Model will begin on January 1, 2019 for a 10-year term, so long as Maryland meets the model performance requirements.
- Average annual hospital cost growth per capita for all payers must not exceed 3.58 percent per year. The State has the opportunity to adjust this growth limit based on economic conditions, subject to federal review and approval.
- Maryland commits to saving \$300 million in annual total Medicare spending for Medicare Part A and Part B by the end of 2023. The Medicare savings required in the TCOC All-Payer model will build off of the ongoing work of Maryland stakeholders, which began in 2014.
- Federal resources will be invested in primary care and delivery system innovations, consistent with national and State goals to improve chronic care and population health.
- The Model will help physicians and other providers leverage other voluntary initiatives and federal programs to align participation in efforts focused on improving care and care coordination, and participation in incentive programs that reward those results. These programs will be voluntary, and the State will not undertake setting Medicare and private fee schedules for physicians and clinicians.
- Maryland will set aggressive quality of care goals.
- Maryland will set a range of population health goals.

At this stage, the State and the federal government have completed negotiations regarding the basic structure of the new Total Cost of Care Model, described in the Progression Plan submitted in December 2016, and the Model is now undergoing federal clearance and approval. As a result, Maryland's progression can evolve from concept to planning for the implementation activities necessary to assure successful progression over time. Throughout the development of implementation plans, the State will continue its commitment to privately led innovation, voluntary participation in Care Redesign programs, and meaningful and ongoing stakeholder engagement to achieve the State's

vision for person-centered care, clinical innovation and excellence, and improved population health.

Additional information on the new Total Cost of Care Model can be found at <http://hscrc.maryland.gov/Pages/progression.aspx>.

## **Section VI – Reporting Adverse Consequences**

At this time, the HSCRC has not observed any adverse consequences on patients or the public generally as a result of the implementation of the Maryland All-Payer Model.

A number of policies developed in the past four years of implementation guard against potential adverse consequences that HSCRC staff and stakeholder workgroups identified as possible unintended outcomes of implementation. The GBR agreements initiated by the HSCRC for implementation of the global budgets contain consumer protection clauses. The HSCRC, in conjunction with the Payment Models Workgroup, developed the Transfer Adjustment Policy and a Market Shift Policy to help ensure that “the money will follow the patient” when shifts in utilization occur between hospitals or other health care settings. These policies aim to guard against hospitals inappropriately limiting the number of high-cost, high-risk cases admitted and to provide open access and resources when patients need to be transferred to receive highly specialized care offered in academic medical centers (AMCs).

Additionally, the HSCRC is continuing to refine tools to monitor changes in patterns of service, particularly shifts in utilization and expenditures across all healthcare providers. One area that has been under considerable scrutiny is the potential diversion of patients from one Emergency Department to other surrounding hospitals’ Emergency Departments. In CY 2017, the HSCRC began to study the utilization of Emergency Department services, diversions from one hospital to another, and the efficiency of moving patients through the Emergency Department at a particular hospital. Although wait times and efficiency measures for Maryland Emergency Departments has been historically worse relative to the nation, the HSCRC has devoted time and resources to identify potential causes of Emergency Department delays or diversions and to appropriately address them.

Other tools to measure market shifts potentially associated with the All-Payer Model include a Total Cost of Care Reporting Template, which was developed with the aim of compiling public and private payer hospital and non-hospital claims in order to assess the growth and shifts that occur within the regulated and unregulated hospital markets, as well as those changes that occur among non-hospital healthcare providers. Claims data is compiled from the All Payer Claims Data operated by MHCC and from data submitted to the HSCRC by public payers. The HSCRC continues to improve its processes with MHCC and payers to obtain the needed data in the most efficient and timely manner possible to appropriately monitor changes in utilization and expenditures.

In CY 2016 and CY 2017, the HSCRC also continued its work to engage consumers through a Consumer Standing Advisory Committee (CSAC), which builds on the foundation laid by the Consumer Engagement and Outreach Workgroup in 2015. Consumer advocacy organizations have described the HSCRC stakeholder engagement

process as a model for consumer engagement in a major policy endeavor. Stakeholder engagement is key to the development and success of the next phase of the All-Payer Model that will expand to all care settings. The HSCRC has made significant efforts to be as transparent as possible in its initiatives and policy developments by making these workgroup meetings open to the public and by posting the meeting materials and recordings on the HSCRC's website: <http://www.hscrc.maryland.gov/>. More information can be found in Section II of this report.

As mentioned earlier in the report, one area of caution for our current contract is the fluctuation in trends of the total cost of care. In the All-Payer Model contract, CMMI monitors the total cost of care in Maryland to ensure that reductions in hospital potentially avoidable utilization do not result in unreasonable increases in the total cost of care, which includes cost related to all health care providers, not just hospitals. The All-Payer Model contract provides that in any one calendar year, Medicare total cost of care growth in Maryland may not grow more than 1 percent above Medicare total cost of care growth nationally. Further, the growth in Maryland may not exceed the national average in two consecutive years.

Since 2014, Maryland's total cost of care has fluctuated above and below the national rate as illustrated in Section I. In CY 2014, Maryland's total cost of care rate was lower than the nation. However in CY 2015, Maryland's growth exceeded the national rate by 0.70 percent. In CY 2016, Maryland's growth rate was once again below that of the national average by 0.70 percent. Final data for CY 2017 shows Maryland's growth in total cost of care is 0.75 percent above the nation. The HSCRC will need to ensure that growth does not exceed the nation in 2018 in order to safeguard against a breach of the two consecutive year requirement. Additional information on Maryland's performance can be found in Section I of this report.

The HSCRC will continue to develop monitoring tools, measure performance, and engage stakeholders in order to ensure compliance with the requirements of the All-Payer Model agreement.

## **Contact and More Information**

For questions about this report or more information, please contact Katie Wunderlich, the HSCRC Director of the Center for Engagement and Alignment, at [katie.wunderlich@maryland.gov](mailto:katie.wunderlich@maryland.gov).

More information is available on HSCRC's website: <http://www.hscrc.maryland.gov>.

## Appendix 1. Maryland All-Payer Model Monitoring Report to CMS