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Health Services Cost Review Commission

4160 Patterson Avenue, Baltimore, Maryland 21215
Phone: 410-764-2605 · Fax: 410-358-6217
Toll Free: 1-888-287-3229
hsrc.maryland.gov

TO: Hospital CFOs

FROM: Jerry Schmith 
Director, Revenue and Regulation Compliance

DATE: June 10, 2019

RE: Differential Increase effective July 1, 2019

The purpose of this memo is to prepare Hospitals for the change in the differential, effective July, 1 2019.

In December 2018, the Commission voted to approve staff's recommendation to increase the differential from 6.0 percent to 7.7 percent effective July 1, 2019. The State of Maryland has employed a differential since the 1970s whereby public payers (Medicare and Medicaid) pay less than other payers (primarily commercial payers) due to business practices that avert bad debt in hospitals and keep Maryland's hospital costs low. Hospital charges are adjusted via a markup to ensure that the differential's reduction in charges to public payers does not result in a decline in hospitals' total revenue. Given recent trends of increasing bad-debt write-offs in commercial coverage, it is most equitable that the differential be increased 1.7 percentage points (from the current 6.0 percent to 7.7 percent) to ensure that these costs are not shifted to Medicare and Medicaid. This change accounts for the changes in business practices of private Maryland payers that have resulted in higher bad debt costs. To implement the differential, hospital rates will be increased by approximately 1.2 percent. Medicare and Medicaid will receive an additional discount of 1.7 percent off of charges. The net revenue effect will be revenue neutral to hospitals.

The payer differential shall apply to claims with discharge dates and outpatient service dates on or after July 1, 2019.

The HSCRC will be sharing rate files and issuing rate orders as soon as they are available. Regardless of date of issuance, these orders and files will be effective July 1, 2019.

Included as an attachment to this memo is a workbook that calculates the RY 20 mark up using the new differential. The highlighted cells in column AO provide an estimate of the mark up impact by hospital. It is worth again noting that the **net revenue effect will be revenue neutral to hospitals**. Please note that this is staff's best estimate to date and some numbers, including the statewide UCC, may change pending Commission approval.

Please contact me if at 410-764-2578 if you have any questions.