



maryland
health services
cost review commission

Payment Model Work Group

April 28, 2022



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Update on Medicare FFS Data & Analysis

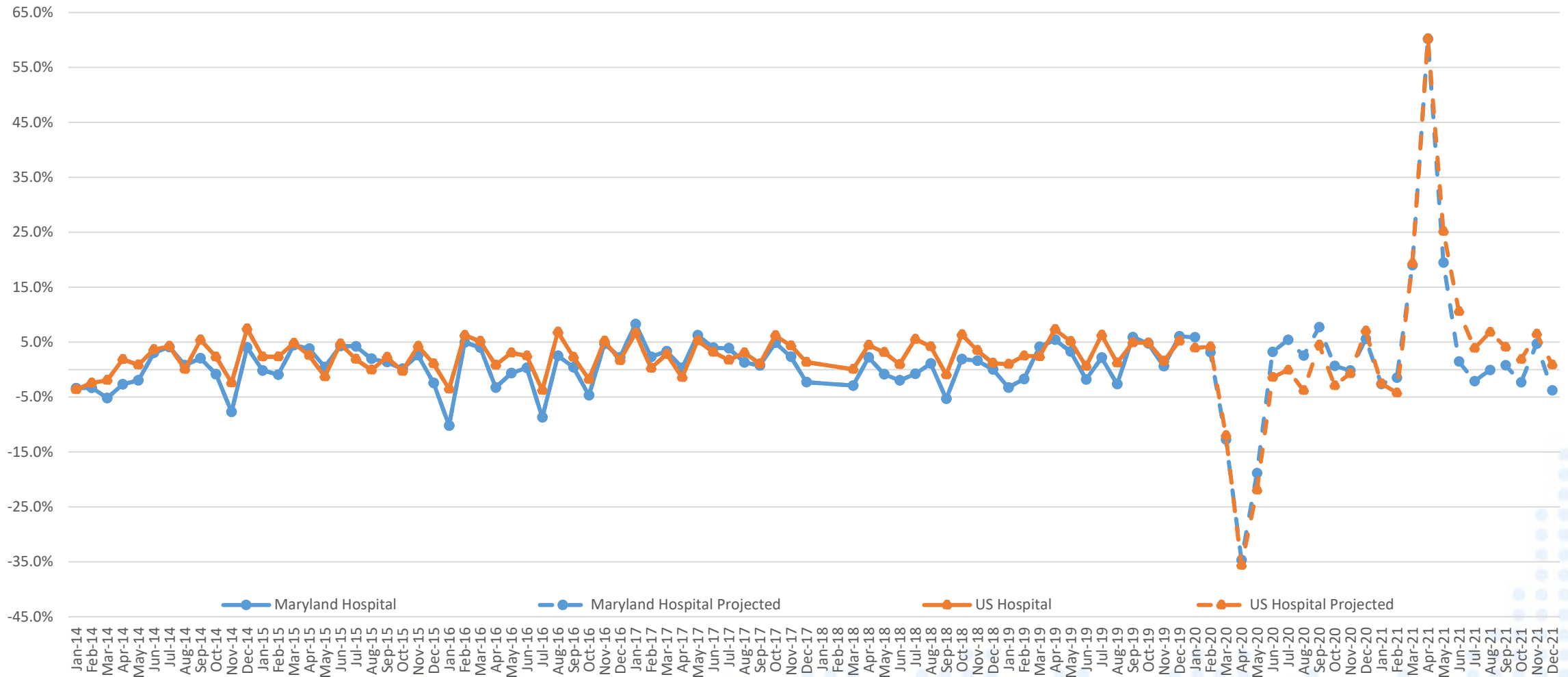
March 2022 Update

Data through December 2021, Claims paid through February 22

Data contained in this presentation represent analyses prepared by HSCRC staff based on data summaries provided by the Federal Government. The intent is to provide early indications of the spending trends in Maryland for Medicare FFS patients, relative to national trends. HSCRC staff has added some projections to the summaries. This data has not yet been audited or verified. Claims lag times may change, making the comparisons inaccurate. ICD-10 implementation and EMR conversion could have an impact on claims lags. These analyses should be used with caution and do not represent official guidance on performance or spending trends. These analyses may not be quoted until public release.

Medicare Hospital Spending per Capita

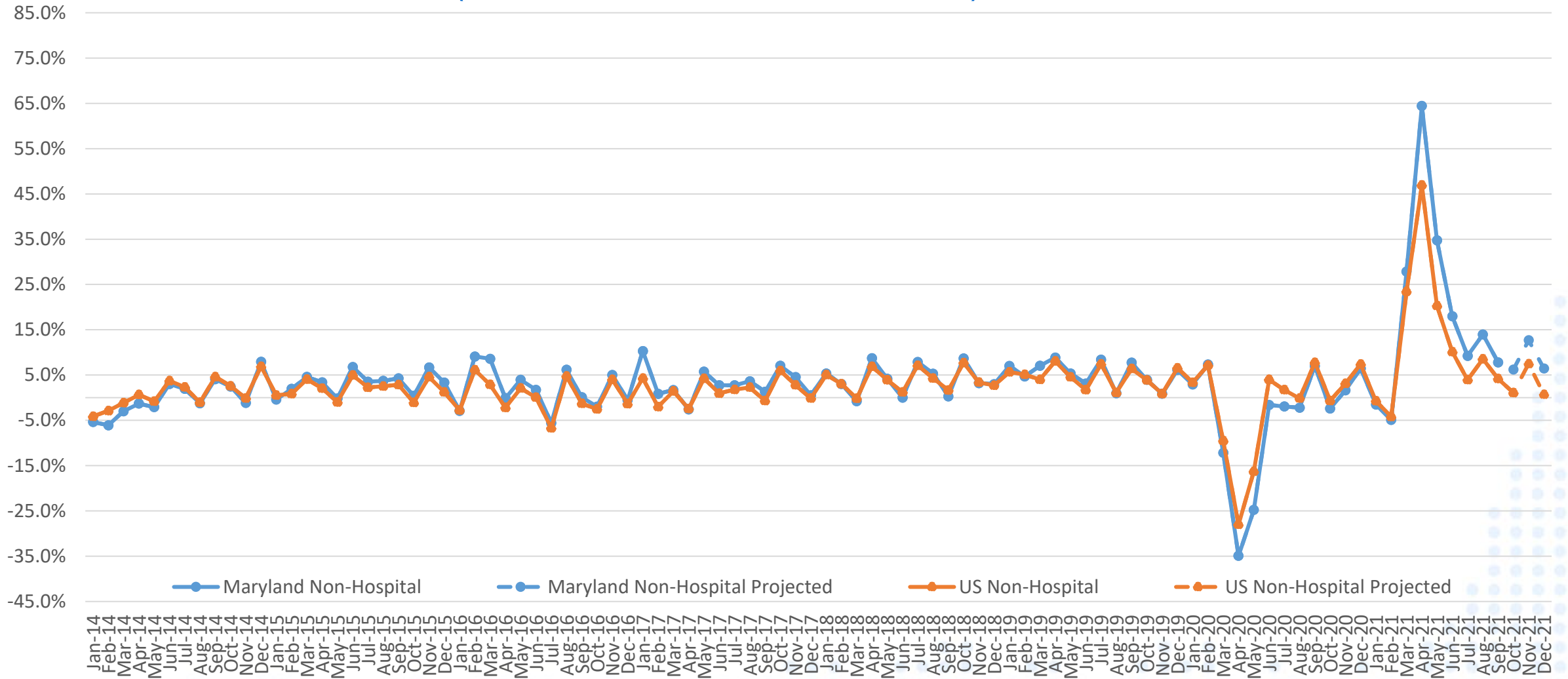
Actual Growth Trend (CY month vs. Prior CY month)



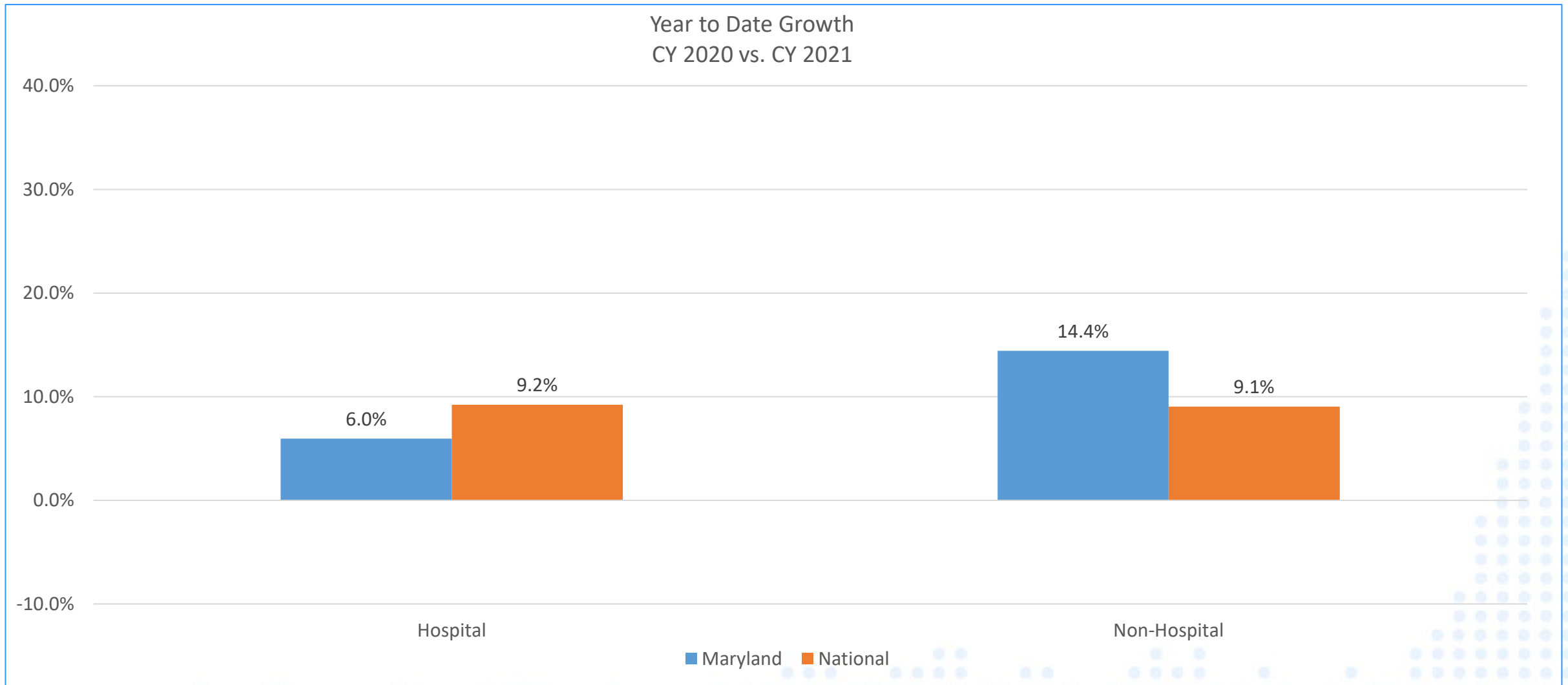
CY16 has been adjusted for the undercharge.

Medicare Non-Hospital Spending per Capita

Actual Growth Trend (CY month vs. Prior CY month)

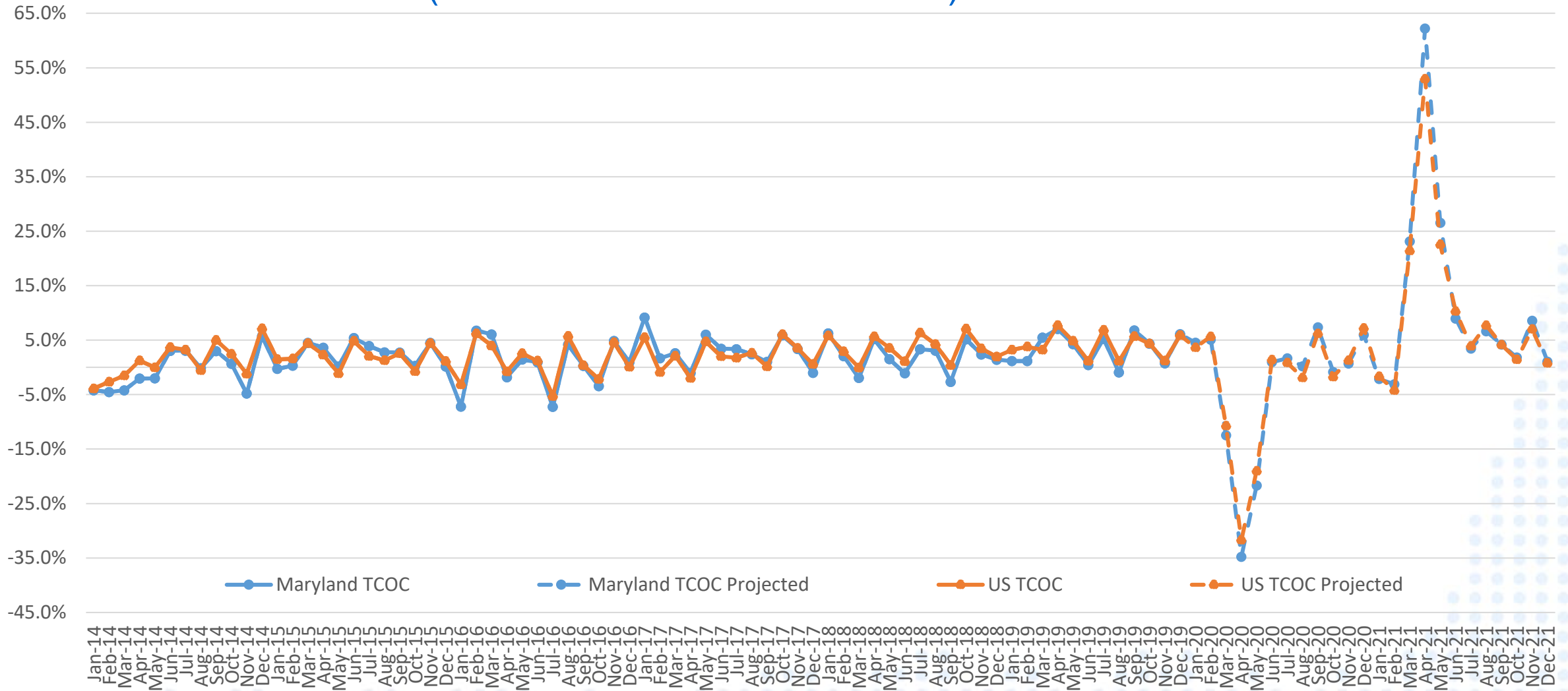


Medicare Hospital & Non-Hospital Payments per Capita



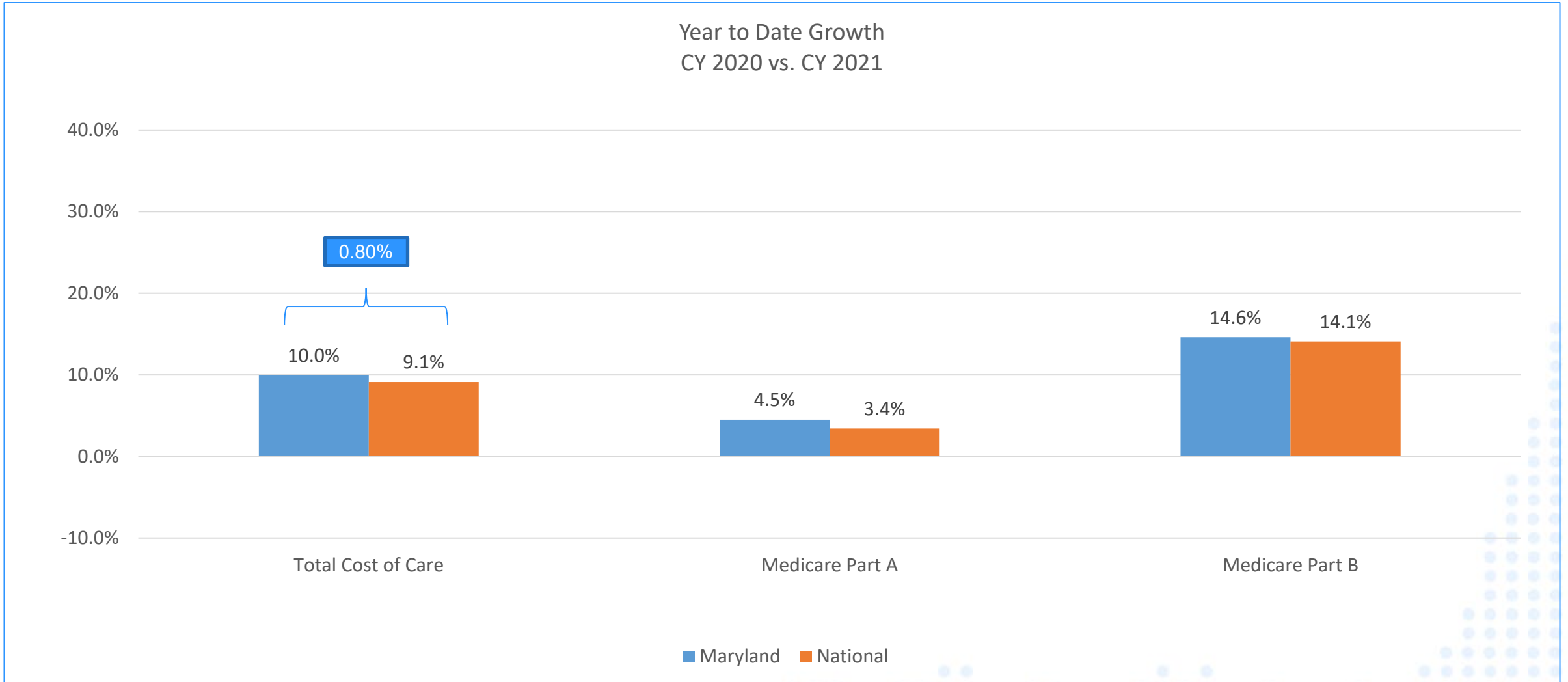
Medicare Total Cost of Care Spending per Capita

Actual Growth Trend (CY month vs. Prior CY month)



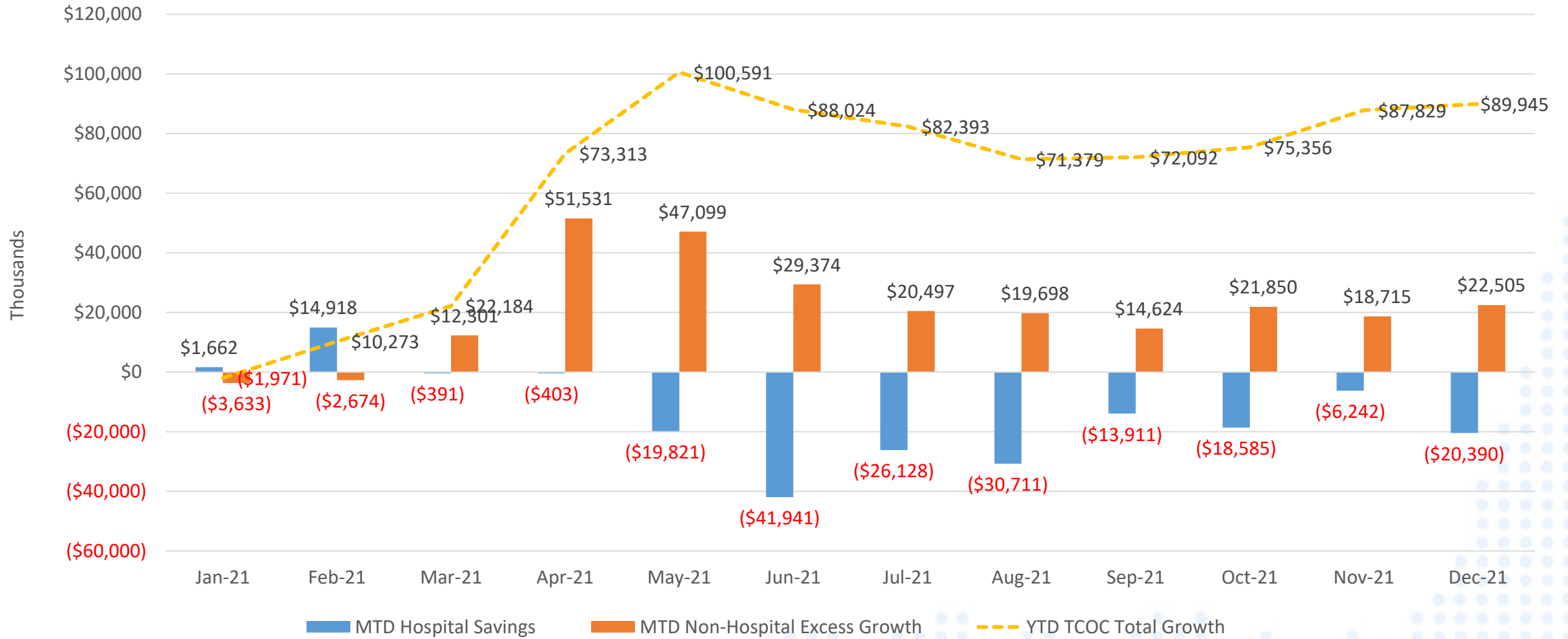
CY16 has been adjusted for the undercharge

Medicare Total Cost of Care Payments per Capita



Maryland Medicare Hospital & Non-Hospital Growth

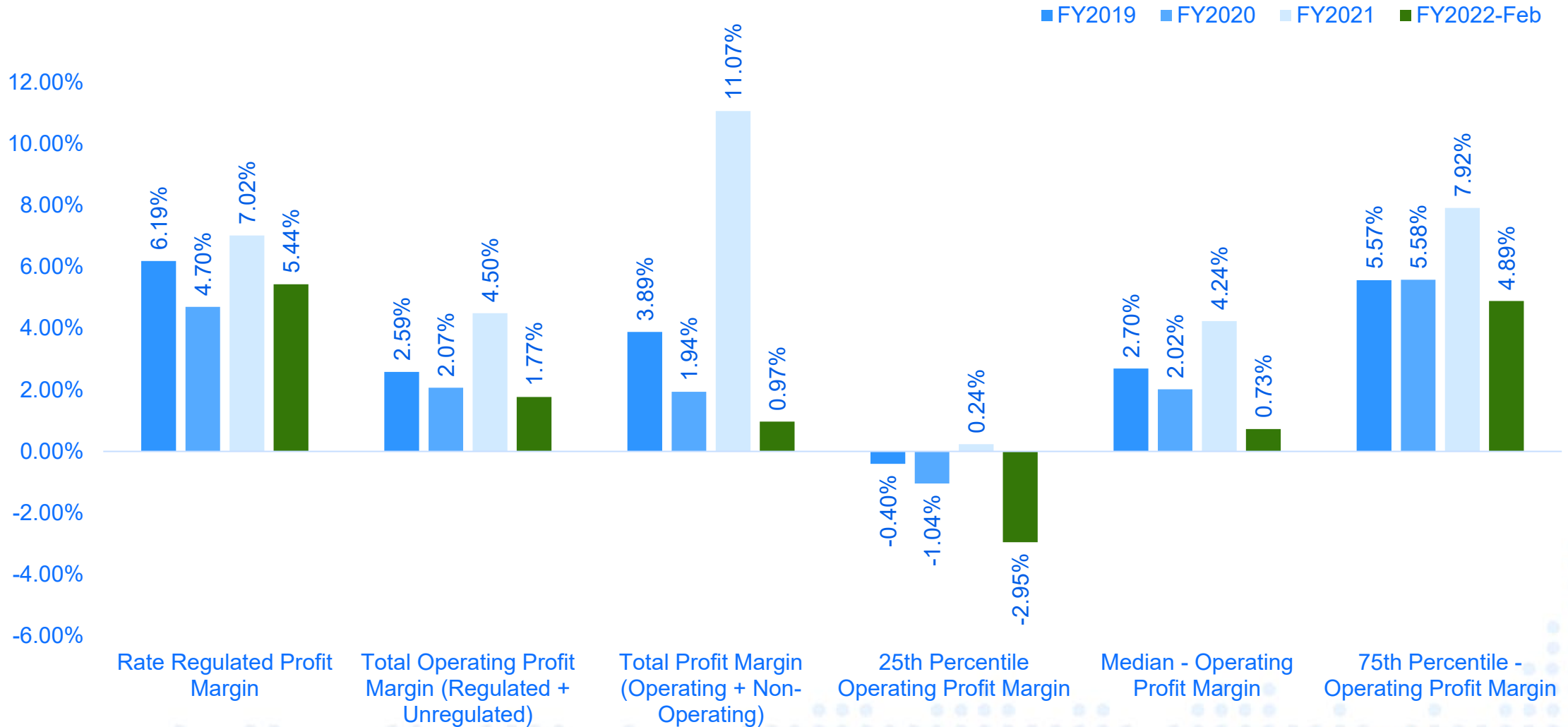
CYTD through December 2021



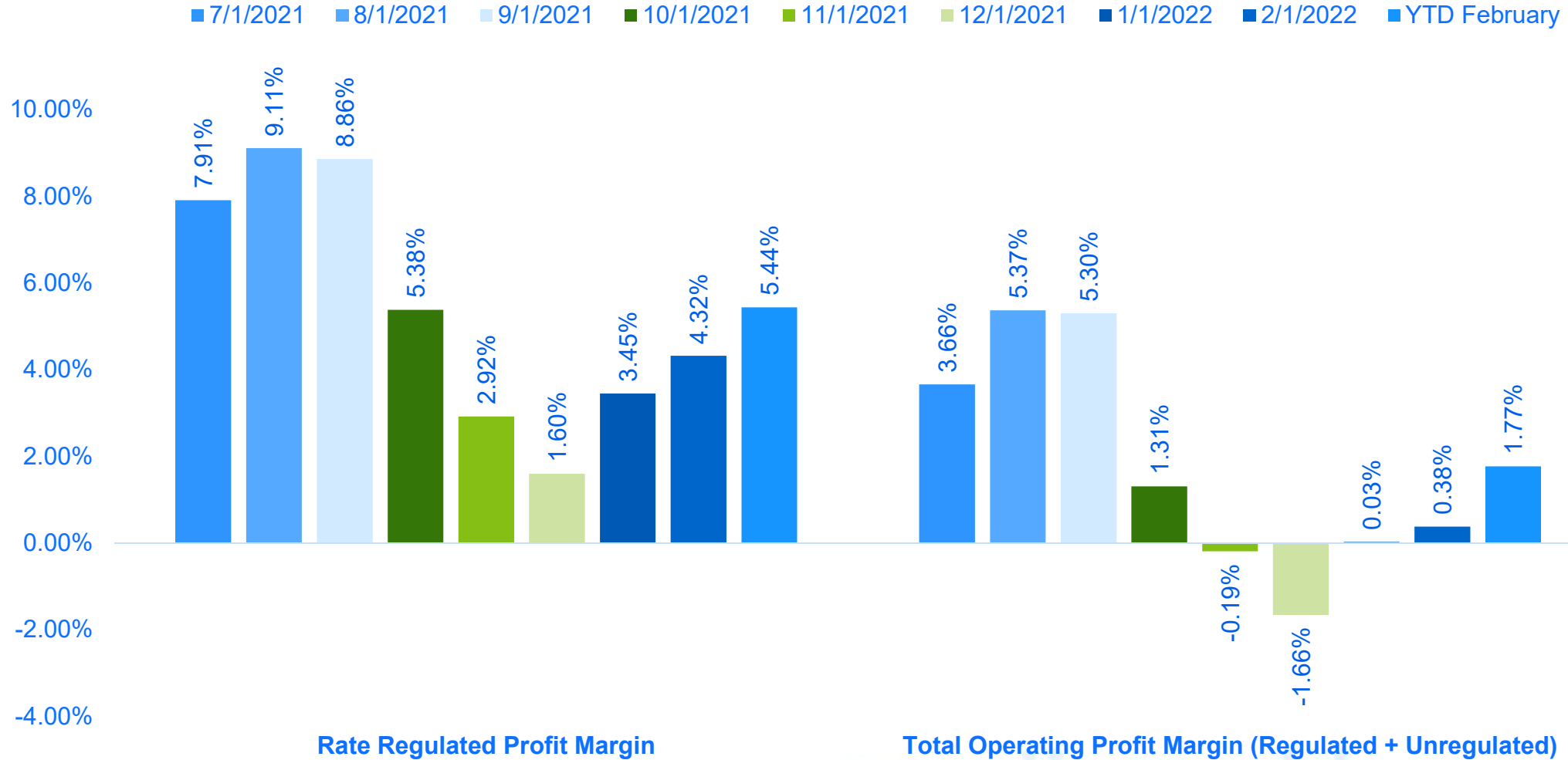


Overview of Hospital Margins

Hospital Margins FY22 YTD FEB, FY21, FY20, FY19



Hospital Margins by Month and FYTD February 2022



Salaries and Wages by Month, FY22, FY21, FY20 as Percentage of FY19

Salaries and Wages by Month as a % of FY 2019 Same Month			
	FY 2022	FY 2021	FY 2020
JUL	112.7%	107.1%	105.2%
AUG	111.6%	106.8%	104.1%
SEP	116.4%	105.7%	104.5%
OCT	133.1%	117.6%	118.3%
NOV	123.4%	107.6%	105.1%
DEC	123.5%	111.3%	105.2%
JAN	126.7%	110.8%	103.9%
FEB	127.7%	110.8%	107.4%
FEB YTD	121.8%	109.6%	106.6%
MAR		110.4%	101.9%
APR		107.8%	100.0%
MAY		110.8%	105.6%
JUN		110.7%	108.0%
FY END		109.7%	105.6%

FY2023 Update Factor Model

Components of Revenue Change Link to Hospital Cost Drivers /Performance

		Weighted Allowance
Adjustment for Inflation (this includes 3.90% for wages and compensation)		3.06%
- Outpatient Oncology Drugs		0.02%
Gross Inflation Allowance	A	3.08%
Care Coordination/Population Health		
- Reversal of One-Time Grants		-0.22%
- Regional Partnership Grant Funding RY23		0.20%
Total Care Coordination/Population Health	B	-0.03%
Adjustment for Volume		
-Demographic /Population		-0.12%
-Transfers		
-Drug Population/Utilization		
Total Adjustment for Volume	C	-0.12%
Other adjustments (positive and negative)		
- Set Aside for Unknown Adjustments	D	0.00%
- Low Efficiency Outliers	E	0.00%
- Capital Funding: GBMC	F	0.01%
- Complexity & Innovation	G	0.14%
-Reversal of one-time adjustments for drugs	H	-0.04%
Net Other Adjustments	I= Sum of D thru H	0.11%
Quality and PAU Savings		
-PAU Savings	J	-0.25%
-Reversal of prior year quality incentives	K	-0.11%
-QBR, MHAC, Readmissions		
-Current Year Quality Incentives	L	0.00%
Net Quality and PAU Savings	M = Sum of J thru L	-0.36%
Total Update First Half of Rate Year 23		
Net increase attributable to hospitals	N = Sum of A + B + C + I + M	2.68%
Per Capita First Half of Rate Year (July - December)	O = (1+N)/(1-0.12%)	2.81%
Adjustments in Second Half of Rate Year 23		
-Oncology Drug Adjustment	P	0.00%
-Current Year Quality Incentives	Q	-0.05%
Total Adjustments in Second Half of Rate Year 23	R = P + Q	-0.05%
Total Update Full Fiscal Year 23		
Net increase attributable to hospital for Rate Year	S = N + R	2.63%
Per Capita Fiscal Year	T = (1+S)/(1-0.12%)	2.76%
<u>Components of Revenue Offsets with Neutral Impact on Hospital Financial Statements</u>		
-Uncompensated care, net of differential	U	-0.43%
-Deficit Assessment	V	0.00%
Net decreases	W = U + V	-0.43%
Total Update First Half of Rate Year 23		
Revenue growth, net of offsets	X = N + W	2.25%
Per Capita Revenue Growth First Half of Rate Year	Y = (1+X)/(1-0.12%)	2.38%
Total Update Full Rate Year 23		
Revenue growth, net of offsets	Z = S + W	2.20%
Per Capita Fiscal Year	AA = (1+Z)/(1-0.12%)	2.32%

CY22 Revenue Growth Estimate

Estimated Position on Medicare Test		
Actual Revenue CY 2021		18,951,788,063
Step 1:		
Approved GBR RY 2022		19,638,102,984
Actual Revenue 7/1/21-12/31/21		9,501,433,932
Approved Revenue 1/1/22-6/30/22		10,136,669,052
FY22 Undercharge in First Half of CY22		(178,000,000)
Anticipated Revenue 1/1/22-6/30/22	A	9,958,669,052
Step 2:		
Approved GBR RY 2022		19,638,102,984
Reverse One Time Extraordinary Adjustments:		(189,274,421)
Adjusted GBR RY 2022		19,448,828,563
Projected Approved GBR RY 2023		19,887,018,288
Permanent Update RY 2023		2.25%
Adjusted Change from GBR RY 2022		1.27%
Step 3:		
Estimated Revenue 7/1/22-12/31/22 (after 49.73% & seasonality)		9,889,814,194
CARES Act \$ Payback		-
FY23 Inflation Advance Payback		(98,505,808)
FY21 Undercharge Release in Second Half of CY22		95,754,888
Projected Revenue 7/1/22-12/30/22	B	9,887,063,274
Step 4:		
Estimated Revenue CY 2022	A+B	19,845,732,326
Increase over CY 2021 Revenue		4.72%

Adjustments to CY22 Revenue Estimate

- Assumes undercharge at 12/31/21 is recovered in first half of CY22 but that additional undercharges will be accrued in the remainder of FY22
 - Staff are not anticipating guaranteeing FY22 Undercharge other than the inflation advance
 - Therefore, estimated CY22 revenue will be reduced by both the anticipated amount of undercharge penalties as of 6/30/22 and remaining undercharge that will be deferred to 1/1/23 in evaluating spending tests
 - Amount is hard to estimate, hospitals should strive to submit accurate charging projections when they submit March experience data next month
 - Currently, as a placeholder, HSCRC is assuming that 178M will be undercharged at FYE
 - Staff will refine this estimate as we move toward a final update factor
- No assumptions have been made about COVID surge revenue for FY22 or COVID expense reimbursement for FY20 and FY21. Staff anticipates finalizing a position on these items in the coming months and including them in the final update factor. The exact terms of these approaches are still tbd but likely include:
 - Consideration of only incremental expenses
 - A more restrictive COVID surge policy than that instituted previously
 - That any expense and surge awards and remaining FY21 undercharge will be offset against additional CARES Phase 4 revenue and potentially previously unused CARES revenue.

CY 2022 Test Approach

- National Approach
 - Scenario 1 (Same as Last Year but updated Base Year):
 - Calculate average trend 2017 to 2019
 - Trend 2021 forward at that rate to calculate 2022 estimate
 - Separately for Part A and Part B, Hospital and Non-Hospital (4 buckets)
 - Scenario 2 (Increase Number of Years Assessed to Create More Stable Statistic):
 - Calculate average trend 2015 to 2019
 - Trend 2021 forward at that rate to calculate 2022 estimate
 - Separately for Part A and Part B Hospital and Non-Hospital (4 buckets)
 - Scenario 3:
 - Utilizes OACT projected FFS TCOC growth for CY 22
- Compared to Maryland Approach:
 - Maryland non-hospital estimated using the same approach for Scenarios 1, Scenario 2, and Scenario 3 (utilizes non-hospital OACT projection)
 - Specifically adjusts for MDPCP fees
 - Plus: Maryland hospital trended from 2021 to 2022 based on HSCRC data and proposed HSCRC all-payer update factor
 - Assumes Medicare trend = All-payer trend
 - Factors in estimated remaining release of remaining undercharge for FY21, take back of FY23 advanced inflation funding, anticipated FY22 undercharge, and other Maryland-specific factors

CY 22 Guardrail Scenarios

CY 2022 Predicted Guardrail: Scenario 1

	Maryland	US	
2021	\$13,088	\$11,527	
2022	\$13,689	\$11,974	Predicted Variance
YOY Growth	4.59%	3.88%	0.72%
TCOC Dissavings	-\$66 M		

CY 2022 Predicted Guardrail: Scenario 2

	Maryland	US	
2021	\$13,088	\$11,527	
2022	\$13,643	\$11,850	Predicted Variance
YOY Growth	4.24%	2.80%	1.44%
TCOC Dissavings	-\$148 M		

CY 2022 Predicted Guardrail: Scenario 3

	Maryland	US	
2021	\$13,088	\$11,527	
2022	\$13,688	\$12,103	Predicted Variance
YOY Growth	4.58%	5.00%	-0.42%
TCOC Savings	\$43 M		

TCOC Savings Test Using Scenario 1 & 2

Removes Medicare portion of undercharge release in CY 2022: \$95.7M X 37% Medicare Payermix= \$35M



Does not remove undercharge released in January 2022 because staff scored anticipated RY 2022 undercharge savings

CY 2022 Predicted Guardrail (Scenario 1)	
	Maryland
2021 Savings (Run Rate)	\$338 M
2022 Annual Dissavings	-\$66 M
2022 Savings (Run Rate)	\$272 M
2022 Savings with One-Time Revenue Adjustments Removed	\$307 M
CY 2022 Predicted Guardrail (Scenario 2)	
	Maryland
2021 Savings (Run Rate)	\$338 M
2022 Annual Dissavings	-\$148 M
2022 Savings (Run Rate)	\$190 M
2022 Savings with One-Time Revenue Adjustments Removed	\$225 M

Target is \$267M in 2022

TCOC Savings Test Using Scenario 3

CY 2022 Predicted Guardrail (Scenario 3)	
	Maryland
2021 Savings (Run Rate)	\$338 M
2022 Annual Savings	\$43 M
2022 Savings (Run Rate)	\$381 M

Target is \$267M in 2022

FY2023 Update Factor Model: MHA Proposal

Components of Revenue Change Link to Hospital Cost Drivers /Performance

		Weighted Allowance
Adjustment for Inflation (this includes 3.90% for wages and compensation)		3.06%
- Outpatient Oncology Drugs		0.02%
- \$100M advance - Inflation Catch Up		0.50%
Gross Inflation Allowance	A	3.58%
Care Coordination/Population Health		
- Reversal of One-Time Grants		-0.22%
- Regional Partnership Grant Funding RY23		0.20%
Total Care Coordination/Population Health	B	-0.03%
Adjustment for Volume		
-Demographic /Population		-0.12%
-Transfers		
-Drug Population/Utilization		
Total Adjustment for Volume	C	-0.12%
Other adjustments (positive and negative)		
- Set Aside for Unknown Adjustments	D	0.00%
- Low Efficiency Outliers	E	0.00%
- Capital Funding: GBMC	F	0.01%
- Complexity & Innovation	G	0.14%
-Reversal of one-time adjustments for drugs	H	-0.04%
Net Other Adjustments	I = Sum of D thru H	0.11%
Quality and PAU Savings		
-PAU Savings	J	-0.14%
-Reversal of prior year quality incentives -QBR, MHAC, Readmissions	K	-0.11%
-Current Year Quality Incentives	L	0.00%
Net Quality and PAU Savings	M = Sum of J thru L	-0.25%
Total Update First Half of Rate Year 23		
Net increase attributable to hospitals	N = Sum of A + B + C + I + M	3.29%
Per Capita First Half of Rate Year (July - December)	O = (1+N)/(1-0.12%)	3.42%
Adjustments in Second Half of Rate Year 23		
-Oncology Drug Adjustment	P	0.00%
-Future Adjustment	Q	0.00%
Total Adjustments in Second Half of Rate Year 23	R = P + Q	0.00%
Total Update Full Fiscal Year 23		
Net increase attributable to hospital for Rate Year	S = N + R	3.29%
Per Capita Fiscal Year	T = (1+S)/(1-0.12%)	3.42%
Components of Revenue Offsets with Neutral Impact on Hospital Financial Statements		
-Uncompensated care, net of differential	U	-0.22%
-Deficit Assessment	V	0.00%
Net decreases	W = U + V	-0.22%
Total Update First Half of Rate Year 23		
Revenue growth, net of offsets	X = N + W	3.07%
Per Capita Revenue Growth First Half of Rate Year	Y = (1+X)/(1-0.12%)	3.19%
Total Update Full Rate Year 23		
Revenue growth, net of offsets	Z = S + W	3.07%
Per Capita Fiscal Year	AA = (1+Z)/(1-0.12%)	3.19%



MHA's proposal assumed an additional 0.5% added to inflation with the release of GI's Q1 book. Staff intend to adopt the inflation figures when they get released, but to ensure an apples-to-apples comparison of updates, staff removed MHA's assumption.

CY 22 Revenue Growth Estimate

Estimated Position on Medicare Test		
Actual Revenue CY 2021		18,951,788,063
Step 1:		
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Actual Revenue 7/1/21-12/31/21		9,501,433,932
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FY22 Undercharge in First Half of CY22		(178,000,000)
Anticipated Revenue 1/1/22-6/30/22	A	9,958,669,052
Step 2:		
Approved GBR RY 2022		19,638,102,984
Reverse One Time Extraordinary Adjustments:		(189,274,421)
Adjusted GBR RY 2022		19,448,828,563
Projected Approved GBR RY 2023		20,046,083,899
Permanent Update RY 2023		3.07%
Adjusted Change from GBR RY 2022		2.08%
Step 3:		
Estimated Revenue 7/1/22-12/31/22 (after 49.73% & seasonality)		9,968,917,523
CARES Act \$ Payback		-
FY23 Inflation Advance Payback		-
FY21 Undercharge Release in Second Half of CY22		95,754,888
Projected Revenue 7/1/22-12/30/22	B	10,064,672,411
Step 4:		
Estimated Revenue CY 2022	A+B	20,023,341,463
Increase over CY 2021 Revenue		5.65%

CY 22 Guardrail Scenarios under MHA proposal

CY 2022 Predicted Guardrail: Scenario 1			
	Maryland	US	
2021	\$13,088	\$11,527	
2022	\$13,751	\$11,974	Predicted Variance
YOY Growth	5.07%	3.88%	1.19%
TCOC Dissavings	-\$118 M		

CY 2022 Predicted Guardrail: Scenario 2			
	Maryland	US	
2021	\$13,088	\$11,527	
2022	\$13,705	\$11,850	Predicted Variance
YOY Growth	4.72%	2.80%	1.92%
TCOC Dissavings	- \$200 M		

CY 2022 Predicted Guardrail: Scenario 3			
	Maryland	US	
2021	\$13,088	\$11,527	
2022	\$13,750	\$12,103	Predicted Variance
YOY Growth	5.06%	5.00%	0.06%
TCOC Dissavings	-\$6 M		

TCOC Savings Test Using Scenario 1 & 2

Removes Medicare portion of undercharge release in CY 2022: \$95.7M X 37% Medicare Payermix= \$35M



Does not remove undercharge released in January 2022 because staff scored anticipated RY 2022 undercharge savings

CY 2022 Predicted Guardrail (Scenario 1)	
	Maryland
2021 Savings (Run Rate)	\$338 M
2022 Annual Dissavings	- \$118 M
2022 Savings (Run Rate)	\$220 M
2022 Savings with One-Time Revenue Adjustments Removed	\$255 M
CY 2022 Predicted Guardrail (Scenario 2)	
	Maryland
2021 Savings (Run Rate)	\$338 M
2022 Annual Dissavings	- \$200 M
2022 Savings (Run Rate)	\$138 M
2022 Savings with One-Time Revenue Adjustments Removed	\$173 M

Target is \$267M in 2022

TCOC Savings Test Using Scenario 3

CY 2022 Predicted Guardrail (Scenario 3)	
	Maryland
2021 Savings (Run Rate)	\$338 M
2022 Annual Dissavings	- \$6 M
2022 Savings (Run Rate)	\$332 M

Target is \$267M in 2022



Appendix



Quality Adjustments

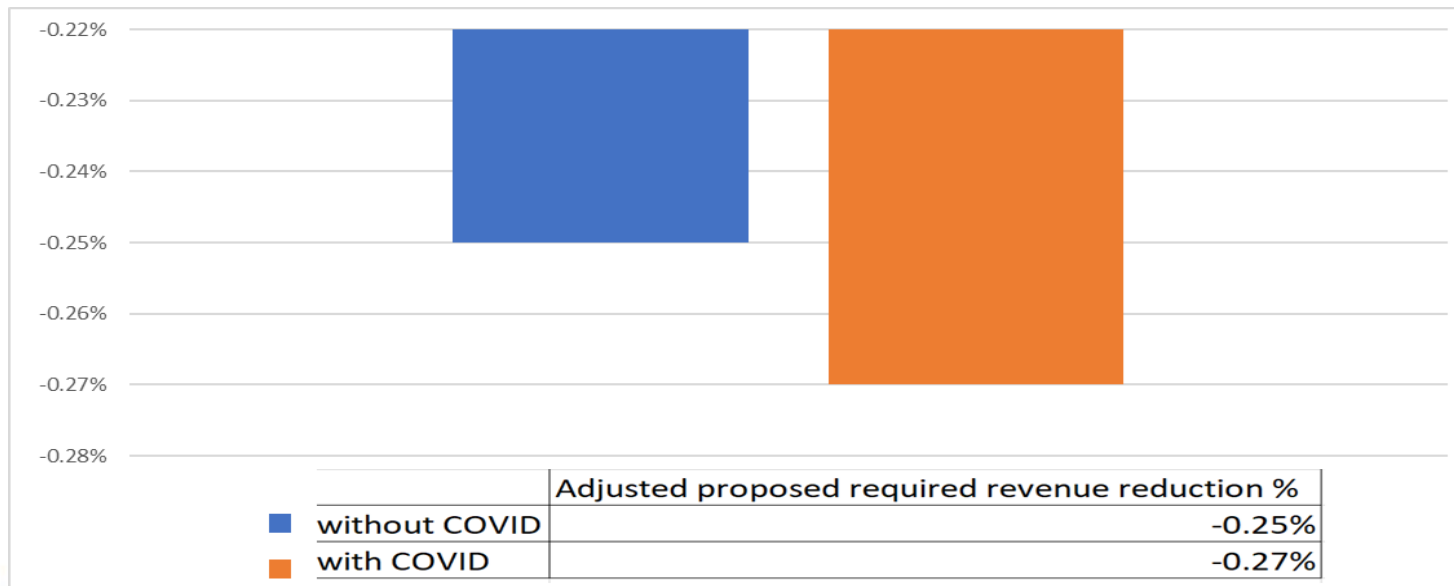
RY 2023 Quality Revenue Adjustments

- Quality staff have worked with the Performance Measurement Workgroup on implementing RY 2023 Revenue Adjustments over the past few months
 - Main considerations were how to account COVID
- Proposed IPPS/OPPS Rule suspended at revenue at risk for Federal HAC and VBP program, which are the equivalent of MHAC and QBR
- **Preliminary Proposal:** Delay implementation of RY 2023 revenue adjustments until January 1, pending Final Rule from CMS; Update Factor Quality Incentives will be listed as TBD
 - HSCRC staff will recommend waiving of QBR and MHAC
 - HSCRC staff will develop risk-adjusted readmission measure that takes into account COVID:
 - Use current proposed Model 2 (concurrent norms)
 - Develop regression-based model with additional risk-adjustment for COVID
 - Consider making penalty only to align with federal government p4p's given unprecedented changes to national policies.

Policy	Statewide Reward/(Penalty)	Statewide Reward/(Penalty) with COVID Adj.
RRIP	\$86.5M	\$54.9M
MHAC	\$11.2M	(-\$8.2M)
QBR	(-\$97M)	(-\$56.8M)
Total	\$0.7M	(-\$9.9M)

PAU RY23 Statewide Reduction with and without COVID

- Adjustment for COVID in the PAU Shared Savings program is potentially needed
 - Additional risk adjustment, such as concurrent norms, is not possible:
 - AHRQ risk adjustment does not take into account COVID
 - Readmissions in PAU are not case-mix adjusted
- To account for COVID, staff recommends omitting COVID cases for determining:
 - The statewide shared savings reduction, and
 - By-hospital performance; associated revenue with and without COVID was highly correlated (R=.9996)





Drug Inflation

RX22 High-Cost Drug Inflation Factor

- In RX21 and RX22 the Commission used a 6% inflation factor for drug prices
 - 10% had been used prior to that
 - Factor covers price trend and mix trend, volume is addressed through the CDS-A adjustments
- Staff believes data from the last three periods would support a lower price and mix trend. Trend has mostly been volume driven.
- As data from RX21 does not show any increase in trends, as indicated last year, Staff is proposing to lower the drug trend to 1% for RX23. Artificially high drug trends crowd out inflation in other areas.

Background on Drug Inflation Analysis

- Drug inflation is segregated in the Update Factor. Inflation allocated to high-cost drugs on the CDS-A is backed out of the total inflation.
- Starting in 2019, the HSCRC switched to using a stable drug list in the CDS-A. This allows for a more accurate assessment of trends in high-cost drugs.
 - 2020 saw the addition of the drugs previously covered under the Innovation policy, which is now focused only on IP (Lutathera and Spinraza)
 - There were no further policy modification for RY2021
- The HSCRC now has 3 years of stable, accurate data on drug price trends for the high-cost drugs from the CDS-A survey that allows for the evaluation of price trends in consistent fashion.

Trends in the CDS-A Drug List 2018 to 2021

- HSCRC calculates specific trends from CDS-A included drugs.
- Prior analysis was showing persistently declining drug trends since peaks in the 2014 to 2016 window.
- Use of 340B discounts is now relatively stable.
- While Price and Mix trends were slightly higher in 2021, they remain well below prior adjustments. Therefore, Staff is proposing 1% for this Update Factor.

Period (1)	Pure Volume Trend	Price and Mix Trend	Total Trend
FY18 to FY19	8.2%	-4.4%	3.4%
FY19 to FY20	7.2%	-4.3%	2.5%
FY20 to FY21	3.7%	0.4%	4.1%

Staff also built a projection model based on the prior year trends that normalizes out outlier trends for young and old drugs. This projection generates 3.2% Price and Mix trend in FY22, but the model over-projected actual trends in past years.

(1) Reflects reported amounts from CDS-A survey in the second period. Therefore 2019 in the 2019 to 2020 trend is different than that used in 2018 to 2019. Although differences are relatively small and primarily reflect the addition, in 2020, of the drugs previously under the Innovation policy.