All Payer Hospital System Modernization
Payment Models Workgroup

Meeting Agenda

January 16, 2018
1:00 pm to 3:00 pm
Health Services Cost Review Commission
Conference Room 100
4160 Patterson Avenue
Baltimore, MD 21215

I	Introductions and Meeting Overview
II	Policy Update on Differential and Medicare Advantage
III	MPA Efficiency Adjustment
IV	Adjourn

Payment Model Work Group

January 16, 2019

HSCRC
Health Services Cost Review Commission

Updates: Differential and Medicare Advantage

- Starting July 1st, 2019, the public payer differential will be set at 7.7 percent
  - 5.7 percent for business practices (from 4.0 to 5.7)
  - 2.0 percent for prompt-pay practices (no change)
  - This change is a revenue neutral adjustment and will apply to revenue with dates of discharge/visit on or after July 1st, 2019.
- Beginning January 1, 2019, (for patients with dates of discharge/visit on or after January 1)Medicare Advantage Organizations may now take a two percent sequestration reduction on final payments to Maryland hospitals for services provided to Medicare Advantage beneficiaries.
  - The adjustment does not apply to the patient responsibility portion of the bill.

MPA Efficiency Adjustment and TCOC Model Savings Approach

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Executive Summary

- TCOC Model required to save $300 million annually in Medicare expenditures by 2023
- The State has several tools to get these savings, but:
  - Uncertainty in whether savings apply to Medicare target (Update Factor, PAU Savings, MPA, removing excess capacity, hospital efficiency, etc.)
  - Savings may come from:
    - All-payer tools vs. Medicare-specific tools
    - Price levers vs. care transformation
- Under this proposed approach:
  - Continue to set Maryland hospital revenue at an economically sustainable rate for all payers
  - Meet Medicare savings targets using MPA Efficiency Adjustment
  - Savings from other policy levers can be reinvested

Objectives of MPA Efficiency Adjustment and TCOC Model Savings Approach

1. Create a predictable and transparent approach to set the annual Update Factor and achieve TCOC Model Medicare Savings
2. Incentivize and prioritize participation in Care Redesign Programs to share accountability for total cost of care with other provider types
3. Establish a framework for reinvesting system savings in population health, infrastructure, or other innovative policies

Objectives of the TCOC Model

- Ensure that Maryland all-payer hospital revenue grows at an economically sustainable rate. Revenue growth target is the lesser of:
  - 10-year GSP growth, and
  - National Medicare TCOC growth
- Meet the savings requirement to reduce Maryland annual Medicare expenditures by $300 million in 2023
  - Approximately 2% of TCOC per capita
  - Derived from "excess costs" in Maryland versus peer states

Medicare Specific Requirement: Incremental Savings

- Increase the current run rate (from 2013 base) to $300M by the end of 2023

Year	2019	2020	2021	2022	2023
Required level of TCOC savings	$120M	$156M	$222M	$267M	$300M
Increase in savings from prior year	$0	$36M	$66M	$45M	$33M

- In other words, increase in annual Medicare TCOC Savings of $180M from 2019 to 2023

Background: Current All-Payer Hospital Rate Setting

- Annual all-payer revenue update to hospitals reflects several factors, including:
  - Inflation
  - Volume (e.g., demographic adjustment)
  - Quality and PAU Savings
  - Other Adjustments (e.g., categoricals, set-aside)
- The all-payer revenue update was set to capture the necessary Medicare savings under the All-Payer Model (2014-2018)
- Q: If the all-payer "revenue" update reflects the best estimate for all payers, but Medicare specifically requires an additional "level" of annual savings, should those additional savings come on a Medicare-specific basis?
  - This proposal assumes answer is yes

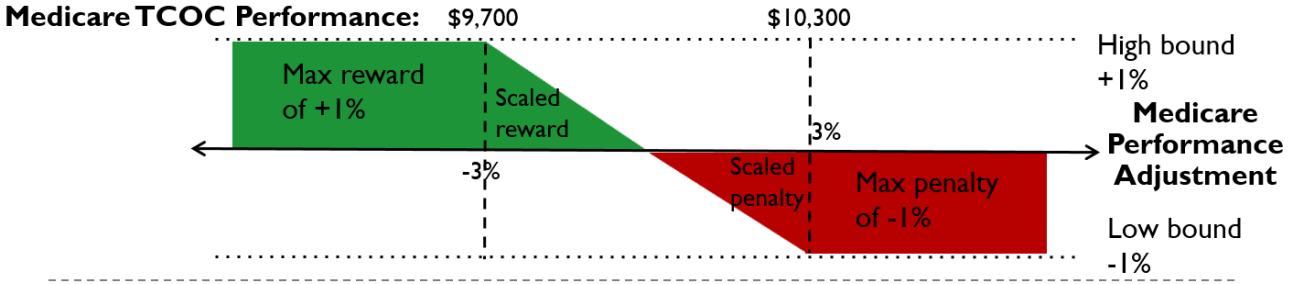
Proposed Approach for the All-Payer Update Factor under the TCOC Model

- The HSCRC will ensure:
  - The Update Factor is set to ensure that hospital all-payer revenue continues to grow at a sustainable rate
  - The Update Factor is not intended as the tool to obtain the required incremental Medicare savings
- The incremental Medicare savings necessary to meet TCOC Model requirements will come from the MPA Efficiency Adjustment

Medicare Performance Adjustment (MPA)

- MPA has two components, both implemented as a percentage adjustment to hospitals' Medicare payments:

1. Traditional MPA: with TCOC attribution algorithm, ±1% Medicare revenue at risk, etc.



2. MPA Efficiency Adjustment:

- Move money to/from hospitals on a Medicare-only basis, e.g.:
  - A. To hospitals for performance in episode-based CRP track, ECIP
  - B. From hospitals to get CMS their required Medicare savings

Proposed Approach for Incremental Medicare Savings under the TCOC Model

- The MPA Efficiency Adjustment will target Medicare savings necessary beyond the current total cost of care run rate
  - For example: If the run rate is $120 million, then the MPA Efficiency Adjustment will be equal to $36 million to hit the required $156 million target for 2020
  - Alternatively, if the run rate is $125 million, the adjustment will be equal to $31 million
- Hospitals have the opportunity to recoup payment reductions from the MPA Efficiency Adjustment through participating in Care Redesign Programs

Applying the Medicare Savings Approach

1. Prospectively determine how the MPA Efficiency Adjustment will be allocated among hospitals
   a. If $36M in additional Medicare savings are required, and Hospital A has a 10% share, Hospital A's MPA Efficiency Adjustment = $3.6M
   b. Different allocation methods are feasible (hospital share of Medicare payments, Care Redesign opportunity, etc.)
2. Allow hospitals to recoup their savings through Care Redesign Program participation, etc.
   a. For example, if a Hospital A earned a $5M reconciliation payment, then they would received a net MPA efficiency adjustment of $1.4M

Timing of MPA Adjustments and CRP Tracks

- MPA Efficiency Adjustments will begin in the calendar year corresponding to the required Medicare savings
- CRP Tracks should begin a year prior in order to allow hospitals to earn offsetting reconciliation payments

Year	2019	2020	2021	2022	2023
Required Savings	$120	$156 mil.	$222 mil.	$267 mil.	$300 mil.
CRP Track goes live	ECIP Y1	ECIP Y2	New CRP	?	?
CRP Reconciliation Payments		ECIP Y1	ECIP Y2	New CRP	?

Rationale for MPA Efficiency Adjustment

- Ensures that the Medicare savings are actually achieved, in a predictable, equitable manner.
  - Incentivizes hospitals to engage in care redesign and create new CRP tracks that can earn reconciliation payments
  - Hospitals that do not create savings through care redesign will bear a larger share of the responsibility for meeting Medicare savings target
- Allows Medicare savings achieved from other policy levers (outlier costs, deregulation, excess capacity, etc.) in excess of the required incremental savings to instead be reinvested in the system (population health, infrastructure, or other innovative policies)

Appendix

Background: Hypothetical Hospital A in ECIP (as currently designed)

- Expected annual **Medicare** hospital payments: **$200M**
- 1. Traditional MPA: Yields +1% adjustment = *+$2M*
- 2. MPA Efficiency Adj.: ECIP reconciliation payment = *+$5M*
  - Calculation: TCOC savings in episodes = *$8M*
    - CMS cut, 3% off benchmark price (officially) = *($3M)*
    - Hospital receives the remainder $8M - $3M = *$5M*
  - $5M ECIP payment provided to Hospital A through MPA Efficiency Adjustment of +2.5%
- Result: Hospital A **Medicare** payments (+3.5%): **$207 M**

Example with MPA Efficiency Adjustment and ECIP Participation Producing Savings

	2019	2020	2021
Beginning Yr TCOC Savings	$120 million	$125 million	$171 million
ECIP Reconciliation Payment	N/A	-$5 million	-$15 million
TCOC Savings Target	$120 million	$156 million	$222 million
MPA Adjustment	$0	$156-(125-5) = $36 million	$222-(171-15) = $66 million
End of Year TCOC Savings	$120 +5 for ECIP = $125 million	$125-5+36 +15 for ECIP = $171 million	$171-15+66 + 0 for ECIP = $222 million

1. ECIP does not increase cumulative TCOC savings. But ECIP does…
   a. Increase the share of savings from care transformation rather than price levers, and
   b. Create an opportunity for savings to come from non-hospital providers.
2. The MPA Efficiency Adjustment is allocated to hospitals prospectively so that hospitals can keep the care transformation savings they produce.