Maryland
Hospital Association

May 13, 2019

Nelson J. Sabatini
Chairman, Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

Dear Chairman Sabatini:

On behalf of the Maryland Hospital Association's 62 member hospitals and health systems, we appreciate the opportunity to comment on the HSCRC's rate year 2020 annual payment update. Hospitals acknowledge the efforts of commission staff and the careful consideration of the payment update by the commissioners.

MHA agrees with your conclusion that the HSCRC should engage the Maryland Insurance Administration. Our model savings have surpassed all expectations. We all need the chance to better understand how these savings are shared with the public.

Hospitals support the non-global budget revenue update. Commission staff have taken a reasonable approach in recommending market basket inflation minus 0.5% for productivity improvement. We support this recommendation.

Increase the global budget update by 0.33 percent. Hospitals recognize that the proposed rate year 2020 annual payment update would be the largest one in several years. However, MHA respectfully requests that the HSCRC raise this year's proposed update by 0.33 percent because, as we will explain on pages 2 to 4:

- A modest increase allows transformation to be expanded under the Total Cost of Care Model
- Maryland's hospital care is affordable, even after taking into account our proposed increase
- The proposed Medicare limits are extremely conservative, yet our proposal is within those limits
- Actual hospital spending per capita is more favorable than had been projected.

We look forward to discussing the update at the May 30 meeting of the Payment Models Work Group and at the HSCRC's monthly public meeting on June 12, as we continue to work together on behalf of the people and communities we serve.

Sincerely,

Michael B. Robbins, Senior Vice President

Brett McCone, Senior Vice President

cc: Joseph Antos, Ph.D., Vice Chairman
Victoria W. Bayless
John M. Colmers
James Elliott, M.D.
Adam Kane
Jack C. Keane
Katie Wunderlich, Executive Director
Jerry Schmith, Principal Deputy Director

Enclosure

Rationale for Additional 0.33 Percent Global Budget Increase

A modest increase allows transformation to be expanded under the Total Cost of Care Model

Maryland's performance through calendar year 2018 against both our Medicare and all-payer requirements creates ample room for the commission to add funding to expand upon the transformational activities achieved to date. Our $273 million of Medicare total cost of care (TCOC) savings in 2018 and $1.4 billion of all-payer per capita hospital savings over the term of the prior model demonstrate that care transformation is working.

Over the next five years, the Centers for Medicare and Medicaid Services (CMS) will evaluate Maryland's model, relative to national performance, not just on dollars saved but also with respect to care transformation. *A modest increase now will allow hospitals to further invest in care transformation*, building on the strong performance to date.

Maryland's hospitals are committed to ensure Maryland is successful under the model for the long run. We appreciate the need to balance this concern with providing revenues that are sustainable. As reflected in the chart below, in two out of the last three years, the final inflation factor used in the annual payment update was below actual inflation. Compounded, the inflation used over the three-year period fell short of actual inflation by 0.3 percent.

Rate Year	Inflation at Time of Update	Inflation Used in Update	Actual Inflation	Difference: Inflation in Update vs. Actual Inflation
2017	2.49%	1.92%	2.29%	(0.37%)
2018	2.66%	2.66%	2.39%	0.27%
2019	2.57%	2.32%	2.50%	(0.18%)
Compounded total	**7.92%**	**7.05%**	**7.35%**	**(0.30%)** compounded difference

Commission staff are correct that the Global Insights inflation figure has been higher at the time of the update than it has been in subsequent releases. However, the final approved inflation factor has been lower than the projection. Over a much longer historical period – 2000 through 2019 – actual inflation is equal to inflation at the time of the projection.

Maryland's hospitals believe that a modest increase is needed to boost transformation efforts as hospitals have funded inflation beyond the amount in the annual payment update. In rate year 2019, the commission reduced staff's recommendation by an additional 0.25 percent. At that time, commissioners indicated a willingness to revisit this decision should more favorable Medicare TCOC savings be achieved. We understand that the commission could not revisit this issue during fiscal year 2019 due to problems with CMS data. Those problems are now resolved.

Maryland's hospital care is affordable

All-payer per capita hospital spending in Maryland is affordable and will remain affordable with our modest request. Adding 0.33 percent still allows for savings relative to the most recent three-year average State Gross Domestic Product per capita. We would also note that we understand the contractual all-payer definition of affordability to be 3.58 percent, compounded since the 2013 base period.

Recent figures released by the Health Care Cost Institute (HCCI) reflect Maryland's commercially insured hospital spending per capita to be among the lowest in the nation. According to HCCI, **Maryland's inpatient and outpatient hospital spending per person are both the 2nd lowest in the nation**. (See Attachment 1.) When non-hospital spending is included, **Maryland is the 5th lowest**. (See Attachment 2.) At the same time, individual and family health plan premiums rose by 4.5% annually from calendar year 2013 to calendar year 2017.

We agree that the commission should return some savings to payers under the Total Cost of Care Model. Including the rate year 2020 proposal, hospitals will have returned more than $350 million in payer savings. We question the need to increase the potentially avoidable utilization (PAU) savings figure by an additional 0.3 percent given the strength of cost containment performance to date and need to understand how additional model savings correlates with health plan premiums.

The proposed Medicare limit calculations are extremely conservative, yet our proposal is within those limits

We appreciate the important consideration of Maryland's Medicare TCOC performance as the commission determines the Rate Year 2020 Update. Even as we believe the staff's calculations are very conservative, *a modest 0.33 percent all-payer increase will still generate Medicare savings for calendar year 2019*.

More important, we anticipate that the commission will approve the proposed MPA Efficiency Component policy, as explicitly allowed under the model contract. The MPA Efficiency Component is a valuable tool that the commission can use to directly adjust Medicare payments, ensuring that Maryland complies with the Total Cost of Care Model savings requirement. Commission staff presented a draft recommendation at the March public meeting and we would support final approval of that policy proposal.

Even without the MPA Efficiency Component, staff project Medicare TCOC growth at 3.72 percent, converted to a 3.35 percent all-payer revenue limit. The following conservative estimates are included in these figures:

- 3.72 percent national Medicare TCOC growth is calendar year 2018 actual. Other CMS sources suggest the future national growth rate could be **as high as 4.3 percent**.
- Staff used the calendar year 2018 actual Medicare growth rate but did not use the actual difference statistic or actual non-hospital growth factor. The actual difference statistic in

calendar year 2018 was 2.26 percent. The excess non-hospital growth statistic in calendar year 2018 was 0.66 percent, the most favorable performance in several years. Applying these figures, **the all payer revenue growth limit to produce savings would be 5.70 percent**. (See Attachment 3.)

- The actual difference statistic of 0.83 percent is more than 0.50 percentage points below the five-year average of 1.39 percent. Using the five-year average for both figures, the all-payer growth limit to produce savings would be 4.69 percent. At 3.66 percent, the all-payer growth limit is understated by at least 1 to 2 percentage points. (See Attachment 3.)
- In the "Monitoring Maryland Performance" data presented by staff at the May public meeting, for the first three months of calendar year 2019, all-payer per capita spending grew 1.36 percent while Medicare spending declined by 3.68%. This is a difference statistic of **more than 5.00 percentage points.**

In summary, these three layers of conservatism combine to make the proposed update much lower than needed to satisfy the savings goals of the Total Cost of Care Model contract.

Finally, while it is not the intent of our recommendation, we would note that, under the terms of the model contract, Maryland can grow up to 1 percentage point above the national TCOC growth limit during calendar year 2019 because we outperformed the nation in calendar year 2018. Maryland's TCOC savings of $273 million has already exceed the calendar year 2020 target of $156 million. We do not anticipate that a modest increase would cause Maryland's TCOC to increase faster than the nation, but technically, Medicare TCOC could grow up to 1 percentage point above the nation in calendar year 2019.

Actual hospital spending per capita is more favorable than projected

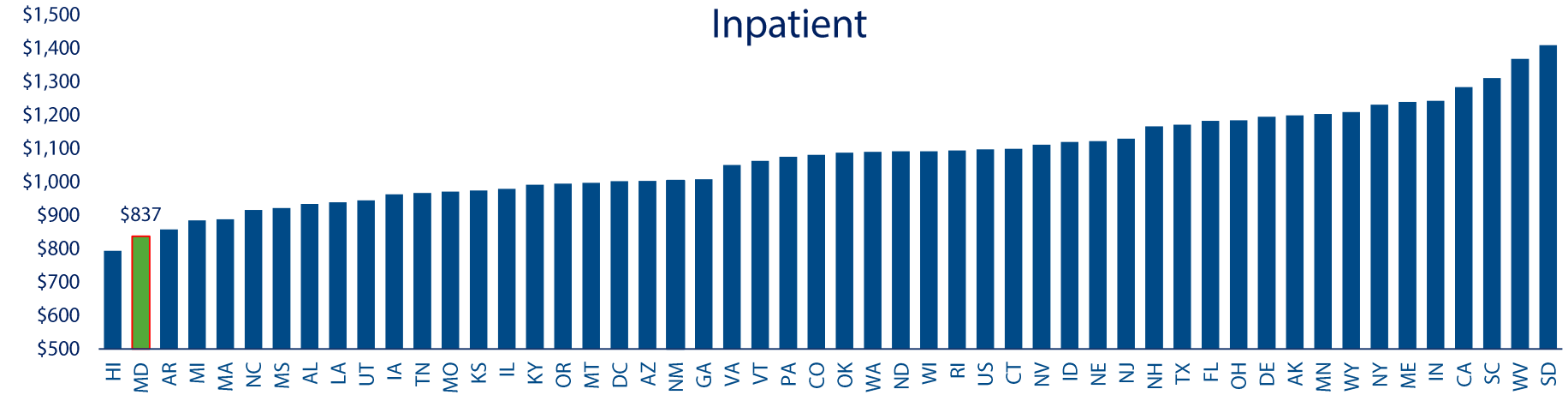
During rate year 2019, actual revenue provided to hospitals was more than $100 million less than what was projected when the rate year 2019 update was approved. (See Attachment 4.) Staff removed more than $60 million from global budgets for services that moved to an unregulated setting and granted $28 million less in oncology drug funding than anticipated.

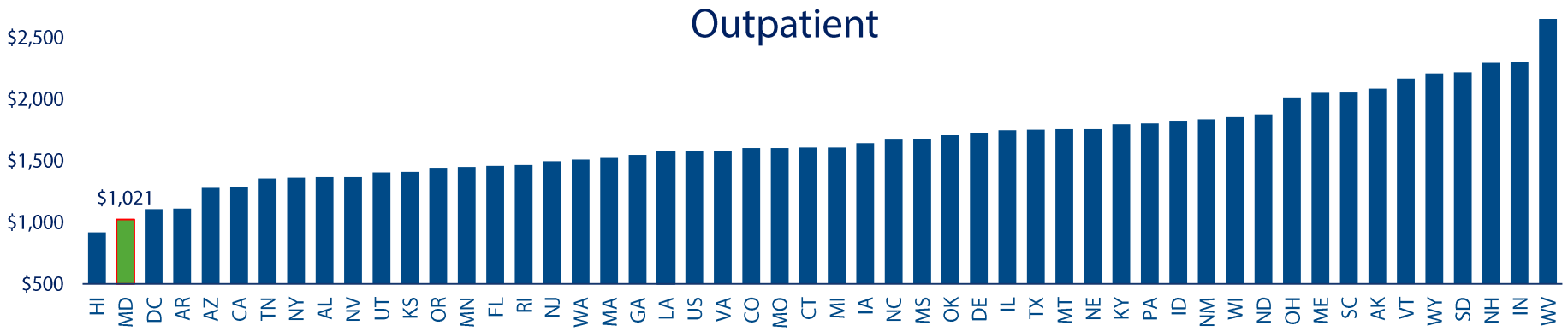
Hospitals understand that similar future savings are not guaranteed. However, on a cumulative basis from 2014 to 2019, actual hospital all-payer spending per capita has grown more than 2.5 percent below the projected, approved all-payer per capita growth rate. (See Attachment 5.) This amounts to an additional degree of conservatism in the all-payer level of spending.

Attachment 1

MARYLAND SECOND LOWEST IN THE U.S.

Hospital, Per Person Commercial Spending, by State, 2017





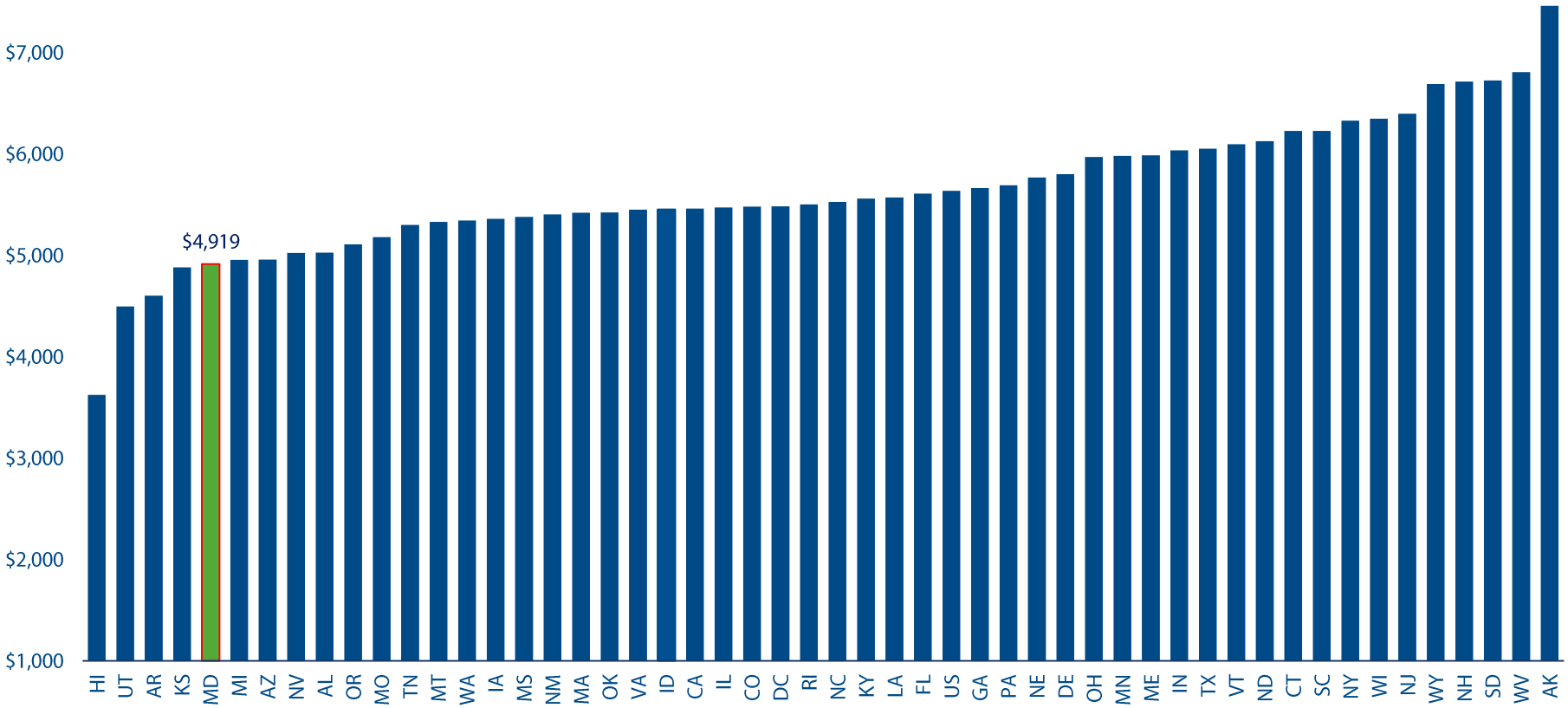
Source: Health Care Cost Institute, 2017 Health Care Cost and Utilization Report

Includes 40 million national claims from Aetna, Humana, Kaiser and United Healthcare

Attachment 2

MARYLAND AMONG THE LOWEST IN THE U.S.

Total Hospital and Non-hospital, Per Person Commercial Spending, by State, 2017



Health Care Cost Institute, 2017 Health Care Cost and Utilization Report

Includes 40 million national claims from Aetna, Humana, Kaiser and United Healthcare

PROPOSED MEDICARE GROWTH LIMITS ARE OVERLY CONSERVATIVE

	Staff Proposal	Calendar Year 2018 Actual	Five Year Average
Medicare Total Cost of Care Growth (CY 2018)	3.72%	3.72%	3.72%
Conversion to All-Payer			
Statistic between Medicare and All-Payer	0.83%	2.26%	1.39%
Excess growth for non-hospital cost relative to nation	-1.18%	-0.66%	-0.76%
Net difference statistic related to Total Cost of Care	-0.35%	1.60%	0.63%
Conversion to All-Payer growth per resident	3.35%	5.38%	4.37%
Conversion to total All-Payer revenue growth	3.66%	5.70%	4.69%
CY 2019 impact from staff recommendation	3.28%	3.28%	3.28%
Projected savings	**0.38%**	**2.42%**	**1.41%**

Source: MHA analysis of data provided by HSCRC staff

Attachment 4

RATE YEAR 2019 ACTUAL REVENUE IS $100M LESS THAN PROJECTED

Original GBR Approved Revenue, Rate Year 2018	$	17,183,983,214	
Original GBR Rate Year 2019 Projection from Update Recommendation		17,529,893,859	A
Adjusted for Full Year Update (1.83% - 2.01%)		17,498,961,785	A1
Newly Regulated Services in RY2019		75,141,722	B
Original Rate Year 2019 Projection, Revised for Full Update		17,574,103,507	C = A1 + B
Current GBR Rate Year 2019 Final Projection		17,466,092,860	D
Projection Variance	**$**	**(108,010,647)**	E = D - C

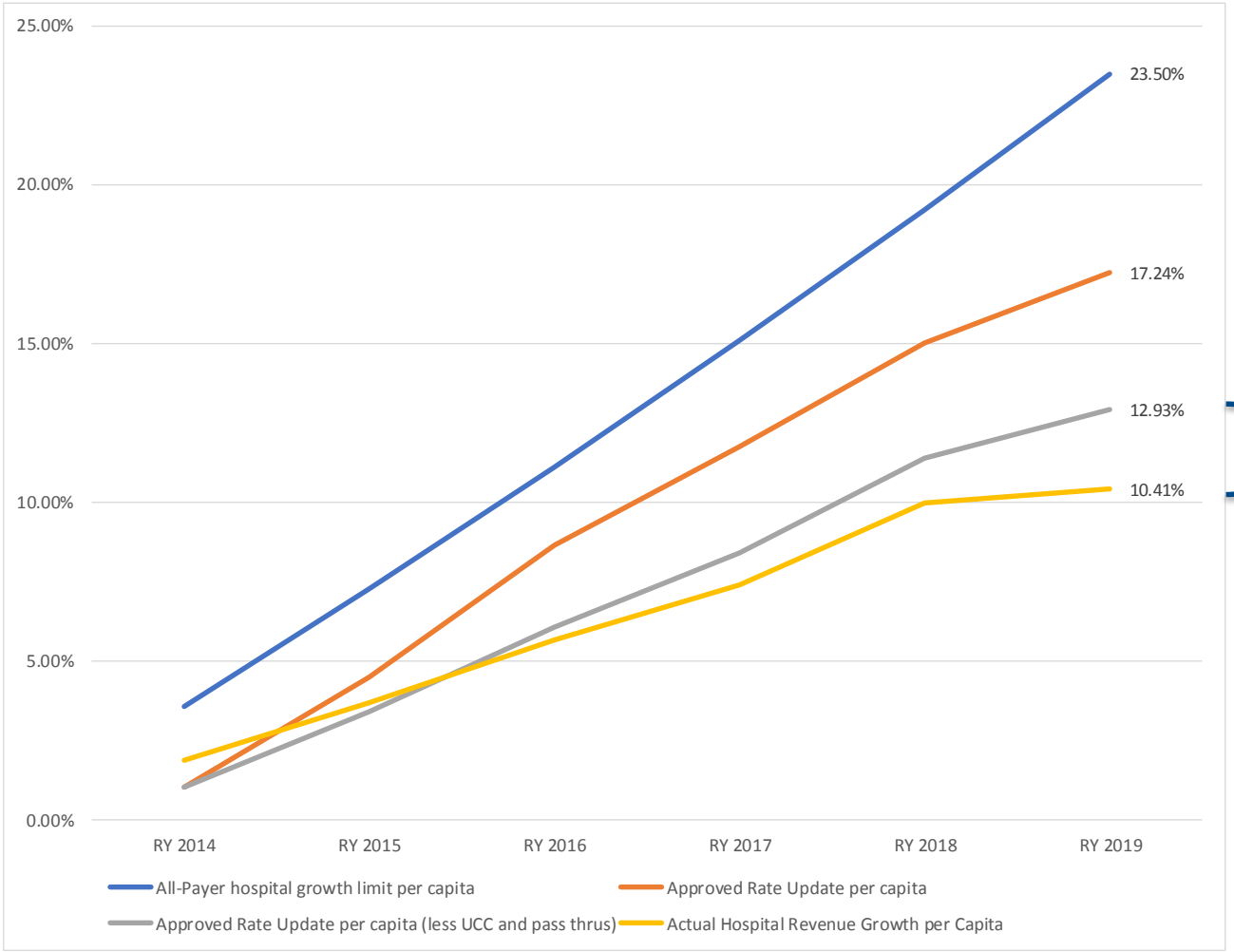
Projection Differences:			
Calendar Year 2018 Market Shift (net impact)	$	(3,185,304)	F
Rate Year 2018 Price Variance & Penalties		(9,584,657)	G
Quality Projection Discrepancy, Actual less Projected		(1,695,308)	H
Deregulation less Oncology Drugs		(48,595,712)	I
Spend Down		(7,813,834)	J
Oncology Drugs, Actual less Projected		(28,346,655)	M
Set Aside, Actual less Projected		(6,765,280)	N
Total	**$**	**(105,986,750)**	O

Unexplained	2,023,897	P = O - E
Unexplained %	0.01%	Q = P/C

Source: HSCRC Payment Models Work Group, April 30, 2019.

Attachment 5

ALL-PAYER HOSPITAL REVENUE PER CAPITA COMPOUNDED GROWTH, RATE YEARS 2014 - 2019



HSCRC approved annual update. In-state, hospital revenue per capita from HSCRC monthly data.