Maryland Health Services Cost Review Commission

Population-Based and Patient-Centered Payment Systems
Educational Materials—Change in Approach

September 2013

HSCRC Preparation for New All Payer Hospital Model

- Maryland previously applied to the Center for Medicare and Medicaid Innovation (CMMI) for a new All Payer Model
- Discussions with CMMI are still in process, but preparation for implementation is beginning for a possible January 1 start date

Maryland Innovating for Better Value in Health Care

- Maryland innovations at a glance:
  - State Health Improvement Process
  - Health Information Exchange
  - State Innovation Model of community integrated medical homes
  - Health Enterprise Zones
  - State-based insurance exchange (Maryland Health Connection)
- A critical next step: Innovation in Maryland's unique all-payer hospital system

Better care

Better health

Lower cost

Challenges of Current Model

- Emphasis on cost per case keeps focus only on hospital inpatient services, not over all health care spending
- Allows volume, including readmissions, to become a driver
- Recently introduced global payment innovations do not work with current per case Medicare waiver

Proposed Model at a Glance

- All-Payer total hospital per capita revenue growth ceiling for Maryland residents tied to long term state economic growth (GSP)
  - 3.58% annual growth rate for 3 years
- Medicare payment savings for Maryland residents[1] compared to dynamic national trend
- Patient and population centered measures and targets to assure care and population health improvement

CHANGE: This changes the dynamics from the current waiver that is focused on Medicare cost per case to a total hospital inpatient and outpatient cost of care evaluation with care and health improvement requirements

[1] Includes services provided outside of Maryland

Proposed Model Creates New Context for HSCRC

- Align payment with new ways of organizing and providing care
- Contain growth in total cost of hospital care in line with requirements
- Evolve value payments around efficiency, health and outcomes

Better care

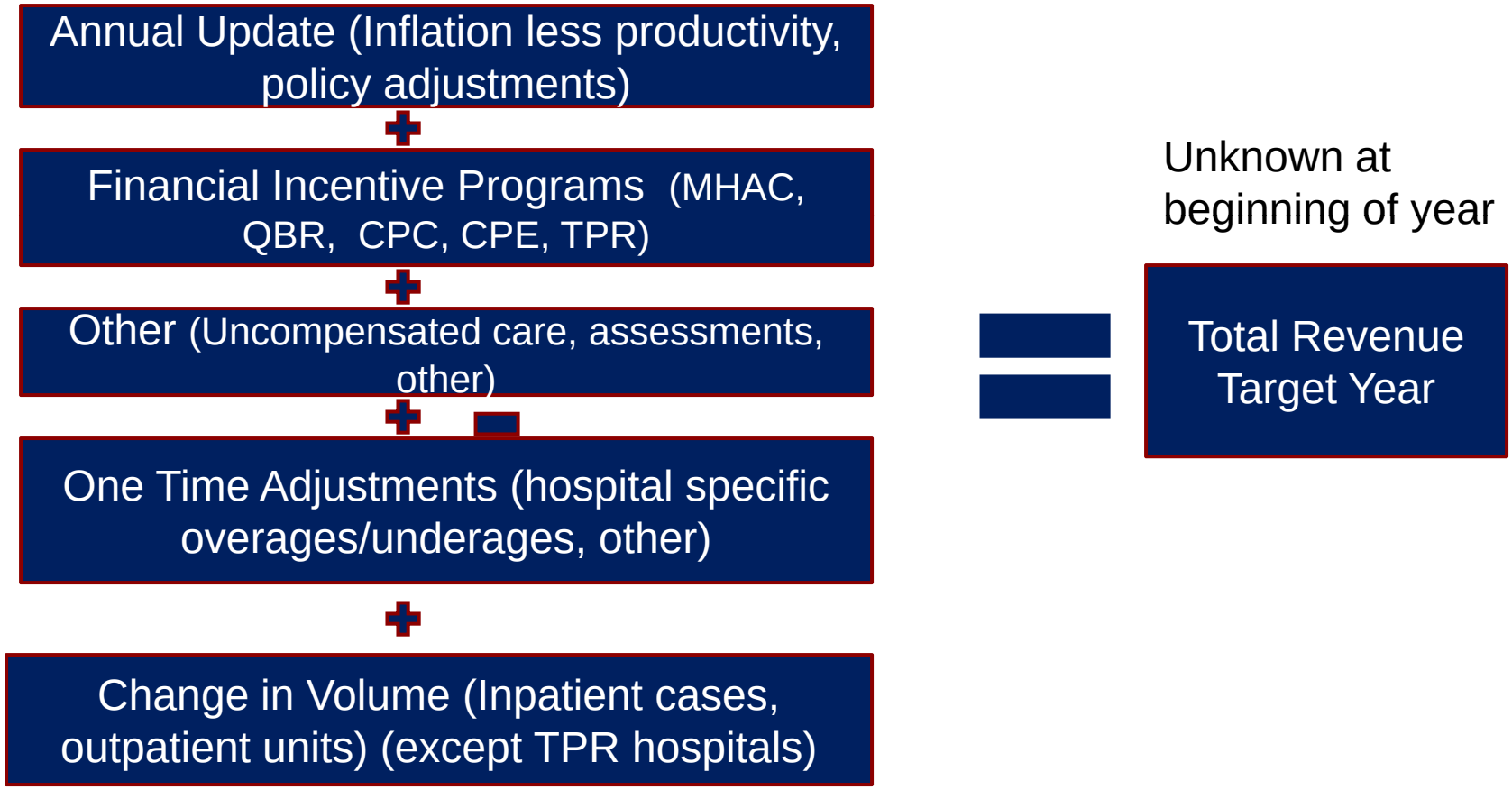
Better health

Lower cost

- Priority task: Transition to population/global and patient-centered payment approaches for hospital services.

Current Rate Setting Components

- The current system focuses on unit rates and charge per case



New Model--Change in Approach Under Population Based System

The new approach will shift the focus to total revenue per capita.

Total Actual Revenue Base Year—Maryland Residents

Hard Cap Increase Population Change

Maximum Allowed Revenue Target Year—Maryland Residents

Known at the beginning of year

Example:

Base Revenue	**$ 15.0**	**Billion**
Less: Out of State	**$ 1.2**	**(Note)**
	$ 13.8	
X Hard Cap Increase	**3.58%**	
X Population Increase	**0.60%**	
Target Year Maximum Revenue-Residents	**$ 14.4**	**Billion**

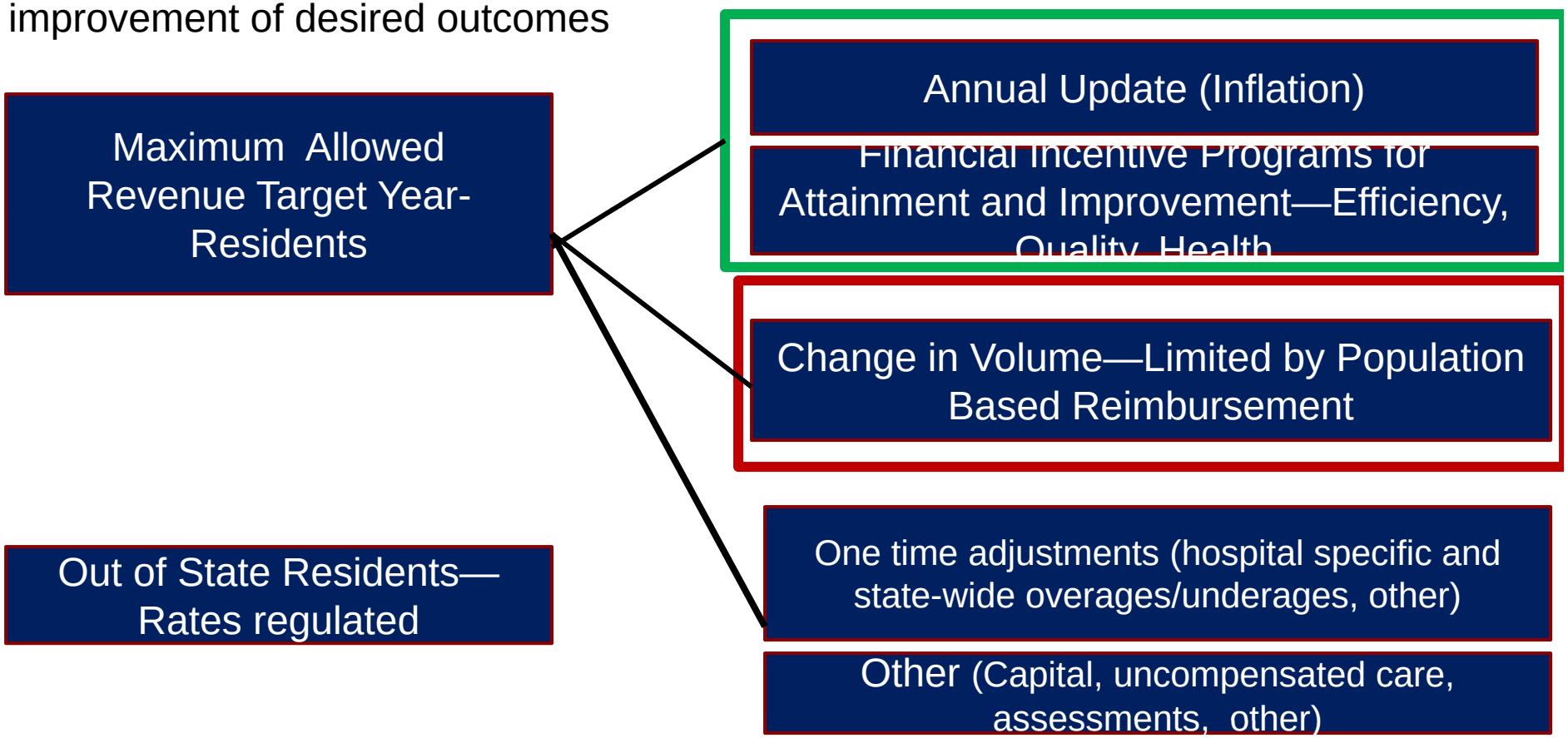
Out of State Revenue **Actual**

Note: Subject to HSCRC approved rates

Change in Approach Under Population Based System – Major Paradigm Shift

HSCRC focuses on total revenue and incentives for attainment and improvement of desired outcomes

Update requirements must be balanced under maximum revenue targets



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Payment Models Envisioned

- Shift of hospital revenue to global/population based payment models
  - Total Patient Revenue (TPR)
  - Modified Global Budget for Urban and Suburban Settings
  - Population-based Revenue Structures

Payment Models Envisioned

- Significant continuing progress and expansion of revenue tied to performance measures
  - Readmission reductions to bring Maryland into alignment with national performance, program enhancements
  - Continued aggressive reduction in MHACs
  - Expansion and enhancement of other value measures
    - QBR enhancement and targets
    - New efficiency measures (episode, population based)
    - Population health

Payment Models Envisioned

- Integration and Alignment with Other Providers and Initiatives
  - State Innovation Model
  - Medical Homes/ACOs
  - Pay for Performance Models/Gain Sharing
    - HSCRC will develop a plan for several models

Opportunities for Success

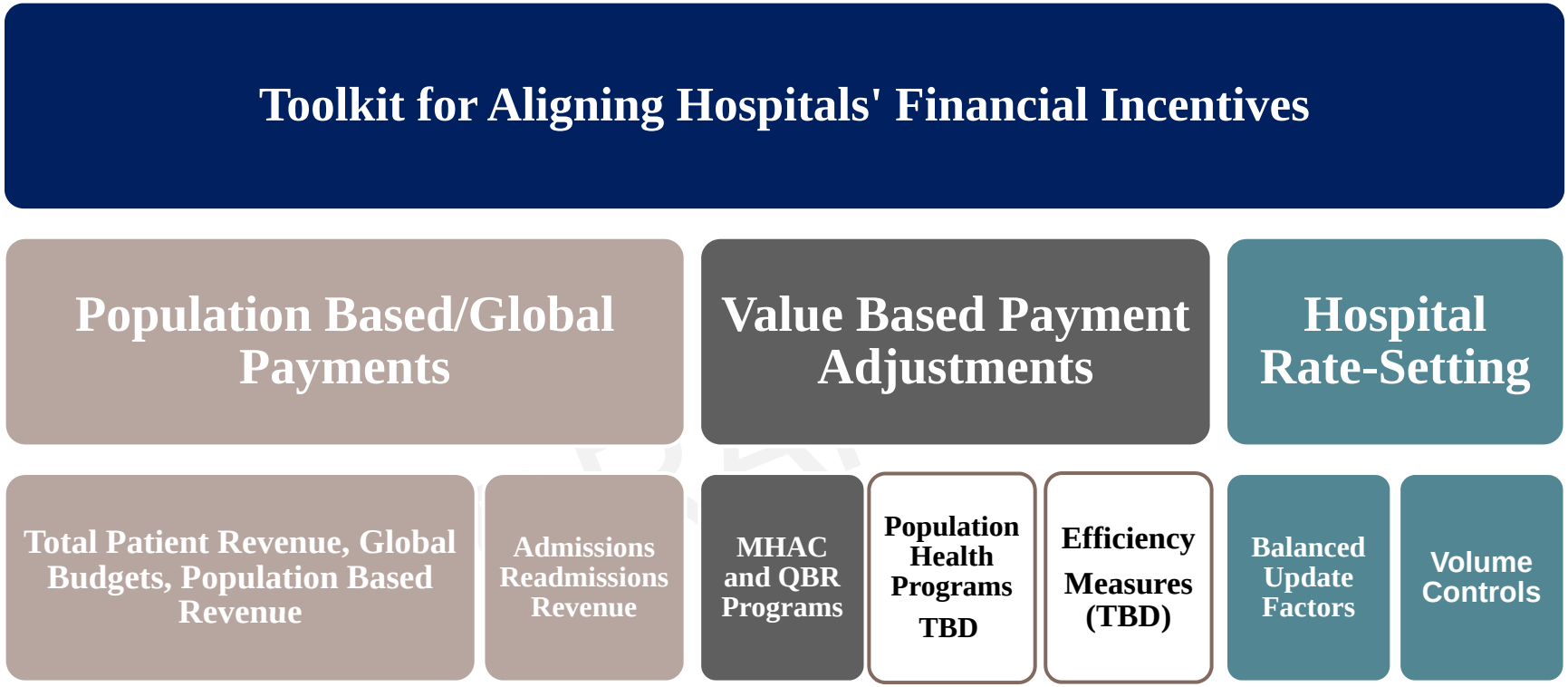
Model Opportunities

- Take control of your revenue budget--transition to global models
- Focus on reducing Medicare cost
- Lower use—reduce avoidable volumes with effective care management and quality improvement
- Integrate population health approaches
- Control total cost of care/ thoughtful controlled shifts to lower cost settings
- Rethink the business model/capacity and innovate

Delivery System Objectives

- Sustainable delivery system for efficient and effective hospitals
- Support physician alignment & delivery reform
- Improved value

HSCRC Has Core Tools to Drive New Revenue Model



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Approach for January 1- Transitional Hospital Revenue Model Modifications

- Approaches in place effective January 1 that assure hospital revenues within the maximum requirements for 2014
- Use existing frameworks with some modifications to allow for transitional changes effective January 1
  - Modified global budget framework used in Total Patient Revenue agreements with fixed total allowed revenue

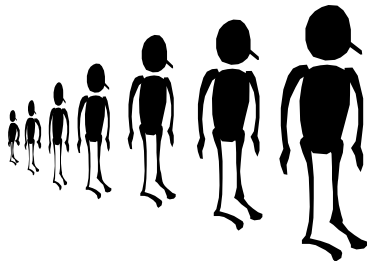
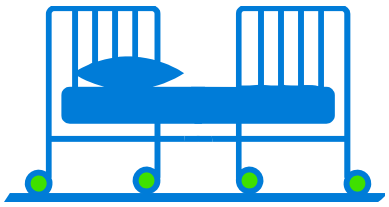
    OR
  - Existing charge-per-episode structure with lower variable cost factor applied prospectively, and a volume governor(s) to reduce allowed revenue if maximum revenue targets are exceeded
- Add incentives/requirements for reducing avoidable volumes no later than July 1
- Revenue for non-Maryland residents have regulated rates and performance requirements but excluded from model and volume adjustment

Balancing Funding Priorities

- HSCRC will convene an Advisory Council of hospital, payer, other constituents and some national leaders to provide input on principles for implementation
- HSCRC will convene workgroups to focus on specific issues
- The most important work on balancing will need to come from hospitals. This will require a strong effort to reduce avoidable volumes and focus on efficiency

History Provides Example

DRGs and New Technology Reduced Length of Stay and Admissions and Freed Up $$$ for Major Improvements in Cardiac Care, Minimally Invasive Procedures, Advanced Imaging and Other Care

	1980	2010	% CHG
U. S. Population 	227M	309 M	+36%
Occupied beds 	755,000	473,000	37%

What Does This Mean?

- New Model represents most significant change in 30 years
- Focus shifts to gain control of the revenue budget and focus on gaining the right volumes and reducing avoidable volumes
- Potential for excess capacity will demand focus on cost control and opportunities to optimize capacity
- Opens up new avenues for innovation
- Increased efficiency creates opportunities for improved care and better population health

Short Term Success Factor: Avoidable Volumes Reduced

- In order to achieve required Medicare savings and to balance the revenue model, avoidable volumes must be reduced:
  - 30- Day Readmissions/Rehospitalizations (includes ER), with separate Medicare target
  - Preventable Admissions (based on AHRQ Prevention Quality Indicators)
  - Nursing home residents
  - ER visits than can be treated in other settings
  - Maryland Hospital Acquired Conditions (potentially preventable complications)
  - Length-of-Stay still important, with a renewed focus on Medicare patients
  - Optimize site of care with ***cost*** savings

Beyond January 1

- New models and parameters developed for continued success
  - Payment models for mid-term and longer term horizons, refinement to approaches
  - Adjust for market share
  - Encourage reduction in potentially avoidable volumes
  - Develop efficiency and population measures
  - Provide positive incentives and efficiency adjustments
- Data and infrastructure addressed for ongoing needs

Looking Ahead

- Success will depend on more than hospital payment
- Model aligns hospital incentives with other key innovations in Maryland, including the medical homes in Maryland's State Innovation Model proposal
- Model aligns with major investments made in information technology, including the state's Health Information Exchange
- Model aligns hospital incentives with the public health goals of the State Health Improvement Process
- Model creates opportunities for new innovations in care

Follow Up

- HSCRC staff intends to work with MHA to provide informational follow up calls regularly. These will take place every one to two weeks through implementation
- We want to review more details regarding the implementation process, monitoring requirements on your part and ours, base period data reconciliations needed, and interim policy proposals, among others.
- We will be interested in your questions and feedback
- We need to work together closely during the implementation process
- THANK YOU FOR YOUR WILLINGNESS TO WORK TOGETHER

LET’S INVENT IT HERE

Questions/Suggestions?