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Secretary David Brinkley
Department of Budget and Management
45 Calvert Street, 1st Floor
Annapolis, MD 21401

Secretary Van T. Mitchell
Department of Health and Mental Hygiene
201 West Preston Street, 5th Floor
Baltimore, MD 21201

Dear Secretary Brinkley and Secretary Mitchell:

The Budget Reconciliation and Financing Act of 2015 (BRFA) requires the Health Services Cost Review Commission (HSCRC) to achieve \$16.7 million of general fund savings for the Medicaid Program in FY 2016 through a decrease in uncompensated care. If the uncompensated care reduction is insufficient to achieve the required savings, the Commission is required to submit an alternative plan for general fund savings to both the Department of Health and Mental Hygiene and the Department of Budget and Management by September 1, 2015.

A report outlining policies adopted by the Commission in June 2015 that will generate an estimated \$21 million of general fund savings in FY 2016 is attached.

If you have any questions about the report, do not hesitate to contact me.

Sincerely,

Donna Kinzer
Executive Director

Attachment

Attachment

Report on Polices Adopted by HSCRC to Produce Medicaid Savings of at Least \$16.7 Million

Overview

The Budget Reconciliation and Financing Act of 2015 (BRFA) requires the Health Services Cost Review Commission (HSCRC) to achieve \$16.7 million of general fund savings for the Medicaid Program in FY 2016 through a decrease in uncompensated care. If the uncompensated care reduction is insufficient to achieve the required savings, the Commission is required to submit an alternative plan for general fund savings to the Department of Health and Mental Hygiene and the Department of Budget and Management by September 1, 2015.

The Commission adopted three policies for FY 2016 that will generate an estimated \$21.0 million of general fund savings for the Medicaid Program. The policies and associated savings are summarized in Table 1 and described in detail below.

Table 1
FY 2016 HSCRC Policies that will Generate Medicaid Savings
(\$ in Millions)

		Medicaid Savings	State Share of Savings
	<u>All-Payer Savings</u>	<u>(20% of All-Payer Savings)</u>	<u>(35% of Medicaid Savings)</u>
Uncompensated Care Reduction	\$140.0	\$28.0	\$9.8
Potentially Avoidable Utilization	128.0	25.6	9.0
Shared Savings - Readmissions	32.0	6.4	2.2
Total Savings	\$300.0	\$60.0	\$21.0

Note: State share of 35% determined based on analysis of hospital charges by Medicaid eligibility category (Expansion, MCHP, traditional Medicaid, dually eligible for Medicaid and Medicare) for period July 2014 thru March 2015.

FY 2016 Polices

The FY 2016 uncompensated care policy adopted by the Commission reduces the amount of uncompensated care included in hospital rates by \$140 million. The reduction reflects the impact of the Affordable Care Act's (ACA) Medicaid expansion on uncompensated care. The \$140 million reduction will generate an estimated \$9.8 million of general fund savings for the Medicaid Program.

The Commission adopted two other policies for FY 2016 that are designed to generate savings for the Medicaid Program and the other payers. The two policies which will generate an estimated \$11.2 million of general fund savings for the Medicaid Program are:

- *Shared Savings*: Hospital rates are reduced by a net 0.2% to capture savings from anticipated reductions in hospital readmissions. This prospective adjustment reinforces the global budget

financial incentive for hospitals to reduce preventable readmissions and assures that both the payers and the hospitals will benefit from declines in readmissions. The policy will generate an estimated \$2.2 million of general fund savings for the Medicaid Program in FY 2016.

- *Potentially Avoidable Utilization (PAU)/Cap on Demographic Adjustment:* The Commission's annual rate update includes a volume adjustment for population growth and demographic changes (i.e. aging of the population). Unconstrained, the population/demographic adjustment alone would result in a 1.4% increase in hospital revenues in FY 2016. The Commission's policy for FY 2016, however, applies an efficiency adjustment to the expected volume increase to prospectively recognize savings from limiting potentially avoidable hospital utilization (reducing readmissions, preventing hospital acquired conditions, preventing hospital visits for ambulatory sensitive conditions) and then caps the population/demographic adjustment. The efficiency adjustment reduces the growth in hospital charges by 0.2% for all-payers saving Medicaid about \$2.24 million of general funds. An additional 0.6% savings for all payers is achieved by capping the overall volume adjustment at the estimated growth in the Maryland population. Medicaid general fund savings from the cap are estimated at \$6.72 million.

Conclusion

The policies adopted by the Commission for FY 2016 will generate an estimated \$21 million of general fund savings for the Medicaid Program – more than enough to achieve the target in the BRFA. Commission staff are available at your earliest convenience to discuss the policies.