hfma
healthcare financial management association

Overview of the HSCRC

William J. Mooney, Jr.

Memorial Education Series

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Arin Foreman
Manager
KPMG LLP

What is the HSCRC?

- **H**ealth **S**ervices **C**ost **R**eview **C**ommission
- State regulatory commission that sets rates at MD hospitals which all payers must pay.
- These rates differ from government rates (Medicare & Medicaid) paid in other states
  - Maryland has a Waiver from government rates
- Other states may have regulatory commissions but no other state has a Waiver

HSCRC Overview

- HSCRC's enabling statute enacted in 1971
  - 3-Year Phase-in… began setting hospital rates in July 1974
  - At that time, HSCRC's authority extended only to rates charged to non-governmental (non-Medicare/Medicaid) purchasers of care
- Founding Legislative Goals
  - Control rapid cost growth
  - Improve access to care
  - Create equitable system
  - Ensure financial stability and predictability for hospitals and patients
- Waiver granted in 1977
  - Exempted Maryland from National Medicare and Medicaid reimbursement principles
  - Since that time, all payers pay MD hospitals on the basis of rates established by the HSCRC

HSCRC Overview (cont'd)

- "All Payer" System
  - With the Waiver taking effect in 1977, Maryland became the first All Payer State
  - HSCRC would establish and approve rates for each unit of service (Room and Board, imaging, lab, etc.)
  - These rates would be reasonably related to costs
  - Hospitals would be required to charge all payers at HSCRC approved rates
  - Payers would be required to pay hospitals based on each hospital's approved rates

HSCRC Overview (cont'd)

(Non-Medicare)

Dear Mr. Jones

35 year old Pneumonia Patient

Services	Units	Unit Rates	Charges
Room & Board	4 Days	$500	$2,000
Emergency Room	1 Visit	$125	$125
Operating Room	50 Mins.	$20	$1,000
Lab	40 Tests	$10	$400
X-Ray	5 Tests	$100	$500

Please pay this Amount **$4,025**

(Medicare)

Dear Mr. Smith

75 year old Hip Fracture

Services	Units	Unit Rates	Charges
Room & Board	8 Days	$500	$4,000
Emergency Room	1 Visit	$125	$125
Operating Room	100 Mins.	$20	$2,000
Lab	5 Tests	$10	$50
X-Ray	10 Tests	$100	$1,000

Please pay this Amount **$7,175**

HSCRC Overview (cont'd)

- Agency Structure
  - Seven Volunteer Commissioners appointed by the Governor

John M. Colmers
Chairman – Appointed: July 12, 2011
Vice President
Health Care Transformation & Strategic Planning
Johns Hopkins Medicine

George H. Bone, M.D.
Appointed: August 9, 2010
Private Practice Physician
Consultant in Internal Medicine
NIAAA

Jack C. Keane
Appointed: July 12, 2011
President
Jack C. Keane, Inc.

Thomas R. Mullen
Appointed: July 12, 2011
President and CEO
Mercy Medical Center

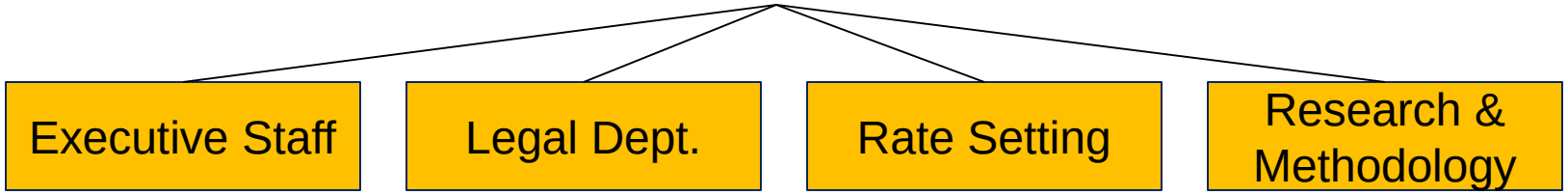
Herbert S. Wong, Ph.D.
Vice Chairman – Appointed: July 1, 2005
Senior Economist
Agency for Healthcare Research and Quality
U.S. Dept. of Health and Human Services

Stephen F. Jencks, M.D., M.P.H.
Appointed: July 1, 2012
Independent Consultant and Senior Fellow
Institute for Healthcare Improvement

Bernadette C. Loftus, M.D.
Appointed: July 12, 2011
Associate Executive Director
The Permanente Medical Group

HSCRC Overview (cont'd)

- Thirty-three member full-time professional staff



Donna Kinzer
Executive Director

Steve Ports
Deputy Director

Stan Lustman
Asst. Attorney General

Leslie Schulman
Asst. Attorney General

Jerry Schmith
Deputy Director

Ellen Englert
Assoc. Director

Dennis Phelps
Assoc. Director

Sule Calikoglu
Deputy Director

Nduka ('Andy') Udom
Assoc. Director

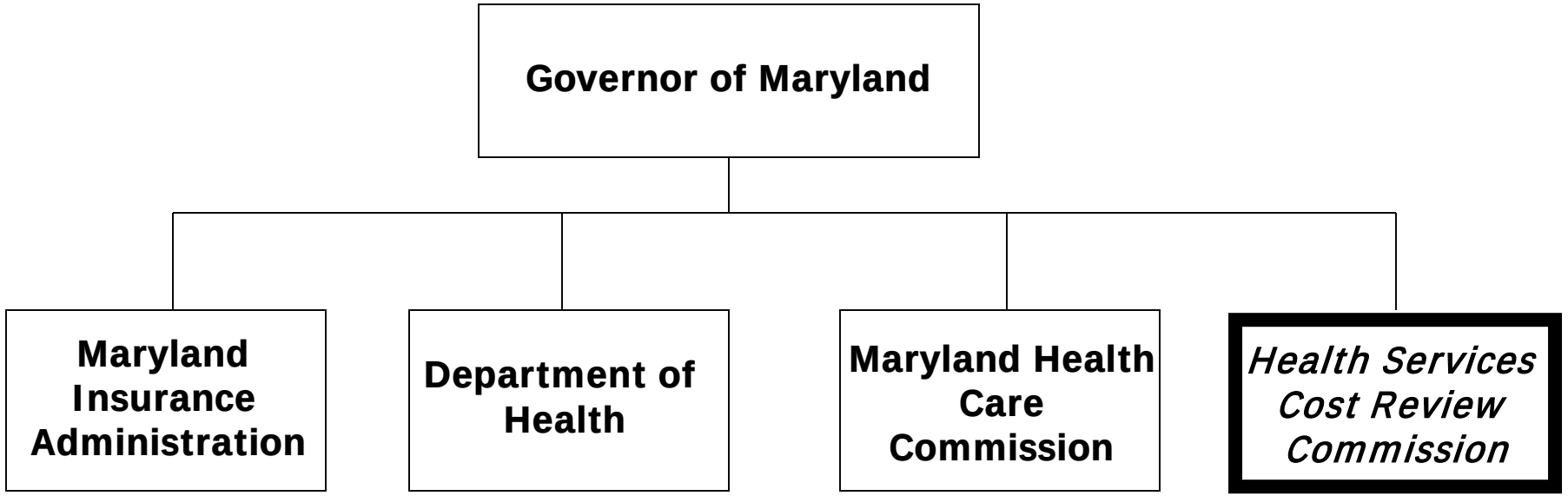
HSCRC Jurisdiction

- Only all-payer hospital rate setting state
- Regulate 47 acute care hospitals; 3 chronic (long-term hospitals); 3 private psychiatric hospitals
- Regulate inpatient services as defined by the Medicare Program
- Regulate outpatient services as provided at the hospital
- Includes emergency services
- No regulatory authority of physician services
- ~$16 billion in annual regulated revenue

Mandates

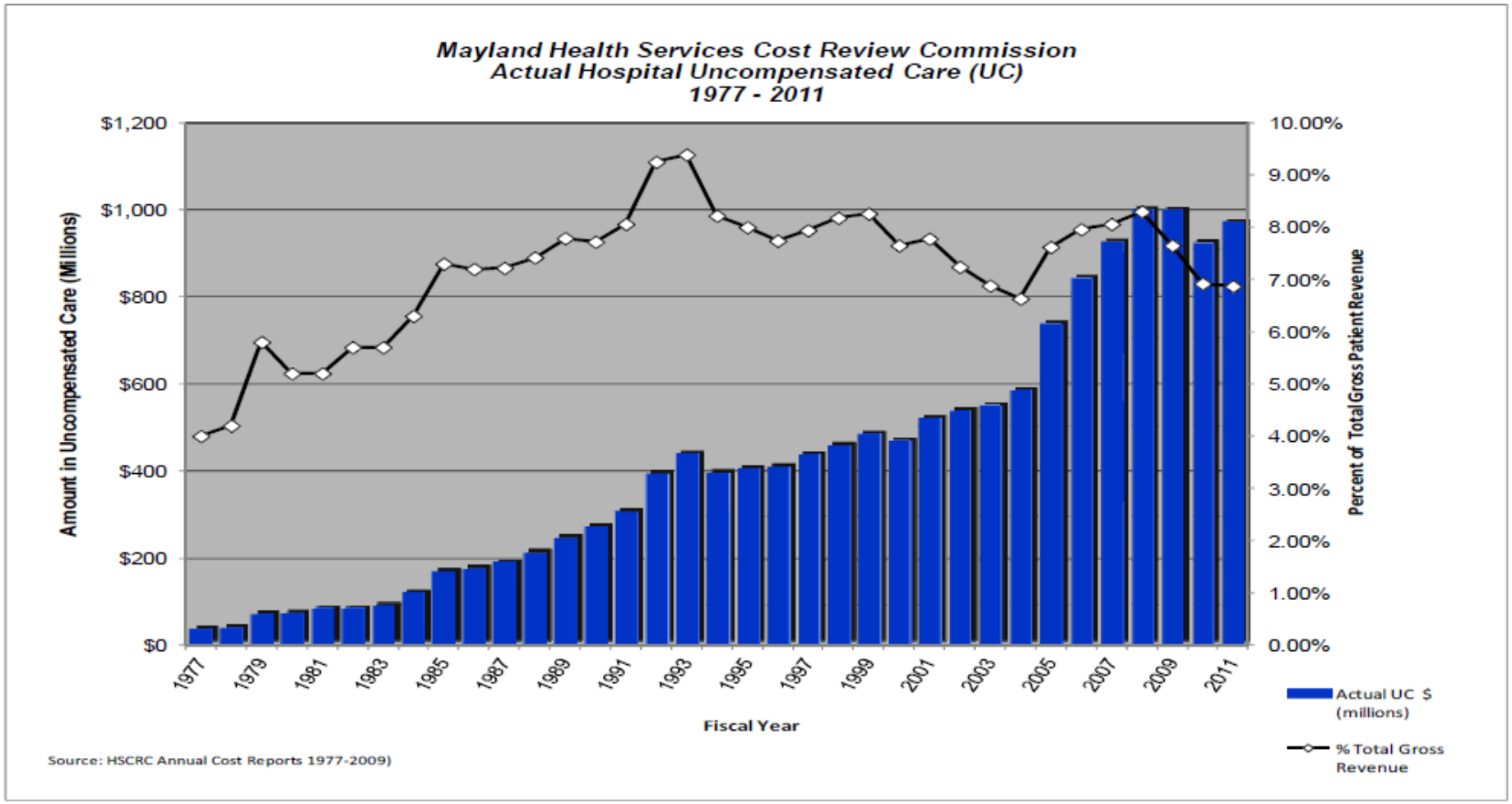
- Assure total costs of all services offered by a hospital are reasonable
- Aggregate revenues are related to aggregate costs
- Rates are set equitably

Overview of Maryland Health Regulatory Agencies



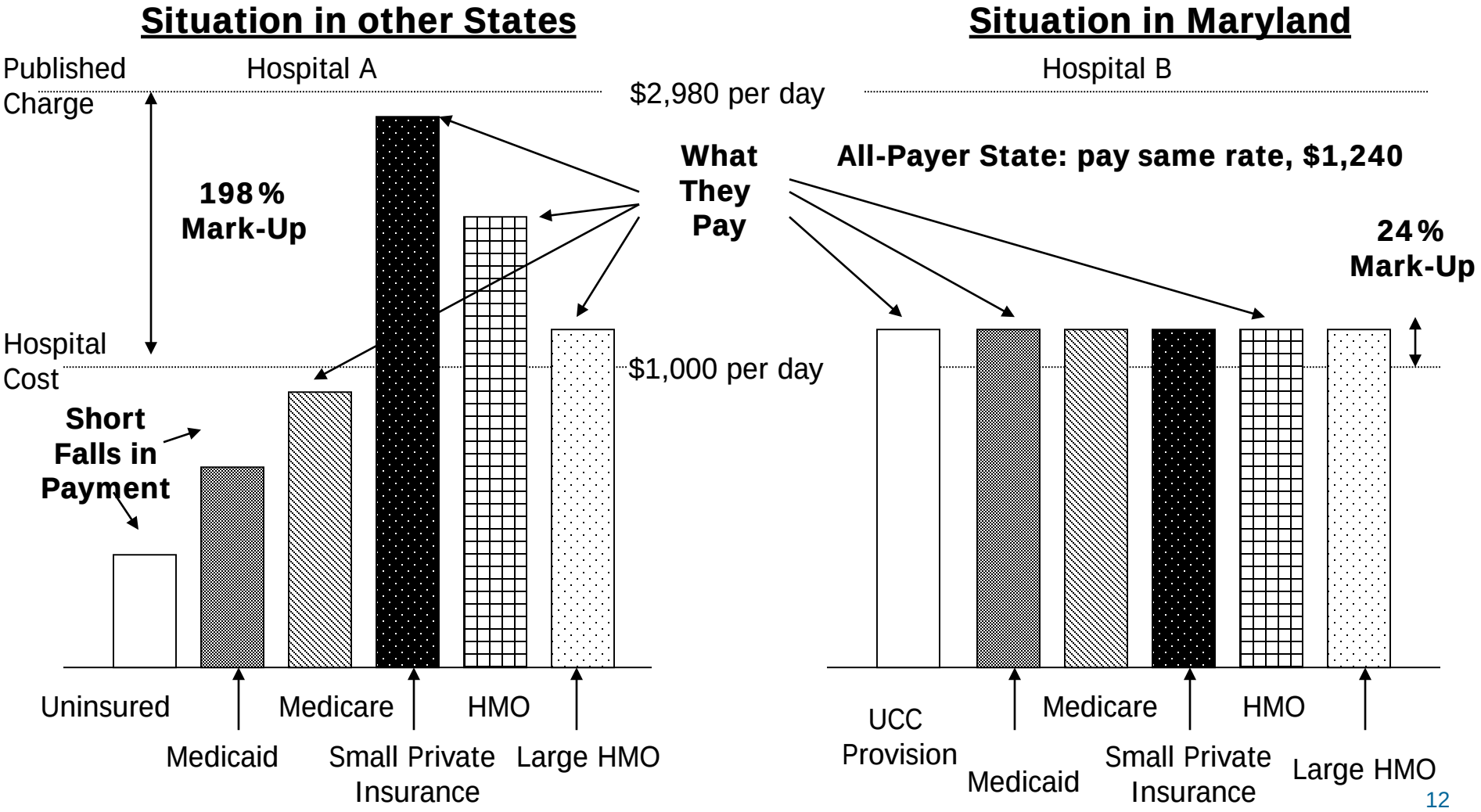
HSCRC – Results and Achievements

- Lowest Rate of Cost Growth of any State 1976-2009
  - 1976: Maryland cost per case was 26% ABOVE the US average
  - 2010: Maryland Hospital cost per case was 1% BELOW the US average
  - Estimated $3.2 billion savings to the State during FY 2010 alone
- Better Access to Hospital Care than any State
  - Maryland has no Public Governmental Hospitals
  - There is no “Patient-Dumping” in Maryland
  - Hospitals in the State provide in excess of $800 million of “unpaid” or “uncompensated” care – this is financed through the rate system
  - HSCRC equally distributes UCC across all Hospitals through UCC Fund
- The most Equitable System of payment in the USA
- Relative Financial Stability for Maryland Hospitals
- Public Accountability and Transparency of Costs and Charges


Mayland Health Services Cost Review Commission
Actual Hospital Uncompensated Care (UC)
1977 - 2011
Amount in Uncompensated Care (Millions)
$1,200
$1,000
$800
$600
$400
$200
$0
10.00%
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
Percent of Total Gross Patient Revenue
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
Fiscal Year
Actual UC $ (millions)
% Total Gross Revenue
Source: HSCRC Annual Cost Reports 1977-2009)

Mark-up Chart/Cost Shift

Example: Daily Charge



Financial Stability

- Statute provides for rates sufficient to meet “full financial requirements” of efficient / effective hospitals
- Hospital rates are established by HSCRC – hospital managers can budget more effectively
- Uniform financial incentives provided: financial targets are clear and well known
- Profitability targets: 2.75% Operating Profit; 4.0% Total Profit
- FY 2012 Operating Profits (Reg & Unreg): 2.3% Operating and 1.7% Total (Regulated Operating was 7.4%)

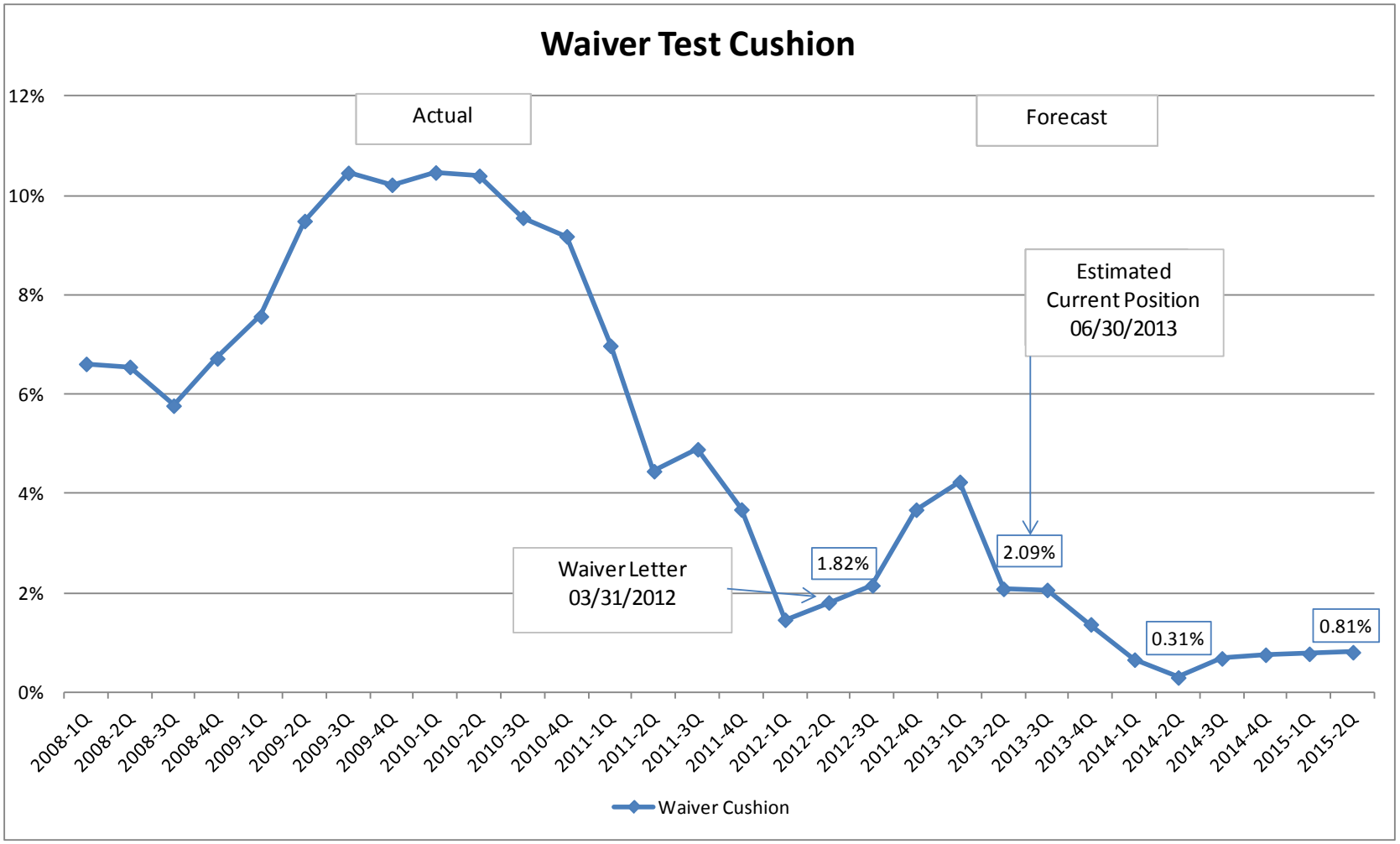
Waiver Test

- "Old" Waiver Test
  - Previously, Maryland had to pass a "Rate of Increase Test" whereby the MD rate of increase of inpatient Medicare payments per discharge remained below the national average rate of increase since a CY 1980 base period.

- The State applied for a new Waiver in the summer of 2013

WHY?

Current Waiver Test Cushion Projections

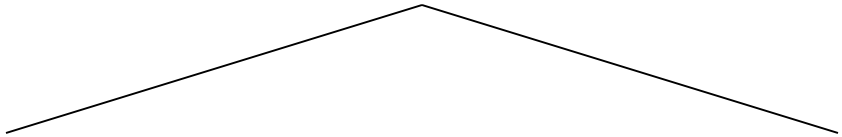


New Waiver Application

- State submitted final application on October 11, 2013 to CMMI (Center for Medicare & Medicaid Innovation)
- Highlights:
  - 3.58% All-Payer, per capita hospital revenue growth limit
  - Growth in Maryland Medicare per capita (beneficiary) hospital payments less than the national trend, producing at least $330M in savings from CY2014 – CY2018
  - Growth in Maryland Medicare per capita total payments no more than 1% higher than national trend
  - Migrate hospitals to population health based on Global Budgets (80% of hospital revenue) by year 5

New Waiver Application – HSCRC Rate Models

- As a result of the new Waiver model, HSCRC staff has effectively shifted all hospitals in Maryland from a "per episode" rate setting methodology to fixed revenue base.



Charge per Episode

- Fee-for-service type structure with limited variable cost adjustments
- Statewide volume governor
- Tight limit for CMI growth

Global Budget (GBR or TPR)

- 100% fixed revenue cap
- Adjustments for population growth

GBR and TPR

- Provide predictability regarding healthcare costs in the state of Maryland, which allows the HSCRC to track performance under the new Waiver

- Incentivize hospitals to shift toward a population-based healthcare approach
  - Care in the proper setting
  - Focus on preventative care
  - Reduction in avoidable utilization
  - Enhanced quality of care

Hospitals' Challenges under GBR and TPR

- Since my total revenue is set, does that mean that I can charge whatever rates I want now as long as I don't exceed my cap?
- What if my population grows? How does a fixed revenue system account for that?
- If I want to offer a new service at my hospital, will I get an increase in my cap?
- If my volumes increase due to a market share shift, don't I deserve more revenue?
- Conversely, if my volumes decline, will money be taken from my cap?

Common HSCRC Acronyms

- ARR – Admission Readmission Revenue
- CMI – Case-Mix Index
- CPC – Charge Per Case
- CPE – Charge Per Episode
- EIPA – Equivalent Inpatient Admission
- EIPC – Equivalent Inpatient Case
- EIPD – Equivalent Inpatient Day
- GBR – Global Budget Revenue
- PAV – Potentially Avoidable Volume
- TPR – Total Patient Revenue
- UCC – Uncompensated Care