



Maryland
Hospital Association

May 9, 2016

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 64 member hospitals and health systems, I am writing to provide feedback on the Health Services Cost Review Commission (HSCRC) staff draft recommendations on the global budget update factor for fiscal year 2017. The decision before you is critical to the future of the all-payer model in Maryland. Every one percentage point subtracted from or added to this update equals \$160 million either withheld from or paid to Maryland's hospitals for patient care inside and outside the hospital.

We ask that commissioners please consider the following important data that augment the current draft recommendation:

Savings Far Exceed Targets

As stated in our April 19 letter, substantial progress has been made in the first two years of the waiver, particularly on Medicare savings (see attached charts):

- The Medicare hospital savings through the end of the waiver's second year was more than **five times the minimum savings required under the agreement**, and already ahead of the minimum required by June 30, 2017 (chart 1)
- If hospitals continue to save 0.50 percent **below** the national growth rate for the remainder of the agreement, total savings are projected to exceed **\$850 million, more than two-and-a-half times the agreement's minimum required savings of \$330 million** (chart 2)
- If Maryland hospital spending grew **at** the national rate for the balance of the five-year agreement, total hospital savings would be **\$681 million, more than double the minimum savings requirement** (chart 2)

The staff's proposed update would push savings and reductions in the all-payer rate of spending for hospital care even further. Staff propose a total all-payer growth through June 30, 2017, of **7.81 percent per capita (6.40 percent** after removing the savings from uncompensated care and assessment reductions). This limited growth in spending for hospital care is more than **one-third** lower than the allowed ceiling under our all-payer demonstration (chart 3).

Full Range of Allowable Growth Options Not Presented

On pages 13-14 of the staff proposal, two charts present paths to achieve the desired fiscal year 2017 Medicare hospital savings of 0.50 percent. This is an opportunity to engage in a critical policy discussion about the cumulative minimum level of Medicare hospital savings to be achieved, when the minimum required savings through June 30, 2017 have already been exceeded and the all-payer agreement specifies a minimum **cumulative** five-year savings total of \$330 million.

The Medicare hospital savings requirement of \$330 million was calculated assuming the growth in Maryland’s spending for hospital care would be lower than the national growth rate by 0.50 percent per year. In the agreement’s first year, Maryland reduced that growth rate by far more – 2.15 percent. The commission can set a savings target for fiscal year 2017 less than the 0.50 percent recommended by staff, and still *significantly exceed* the minimum savings required. Setting a policy on hospital savings that does not account for the significant cumulative savings to date would undermine the still-tenuous status of the all-payer model.

In addition, Page 13 of the draft proposal suggests that the maximum all-payer growth rate that could be granted to achieve desired savings is limited to between 2.12 percent and 2.68 percent (1.59 percent to 2.15 percent per capita). However, two elements of the calculation are subject to a range of estimates not presented:

- **The projection of national Medicare spending growth for fiscal year 2017.** Several sources of data can be used for projecting Medicare national spending growth. We believe the most reliable is the projection of hospital spending in the Medicare Trustees annual report to Congress. In its latest report, spending growth is projected at 1.81 percent in calendar year 2016 and 2.52 percent in calendar year 2017, for a fiscal year 2017 projected growth of 2.18 percent (compared with staff’s indicated range of 1.20-1.75 percent). Further, in its report, the CMS Actuary indicates that based on a study of its estimates for the time period 1997-2013, it has historically *underestimated* hospital spending by about 0.4 percentage points per year.
- **The “difference statistic” that estimates the difference in all-payer spending per capita and Medicare hospital spending per beneficiary.** In calendar years 2014 and 2015, the average difference between the all-payer spending per capita and the Medicare spending per beneficiary was 1.62 percent, nearly double the “conservative projection” of the difference statistic staff are using (0.89 percent).

In short, there are several alternative scenarios not shown on pages 13 and 14 of your materials that commissioners might consider for fiscal year 2017’s maximum allowable all-payer increase. These scenarios demonstrate the ability to further increase the update.

Maximum Increase that Can Produce Desired FY 2017 Medicare Savings

| | Scenario 1 (Page 13) | Scenario 2 (Page 14) | Alternative Scenario 3 | Proposed Scenario 4 |
|---|---------------------------------|---------------------------------|-----------------------------------|--------------------------------|
| Estimated Medicare Growth (FY 2017) | 1.20% | 1.75% | 2.18% | 1.85% |
| Savings Goal (FY 2017) | -0.50% | -0.50% | -0.0% | -0.25% |
| Maximum Growth Rate that Will Achieve Savings | 0.70% | 1.25% | 2.18% | 1.60% |

Conversion to All-Payer

| | Scenario 1 (Page 13) | Scenario 2 (Page 14) | Alternative Scenario 3 | Proposed Scenario 4 |
|---|---------------------------------|---------------------------------|-----------------------------------|--------------------------------|
| Actual Statistic Between Medicare and All-Payer | 0.89% | 0.89% | 1.62% | 1.25% |
| Conversion to All- Payer per Resident | 1.60% | 2.15% | 3.84% | 2.87% |
| Conversion to Total All-Payer Revenue Growth | 2.12% | 2.68% | 4.38% | 3.41% |

At the May 11 meeting, MHA will provide commissioners with our recommendation for the update for fiscal year 2017, which will be well within the range of allowable increases that commissioners could consider. We ask commissioners to review the broader range of alternative scenarios and provide an update that does not undercut, at this still early stage, the important achievements and continued investments needed for successfully improving care delivery and health in Maryland.

Thank you for your consideration.

Sincerely,



Michael B. Robbins
Senior Vice President

cc: Herbert S. Wong, Ph.D., Vice Chairman
Victoria W. Bayless
George H. Bone, M.D.
John M. Colmers
Stephen F. Jencks, M.D., M.P.H.
Jack C. Keane
Donna Kinzer, Executive Director

Attachment

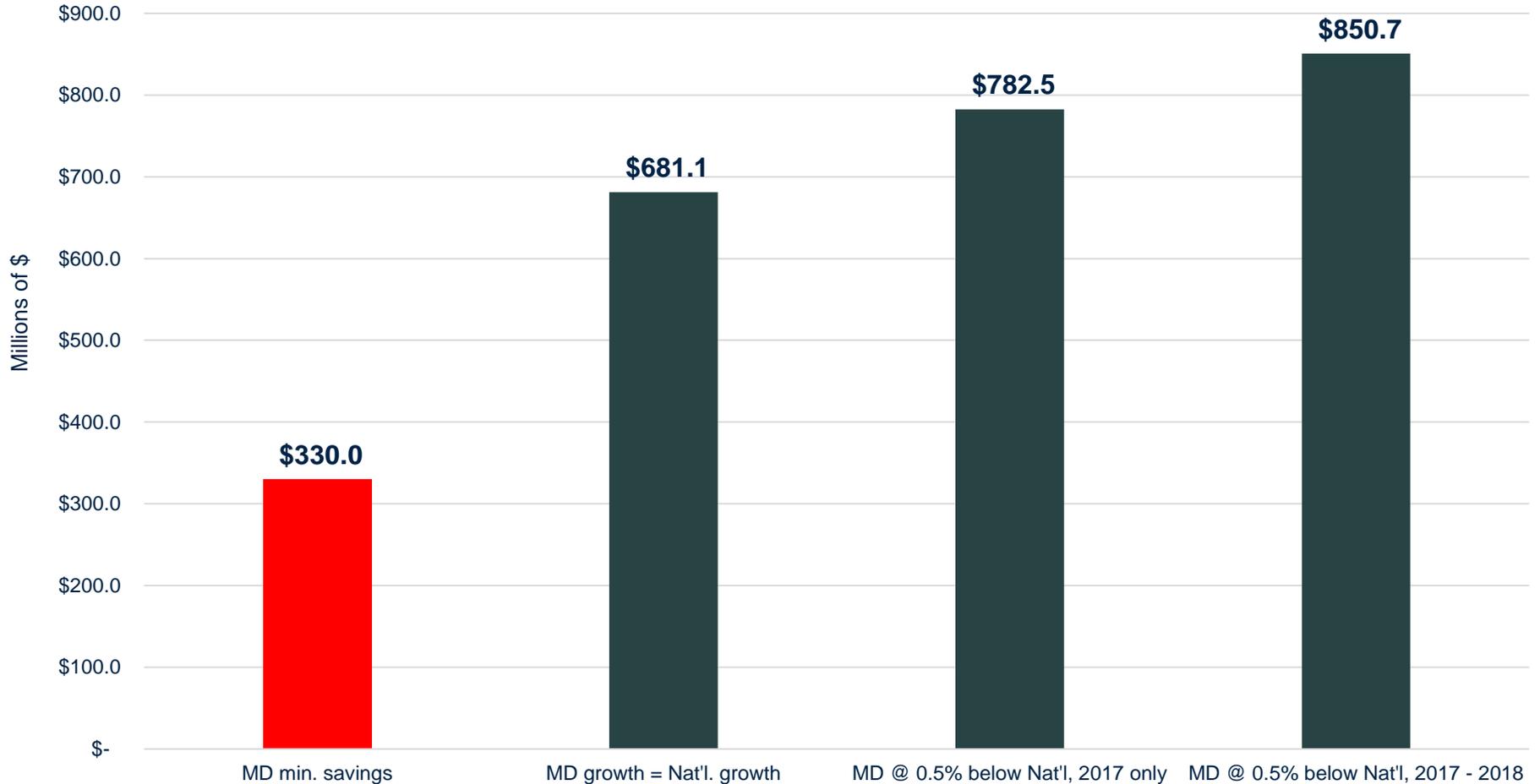
Medicare Hospital Savings is Already Five Times the Required Amount

Medicare Hospital Savings
(1/1/14 – 6/30/17)



Expected Medicare Savings will far Exceed Requirement

2018 Projected Cumulative Medicare Hospital Savings
(in millions)



Plenty of Cushion is Available

All-Payer Cumulative Update Capacity (per capita; 1/1/14 – 6/30/17)

