Maryland
Hospital Association

May 19, 2021

Adam Kane
Chairman, Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

Dear Chairman Kane:

On behalf of the Maryland Hospital Association's 60 member hospitals and health systems, we appreciate the opportunity to comment on the Health Services Cost Review Commission's (HSCRC) rate year (RY) 2022 annual payment update. Hospitals acknowledge the careful consideration commissioners and staff are putting into determining the payment update.

MHA members strongly urge the Commission to adjust the proposed rate update to account for the unprecedented and permanent inflation that is straining hospitals and health systems. We offer three recommendations.

1) Raise core inflation by 50 basis points. Maryland hospitals are facing real and significant cost inflation that is outpacing next year's proposed allowance. As reflected in the attachment, the most recent data indicate 2021 cost per adjusted patient day growing 3.4% over 2020, or 1% above HSCRC's measure of RY 2022 inflation. We respectfully ask the Commission to raise the annual core inflation factor from 2.37% to 2.87%; 50 basis points is half of the running cost variance.

2) Include 16 basis points for age-weighted population growth, allowing a basic demographic adjustment. Under a capped revenue system, including a fair amount for service growth – beyond which hospitals are at risk – is a core tenet. Age-weighting alone would yield 0.59% growth, which the staff proposal has scaled back to projected overall growth of 0.1%. Adding 15 basis points is one-fourth of the 0.59% age-weighted growth; this is equal to the prior year's allowance.

3) Suspend the productivity adjustment for psychiatric and specialty hospitals. We support HSCRC staff's proposal to suspend the productivity adjustment for psychiatric and specialty hospitals.

Please see the attachment (pages 3-5, plus exhibits) for further articulation of these points.

We state this position fully conscious of the Medicare guardrail. We firmly believe the guardrail will not be breached even with these changes. In any case, the palpable and lasting effects of the COVID-19 pandemic make the upward adjustments entirely justifiable if Marylanders are to continue to enjoy a robust hospital system.

MHA and our members appreciate your openness to input from the hospital field and we especially thank HSCRC for your understanding and remedial action during the unprecedented times brought on by COVID-19.

We look forward to discussing the update at the May 25 meeting of the Payment Models Work Group and at HSCRC's public meeting June 9, as we continue to work together on behalf of the people and communities we serve.

Sincerely,

Brett McCone
Senior Vice President

cc: Joseph Antos, Ph.D., Vice Chairman
Victoria W. Bayless
John M. Colmers
James Elliott, M.D.
Stacia Cohen
Sam Malhotra
Katie Wunderlich, Executive Director
Jerry Schmith, Principal Deputy Director

Enclosure

SUPPLEMENT TO COMMENTS ON RY 2022 PAYMENT UPDATE

Hospital Cost Inflation Will Outpace IHS Markit's Hospital Market Basket

All-payer, per capita hospital spending in Maryland is affordable. Hospitals face tremendous cost pressures that are not of their own making. Though some immediate COVID-19 cost pressures were relieved by federal provider relief funds and HSCRC action, **the RY 2022 figure does not reflect true, *permanent* cost growth** that will endure after the pandemic subsides.

- **Cost per equivalent inpatient day,** reflecting net expenses, **grew 3.4%** for the eight months ending February 2021 compared to the twelve months ending June 2020.
  - This is **more than 1% above projected rate year 2022 inflation** of 2.37%, 0.63% above 2.77% granted in 2021, and 1.3 % above IHS revised 2021 inflation figure of 2.09%
  - Cost per equivalent inpatient day for the same period **grew 9.0%** from the eight months ending February 2020 in rate year 2021
- If 2021 cost growth is **1% above future inflation**, even if half of the excess cannot be justified, **0.50% is reasonable.**
- Included in our next expense growth is a sharp increase in contract labor cost. Data gathered from Maryland hospitals reflect:
  - 2021 annualized **contract labor costs of $486 million**
  - **92% jump** from $250 million in 2020
  - **129% explosion** from $210 million in 2019. The increase from **2020 to 2021 is more than 1.2% of statewide hospital revenue**.
- As the labor market tightens, salaries and wages are rising. Hospitals are experiencing high levels of retirement, burn out and new nursing staff turnover requiring much higher base salaries.
- Mandates and voluntary actions to raise starting wages to $15 per hour, especially in non-hospital services, are forcing higher hourly wages for clinical and other support staff.
- According to Qualivis data for traveling nurse demand, Maryland is the 7th highest in nursing demand.

When federal provider relief funds and HSCRC actions conclude, **margins will significantly decline as cost pressures remain**. The statewide, unaudited hospital margin for the eight months ending February 2021 was 4.7%. This is largely thanks to HSCRC and federal interventions, combined with hospitals extraordinary cost management efforts. Excluding other operating revenue that reflects provider relief funds, net patient service margin was -4.3%. Cost pressures will not abate in 2022 as the temporary supports conclude.

IHS Markit's 2022 inflation figure of 2.37% is inconsistent with the stark cost increases faced by Maryland hospitals. During the period 2014-2019, the "actual" market basket inflation was. 2.1%, measured a year or two after the initial release. We analyzed HSCRC annual filing data for the same period and **calculated weighted cost per unit of volume growth to be 2.65%.** This is a conservative estimate. When we account for allowance for indirect cost it **rises to 3.35%**.

IHS projects hospital malpractice expense to grow 1.8%. This may be valid as a national average, but it is much lower than what we see in Maryland. **Maryland's malpractice costs rose 59%** from 2014 to 2019. (2020 data are not yet available)

It has been several years since HSCRC reviewed the underlying inflation calculations. We strongly support a new review to thoroughly analyze the inputs to projected inflation.

Add 0.15% for Age-Weighted Population Growth

We appreciate the constraints of the Total Cost of Care Model, including the per capita growth limit. Due to the aging of the population, age-weighted growth, including a reduction for potentially avoidable utilization, is projected to be 0.59%. This amount is then scaled to 0.01% overall population growth as projected by the Maryland Department of Planning. Medicare beneficiaries, however, will grow by more than this figure. The annual payment update is uniform across *all* payers. So, if the Medicare population increases 0.59%, implicit per capita Medicare growth *must* be lower than the average.

We welcome an assessment of the population growth data. The Maryland Department of Planning uses U.S. Census Bureau data where data are recorded only once every ten years.

Medicare Guardrail Considerations

HSCRC staff agree that Maryland and national spending per beneficiary growth for 2021 is not accurately predictable due to COVID-19. Despite the pandemic, Maryland must consider our Medicare Total Cost of Care guardrail when determining a reasonable 2022 payment update. The following points support a common goal – appropriately constraining per capita Medicare spending – yet allow for the extraordinary nature of the COVID-19 pandemic.

1. We encourage HSCRC and the Center for Medicare & Medicaid Innovation (CMMI) to take a **long view of the Model and savings targets.** Maryland's rate setting system provided the unique opportunity to stabilize rates during the COVID-19 pandemic. This will result in a two- to three-year volatile period as year-over-year global budgets reflect both under- and over-charges. The Model was designed to test per capita incentives over a *longer* period.
    - The attached slides reflect favorable Maryland performance when compared to a multi-year average of spending per beneficiary, in every year except 2017.

2. Like HSCRC's view of hospital financial performance, CMMI should **look at 2020 and 2021 combined.** Because Maryland's total cost of care growth was below the nation in 2020, the agreement allows for 2021 total cost of care to grow up to 1% more than the national rate. Like the rest of the country, Maryland's hospitals focused on delivering the highest quality of care and protecting lives during the pandemic, not on generating savings. Yet Maryland did produce a small amount of total cost of care savings in 2020. This amount should be allowed to serve as a cushion for calendar year 2021 growth.

3. The contract requires HSCRC to consider total cost of care, not just hospital costs, when setting hospital rates. However, **non-hospital providers absorb no financial risk** as a result of the annual constraint. In 2020, Maryland's hospital spending per Medicare beneficiary declined 3%, while the nation declined 5.2%. Because the hospital base in Maryland did not decline as fast as the nation, we fully expect hospital spending to grow below the national rate in 2021. In the face of rising inflation under a capped system, Maryland hospitals should not bear the entire risk for non-hospital growth during this unique period.

4. The year-over-year guardrails govern only Medicare spend per beneficiary. Maryland has consistently delivered all-payer hospital savings per capita. If HSCRC is concerned about the Medicare guardrail, an option would be to implement the Medicare Performance Adjustment Savings Component and **deliver direct savings to Medicare** in the form of lower payments.

5. **CMS's Inpatient Prospective Payment System (IPPS) proposed rule provides for inpatient price growth of 2.8%,** including one-time adjustments. CMMI should avoid short term volatility. However, proposed inpatient *price* growth, even if volumes do not rise, is greater than total Medicare *revenue* growth in Maryland.

ANNUAL CHANGE IN MEDICARE SPENDING PER BENEFICIARY

Annual Change in Medicare Expenditure per Beneficiary

Year	Maryland	National
2014	-0.6%	1.0%
2015	2.3%	2.0%
2016	0.1%	0.9%
2017	3.0%	2.2%
2018	2.2%	3.5%
2019	3.4%	4.0%
2020 YTD	-4.9%	-4.9%

3-Year Rolling Average

Year	Maryland	National
2016	0.6%	1.3%
2017	1.8%	1.7%
2018	1.8%	2.2%
2019	2.9%	3.2%
2020 YTD	-2.6%	-2.0%

Source: CMS monitoring data
Note: Data contain summaries prepared by HSCRC based on data summaries provided by the federal government; data are preliminary and contain lags in claims and there may be material differences in results when final data are received