# Hospital Global Budget Working Group

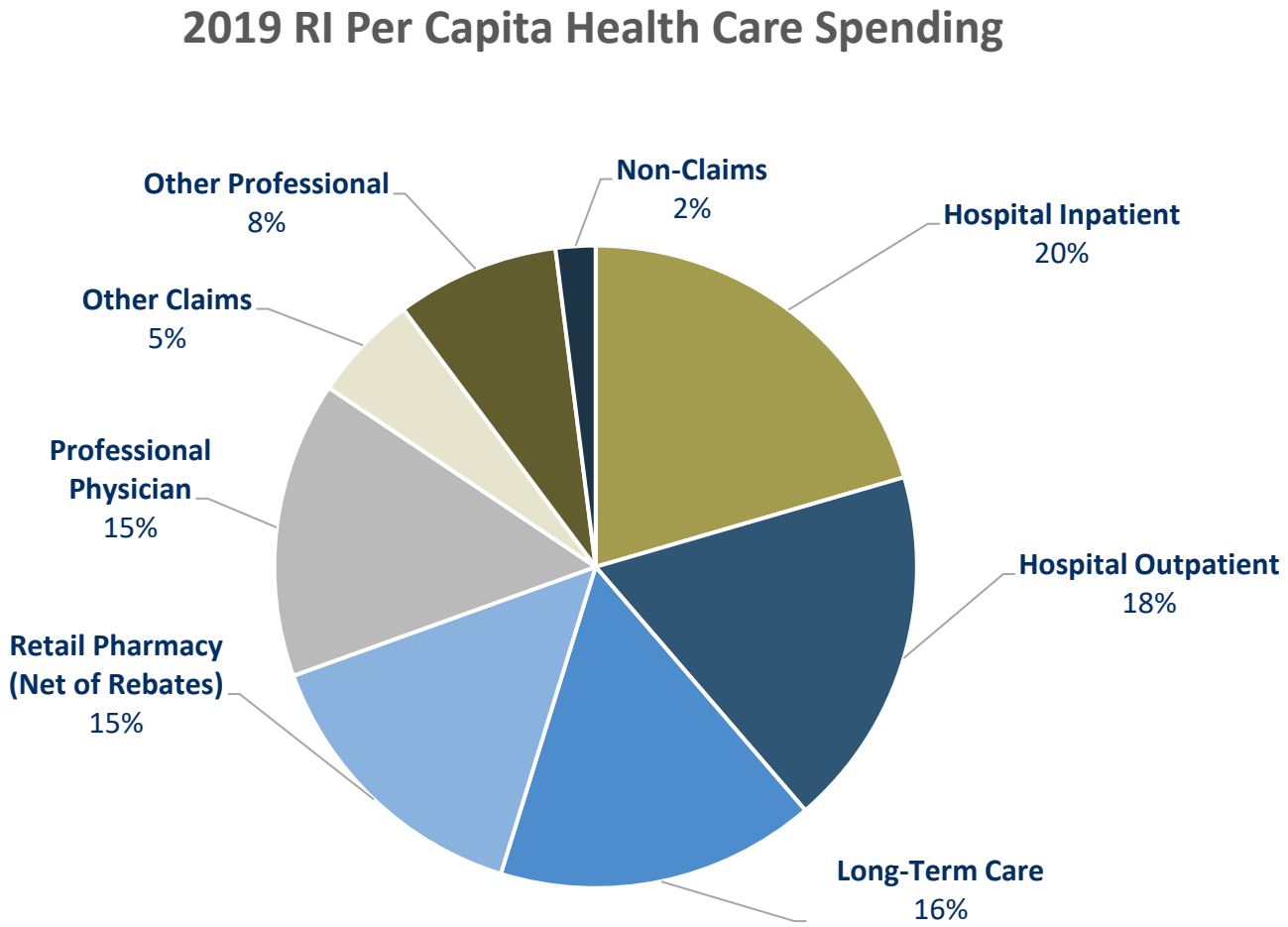
July 27, 2022

# Agenda

- Impetus for hospital global budgets in Rhode Island
- Overview of hospital global budgets
- Review of the Working Group's charge
- Meeting plan and schedule

# Impetus for Hospital Global Budgets

# Why Consider a Hospital Global Budget?




Sources:
2019 Rhode Island Cost Growth Target Data Collection

The Cost Trends Steering Committee is interested in advancing adoption of advanced VBP models.

Its VBP Subcommittee examined how to move away from fee-for-service payment models.

Because hospitals represent a large share of spending (nearly 40% of Rhode Island health care spending in 2019), it made sense to consider VBP models for hospitals.

# Why Consider a Hospital Global Budget? (Cont'd)

Hospital global budgets can be supportive of hospitals and advance the Cost Trends objectives by:

- ensuring **steady, predictable financing**;
- providing **greater flexibility** to modify hospital service offerings to best meet community needs;
- producing **positive outcomes** without having adverse effects on hospital finances; and
- **controlling growth** in hospital spending at an affordable level.

# Rhode Island's Value-Based Payment Compact

20 Rhode Island-based organizations voluntarily signed a compact to accelerate adoption of advanced value-based payment models in the state.

- Amica
- Blue Cross Blue Shield of Rhode Island
- Brown University
- Care New England
- Coastal Medical
- CVS Health
- Hospital Association of Rhode Island
- Hope Health
- Lifespan
- Neighborhood Health Plan of Rhode Island
- Point32Health
- Prospect Health Services of Rhode Island
- Rhode Island Business Group on Health
- Rhode Island EOHHS
- Rhode Island Foundation
- Rhode Island Medical Society
- Rhode Island OHIC
- Rhode Island Parent Information Network
- Rhode Island Public Expenditure Council
- WellOne

https://ohic.ri.gov/sites/g/files/xkgbur736/files/2022-04/RI%20Advanced%20VBP%20Compact%202022%2004-20%20FINAL%20%2B%20Signed.pdf

# Rhode Island's Value-Based Payment Compact

The compact specifically calls for adoption of three payment models:

**Hospital global budgets for facilities and employed clinician professional services**

Prospective payment for high-volume and high-cost specialty care providers who are not employed by hospitals

Prospective payment for primary care

# Rhode Island's Value-Based Payment Compact

The compact calls for the formation of a work group charged to agree on the details of a hospital global budget model and the completion of the following activities:

| | |
|---|---|
| **July 1, 2023** | Identification of the key parameters of the hospital global budget model |
| **July 1, 2024** | Completion of an independent study of hospital costs and cost-shifting |
| **July 1, 2025** | Establishment of sufficient state government administrative capacity to oversee the successful implementation of the model |
| **July 1, 2026** | Implementation of the hospital global budget model |

# Legislative Interest in Hospital Global Budgets

S2994, introduced in January 2022 by Senators Pearson and DiPalma, sought to put the Cost Trends initiative into statute. S2994 would have mandated the health insurance commissioner and Medicaid director to:

- Develop recommendations for the design of hospital global budgets for facility and employed clinician professional services
- Complete a report examining the cost structure and financial performance of hospitals licensed in Rhode Island
- Complete a report examining cost-shifting between payers, as well as the fiscal and economic impact of changes to Medicaid reimbursement rates for hospital services

http://webserver.rilin.state.ri.us/BillText/BillText22/SenateText22/S2994.pdf

# Overview of Hospital Global Budgets

# What is a Hospital Global Budget?

*A fixed payment, determined prospectively, based on historical utilization and adjusted annually to account for changing demographics, market share and case/service mix*

## Current Hospital Payment Model

- Hospitals are **paid per unit of service**.
- Hospitals are compelled to **deliver more services**, and **higher margin services**, to maintain financial viability.

## Hospital Global Budgets

- Hospitals receive a **budget** for **defined set of services** that is determined **prospectively**.
- Budgets are based on **anticipated utilization** during a specific time period.
- Budgets can be **modified from year to year** based on changes in market share and other factors.

# State Implementation of Hospital Global Budgets

Four states have experimented with hospital global budgets to date:

- New York Hospital Experimental Payment Program (1980 – 1987)
- Maryland All-Payer Model and TCOC Model (2010 – present)
- OneCare Vermont's model (2017 – present)
- Pennsylvania Rural Health Model (2019 – present)

Each state's model is unique and is reflective of state-specific policies and market dynamics.

- We will review these examples to help you understand how hospital global budgets have been employed.
- Rhode Island's approach is likely to differ from all four examples.

Of note, CMMI's CHART Model (2021 – 2027) is intended to provide prospective capitated payments to rural hospitals, like a hospital global budget, in AL, SD, TX and WA.

# State Implementation of Hospital Global Budgets (Cont'd)

## Hospital Participation

- **NY**: seven Rochester hospitals and one hospital outside city limits
- **MD**: all acute care hospitals
- **PA**: critical access and acute care hospitals in rural areas
- **VT**: 14 VT hospitals distributed across the state and Dartmouth-Hitchcock (NH) – all part of OneCare VT (statewide ACO)

## Payer Participation*

- **MD**: all-payer (i.e., commercial, Medicaid, Medicare)
- **NY, PA**, **VT**: Medicaid, Medicare and select commercial participation

*Medicare participates in hospital global budget arrangements via a special state agreement with CMMI.

# State Implementation of Hospital Global Budgets (Cont'd)

## Distributing Payments and Monitoring Performance

- **MD**: hospitals are paid retrospectively on an FFS basis; rates are adjusted up and down during the year to stay on track to meet the budget
- **NY**: hospitals received weekly prospective payments; reconciliation occurred on a monthly basis for variable costs only
- **PA**: CMS makes bi-weekly fixed prospective payments and reconciles budgets to actual costs *only* for Critical Access Hospitals (i.e., not a "true" global budget); commercial payers make FFS payments that are reconciled monthly to adhere to the budget
- **VT**: BCBSVT and Medicaid make fixed, prospective PMPM payments; Medicare reconciles payments based on FFS-equivalent spending (within a pre-determined risk corridor)

# State Implementation of Hospital Global Budgets (Cont'd)

## Establishing and Updating Budgets

- **NY**, **MD**, **PA**: historical inpatient and outpatient revenue, adjusted for future years
- **MD** uses all-payer revenue, while **PA** uses payer-specific revenue
- **VT**: unsure

## Additional Supports

- **MD**: includes additional programming and funding (e.g., Care Redesign Program) aimed to improve coordination with community-based providers
- **NY**: included a regional contingency fund to support increases resulting from changes in case mix and select medical technology

# Findings from State Experiences

### New York

- Reduced growth in hospital operating revenues and expenses
- Improved net margins
- May have yielded stronger results with model expansion

### Vermont

- Decreased hospital-based utilization and expenditures for Medicare
- Majority of hospital payments are still based on FFS, which is challenging for hospitals
- Some hospitals in rural areas have been reluctant to participate due to financial risk

### Maryland

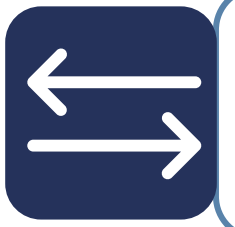
- Reduced hospital spending for Medicare and commercial
- Reduced total expenditures for Medicare
- Reduced admissions for Medicare and commercial
- Reduced ED visits for Medicaid and commercial

### Pennsylvania

- Limited data to assess effectiveness (one year of non-COVID-impacted data (2019))
- Participation from many hospital types (Critical Access, system-owned, independent)

# Challenges with Hospital Global Budgets

Hospitals and/or payers may be **reluctant to engage** in a global budget arrangement due to perceived **financial risks** or due to **technical challenges** associated with implementing the model.



Global budgets **could lead to stinting of needed care or shifting care** to settings not captured under the global budget if there are not sufficient mechanisms in place to monitor and respond to this risk.

Global budgets may **reinforce undesired structures** and **perpetuate inequities** in access to and/or quality of care.

# Review of the Working Group's Charge

# The Working Group's Charge

What:

- Produce a series of recommendations on the features of an all-payer hospital global budget model that are necessary to be successful and could be adopted by the state or private payers.

How:

- Convene monthly to review options and make recommendations for key design parameters.
- Bring organizational expertise to advise and provide input on key issues.

# Four Key Factors for Success

1. **Broad participation and support** from hospitals, payers and hospital-employed providers.

2. Robust **methodology** for establishing and updating **budgets**.

3. Depending on the model, **state government support** to oversee implementation and regulate and enforce the model annually.

4. Strong **infrastructure to support population health** activities that reduce emphasis on service volume.

# The Working Group's Composition

The Hospital Global Budget Working Group currently consists of the 20 Rhode Island-based organizations that voluntarily signed the Value-Based Payment Compact.

- How can we ensure that the Working Group reflects the perspectives of the community, including consumers, that will be impacted by the model?
- Are there other organizations that should be part of the Working Group?

# Meeting Plan and Schedule

# Working Group Meeting Plan and Schedule

| Date | Draft Meeting Agenda |
|---|---|
| August 2022 | • Review charge of the Working Group<br>• Define goals and criteria for adopting hospital global budgets<br>• Review key decision points for designing a hospital global budget |
| September 2022 | • Review key parameters for hospital global budget design<br>• Determine level of standardization across hospital global budget model design |
| October 2022 | • Decide which hospital-employed professionals and hospital-owned and non-hospital services to include |
| November 2022 | • Decide how to establish and update budgets annually (e.g., data source, factors to update budgets) |

# Working Group Meeting Plan and Schedule

| Date | Draft Meeting Agenda |
|---|---|
| December 2022 | • Decide how to adjust budgets during the performance period<br>• Decide how to distribute payments to hospitals |
| January 2023 | • Decide whether the hospital global budget model should include supplemental arrangements to improve population health, access and quality |
| February 2023 | • Determine who will be responsible for calculating hospital global budgets<br>• Identify opportunities to mitigate hospital technical and financial risk |

# Working Group Meeting Plan and Schedule

| Date | Draft Meeting Agenda |
|---|---|
| March 2023 | • Determine who should manage and oversee the initiative<br>• Create a plan for how the state will monitor progress towards its goals and inform possible design modification |
| April 2023 | • TBD |
| May 2023 | • TBD |
| June 2023 | • TBD |
| July 2023 | • TBD |