

Hospital Global Budget Working Group

August 19, 2022



Agenda

- Define Goals and Criteria
- Review Key Decision Points for Designing a Hospital Global Budget
- Public Comment
- Next Steps

Define Goals and Criteria

Define Model Goals

The following draft goals pull from the [VBP Compact](#) and [OHIC's goals for Rhode Island hospitals](#):

1. Reduce the growth rate of health care spending to an affordable and foreseeable level.
2. Provide hospitals with predictable revenue which promotes financial stability.
3. Enhance coordination and efficiency across delivery systems.
4. Support investment in technical innovation in care delivery to support population health management and quality excellence.
5. Improve patient experience of care, quality of care, positive patient outcomes and health equity.
6. Protect against harmful withholding of needed care (i.e., “stinting”).

Are there any additional goals we should consider?

Define Model Criteria

The following list of draft criteria, derived from the [VBP Compact](#), are intended to guide the design of the hospital global budget model. The Working Group will use these criteria to inform the development of and evaluate its recommended model.

1. Incentivize, to the greatest extent possible, participation from all insurers in commercial, Medicaid and Medicare markets*
2. Incentivize, to the greatest extent possible, participation from all hospitals in the State**
3. Integrate facility and employed clinician professional services and specialty care providers
4. Reduce provider administrative cost
5. Provide flexibility to account for varying plan market share and the composition of the population served by the provider
6. Incentivize the development of cross-organizational provider relationships that promote efficiency and avoid unnecessary service duplication
7. Align and/or integrate with ACO/AE TCOC models and other quality-linked models

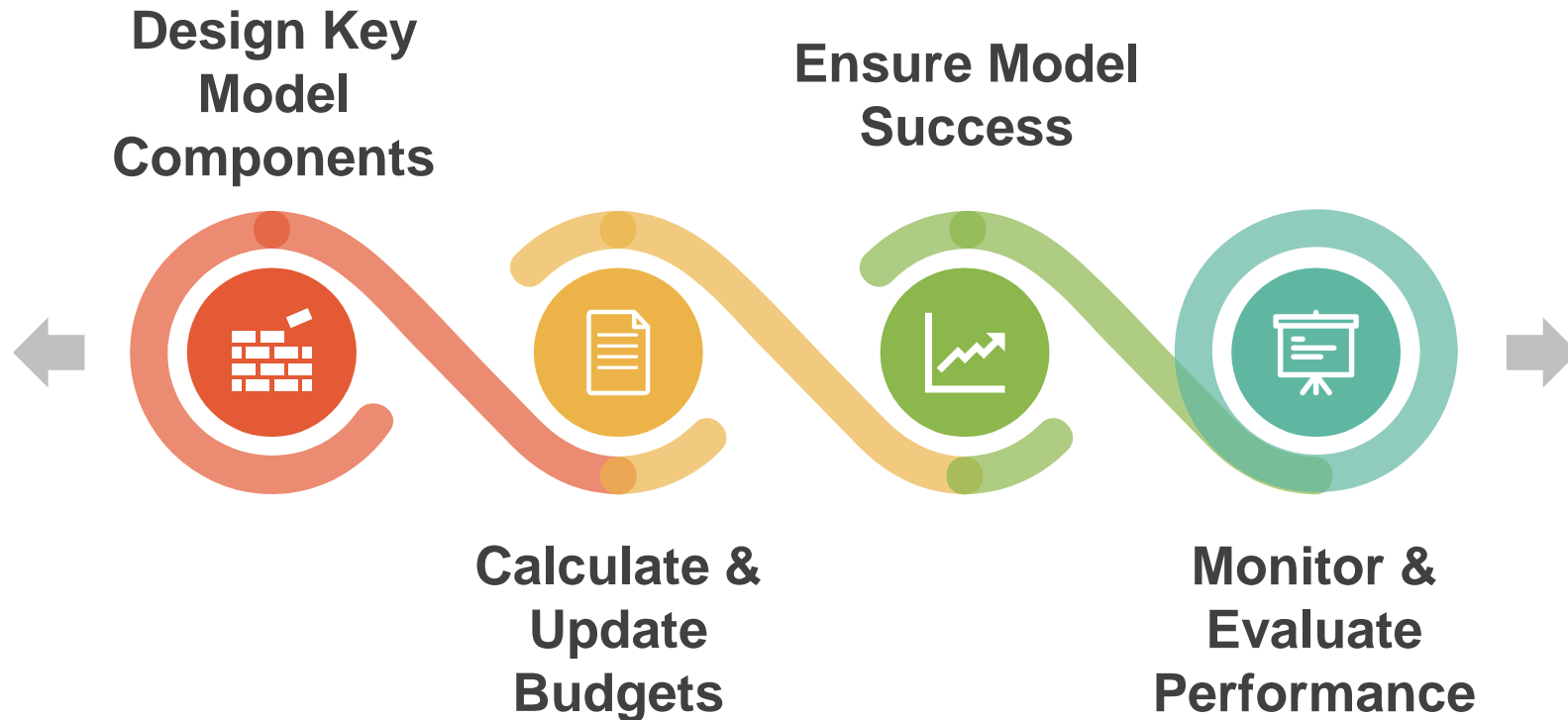
Are there any additional criteria we should consider?

*While the Working Group is developing a multi-payer model, it is possible that CMMI may want to introduce additional ideas at the time it is prepared to engage with the State.

**This feature was not specified in the VBP Compact.

Review Key Decision Points

Process for Designing and Implementing Hospital Global Budgets

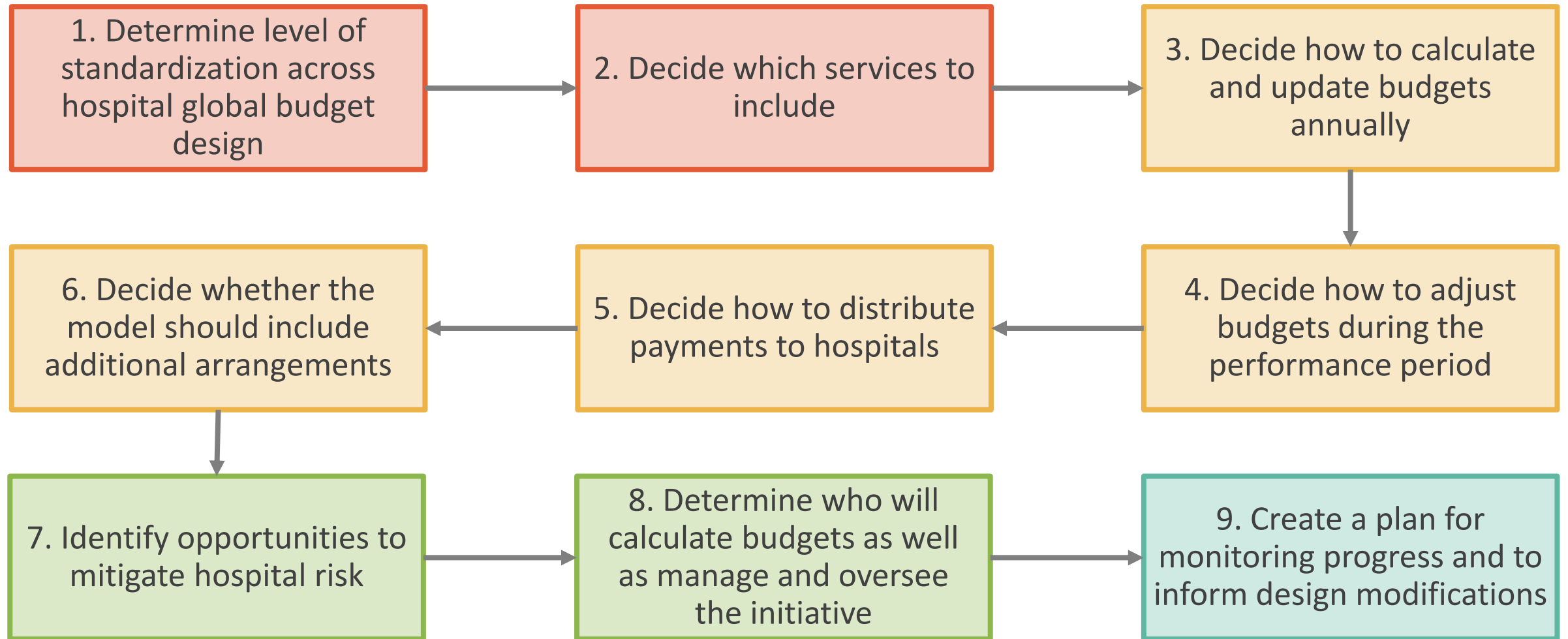


Today, we'll review the process for designing and implementing hospital global budgets at a high level.

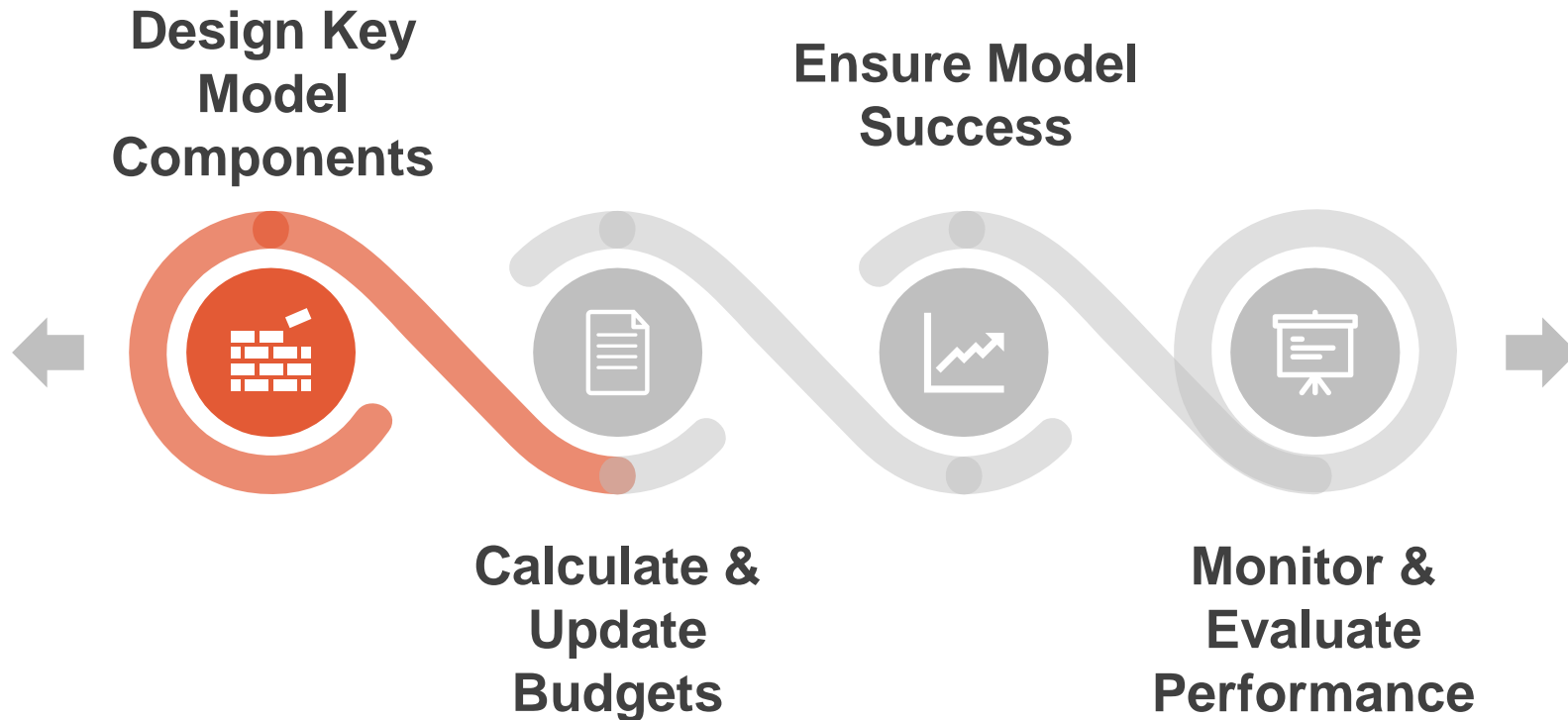
As we review each step, consider:

1. Are there any issues that are important to consider that are not included in what we plan to cover?
2. What information and whose expertise are needed for the discussion?

Nine Steps for Designing and Implementing Hospital Global Budgets



Design Key Model Components



1. Determine level of standardization across hospital global budget design
2. Decide which services to include

1. Determine Level of Standardization Across Hospital Global Budget Design

Hospital global budgets can be **calculated in the same fashion** across all payers and hospitals, or there can be a “**base budget design**” with a standard set of core model components and other model components that vary by payer and/or hospital.

- **Full standardization:** ensures budgets are calculated consistently but may be challenging to implement
- **Partial standardization:** creates flexibility, but may lead to confusing economic signals, increased administrative costs and diminished likelihood of outcomes

How Global Budgets Differ from Other Payment Models

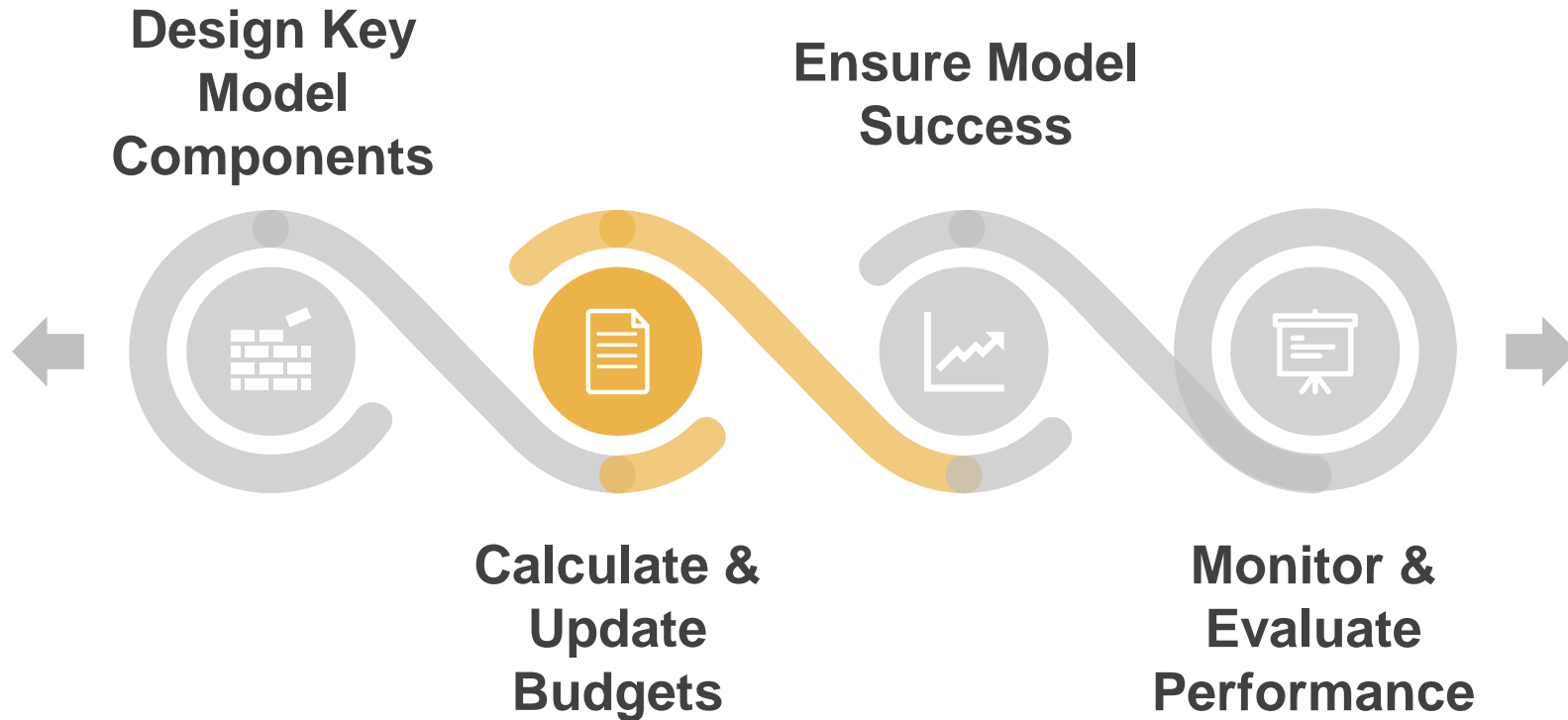
Before we delve into the details, let's consider how hospital global budgets vary from other types of payment models.

Payment Structure	Unit Costs	Ancillaries Per Day	Length of Stay	Defined Pre- and Post-Hospitalization Services	Hospital Readmissions	All Services (PMPM)
Discounted (itemized) charges	X					
Per-diem payments	X	X				
Per-case payments (e.g., DRGs)	X	X	X			
Episodes of care	X	X	X	X		
Hospital global budgets	X	X	X	X	X	
Capitation (PMPM)	X	X	X	X	X	X

2. Decide Which Services to Include

- Hospital global budgets typically **include inpatient and outpatient hospital services** (e.g., ED, labs, imaging, ambulatory surgery).
- Hospital global budgets **vary in their inclusion or exclusion of other facility-based services** (e.g., clinic services, home health services, skilled nursing facilities, other specialty facilities).
- Hospital global budgets have historically **excluded professional services, although inclusion of hospital-employed professional services can align financial incentives** across hospitals and their providers.

Calculate & Update Budgets



3. Decide how to calculate and update budgets annually
4. Decide how to adjust budgets during the performance period
5. Decide how to distribute payments to hospitals
6. Decide whether the model should include additional arrangements

3. Decide How to Calculate and Update Budgets Annually

Hospital global budgets must be adequate enough to **fund needed care** and **support strategies to constrain spending growth**, but must incentivize hospitals to **prevent avoidable and inappropriate utilization**.

Budgets are typically produced using a hospital's **historical inpatient and outpatient** revenue.

Budgets are **adjusted annually** to account for inflation, changing demographics, and market share, at the very least.

- Budget adjustments can also be applied for changes in case mix and service intensity, for quality performance, performance managing TCOC, and for changes in uncompensated care.

4. Decide How to Adjust Budgets During the Performance Year

FFS MODEL

Hospital is paid 100 cents on the dollar for each service, even though cost to produce the service (i.e., variable costs) is <\$1

Results in profit with volume increase and vice versa

FIXED GLOBAL BUDGET

Hospitals do not receive additional revenue for volume growth

May encourage stinting as hospital receives 100 cents on the dollar for volume decline

FLEXIBLE GLOBAL BUDGET

Hospital receives revenue for volume growth, but only for variable costs

Provides a predictable revenue source, but reduces incentive to decrease volume to increase savings

5. Decide How to Distribute Payments to Hospitals

Retrospective Approach

- Hospitals submit claims and receive payments on an FFS basis
- There can be one flat rate for all services or service-specific rates (which is highly complex)

Prospective Approach

- Hospitals receive fixed payments on a regular schedule (e.g., biweekly, monthly) equal to a portion of their annual budget
- Hospitals still submit claims, which are not paid, to inform budget modifications

Combined Approach

- Different payers adopt separate approaches, which allows them to adhere to existing statutory and regulatory requirements (e.g., ERISA requires self-insured plans to submit payments for members based on services rendered)

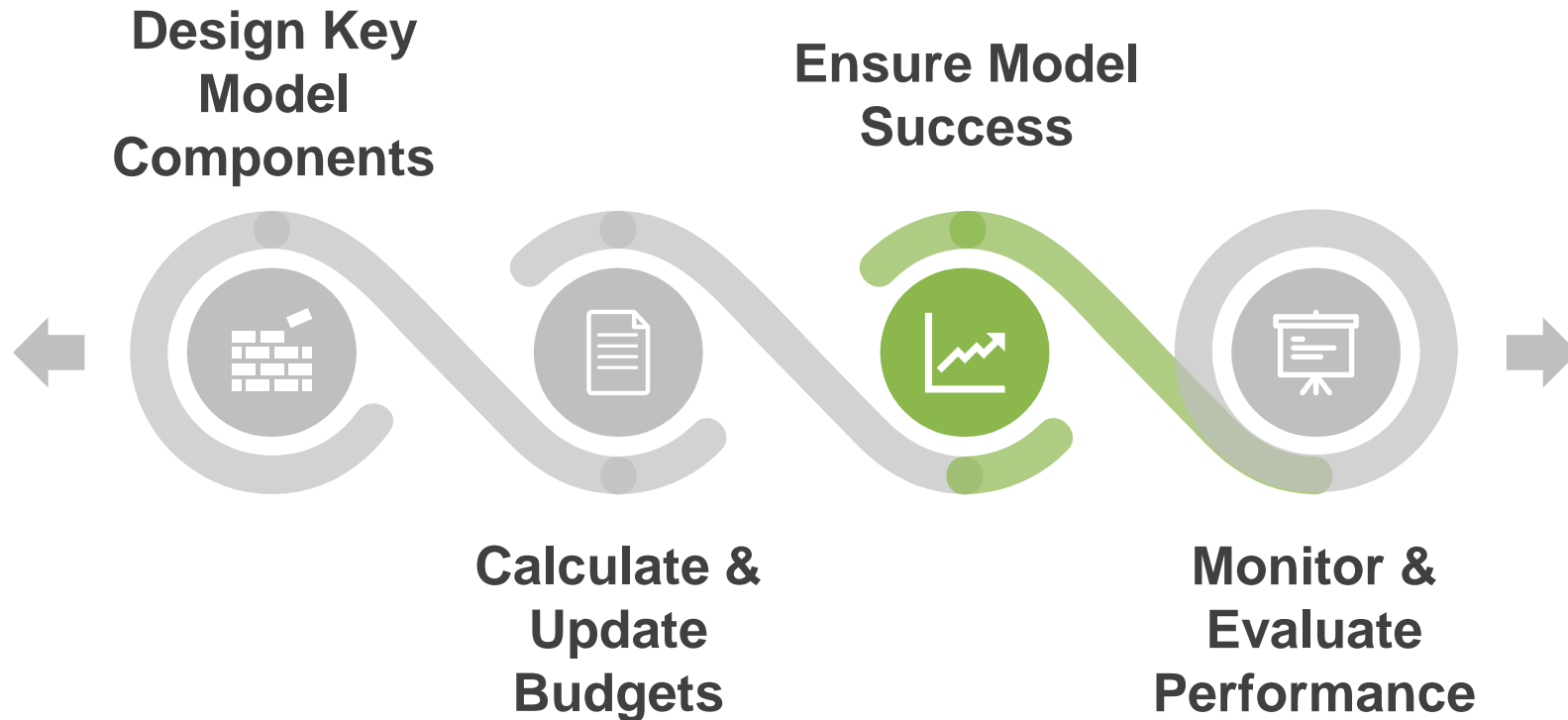
6. Decide Whether the Model Should Include Additional Arrangements

Complementary payment models can potentially support improved cost, access, quality, and population health (e.g., P4P models with utilization quality measures, TCOC models).

Supplemental payments can help hospitals invest in population health (e.g., care management, data analytics, HIT) and thereby potentially improve quality of care and generate savings.

CMMI may also require states to establish **additional performance targets** as part of the negotiation process to secure a waiver to implement a state model that includes Medicare FFS.

Ensure Model Success



7. Identify opportunities to mitigate hospital risk
8. Determine who will calculate budgets as well as manage and oversee the initiative

7. Identify Opportunities to Mitigate Hospital Risk

One approach to address financial risk is through the **design of the hospital global budget** (e.g., a flexible arrangement ensures a hospital's fixed and variable costs are covered).

Other potential approaches include:

- **reconciling payments made to select hospitals** for some or all of their populations to the FFS-equivalent spending,
- using **reconciliation as a temporary strategy** to transition to global budgets,
- implementing **stop-loss provisions** and/or
- providing **technical assistance** to hospitals, payers and other partners to aid model implementation.

8. Determine Who Will Calculate Budgets as Well as Manage and Oversee the Initiative

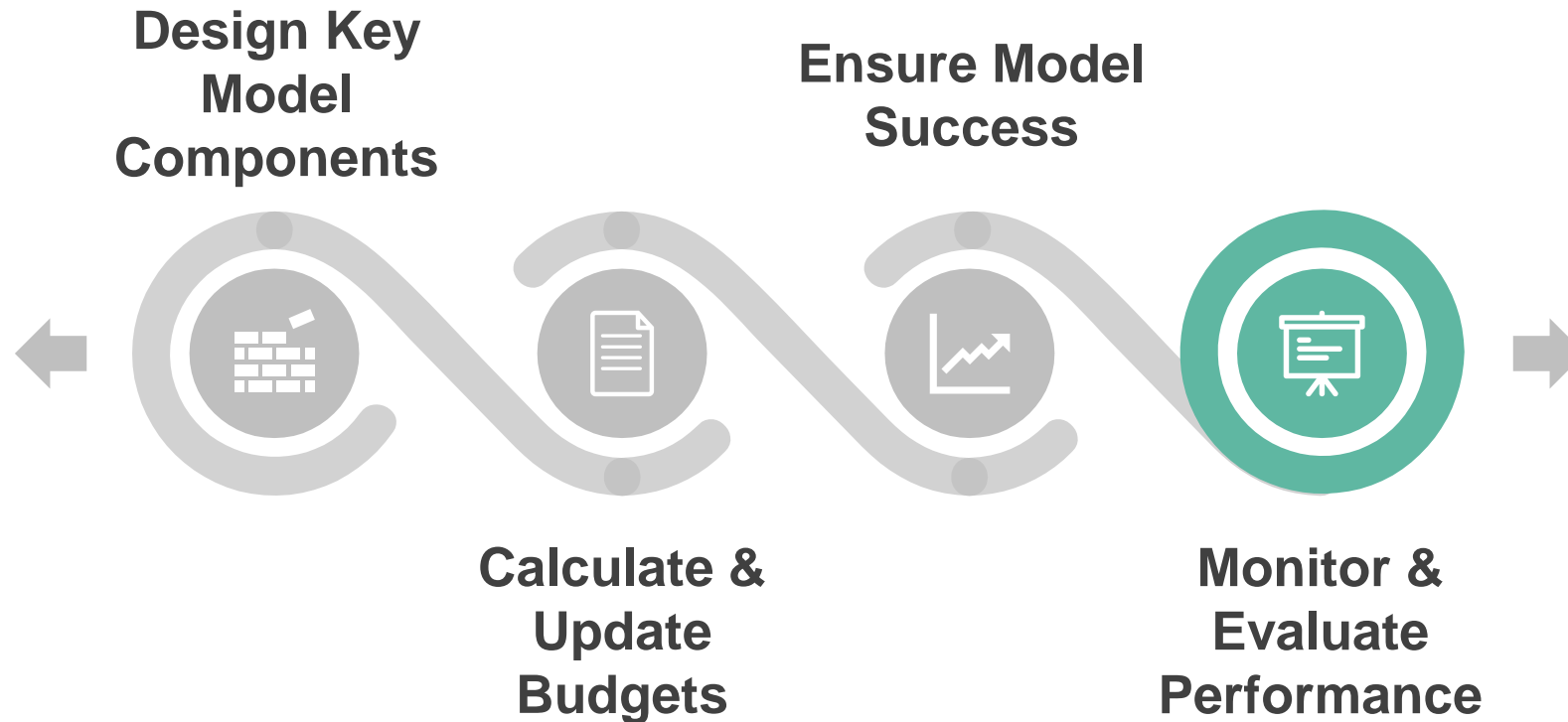
There are two approaches to **calculating individual hospital budgets**.

- One entity calculates all budgets: ensures budgets are calculated consistently across payers and hospitals.
- Individual payers and hospitals calculate budgets: may be more feasible to implement; states may wish to provide technical assistance for budget calculation.

The entity that **manages and oversees** the initiative can be the same entity that calculates budgets referenced above, or a separate public or private entity. Key responsibilities include:

- working with hospitals to **mitigate technical and financial risk**;
- providing **technical assistance** to hospitals and payers implementing the model and
- ensuring there are **consequences** for failing to meet budgets or model parameters (may be more applicable for a mandatory model).

Monitor & Evaluate Performance



9. Create a Plan for Monitoring Progress and to Inform Design Modifications

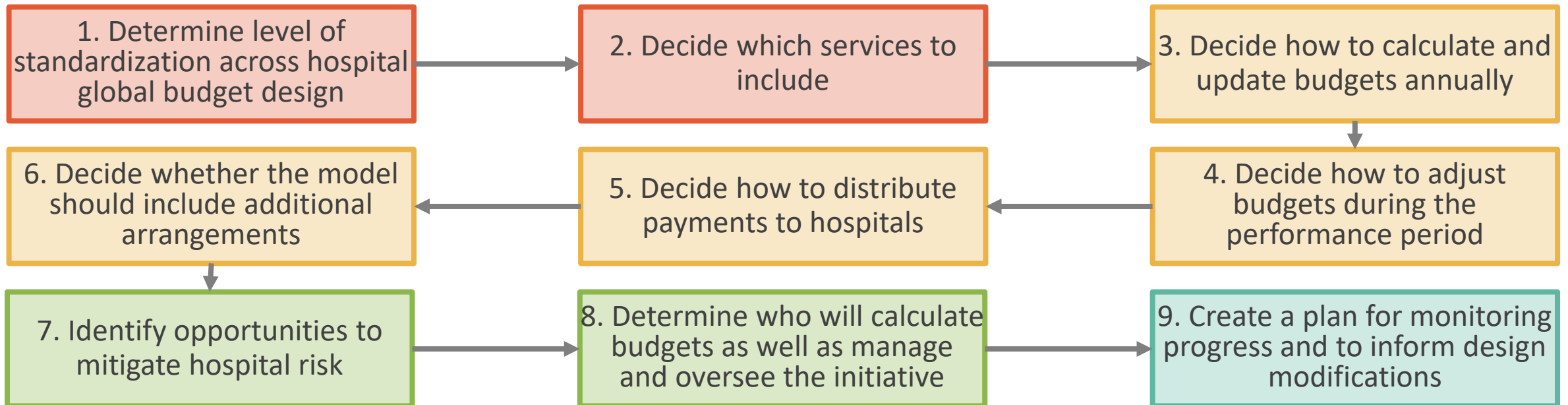
There must be a plan to track whether the model is achieving its proposed objectives and to inform modifications over time.

Key monitoring and evaluation activities include:

- annually **assessing and reporting progress** against achieving model goals, including statewide cost, access and quality performance;
- performing **market conduct exams** and **reviewing contracts** to ensure adherence to the model (easier to do under a mandatory approach), and
- **meeting with stakeholders** to discuss progress towards meeting model objectives and troubleshooting challenges.

Reflection

1. Are there any issues you think are important to consider that are not included in this plan?
2. What information and whose expertise will be needed for future discussion?



Public Comment

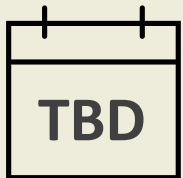
Next Steps

Working Group Meeting Plan and Schedule



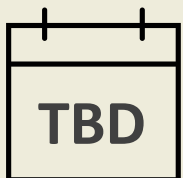
9/20

- Review key parameters for hospital global budget design
- Determine level of standardization across hospital global budget model design



TBD

- Decide which services to include



TBD

- Decide how to establish and update budgets annually