Rhode Island Hospital Global Budget Working Group
Meeting #10 Summary
HARI Conference Room
405 Promenade Street, Providence
May 1, 2023
9:00 AM – 11:00 AM

Consensus and Next Steps:

1. Bailit Health solicit David Cutler's feedback on the Medicare Market Basket Index.
2. Use the Medicare Market Basket Index as the hospital cost measure to develop an annual inflation factor.
3. Model the impact of different approaches to calculating inflation using ten years of historical data and forecasted data until 2025.
4. Develop a process for discussing ad hoc changes to the hospital global budget methodology.
5. Use data from Form 990, Schedule H, Line 7 to analyze historical patterns of uncompensated care. Use the data to develop a revised definition of uncompensated care and inform a regular plan to monitor and adjust for uncompensated care.
6. The Working Group will continue its discussion of budget adjustments at the next meeting.

Attendees:

- Cory King, OHIC
- Michael Bailit, Bailit Health
- Deepti Kanneganti, Bailit Health
- Natalya Alexander, NHPRI
- Scott Boyd, AMICA
- Tom Breen, South County
- Scott Brown, Landmark
- Jim Burke, Kent
- Steve Burke, Butler
- Doreen Carlin-Grande, NHPRI
- Al Charbonneau, RIBGH
- Tony Clapsis, CVS
- Stephanie De Abreu, UnitedHealthcare
- Chris Dooley, Prospect
- Howard Dulude, HARI
- Ana Tuya Fulton, CNE
- Peter Hollmann, RIMS
- Sue Guerette, Aetna
- Al Kurose, Lifespan
- Nick Lefeber, BCBSRI
- Peter Markell, Lifespan
- Mary Marran, Butler
- Heather-Rose Mattias, CNE
- Robert Millette, Prospect
- Josh Morris, Westerly
- Dan Moynihan, Lifespan
- Bob Murray, Global Health Payment
- Cathi Newman, BCBSRI
- Elena Nicolella, RIHCA
- Teresa Paiva-Weed, HARI
- Kim Pelland, EOHHS
- Aaron Robinson, South County
- Henry Sachs, Bradley
- Sam Salganik, RIPIN
- Ira Wilson, Brown University

I. Welcome

- Cory King welcomed the group.
- Deepti Kanneganti reviewed the agenda for the meeting.
- Michael Bailit reviewed the goals of the Hospital Global Budget Working Group.

II. Recap of the Consensus from the Last Meeting

- Deepti summarized the consensus from the last Working Group meeting, which included adopting a flexible global budgets, approaches for calculating inpatient, outpatient and professional services volume, and implementing a survey of RI hospital CFOs to assess the percentage of fixed and variable costs by revenue center.
- Al Charbonneau requested that the survey of RI hospital CFOs also include a question on how the CFOs define fixed and variable costs.

III. Continued Discussion of How to Calculate and Update Budgets Annually

- Deepti reviewed the prior consensus to adjust budgets to account for changes in age, sex and case mix.
    - Howard Dulude confirmed these would be regular adjustments to prior year budgets after the base budget was established.
    - Aaron Robinson said he did not think there would be agreement that the base budget would be sufficient.
- Michael proposed using a formula-driven approach to calculate inflation over a negotiated approach. Cory King added that there is no infrastructure or formal agreement to negotiate the budget like there was in the 1980s.
    - Peter Hollman supported a formula-driven approach because it would create common parameters for how to define inflation, similar to what is in place for the Cost Trends Project. He added that there are more payers today compared to the 1980s, which would make negotiation harder.
    - Teresa Paiva-Weed said hospitals are uncertain about a formula-driven approach because of prior disagreements on how the hospital price growth cap was set.
    - Cory King said he did not think OHIC would have any discretion in how to define the formula-driven approach.
- Michael proposed a formula for calculating inflation that is half based on hospital costs and half based on consumer affordability. He then proposed using the Medicare Market Basket Index as the hospital cost measure.
    - Howard Dulude confirmed that the Working Group would consider whether to use historical or projected values.
    - Peter Markell recommended using the Medicare Market Basket Index excluding any CMS adjustments for productivity.
    - Dan Moynihan shared that the Cost Trends Committee considered and did not adopt the Medicare Market Basket Index because David Cutler said there were delays in how CMS calculated the index.
    - **Next Steps**: Bailit Health solicit David Cutler's feedback on the Medicare Market Basket Index.

- Dan Moynihan asked why the Working Group isn't considering the CPI-U, which OHIC uses for its hospital price growth cap. Cory said the Medicare Market Basket Index is more indicative of hospital input costs and noted that both indices have been highly correlated in recent years.
- Teresa Paiva-Weed asked for historical Medicare Market Basket Index data.
- Peter Markell commented that inflation in medical input costs has outpaced regular inflation in the past decade, and that an inflation factor that considers affordability combined with this trend would result in a deficit.
- Aaron Robinson and Tob Breen agreed with Peter. Tom added that the Medicare Market Basket Index is not adequate because it does not consider the full cost increases that hospitals are facing. He advocated for an inflation adjustment that is specific to the RI hospital industry.
- Al Charbonneau said hospital global budgets provide revenue certainty, which allows hospitals exercise their responsibility to manage expenses.
- Sam Salganik asked how the proposed approach would compare to how hospitals negotiate inflation today.
    - Aaron Robinson said it's a laudable attempt to find a more equitable approach, but it would still result in structural deficits.
    - Al Kurose agreed that the proposed formula would institutionalize a structural deficit if hospitals cannot cut expenses.
    - Al Charbonneau said there is opportunity to reduce overhead costs in RI and nationally. He proposed adopting a contingency fund for hospitals that may need additional support.
    - Cory King highlighted the need to quantify hospital deficits in a standard way across all hospitals.
- Bob Murray shared that MD uses the Medicare Market Basket Index, which is a neutral source for hospital cost growth, without adjusting for productivity. He said the state can make adjustments to these values after considering additional data (e.g., forecasts accuracy, how national data compares to regional trends).
- Tom Breen said there should be a process to adjust the Medicare Market Basket Index as needed. Aaron Robinson supporting having an appeals process.
    - Michael proposed relying primarily on a formula-driven approach, but to have a process to revisit the formula if there are unusual circumstances.
    - Peter Markell added that the Working Group needs to define who would adjudicate an appeals process.
    - Teresa Paiva-Weed advocated for an independent entity.
- **Consensus**: Use the Medicare Market Basket Index as the hospital cost measure to develop an annual inflation factor.
- **Next Steps**: Develop a process for discussing ad hoc changes to the hospital global budget methodology.

- Michael described two options to consider for the consumer affordability measure – RI median household income and the RI cost growth target, which is a blend of potential gross state product (PGSP) and forecasted median household income.

- Sam Salganik recommended re-calculating the cost growth target value using one year versus five years of data.
- Al Charbonneau said he preferred using median household income because it more easily allows for cross-state comparisons.
- Elena Nicolella confirmed with Michael PGSP typically grows faster than median household income.
- Al Charbonneau noted that RI has one of the highest cost growth target values for 2023 and 2024.
- Peter Markell questioned the need for a consumer affordability measure. Cory King reminded the Working Group that the Cost Trends Project recommended using hospital global budgets as one mechanism for controlling cost growth.
- Bob explained that MD's waiver agreement with CMS includes a 3.58% all-payer per capita growth rate target, which governs how fast hospital global budgets can grow over time. The agreement also has a Medicare-specific target.
- **Next Steps**: Model the impact of different approaches to calculating inflation using ten years of historical data and forecasted data until 2025.

- Deepti proposed not making routine adjustments to the budget to account for uncompensated care in part because there are existing adjustments (e.g., DSH) that will remain separate from the budget and because there is no additional funding.
  - Peter Markell shared that there could be growth in uncompensated care as deductibles grow. Michael recommended monitoring for such changes and making ad hoc adjustments as needed.
  - Teresa Paiva-Weed expressed concern that consumers would be negatively impacted if hospitals are held responsible for consumer affordability.
    - Elena Nicolella asked if there was a mechanism to incentivize insurers to not change their benefit design.
    - Deepti recommended adopting a monitoring plan. Sam Salganik suggested using data from Form 990, Schedule H, Line 7.
    - Cathi Newman added that there could be a threshold for uncompensated care that would trigger the need for an adjustment.
  - Peter Markell asked for clarification on the language "less than full Medicaid reimbursement" in the definition of uncompensated care included in RI's regulation.
  - Deepti shared a revised proposal to monitor for uncompensated care to inform ad hoc budget adjustments.
    - Peter Markell said he supported this approach in spirit and shared that hospitals will cut services that lose money, which are services to the poor, if long-term costs are not covered. He explained that hospitals often negotiate rate increases with commercial insurers to cover some portion of uncompensated care.
    - Peter Markell advocated for routine budget adjustments for uncompensated care, but perhaps not annual adjustments. Ira Wilson agreed with Peter.

    - Sam Salganik asked why DSH is excluded from the conversation. He then shared that he did not want to create a system where hospitals receive public funding for uncompensated care but then also pursue debt collection activity for the same services.
        - Teresa Paiva-Weed explained that CMS is phasing out DSH payments.
    - **Consensus and Next Steps**: Use data from Form 990, Schedule H, Line 7 to analyze historical patterns of uncompensated care. Use the data to develop a revised definition of uncompensated care and inform a regular plan to monitor and adjust for uncompensated care.
- Deepti asked the Working Group whether there are other routine adjustments that should be considered.
    - Dan Moynihan suggested adjustments for when new technologies are introduced, as there is a lag before Medicare makes adjustments to its rates to account for these changes. Deepti said the Working Group will discuss this as an ad hoc adjustment.
    - Ira Wilson confirmed with Peter Markell that there should be an ad hoc adjustment if 340B is eliminated.
    - Aaron Robinson advocated for a budget adjustment to account for changes in cost of living. He added that hospitals sometimes reclassify to different geographic areas.
        - Cory King said the Working Group could consider looking at how the state-level measure of prices produced by the BEA changes over time.
        - Elena Nicolella recommended monitoring these changes, but not necessarily making further budget adjustments.
- Deepti proposed using a prospective approach to routine budget adjustments.
    - Howard Dulude confirmed with Deepti that a prospective approach would likely use data available from roughly two years before the performance year.
    - Howard Dulude, Aaron Robinson and Dan Moynihan advocated for using a retrospective approach because it ensures that budgets more accurately reflect actual performance.
    - Peter Markell asked for additional information about the previously discussed demographic adjustment, which he thought was more appropriate for a TCOC budget. He added that age and sex adjustments can be prospective, but case mix adjustments should be made retrospectively.
    - **Next Steps**: The Working Group will continue its discussion of budget adjustments at the next meeting.

IV. Public Comment

- Cory King asked for public comment. There was none.

V. Next Steps

- The next Working Group meeting will be on May 15, 2023.