STATE OF MARYLAND
DHMH
Maryland Department of Health and Mental Hygiene
201 W. Preston Street • Baltimore, Maryland 21201
Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – Joshua M. Sharfstein M.D., Secretary

SEP 26 2012

The Honorable Edward J. Kasemeyer
Chairman
Senate Budget and Taxation Committee
3 West Miller Senate Office Bldg.
Annapolis, MD 21401-1991

The Honorable Norman H. Conway
Chairman
House Appropriations Committee
121 House Office Bldg.
Annapolis, MD 21401-1991

Re: 2012 Joint Chairmen's Report, Page 67, M00Q01.01 – Report on Implementation of Certain Fiscal 2013 Cost Containment Proposals for the Medical Assistance Program

Dear Chairmen Kasemeyer and Conway:

Pursuant to page 67 of the Joint Chairmen's Report of 2012, the Department of Health and Mental Hygiene respectfully submits this report on the implementation of certain fiscal 2013 cost containment proposals for the Maryland Medical Assistance Program. The committees asked for detail on (1) implementing of an alternate method of funding uncompensated care; (2) allowing outpatient price-tiering; and (3) limiting expenditures on medically-needy inpatient care. The fiscal 2013 budget restricts $100,000 until the report is submitted, and gives the committees 45 days to review and comment on the report.

Two of the cost containment measures anticipated during the 2012 legislative session, implementation of an alternative method of funding uncompensated care and limiting expenditures on medically-needy inpatient care, were not ultimately implemented due to the use of other cost-savings strategies. A description of the original strategies, and a description of the cost savings strategies that were ultimately implemented, are contained below.

Medicaid Fiscal 2013 Cost Savings Target from the Health Services Cost Review Commission's Regulated Hospitals

The fiscal 2013 budget for the Medical Assistance program required $75 million in general fund (GF) savings from the three cost containment measures, which relate to hospitals. The savings to be achieved are as follows:

- Altered funding for uncompensated care (from pooled disproportionate share hospital payments) – $9.1 million GF/$18.2 million Total Funds (TF)
- Limits on expenditures for medically-needy inpatient care – $36 million GF/$72 million TF
- Outpatient price tiering – $30 million GF/$60 million TF

In addition, the fiscal 2013 budget increased the Medicaid hospital assessment by $24 million (from $389.8 million to $413.8 million).[1] As a result, the total required savings from hospital-related policies in the fiscal 2013 budget is $99 million GF ($75 million GF from cost containment measures plus an additional $24 million GF from the increased assessment amount from FY 2013).

Unbudgeted Medicaid Savings from the Health Services Cost Review Commission's Policy Actions

The Department is estimated to achieve approximately $67.3 million in savings (GF) from two policy actions of the Health Services Cost Review Commission (HSCRC): rate reallocation and a lower rate update factor. These savings were not built into the Department's fiscal 2013 budget, and therefore, can be applied to the savings amount required in the budget. As a result, it is unnecessary to implement the changes to uncompensated care funding (pooled disproportionate share hospital payments) and spending limits on medically-needy inpatient care.

The HSCRC policy actions are describe in more detail below.

- Lower Hospital Rate Update Factor

  The Medical Assistance fiscal 2013 budget assumed that the HSCRC annual rate update factor will be 3.8 percent on inpatient services and 4.65 percent on outpatient services, for a combined increase of 4.13 percent (which is identical to the update factor impact from fiscal 2011 to fiscal 2012). For each 1 percent below the 4.13 percent assumed, the Medicaid program is expected to achieve savings of $14 million (GF). HSCRC approved an update to rates for fiscal 2013 at its May 2012 meeting: -1 percent per case for inpatient charges, and 2.59 percent for outpatient charges. At current volumes, these rates would result in an increase in hospital revenue of 0.3 percent in fiscal 2013, which is well below the 4.13 percent budgeted by the Department. The total fiscal 2013 savings from the lower update factor is $53.6 million (GF).

- Rate Reallocation

  In March of this year, HSCRC authorized a reallocation of revenue from inpatient routine centers to outpatient centers to capture the shifts in patterns of care not reflected in the cost reports used to establish the rates for FY12. Although this action was designed to reduce average charges per Medicare discharge, it also had the effect of reducing the average charge per Medicaid discharge. The reduction in Medicaid hospital expenditures that resulted from this policy change is $13.7 million (GF).

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[1] *See* the Governor's FY 2013 Operating Budget Detail.

Outpatient Tiered Outpatient Rates

HSCRC has authorized tiering of outpatient rates for hospital emergency rooms and clinics. HSCRC developed and issued policy guidance on how hospitals can implement tiered rates. Hospitals have been asked to submit plans for tiering emergency room rates and clinic rates and to provide appropriate documentation on underlying costs that justify the tiered rates. While hospitals are not required to implement tiered rates, most of the high Medicaid volume hospitals submitted proposals, which were approved by HSCRC.

The Department removed $50 million TF ($25 million GF) from the capitation rates paid to Medicaid managed care organizations in recognition of tiered emergency room and clinic rates. An additional $10 million (TF) in savings is estimated in the fee-for-service program from tiered rates. The Department will have to monitor the tiered rate policy at the various hospitals. If savings are not achieved, the Department will need to consider alternative proposals to reduce hospital expenditures.

Summary

The total fiscal 2013 savings from cost containment measures and the hospital assessment is as follows:

- Rate reallocation – $13.7 million (GF)
- Lower update factor – $53.6 million (GF)
- Tiering of outpatient rates – $30 million (GF)
  TOTAL = $97.3 million (GF)

The combined actions taken to achieve the required hospital-related savings left a shortfall of $1.7 million (GF). The $1.7 million shortfall will be applied against the amount the Department is required to pay back to hospitals for the FY 2011 averted uncompensated care overpayment.[2] The Department also determined that an increase in the Medicaid hospital assessment as reflected in the FY 2013 budget was not necessary to achieve the $99 million in hospital savings.

I hope this information is useful. If you have any questions or need more information on this subject, please do not hesitate to contact Marie Grant, Director of Governmental Affairs, at (410) 767-6480.

Sincerely,

Joshua M. Sharfstein, M.D.
Secretary

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[2] The Department and HSCRC recently completed the FY 2011 reconciliation process for the amount paid by the hospitals to fund the Medicaid parent expansion that took effect July 2008. It was determined that the hospitals overpaid the Department by $18.1 million in FY 2011. This amount owed by the Department will be lowered by the FY 2013 $1.7 million cost containment shortfall.