ALTARUM
HEALTHCARE VALUE HUB

Hospital Rate Setting: How it Works in Maryland

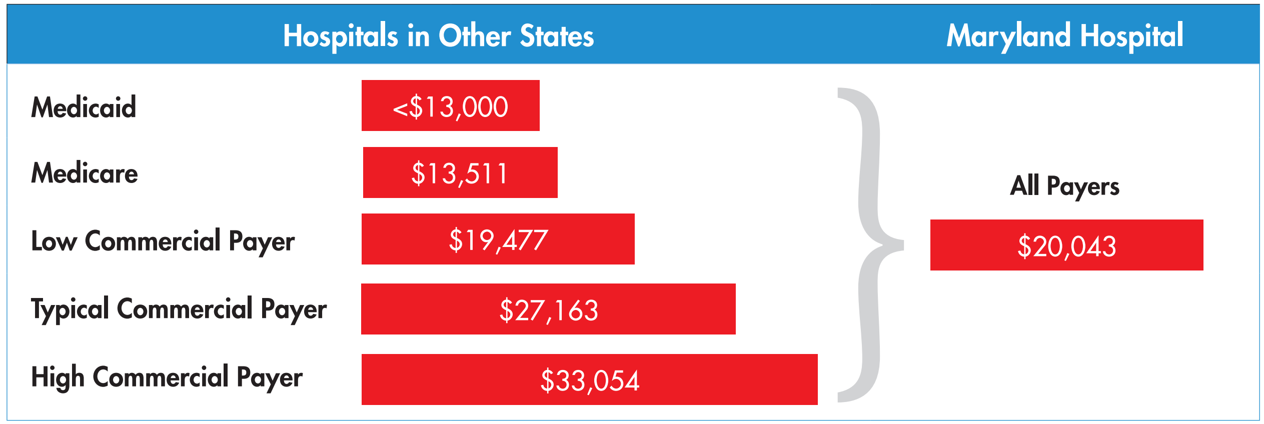
Two Ways to Pay Hospitals

In most states, hospitals negotiate rates with each payer separately. The result: A hospital is paid different rates for the same services, depending on the payer.

How is Maryland Different?

Hospital rate setting is a system in which an authority, usually a state agency, establishes uniform rates for hospital services for multiple payers. Maryland sets uniform rates for hospital services, so all payers pay about the same rate at a given hospital. This all-payer system requires a federal waiver so the state's rate setting agency can replace Medicare's payment rules with its own.

Example: Hospital Payment for Major Joint Replacement



Sources: Analysis of 2013 Medicare and commercial hospital payments by CBO (Tables 2 and 5): https://www.cbo.gov/system/files/115th-congress-2017-2018/workingpaper/52567-hospitalprices.pdf. *Maryland estimate is the ratio of MD payments to US average from CMS Inpatient Charge Data FY 2014 (found here:* https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Medicare-Provider-Charge-Data/Inpatient2014.html*)*

Evolution of Maryland's Waiver Program

In 1977, Maryland received its first federal waiver, which allowed the state to replace Medicare rates with all-payer rates. The system worked well in terms of keeping per-admission spending growth low, but the number of admissions grew. In 2008, the state piloted a global budget system in 10 hospitals to reduce unnecessary admissions and pay for value. Each hospital received a fixed global budget covering all outpatient and inpatient services.

In 2014, a new waiver was enacted statewide. Each hospital receives a global budget based on revenue from the previous year (base year). The hospital's global budget is adjusted annually based on cost inflation, demographic changes and performance on specific quality measures.

Previous Hospital Payment Model (1977-2013)

Total Admissions/ Services X **Rate paid per case** = **Hospital Revenue**

- Incentivized volume over value
- Revenue unknown at beginning of year
- More admissions/ services equaled more revenue

New Hospital Payment Model (2014-Today)

Hospital Revenue for Base Year X **Updates for population changes, value, cost inflation** = **Global Budget (allowed revenue for next year)**

- Incentivizes value and population health
- Revenue known at beginning of year
- More admissions doesn't equal more revenue

More information can be found at *www.HealthcareValueHub.org/Hospital-Rate-Setting*