

Special Commission on Provider Price Variation

October 11, 2016

Agenda

- ▶ Welcome & Updates
- ▶ Presentation: Medicare Payment Systems
- ▶ Discussion of Payment Factors

Subcommittee Assignments

▶ Market Forces

- ▶ **Deborah Devaux**
- ▶ House Majority Leader Ronald Mariano
- ▶ Dr. Stuart Altman
- ▶ Lora Pellegrini
- ▶ Dr. Howard Grant
- ▶ Lynn Nicholas
- ▶ Dr. David Torchiana

▶ State Monitoring

- ▶ **Connie Englert**
- ▶ Karen Tseng
- ▶ Mark Goldstein
- ▶ Dr. Richard Frank
- ▶ Steve Walsh
- ▶ Roberta Herman
- ▶ Tyrek Lee

▶ Transparency

- ▶ **Kate Walsh**
- ▶ Lauren Peters
- ▶ Rick Lord
- ▶ Secretary Sudders
- ▶ John Fernandez
- ▶ Greg DeConciliis
- ▶ Steve Carey

Subcommittee Chairs are in bold.

Presentation
Professor Joseph Newhouse, PhD
Harvard University
Medicare Payment Systems



Medicare Payment Systems Summary

Payment System	Setting	Unit of Payment
Inpatient Prospective Payment System	Hospital inpatient	Per discharge
Outpatient Prospective Payment System	Hospital outpatient	Per service, with moderate packaging of some items
Physician Fee Schedule	All settings with different practice expense amounts for services furnished in facility vs. office settings	Per service, with limited packaging
Ambulatory Surgical Center Payment System	Ambulatory surgical centers	Per service, with moderate packaging of some items

MassHealth Payment System Summary

- ▶ MassHealth, Massachusetts's Medicaid program, pays for care differently depending on the program.
- ▶ Certain hospitals may be eligible for supplemental reimbursements.
- ▶ MassHealth pays physicians according to a fee schedule.
- ▶ Contracts with Ambulatory Surgical Centers (ASCs)
 - ▶ Freestanding ASC rates are set statewide through regulation
 - ▶ Hospital-based ASC rates are set by contract
- ▶ MassHealth is in the process of moving to ACO-like models of care.

Ambulatory Surgical Centers (ASCs)

- ▶ Ambulatory surgical centers (ASCs) are distinct entities that provide outpatient surgical services to patients.
 - ▶ Can be independent or affiliated with a hospital.
- ▶ Physicians refer patients to ASCs for certain outpatient procedures.
- ▶ Commercial ASC rates are set annually and contracts can be formed
 - ▶ Jointly among MA Association of ASC members with Blue Cross Blue Shield, Tufts & Harvard Pilgrim, and/or
 - ▶ Individually between ASCs and payers.

Discussion of Payment Factors



The HPC found that a substantial portion of hospital price variation is associated with market structure, and not with quality

Factors associated with higher commercial prices

(Holding all other factors equal)

Less competition

Larger system size (above a certain size)

Corporate affiliations with certain systems

Provision of higher-intensity (tertiary) services

Status as a teaching hospital

Factors associated with lower commercial prices

(Holding all other factors equal)

More Medicare patients

More Medicaid patients

Corporate affiliations with certain systems

Factors not generally associated with commercial prices

(Holding all other factors equal)

Quality

Mean income in the hospital's service area

Quality

- ▶ Medicare and MassHealth use payment incentives to improve quality.
- ▶ Payments can be:
 - ▶ Built into rates
 - ▶ Bonus payments/payment reductions (penalties)
- ▶ Examples
 - ▶ Value-based purchasing
 - ▶ Pay-for-Reporting
 - ▶ Reductions for excess readmissions and hospital-acquired conditions
 - ▶ Pay-for-Performance

Provision of Services to Unique & Underserved Populations

- ▶ Medicare and MassHealth provide additional funding for hospitals serving low-income, rural or other underserved populations.
- ▶ Medicare adjusts payments for both inpatient and outpatient services.
- ▶ MassHealth
 - ▶ Supplemental payments are given to hospitals serving unique and/or underserved populations.
 - ▶ Cancer hospitals are paid using a unique outpatient base rate.

Location

- ▶ Medicare and MassHealth adjust payments based on location.
- ▶ Medicare adjusts payments for geographic differences in wages for all states & cost of living in AK & HI only.
 - ▶ 3% adjustment in MA for FY 2016
- ▶ MassHealth uses the CMS wage area assignments.

Physician Fees

- ▶ Medicare reimburses physicians and other health professionals based on a fee schedule.
 - ▶ Physician fees only adjusted for location
 - ▶ Fees 9% higher in metro Boston than in other parts of the state.
- ▶ Medicare physicians must report specific quality metrics to receive full payment.
- ▶ MassHealth has a fee schedule based on Medicare's methodology.

Costs

- ▶ Medicare and MassHealth provide high-cost outlier payments when actual treatment costs greatly exceed the fixed reimbursement rate.
- ▶ Medicare (inpatient & outpatient)
 - ▶ Ex: If inpatient cost exceeds a fixed amount, hospital is paid 80% of amount above the threshold (90% for burn cases).
- ▶ MassHealth (inpatient)
 - ▶ MassHealth pays an extra 7-10% for high cost outliers
 - ▶ Outpatient high cost outlier payments beginning December 2016
- ▶ MassHealth & Medicare adjust payments for case-mix.

Medical Education

- ▶ Medicare adjusts hospital base rates to account for additional costs associated with teaching activity.
 - ▶ Indirect medical education (IME) payment compensates facilities for higher patient care costs caused by the “inefficiencies” associated with teaching residents.
 - ▶ Direct medical education (DME) payment compensates facilities for the cost of teaching residents.

Number of Interns, Residents, Fellows - 2014	
Partners	1,754
Children’s Hospital	708
CareGroup	687
UMass	535
Boston Medical Center	486
Wellforce	420
Baystate	323
Steward	208
Tenet	154
Cambridge Health Alliance	145
Lahey	135
Berkshire	77

Note: Partners data does not include McLean or Spaulding.

Data from Massachusetts 403 Cost Reports - Acute and non-acute hospitals submit DHCFP-403 cost reports to CHIA on an annual basis. These filings contain a wide range of detailed information about each hospital’s component costs, revenues and statistics for business and facility operations.

Medical Technology & Pharmacology

- ▶ Medicare adjusts rates for use of new and costly technologies, and new drugs, biologics and devices, that result in better patient outcomes.
- ▶ Manufacturer submits application to CMS.
- ▶ Payments limited to 3 years after FDA approval & commercialization.
- ▶ Between 2001, when this payment program began, and 2015, CMS approved 19 of 53 applications for an inpatient add-on payment.
 - ▶ 15 devices and 4 drugs

Review

Factor	Medicare	MassHealth
Quality	✓	✓
Medical Education	✓	
Stand-by Service Capacity		
Emergency Service Capacity		
Special Services by DSH to Unique Populations	✓	✓
Market Share		
Provider Size		
Advertising		
Location	✓	✓
Research		
Cost	✓ (for high-cost outlier cases)	✓ (for high-cost outlier cases)
Care Coordination		
Community Based Services by Allied Health Professionals		
Use/Advancement of Medical Technology & Pharmacology	✓ (small # of specific technologies)	



Factors for Discussion in Meeting 3

- ▶ Stand-by Services
- ▶ ED Services
- ▶ Advertising
- ▶ Research
- ▶ Care Coordination & Community Benefits by Allied Health Professionals

Next Steps

- ▶ Upcoming Commission Meeting:
 - ▶ November 1, 2016
 - ▶ 11:00am – 2:00pm at 1 Ashburton Place, 21st Floor

- ▶ Subcommittee Meeting Schedule

The Commission's Report is due in...

