Proposed Pilot Payment Reform Projects
Consideration of Hospital Global Budget Pilot

Presentation to:
Members of the Vermont Legislature

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The Green Mountain Care Board
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What are Global Budgets?

- Global Budgets refer to:
  - All-payer payments to hospitals;
  - Could also include payments to the hospital’s employed physicians;
  - The payments are based on historical revenues that collectively make up the hospital's revenue for a defined period of time;
  - The time period is usually a year.

Benefits of Hospital Global Budgets

- Do away with Fee-for-Service (FFS) incentives and make growth strategies currently pursued by hospitals unattractive.

- Reduce total hospital and employed physician expenditure growth to affordable levels over time (hospital and employed physician expenditures account for ~45-50% of total health care expenditures in Vermont).

- Require strong monitoring and regulatory systems to control growth in total cost of care.

- Increase likelihood of financial sustainability for the hospitals since global budgets provide a predictable and enforced revenue stream.

- Offer an opportunity to provide further financial incentives for hospitals to improve quality, access to care and patient experience.

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Global Budgets – Why Now?

- Provide hospital incentives which encourage high value care and cost containment, and could move Vermont a long way toward achieving the goals of ACT 48.

- Several hospitals in Vermont have recently expressed interest in exploring global budgets and appear willing to assume the financial risk associated with a global budget.

- Provide the hospitals with predictable revenue streams as volume declines and provide them with flexibility to meet the unique health care needs of their communities.

- The State of Maryland recently received approval from CMMI and CMS to develop an all-payer system of Global Budgets for most of its 46 hospitals.

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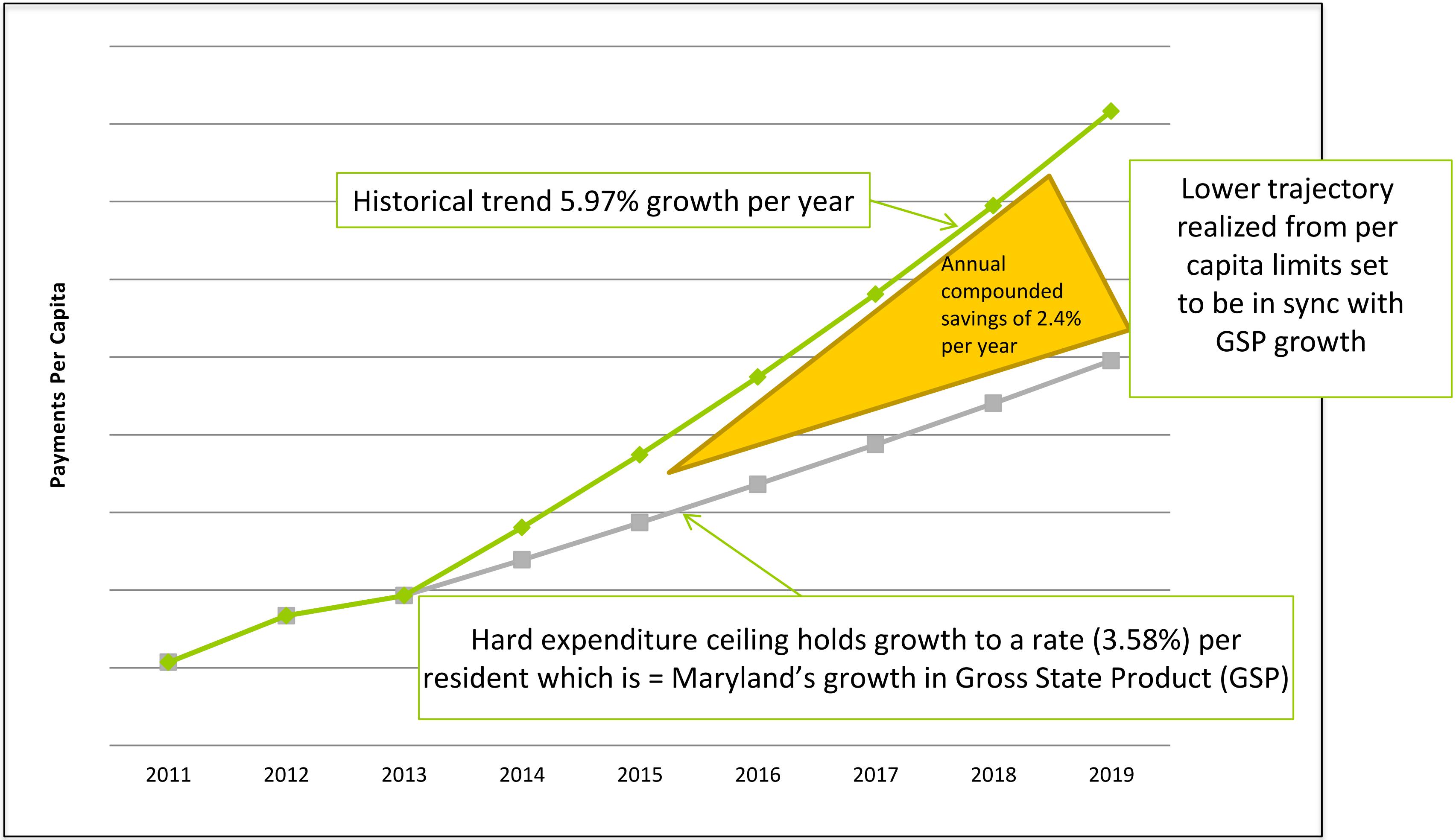
Maryland’s All-Payer Global Budget Demonstration

- For years, Maryland’s All Payer system successfully controlled the rate of growth of price per unit for hospital inpatient and outpatient services.
- Hospitals responded to these FFS incentives by increasing the quantity of services provided and increasing overall growth in health care expenditures.
- Maryland has recently implemented global budgets in 10 rural hospitals with good success.
- Maryland also implemented quality programs that provide financial incentives to maintain or improve the quality of hospital care.
- Maryland’s new waiver (approved per CMMI’s authority) gives the state the opportunity to achieve a “sustainable rate of per capita growth” in hospital care.

Implications of Controlling Total Expenditure Growth



How Global Budgets Might Work in Vermont

- Global Budgets would establish a Performance Year Budget based on the historical revenues and services provided by the hospital.
- FFS incentives which encourage increased volume would be replaced by strong incentives to manage utilization and drive inefficiencies out of the system.
- Proposing a 3-year pilot, covering inpatient/outpatient and employed physicians.
- Budgets would increase at an annual rate that accounts for demographic changes and reasonable cost inflation.
- Growth rates would approximate the growth in Gross State Product or other economic indicators, thus allowing for sustainability/affordability over time.
- All payers would need to participate in order for global budgets to be successful over the long run.

GMCB Budget Process vs. Potential Global Budget Model

	Current Budget Process	Global Budget Model
Calculation of Projected Budget	Base NPR + 3.0% + .8% (Reform Efforts)	Base NPR + Market Basket Index (MBI) + Demographic Adjustment
Approval, Review, and Enforcement	Annual approval based on GMCB rules. If hospital goes over budget there is no enforcement mechanism.	Annual budget based on previous year budget + MBI + Demographic Adjustment. Year end settlement by the payers. Hospital has to operate within the budget prescribed.
Impact on Payer Rates	Commercial Payer Rates influenced by Cost Shift.	Uniform annual rate increase for all payers and all services and trend rate is inclusive of volume.
Provider/Payer Contracting	No Involvement by GMCB - strictly between the payers and the providers.	No need for hospital/payer contracting around rates.
Services Covered	Hospital (Inpatient/Outpatient) and Hospital Employed Physicians	Same (could be expanded to other providers)
Payment/Incentive Type	Fee For Service/Fee For Service	Fee For Service payment but guaranteed budget for hospital
Participation in ACO's	Yes -Shared Savings (Years 1, 2). -Shared Savings and Risk on Total Cost of Care (Year 3).	Yes -Savings generated through reduced costs under the budget cap. -Risk Related to the hospital budget and not Total Cost of Care.
Resources Required	GMCB Budget Review Team and Board Members	GMCB expanded budget review team with additional analytic, monitoring and compliance functions