

## Healthcare Alert

January 2014

### CMS Announces Modernized Medicare Waiver Program in Maryland

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Can hospitals cut costs, increase the quality of care, and improve patient outcomes? The State of Maryland and the Centers for Medicare & Medicaid Services (CMS) challenge hospitals to do just that in a newly announced reform initiative that could soon serve as a model for the rest of the country.

On January 10, 2014, CMS and Maryland announced an initiative to modernize the state's all-payer rate-setting system (referred to herein as the All-Payer Model). The newly reformed All-Payer Model will bring significant changes in the way that healthcare is provided and reimbursed in the state. In turn, Maryland's healthcare providers will be presented with unique challenges as they implement the requirements of the new system.

#### Background

For 36 years, Maryland has operated under a unique Medicare waiver that allows the state, under the purview of the Health Services Cost Review Commission (HSCRC), to set hospital rates for all providers in Maryland. All third-party payers, including Medicare, pay the same rates for hospital services under the waiver, though rates may vary from hospital to hospital. Under the former All-Payer Model, Maryland reduced its growth rate for Medicare inpatient payments per admission from one of the highest in the country to below the national average. Despite this success, Maryland recently has been in danger of failing to keep its cumulative growth rates below the aggregate rate of increase nationwide, as required by the statutory waiver. Instead of transitioning to the national Medicare payment system, Maryland proposed a new, modernized system in order to preserve its rate-setting authority.

The Patient Protection and Affordable Care Act established the Center for Medicare & Medicaid Innovation (CMI), a program within CMS that tests innovative payment and service delivery models to reduce Medicare and Medicaid expenditures while maintaining or improving patient care. Organizations may apply for a number of demonstration projects, and Maryland's modernized All-Payer Model is one such CMI project. If Maryland does not meet the cost-cutting and quality improvement goals set forth in the newly reformed All-Payer Model within five years, it will then have to transition to the national Medicare payment system in effect around the country.

#### The Modernized All-Payer Model

Maryland's healthcare community will face significant changes in the manner in which healthcare is provided and paid for during implementation of the reformed payment model.

Under the modernized All-Payer Model, Maryland agrees to:

- Permanently shift away from its current Medicare waiver, which is based on Medicare cost per admission;
- Generate \$330 million in Medicare savings over five years, which are measured by comparing the state Medicare per beneficiary total hospital cost growth to the national Medicare per beneficiary total hospital cost growth;
- Limit its annual all-payer per capita total hospital cost growth to 3.58%;
- Shift nearly 100% of its hospital revenue into global payment methods;
- Reduce its Medicare readmission rate to the national rate over five years;
- Reduce the occurrence of 65 potentially preventable conditions by 30% over five years under the Maryland Hospital Acquired Conditions program;
- Develop a proposal to extend the model beyond five years before the fourth year; and
- Transition to the national Medicare payment system if the model is not extended or terminated early.

CMS and the State of Maryland indicated that they expect the modernized All-Payer Model to reduce

the cost of healthcare while improving the quality of care provided. They expect that Maryland's payment system will serve as a model for other states if the initial five-year plan is successful.

The attorneys in Venable's Healthcare Group currently are assessing the details of the modernized All-Payer Model and are available to help Maryland healthcare providers and other interested parties in learning more about the upcoming payment changes.