

# Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

## *ISSUE BRIEF*

Date: Updated 7/23/15

Prepared by: Nolan Langweil

### **All-Payer Model: Background**

While efforts to explore an all-payer model (of which a Medicare waiver is a central component) began prior to the 2015 legislative session, Act 54 of 2015 (formerly S.139) requires “the Secretary of Administration and the Green Mountain Care Board (GMCB) [to] jointly explore an all-payer model, which may be achieved through a waiver from the Centers for Medicare and Medicaid Services” (CMS).<sup>1</sup> The details of what a Vermont all-payer model will entail are still being negotiated with CMS and are not yet available. The purpose of this issue brief is to provide general background information for legislators about what an all-payer model is and what it could mean for Vermont.

#### **What is an all-payer model?**

- An all-payer model is an agreement with the federal government in which all third-party payers – Medicare, Medicaid, and commercial insurers – agree to use a standardized methodology to pay for health care services.
- An all-payer model is a payment reform tool that can help policymakers achieve goals such as creating more equitable provider payments, promoting quality of care and performance measures, and achieving cost containment.
- An all-payer model:
  - Requires a Medicare waiver from the federal government to waive certain federal laws and regulations. It is often referred to as an “all-payer waiver,” which is technically incorrect since only Medicare rules are waived. The State already has the regulatory authority to set reimbursement rates for both Medicaid and commercial payers.
  - Would allow for a system of payment to health care providers under which all payers reimburse doctors, hospitals, and other health care providers using consistent and standardized methodologies.
  - Would likely include agreed-upon targets that the State will have to fulfill, such as projected rates of growth for health care spending, estimated cost reductions over a specific time period, and strict quality and performance measures.

#### **What would an all-payer model look like?**

While the specifics are still being negotiated with CMS, an all-payer model agreement with CMS will likely include some or all of the following:

- Mutually agreed-upon rate of growth in total costs of care with required Medicare savings
- Mutually agreed-upon group of services for which revenue will be regulated or monitored
- Mutually agreed-upon quality measures and related performance benchmarks
- Waivers of certain federal Medicare laws and regulations

The State would also need to ensure that regulatory structures and processes will be in place to implement the agreement. Act 54 appropriated \$340,000 to the GMCB for provider rate-setting and other activities related to an all-payer model.

---

<sup>1</sup> Act 54 of 2015, Sec. 1

### What does Maryland's all-payer model look like?

Maryland has operated an all-payer system – for hospital services only – since the 1970s. Maryland and Vermont are very different states with different issues. An all-payer model in Vermont may not look much like what Maryland has. Nonetheless, Maryland is the only state currently implementing an all-payer Model.

- Maryland's Health Services Cost Review Commission (HSCRC) is an independent commission with rate-setting authority that establishes service-specific rates for all inpatient, hospital-based outpatient, and emergency services for 47 general acute, specialty, and private psychiatric hospitals.
  - The HSCRC is governed by seven volunteer commissioners all appointed by the Governor to staggered, four-year terms.
  - The enabling legislation requires the HSCRC to:
    1. Constrain hospital costs
    2. Ensure access to hospital care for all citizens
    3. Improve the equity and fairness of hospital financing
    4. Provide for financial stability
    5. Make all parties accountable to the public

#### Results have been mixed:

- According to a 2009 *Health Affairs* article, in 1976, the cost of Maryland hospital admissions was 26% above the national average. In 2007, the average hospital cost per case was approximately 2% below the national average.<sup>2</sup>
- But others have contended that:
  - The system did not hold down total health spending per capita.
  - Measuring success by cost per case rather than overall cost and price does not tell the whole story.
  - Maryland's rehospitalization rate for Medicare patients was still the second highest in the nation at the time.<sup>3</sup>

#### Recent changes:

- In 2014, Maryland renegotiated its all-payer model and committed to the following terms:
  - Maryland will limit per capita growth in hospital costs to 3.58%.<sup>4</sup>
  - Maryland will generate \$330 million in Medicare savings over a five-year period.
  - Maryland will shift all of its hospital revenues into global payment models over a five-year period.
  - Maryland will improve health care quality, including reducing its 30-day hospital readmission rate and hospital-acquired conditions rate.
  - Maryland will submit an annual report demonstrating its performance along various population health measures.
  - If Maryland fails to meet the agreed-upon terms during the five-year period, Maryland hospitals will transition to the national Medicare payment systems over a two-year period – a transition which would be a significant change for those hospitals.

---

<sup>2</sup> Setting Hospital Rates to Control Costs and Boost Quality: The Maryland Experience. *Health Affairs*, 28, no.5 (2009):1395-1405.

<sup>3</sup> Maryland Exceptionalism? All-Payer Regulation and Health Care System Efficiency. *Journal of Health Politics, Policy, and Law*, Vol. 37, no.4, August 2012.

<sup>4</sup> 3.58% is Maryland's 10-year compound annual growth rates of the per capita gross state product.

### **What are the potential risks of an all-payer model?**

- In general the risks to the state of implementing an all-payer model appear to be minimal, but that could change depending on the terms and conditions of the waiver. Liability lies with the state's not meeting the terms and conditions agreed upon with the federal government.
  - For example, Vermont's Medicare waiver might contain a clause, similar to Maryland's agreement, in which Medicare payments would revert back to existing practices if the State did not meet certain terms and conditions of the agreement. The burden would then be on the State to maintain compliance with the terms and conditions.
- The connections and overlap with the Global Commitment waiver need to be explored further, particularly in order to understand how changes in payment structure could influence Medicaid expenditures, put pressure on the spending cap, and/or impact Vermont's MCO investments.
- Whether or not an all-payer model is successful, taking no steps to curb the escalating costs of health care continues to pose a risk. Based on very preliminary national statistics, after a long pause, the rate of growth in health care spending appears to be on the rise.

### **What are the potential opportunities?**

- An all-payer model provides an opportunity to influence both cost growth and quality of care in an innovative way.
- Depending on the terms and conditions of the Medicare waiver, an all-payer model could provide a meaningful opportunity to address any existing cost shift, which is the tendency by providers to charge private insurers a higher price to make up for lower reimbursement from Medicaid and Medicare.
- Providers may be temporarily shielded from any potential cuts to Medicare rates during the model period.

### **How does an all-payer model relate to other state initiatives?**

Vermont has two major policy initiatives that would potentially intersect with the all-payer model – the Vermont Health Care Innovation Project (VHCIP, also known as the State Innovation Model or SIM project) and the Global Commitment Medicaid waiver (GC).

- Vermont Health Care Innovation Project (VHCIP, aka "SIM Project")
  - VHCIP focuses on payment reform and health information technology (HIT), including providing funding for experiments in payment reform with enhanced use of health information.
  - Lessons learned from VHCIP, whose federal funds expire by 2018, can help inform broader reform efforts, including an all-payer model.
- Global Commitment (GC)
  - The connections with GC are complex and will likely depend on what is negotiated and the extent to which GC and an all-payer model can be fully integrated.
  - The key interaction between the all-payer model and GC will be the extent to which any higher Medicaid payments move Vermont closer to the budget neutrality cap in GC (currently, there is substantial room under the cap).
  - Other questions include: what impact, if any, an all-payer model would have on the State budget (if, for example, the State were to pay higher reimbursement rates) and what impact, if any, an all-payer waiver would have on Vermont's MCO investments?

### **What is the expected timeline for negotiating and implementing an all-payer model?**

- At this time, there is no established timeline for when an all-payer model may be implemented or certainty that it will happen at all.
- An agreement with CMS would likely need to be in place by the end of 2015 for implementation in 2017.

**What is the role of the Legislature with respect to the all-payer model?**

- In addition to empowering the Green Mountain Care Board (GMCB) with regulatory authority and legislative control over appropriations, the Legislature has traditionally taken an active oversight role over health care reform efforts in Vermont.
- The Joint Fiscal Committee (JFC), the Health Reform Oversight Committee (HROC), and the House Committee on Health Care (which has been authorized to meet several times during the off-session) will all likely be briefed by officials from the Administration and the GMCB throughout the summer and fall.

**Areas for future consideration**

- Medicaid – What are the impacts of an all-payer model on the Medicaid budget and MCO investments?
- Commercial insurance premiums – What impact, if any, would an all-payer model have on insurance premiums and when would that impact be felt?
- Accountable Care Organizations (ACOs) – What is the relationship between ACOs and an all-payer model?
- Provider impact – What would be the likely impact on different provider groups (e.g., hospitals, federally qualified health centers (FQHCs), physician practices, etc.)?
- IT – Will there be any additional IT requirements for both payment and reporting?
- State budget impact – Will there be any additional budgetary pressures as a result of an all-payer waiver, such as additional staffing needs, etc.