Regulating Hospital Spending in Maryland

Rate Regulation and Certificate of Need

Managing Health System Capacity
NIHCM Foundation
December 1, 2008
Maryland

- 2010 projected population of 5.9 million
- Population growing about 1% per year
- Population aging – 600,000 aged 65+ in 2000
  projected 1 million aged 65+ in 2020
- Geographically compact and heavily urbanized – most of population centered in metropolitan Baltimore and D.C. suburbs
- 47 general hospitals
Maryland Health Care Commission was created 10 years ago through the merger of:

- **Maryland Health Resources Planning Commission**
  
  **Mission:** Health systems planning and regulation of health facilities capital investment – 1970s-style government “command and control” – Direct intervention to compensate for market failure

- **Maryland Health Care Access and Cost Commission**
  
  **Mission:** Overcome market failure by educating consumers and expanding health insurance coverage in small group market – 1980s-style government market reform – Help the market work better
Health Regulation in Maryland

Key Components

Practitioners –

DHMH
Health Occupation Licensing Boards: Board of Physicians, Board of Nursing, etc.

Health Facilities -
1. Office of Health Care Quality, DHMH: hospitals, nursing homes, ambulatory surgical centers, home health, hospice, etc.
2. MHCC - Certificate of Need and State Health Plan
3. HSCRC - hospital rate setting

Payers -
1. Maryland Insurance Administration (MIA)
2. MHCC – small employer health insurance market
3. DHMH – Medicaid

Consumers -
Appeals and Grievances law - MIA, Office of the Attorney General, Consumer Protection Division
Maryland Health Care Commission

Information for Policy Development
- State Health Expenditures
- Health Insurance Coverage in Maryland
- Studies of Health Care Utilization and Financing

Quality and Patient Safety
- Public Reporting of Performance
- Patient Safety

Access to Health Care
- Small Group Market and Limited Health Benefit Plan
- Study of the Affordability of Health Insurance in Maryland
- Trauma Fund
- Maryland Health Insurance Plan

Future Health Care Delivery System
- State Health Plan
- Forecasting Future Need for Health Facilities and Services
- Certificate of Need Approval of Major Capital Expenditures and New Health Care Facilities

Technology Enhancement
- Accreditation of Electronic Health Networks
- HIPAA Education
- Electronic Health Records
Maryland Health Care Commission

- **Center for Hospital Services**
  - Integrates planning, CON, quality and outcomes reporting to improve hospital quality and value
  - Includes specialty services, ambulatory surgery, hospital-based ambulatory care

- **Center for Long-term and Community-based Services**
  - Integrates planning, CON, quality and outcomes reporting to improve quality and value of nursing homes, HHAs, hospices, and other community services as appropriate

- **Center for Financing and Health Policy**
  - Analysis of health insurance markets, HMO/PPO reporting, and regulation of SGM
  - Includes public sector health policy responsibilities as adopted

- **Center for Information Services and Analysis**
  - Analysis of Maryland health care expenditure data, national survey data
  - Price transparency project
  - Trauma fund policy
  - Analysis of physician reimbursement and the market for physician services

- **Center for Health Information Technology**
  - Certification of electronic health networks
  - Promotion of electronic data interchange
  - Governor’s Task Force on Electronic Health Records
Scope of CON Regulation Maryland

- **New health care facilities:**
  - Hospitals, nursing homes, ambulatory surgery centers (2+ ORs), residential treatment centers, home health agencies, hospice programs
- **Relocation of health care facilities**
- **Change in bed capacity or operating room capacity**
- **Certain changes by an existing health care facility in scope of type of service:**
  - Introducing cardiac surgery, burn unit, NICU, organ transplantation, medical/surgical, OB, pediatric, psychiatric, medical rehab services;
  - Closing a facility;
  - Expanding the service area of a home health or hospice agency
- **Capital expenditure:** $10.5 mill. for hospitals - $5.05 mill. for everything else
Required Considerations in CON Review

- Consistency with applicable State Health Plan standards
- Need for the project
- Cost-effectiveness of the project
- Financial viability of the project
- Compliance of applicant with terms and conditions of previous CONs
- Impact of the project on costs, charges, and other providers
Regulation of Hospital Charges in Maryland

- **Health Services Cost Review Commission**
  - All payor rate regulation – currently unique among States
  
  - **Target:** Keep rate of growth in hospital charges below U.S. rate of growth in Medicare hospital payments
  
  - Coordinated with CON regulation – hospitals can avoid CON by taking the “pledge”
HOSPITAL RATE INCREASES AND HOSPITAL CAPITAL SPENDING REVIEWED UNDER CON

SOURCE: MHCC & HSCRC
HOSPITAL RATE INCREASES AND HOSPITAL CAPITAL SPENDING “PLEDGED”

PLEDGE EXPENDITURES ($ MILLIONS)

Annual Rate Update (% Increase)

Pledge Project
Annual Rate Update

0 1 2 3 4 5 6 7 8 9
0 1 2 3 4 5 6 7 8 9

11
Possible Impact of CON and Hospital Rate Regulation as Practiced in Maryland

- Compared with U.S.A overall, Maryland has:
  - Low ratio of hospital beds to population – higher bed occupancy
  - Low average length of hospital stay
  - Historically, a low admissions rate but this is changing
  - Highest number of outpatient surgery centers per capita in U.S.
  - High levels of non-surgical outpatient diagnostic and treatment centers
Dynamic Acute Care Hospital Bed Licensure

- Recalculation of maximum licensed bed capacity of an acute care hospital each year based on recent average daily daily census

- Licensed capacity set at 140% of ADC – equating to a one-size-fits-all occupancy rate of 71.4%

- Adding beds to reach current licensed capacity exempt from CON regulation unless it cost more than the capex threshold
Annual Acute Care Hospital Licensure: Maryland, 2001-2008

Source: Maryland Health Care Commission