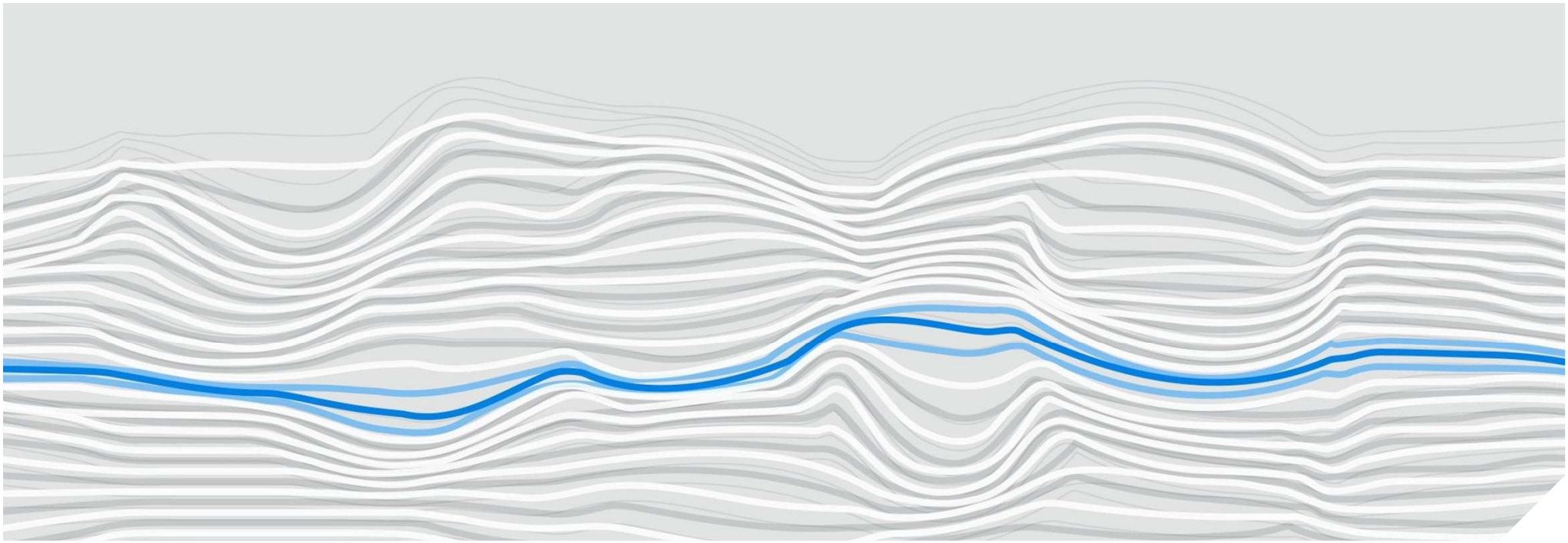
Arizona Health Care Cost Containment System

Milliman

Preliminary FFY 2021 HEALTHII Assessment Model

June 12, 2020



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State Directed Payment: Introduction

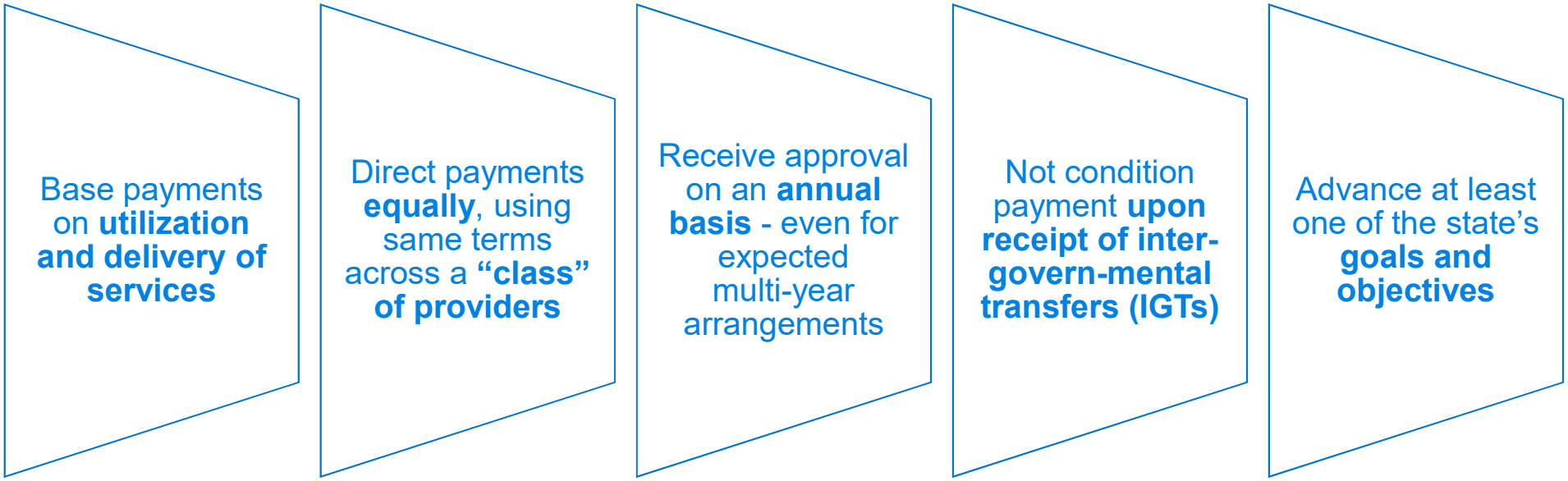
In response to the Medicaid managed care final rule, a majority of states, including Arizona, have gained approval from the Centers for Medicare and Medicaid Services (CMS) for "state directed payment" arrangements

- 42 CFR § 438.6(c) allows states to require managed care plans to make **specified payments to providers** that **support delivery system and provider payment reforms**
- Provides a permissible mechanism for making **supplemental payments** in managed care programs

- The Arizona Health Care Cost Containment System (AHCCCS) currently has **eight** approved state directed payment arrangements, directing payment increases from managed care organizations (MCOs) to eligible hospitals, FQHCs, nursing facilities, integrated clinics, professional service providers, and behavioral health care providers
- **HB 2668** authorizes AHCCCS to create a new **directed payment arrangement** for hospitals and practitioners, financed by a new hospital assessment effective October 1, 2020
  - AHCCCS proposes a new **"HEALTHII" assessment program** for hospital rate increases per HB 2668

State Directed Payment Approval Criteria

CMS guidance regarding approval of the "Preprint" form, which is the application for State Directed Payment arrangements, requires that states must do the following in their proposed arrangements:



Directed uniform dollar/percentage increase arrangements

Based on Review of Preprints Approved by CMS from 2017 through 2019

Payment mechanisms

- Directed increases can be made either **prospectively** (for each claim) or **retrospectively** (via lump sum payments based on prior period volume)
- Ultimately, payments must be based on **utilization and delivery of services** in the contract period

Goals and objectives

- Frequently cited State goals/objectives were **maintaining access to care** and **improving members' health and experience**
- States must have evaluation plans for measuring progress on the advancement of goals and objectives in the state quality strategy

Evaluation measurements

- Example measurements used in other states' hospital assessment- funded arrangements:
  - Assessment of EQRO reports
  - Number of network providers
  - Distance of members/patients to network providers
  - Utilization as a proxy for access
  - Member complaints and appeals
  - NCQA measures (ex: Plan All Cause Readmissions)
  - HIT adoption

Milliman **Source**: Milliman review of CMS approved Preprints, obtained via FOIA in 2018 and 2019

Preliminary Modeling Approach

Preliminary FFY 2021 HEALTHII Assessment Model

Overview

- AHCCCS has requested that Milliman assist with the development of a federal fiscal year (FFY) 2021 hospital assessment model for the new HEALTHII directed payments (per HB 2668) scheduled to be effective October 1, 2020
- The preliminary FFY 2021 HEALTHII assessment model builds upon the state fiscal year (SFY) 2021 "baseline" model and AHCCCS' proposed rule effective July 1, 2020
  - For more background on the existing baseline hospital assessment that covers the non-federal share of Medicaid expenditures for Impacted Populations, refer to the AHCCCS hospital assessment website and AHCCCS' proposed rule
- The results of the FFY 2021 HEALTHII assessment model presented today are **preliminary** for discussion purposes only (they do not reflect final AHCCCS policy decisions, and are subject to change)

Preliminary FFY 2021 HEALTHII Assessment Model

Model Components

- **FFY 2021 preliminary modeled hospital assessments** include:
  - *"Baseline Hospital Assessment Fund (HAF) assessments" (current program),* which covers the non-federal share of Medicaid expenditures for Impacted Populations targets
    - The preliminary FFY 2021 baseline assessment target has increased approximately $100 million over the SFY 2021 baseline assessment model target effective July 1, 2020, due to changes in enrollment and other factors related to COVID-19 impacts
  - *"Health Care Investment Fund (HCIF) assessments" (new program),* which covers the non-federal share of HEALTHII directed payments for hospitals and practitioners, as well as State administrative costs
- **FFY 2021 preliminary modeled hospital payments** include:
  - *"Medicaid coverage payments" (current program),* which consist of Medicaid payments to hospitals for services provided to Impacted Populations (updated by AHCCCS for FFY 2021)
  - *"HEALTHII directed payments" (new program)*, with different payment pools and payment increase percentages for each hospital reimbursement class

Hospital Assessment Parameters

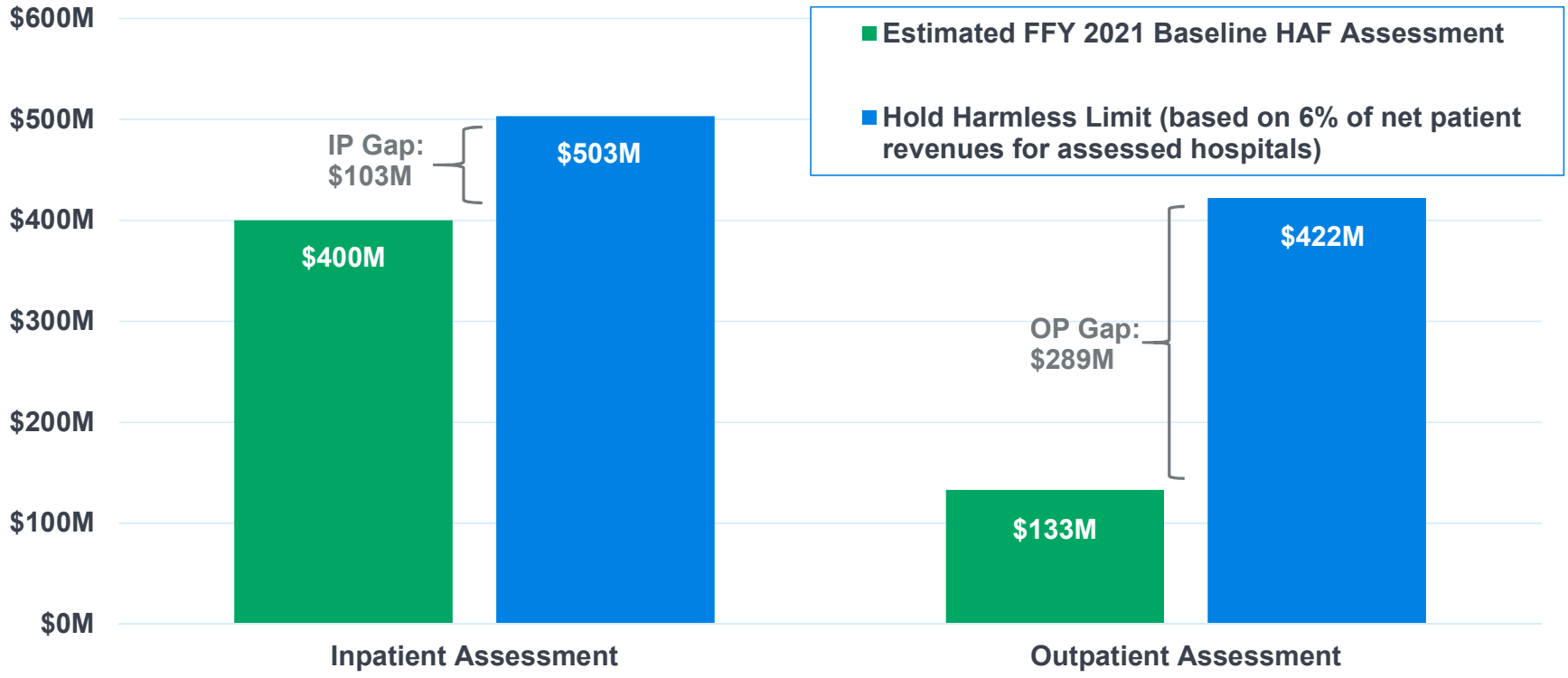
Overview

- AHCCCS' total target FFY 2021 hospital assessments effective October 1 are **$909.9M**, and include the following**:**
  - *Baseline HAF assessments:* approximately **$533.6M** total, with **$400.2M** for inpatient and **$133.4M** for outpatient (75% / 25% split), based on AHCCCS projections for Impacted Populations
  - *HCIF assessments:* approximately **$376.4M** total, with **$94.6M** for inpatient and **$281.8M** for outpatient, determined by AHCCCS to be up to the 6% hold harmless limits for inpatient and outpatient (5.9% target)
- The modeled assessment unit basis for the new HCIF assessment is the same as the SFY 2021 baseline HAF assessment (SFY 2018 all payer inpatient discharges and outpatient net patient revenues)
- FFY 2021 modeled hospital assessment rate "differentials", or the relativity of rates across hospital types, are the same as the proposed baseline HAF assessments effective July 1, 2020, with the following exceptions:
  - Freestanding children's hospitals included in modeled assessments
  - No modeled outpatient net patient revenues threshold (previously assessed at lower rates)

Hospital Assessment Parameters (Continued)

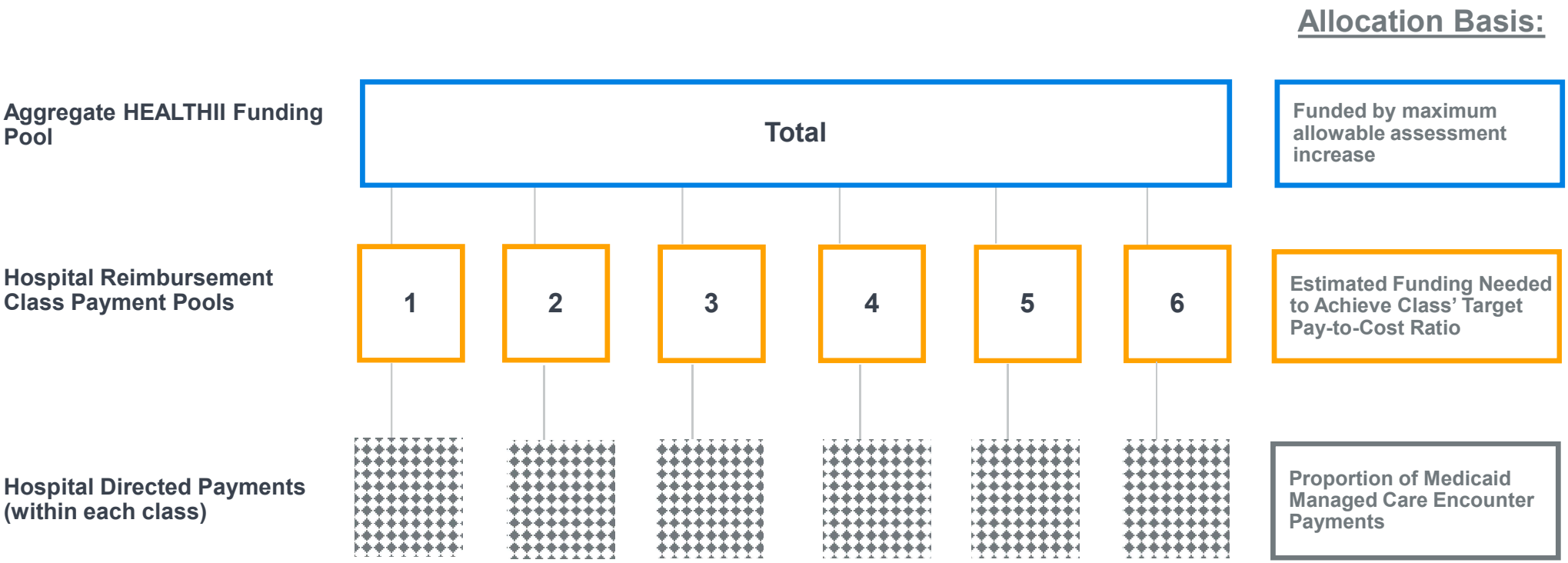
Hold Harmless Gap

Modeled available gap for HCIF assessments, under CMS 6% Hold Harmless limit:



HEALTHII Payment Allocation

AHCCCS Proposed Payment Allocation Flow *(not to scale of actual payment pool size)*



HEALTHII Payment Modeling Approach

Overview

- Preliminary modeled HEALTHII directed payments, based on AHCCCS' proposed approach, have been calculated using the following steps:

1	Determine Aggregate HEALTHII Payment Pool
2	Estimate Medicaid Managed Care Hospital Costs and Payments
3	Determine Hospital Reimbursement Class HEALTHII Fixed Payment Pools
4	Estimate HEALTHII Directed Payments by Hospital

HEALTHII Payment Modeling Approach (Continued)

1 Determine Aggregate HEALTHII Payment Pool

- Aggregate HEALTHII payment pool of approximately **$1.226B** was calculated based on the total computable payments (non-federal share and federal share combined) given:
  - **$298M** in HCIF assessment portion used for hospital directed payments (remaining HCIF assessments will be used to support practitioner and dental rate increases and state administration)
  - Assumed **76.17%** effective federal match rate based on AHCCCS estimates
  - Pool reduction of **2%** due to plan premium tax
- AHCCCS' proposed HCIF assessments (to fund the non-federal share of HEALTHII payments) utilizes available "hold harmless gap" under CMS limitations

HEALTHII Payment Modeling Approach (Continued)

2 Estimate Medicaid Managed Care Hospital Costs and Payments

- Medicaid managed care estimated costs (incurred by hospitals for providing inpatient and outpatient services) were calculated as follows:

  [FFY 2019 Medicaid managed care encounter data billed charges, completed and trended to SFY 2021(1)]

  X [Hospital Aggregate Cost-to-Charge Ratio]

  X [Cost Inflation]

- Aggregate cost-to-charge ratios (CCRs) from each hospital's most recently available Medicare cost report (FYE 2018/2019) were calculated separately for inpatient (including routine costs and charges) and outpatient (including ancillary only), and reflect Medicare allowable costs
- Estimated costs also include the Medicaid portion of modeled assessment costs (combined baseline HAF and HEALTHII)

Note: 1. Trending consisted of changes to utilization and service mix.

HEALTHII Payment Modeling Approach (Continued)

2 Estimate Medicaid Managed Care Hospital Costs and Payments

- Medicaid managed care estimated claim payments (received by hospitals from MCOs for providing inpatient and outpatient services) were calculated as follows:
  - Based on FFY 2019 Medicaid managed care encounter data reported paid amounts, completed and trended to SFY 2021(1)
  - Differential Adjusted Payment (DAP) amounts were removed from encounter paid amounts
- Supplemental payments were not included in Medicaid managed care payments
  - AHCCCS proposes to consider HEALTHII payments first in the order of operations

Note: 1. Trending consisted of changes to utilization and service mix.

HEALTHII Payment Modeling Approach (Continued)

3 Determine Hospital Reimbursement Class HEALTHII Fixed Payment Pools

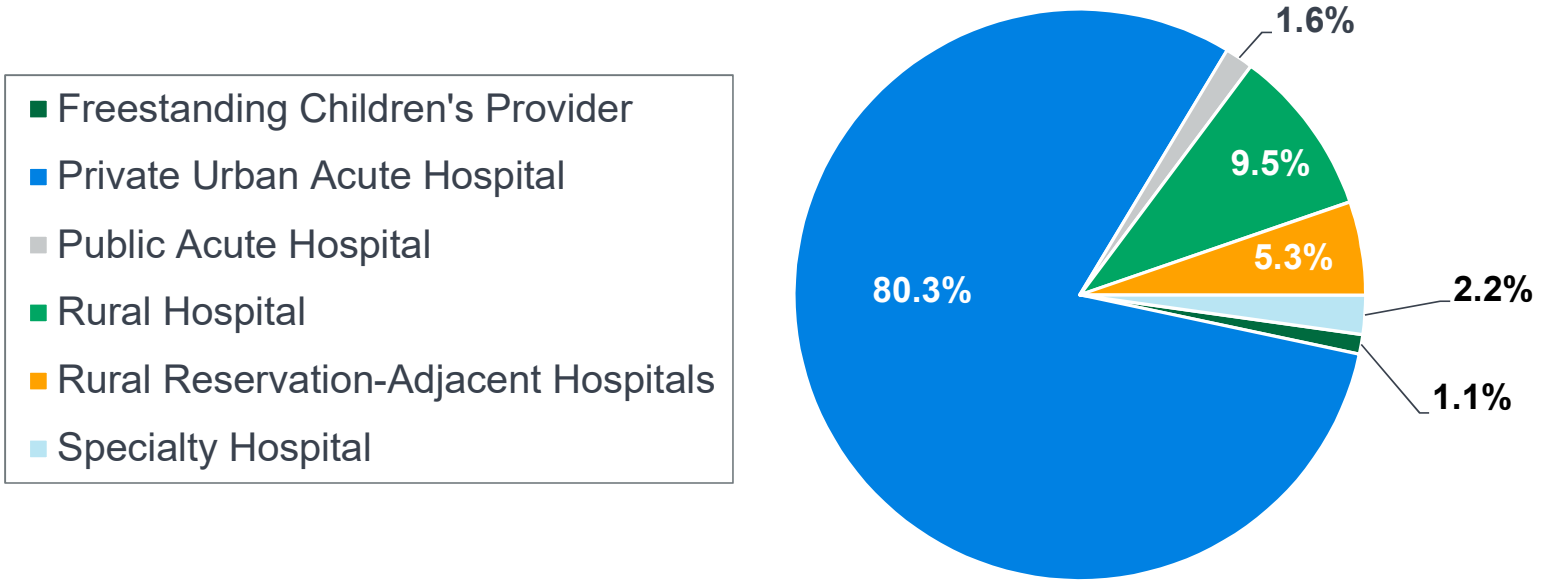
- Medicaid managed care costs, payments, and pay-to-cost ratios were calculated in aggregate for **six hospital reimbursement classes**
- HEALTHII payment pools were calculated for each hospital reimbursement class based on the funding needed to achieve each class' target pay-to-cost ratio:

Hospital Reimbursement Class	Hospital Reimbursement Class Criteria	Target Pay-to-Cost Ratio
Freestanding Children's Hospitals	Based on provider Medicare designation	75%
Private Urban Acute Hospitals	Privately-owned general acute hospitals not in another class	89%
Public Urban Acute Hospital	Publicly-owned general acute hospital not in another class	70%
Rural Acute Hospitals	Based on hospitals located in a county with a population less than 500,000	100%
Rural Reservation-Adjacent Hospitals	Based on hospitals located less than 30 miles from a reservation in a county with less than 200,000 residents	100%
Specialty Hospitals	Rehabilitation, Psychiatric, LTAC, and short term specialty hospitals	89%

HEALTHII Payment Modeling Approach (Continued)

3 Determine Hospital Reimbursement Class HEALTHII Fixed Payment Pools

- Preliminary modeled allocation of the **$1.226B** aggregate HEALHTII payment pool into hospital reimbursement class fixed payment pools**:**



HEALTHII Payment Modeling Approach (Continued)

4	Estimate HEALTHII Directed Payments by Hospital

- HEALTHII payment increase percentages for each hospital class were modeled as follows:

  (Class HEALTHII payment pool) / (Class Medicaid managed care estimated FFY 2021 payments)
- **Estimated** HEALTHII directed payments for each hospital were modeled as follows:

  (Hospital Medicaid managed care estimated payments) X (Class HEALTHII payment increase percentage)
- **Actual** HEALTHII directed payments will be based on each hospitals' **actual contracted MCO utilization during the contract year**
  - AHCCCS proposes a fixed payment pool for each class; as such HEALTHII payment increase percentages may need to be adjusted during the contract year to achieve target aggregate distributions
  - Actual HEALTHII directed payments for each hospital may differ from preliminary projections based on final AHCCCS policy changes, and changes in hospital Medicaid managed care volume and service mix, and other factors

Preliminary Modeling Results and Considerations

Preliminary Modeled Assessment Rates

Combined Baseline HAF and HCIF Assessment Rates

Hospital Assessment Type	Inpatient		Outpatient	
	Percent of Base Assessment	Modeled FFY 2021 Assessment Rate	Percent of Base Assessment	Modeled FFY 2021 Assessment Rate
Rates Applicable to Each Hospital Type:				
Critical Access Hospitals	100%	$ 931.25	25%	1.8809%
Freestanding Children's Hospitals	5%	$ 46.75	5%	0.3762%
Freestanding Rehabilitation Hospitals	0%	$ 0.00	0%	0.0000%
High Medicare Utilization Hospital	0%	$ 0.00	0%	0.0000%
High Medicare/Out-of-State Patient Utilization Hospital	0%	$ 0.00	0%	0.0000%
Large Psychiatric Hospitals	25%	$ 233.00	25%	1.8809%
LTAC Hospitals	25%	$ 233.00	25%	1.8809%
Medium Pediatric Intensive General Acute Hospitals	90%	$ 838.25	75%	5.6429%
Non-CAH Rural Acute Hospitals	100%	$ 931.25	60%	4.5144%
Pediatric-Intensive General Acute Hospitals	80%	$ 745.25	65%	4.8906%
Short Term Specialty Hospitals	0%	$ 0.00	0%	0.0000%
Small Psychiatric Hospitals and AZ State Hospital	0%	$ 0.00	0%	0.0000%
Urban Acute Hospitals	100%	$ 931.25	100%	7.5240%
Rates Applicable to All Non-Exempted Hospital Types:				
Rate Applied to Non-Exempted Psychiatric Sub-Provider Units	25%	$ 233.00	N/A	N/A
Rate Applied to Non-Exempted Rehabilitation Sub-Provider Units	0%	$ 0.00	N/A	N/A
Rate Applied to Units Above Threshold[(1)]	10%	$ 93.50	N/A	N/A

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Note: (1) The modeled inpatient assessment unit threshold is 24,000, and there is no modeled outpatient assessment unit threshold. The inpatient threshold is not applicable to inpatient discharges for Psychiatric Sub-Providers, Rehabilitation Sub-Providers.

Preliminary Modeled Impact From New Assessments

Baseline HAF Assessment Increase Plus HCIF Assessment (Inpatient and Outpatient Combined)

Hospital Reimbursement Class	Modeled Class Target Pay-to-Cost Ratio	Class HEALTHII Payment Pool Allocation	Modeled HEALTHII Class Fixed Payment Pool	Modeled New Assessments (Baseline HAF Increase and HCIF)	Estimated Net Gain / (Loss) From New Assessments
A	B	C	D	E	F = D – E
Freestanding Children's Provider	75%	1.1%	$ 13,490,549	$ 2,229,753	$ 11,260,797
Private Urban Acute Hospital	89%	80.3%	$ 984,783,304	$ 394,668,500	$ 590,114,803
Public Acute Hospital	70%	1.6%	$ 19,459,690	$ 12,530,234	$ 6,929,457
Rural Hospital	100%	9.5%	$ 116,005,465	$ 43,103,252	$ 72,902,212
Rural Reservation-Adjacent Hospitals	100%	5.3%	$ 65,130,099	$ 20,485,519	$ 44,644,580
Specialty Hospital	89%	2.2%	$ 26,944,060	$ 3,818,726	$ 23,125,334
Total	**N/A**	**100.0%**	**$ 1,225,813,166**	**$ 476,835,984**	**$ 748,977,183**

Estimated HEALTHII Payment Increase Percentages

Informational - subject to change based on actual utilization

Hospital Reimbursement Class	Estimated FFY 2021 Medicaid Managed Care Encounter Payments	Modeled HEALTHII Class Fixed Payment Pool	Estimated HEALTHII Class Payment Increase Percentage
A	B	C	D = C / B
Freestanding Children's Provider	$ 305,687,442	$ 13,490,549	**4.4%**
Private Urban Acute Hospital	$ 1,519,931,498	$ 984,783,304	**64.8%**
Public Acute Hospital	$ 123,157,108	$ 19,459,690	**15.8%**
Rural Hospital	$ 186,386,760	$ 116,005,465	**62.2%**
Rural Reservation-Adjacent Hospitals	$ 68,920,734	$ 65,130,099	**94.5%**
Specialty Hospital	$ 189,811,354	$ 26,944,060	**14.2%**
Total	**$ 2,393,894,896**	**$ 1,225,813,166**	**51.2%**

Modeled Impact from Total Assessments

Full Baseline HAF Assessment Plus HCIF Assessment (Inpatient and Outpatient Combined)

Hospital Type	Total Modeled Hospital Assessments	Modeled Coverage Payments and HEALTHII Payments	Total Estimated Net Gain / (Loss)	Number of Hospitals with Estimated Gain	Number of Hospitals with Estimated $0 Gain	Number of Hospitals with Estimated Loss	Number of New Hospitals Without Data
Critical Access Hospital (CAH)	$ 11,622,280	$ 72,558,728	$ 60,936,448	11	0	0	0
Freestanding Children's Hospitals	$ 2,229,753	$ 20,900,869	$ 18,671,116	1	0	0	0
Freestanding Rehabilitation Hospitals	$ 0	$ 14,463,508	$ 14,463,508	11	0	0	0
High Medicare Utilization Hospital	$ 0	$ 1,065,355	$ 1,065,355	1	0	0	0
High Medicare/Out-of-State Patient Utilization Hospital	$ 0	$ 7,968,975	$ 7,968,975	1	0	0	0
Large Psychiatric Hospitals	$ 10,237,090	$ 147,341,978	$ 137,104,888	10	0	0	0
LTAC Hospitals	$ 489,300	$ 9,549,290	$ 9,059,990	6	0	0	0
Medium Pediatric Intensive General Acute Hospitals	$ 142,845,696	$ 490,696,829	$ 347,851,133	5	0	0	0
Non-CAH Rural Acute Hospitals	$ 112,846,021	$ 325,335,230	$ 212,489,210	12	0	0	0
Pediatric-Intensive General Acute Hospitals	$ 62,603,563	$ 348,983,367	$ 286,379,804	2	0	0	0
Short Term Specialty Hospitals	$ 0	$ 10,149,763	$ 10,149,763	5	1	0	0
Small Psychiatric Hospitals and AZ State Hospital	$ 0	$ 17,119,913	$ 17,119,913	6	1	0	1
Urban Acute Hospitals	$ 567,055,505	$ 1,401,352,358	$ 834,296,853	24	0	2	1
Total Border Hospitals	$ 0	$ 31,802,642	$ 31,802,642	0	0	0	0
Total Out of State Hospitals	$ 0	$ 2,487,214	$ 2,487,214	0	0	0	0
Total	**$ 909,929,206**	**$ 2,901,776,018**	**$ 1,991,846,812**	**95**	**2**	**2**	**2**

Modeling Considerations

AHCCCS Evaluation / Decision Points

- **Hospital assessments:**
  - Hospital assessment type rate differentials and exemptions
  - CMS demonstration compliance (available 6% hold harmless gap, B1/B2 test)
- **HEALTHII payments:**
  - Hospital reimbursement class definitions
  - Hospital class payment pool allocation basis
  - Consideration of hospital net gain / (loss)

HEALTHII Assessment Model Feedback

- AHCCCS is soliciting feedback from the hospital community on the preliminary model parameters for consideration
- Please email comments related to model parameters to AHCCCS at HospitalAssessmentProject@azahcccs.gov by **Friday, June 19, 2020**

Limitations

The services provided for this project were performed under the signed Consulting Services Agreement between Milliman and Knowledge Services (KS) dated May 20, 2020.

The information contained in this correspondence has been prepared for the Arizona Health Care Cost Containment System (AHCCCS). We understand this information will be shared to hospitals and their representatives. To the extent that the information contained in this correspondence is provided to any approved third parties, the correspondence should be distributed in its entirety. Any user of the data must possess a certain level of expertise in health care modeling that will allow appropriate use of the data presented.

Milliman makes no representations or warranties regarding the contents of this correspondence to third parties. Likewise, third parties are instructed that they are to place no reliance upon this correspondence prepared for AHCCCS by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties.

In performing this analysis, we relied on data and other information provided by CMS, AHCCCS, the Arizona Department of Health Services, and providers, and accepted it without audit. To the extent that the data provided is not accurate, the results of this analysis may need to be modified to reflect revised information.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

This work is not complete. Final results may vary from this updated model based on final AHCCCS policy decisions.

This presentation is for discussion purposes only. They should not be relied upon without benefit of the discussion that accompanied them.

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Thank you

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