Total Cost of Care (TCOC) Subgroup #1

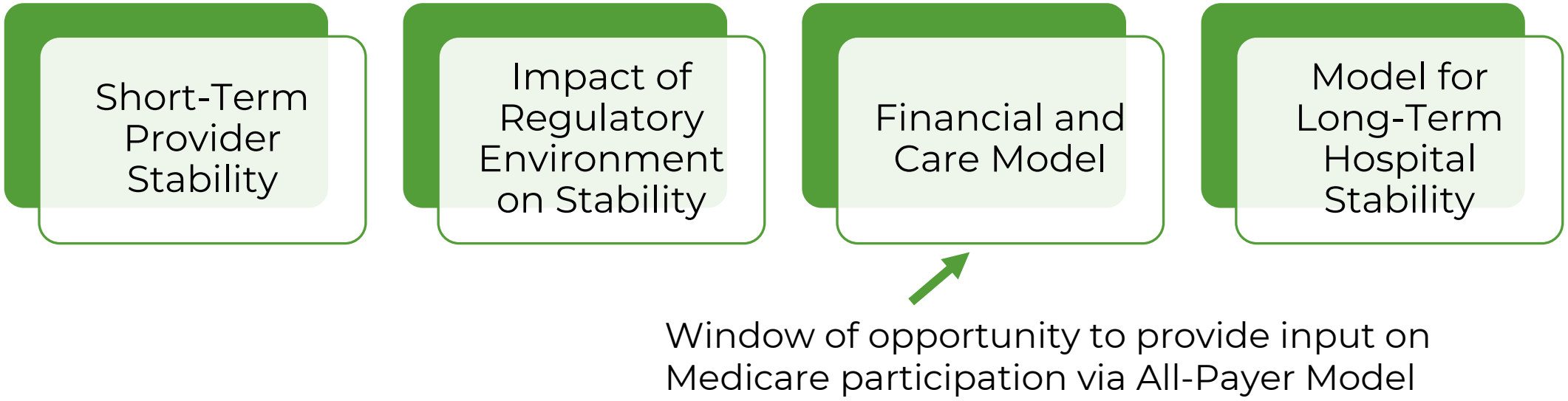
SEPTEMBER 27, 2022 MEETING SUMMARY

Meeting Agenda and Goals

1. Review current thinking on Vermont's health care reform efforts
2. Level set on current state of TCOC in all-payer model
3. Review CMS's latest thinking on TCOC
4. Discuss how total cost of care works in an evolving model
5. Identify future topics for discussion

1. Review Current Thinking on Vermont's Health Care Reform Efforts

Reminder: Work Streams for Health Care Reform Work Group



CMS Innovation Center's Design Criteria

CMS has indicated that development of the successor to Vermont's current All-Payer ACO will be informed by a cohort of states' experiences (MD, OR, PA, RI, VT, WA).

CMS is signaling it will produce a design to span multiple states from 2025 that will address seven priorities:

1. Include global budgets for hospitals.
2. Include TCOC target/approach. ★ ***This will be the focus of the subgroup.***
3. Be All-Payer.
4. Include goals for minimum investment in primary care.
5. Include safety net providers from the start.
6. Address mental health, substance use disorder and social determinants of health.
7. Address health equity.

Working with CMS on APM Evolution of Financial and Care Model

APM 1.0

2018-2022 (PY1-5)
Vermont All-Payer ACO Model

Vermont is implementing an ACO-driven model where Medicare, Medicaid, and commercial payers provide value-based payments to ACO-participating providers to curb health care cost growth, maintain quality of care, and improve the health of Vermonters. The model is set to expire on December 31, 2022.

Transition

2023-2024 (PY6-7)
Extension of current agreement

Vermont is currently negotiating with CMS on the All-Payer ACO Model Agreement extension. The terms of the extension will remain similar to the current agreement.

APM 2.0

2025-2037+
APM 2.0

Vermont aims to improve on the current model, building on our experience in APM 1.0 and recommendations from the Implementation Improvement Plan.

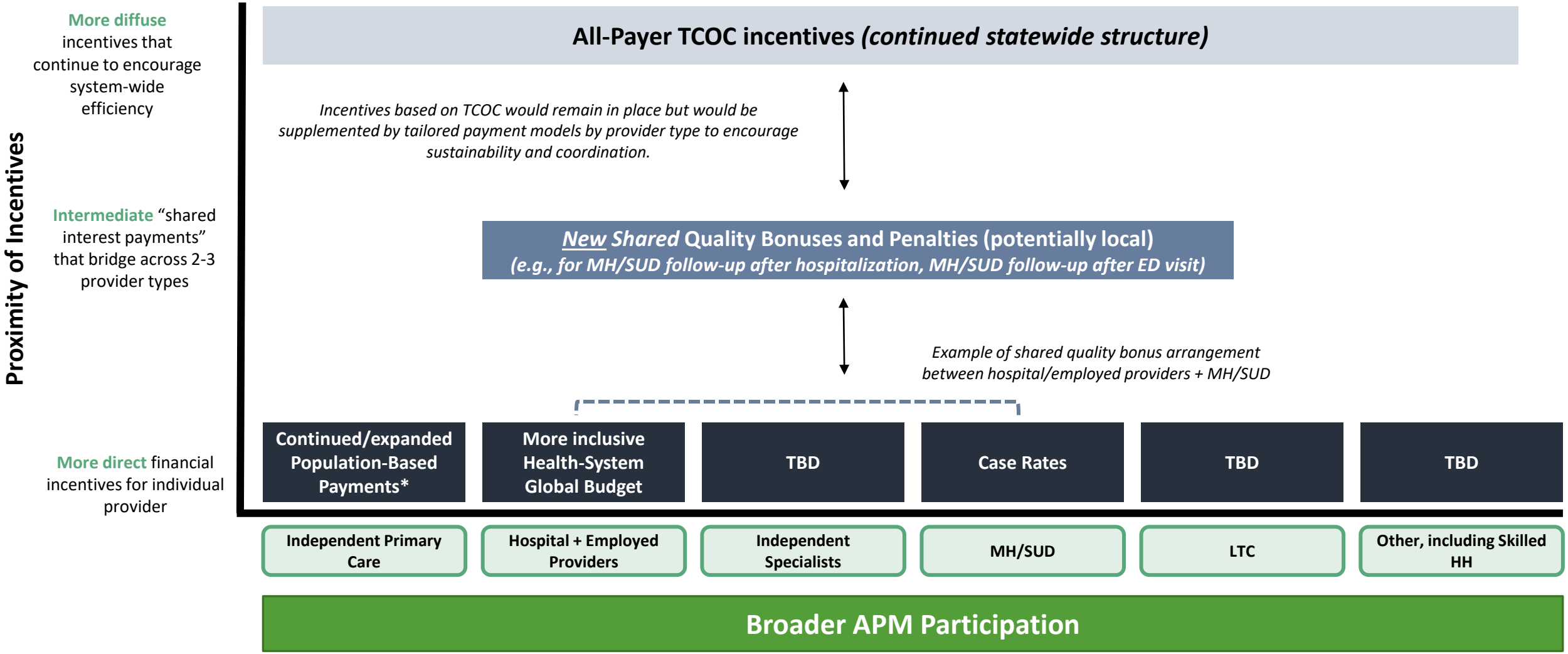
CMS is currently developing a new model for multiple states that will likely include Medicare global budgets for hospitals and total cost of care targets. Vermont is seeking to provide input on the CMS design to ensure the federal design meets Vermont's needs and supports larger reform efforts.

TCOC Subgroup's Charge

The TCOC subgroup's primary goal is to develop a list of key "asks" on TCOC to share with CMS to inform the design of the new state model.

- The TCOC approach under the current agreement may serve as a helpful starting point to inform future design.
- The goal of today's meeting is to gain clarity on how TCOC fits within Vermont's vision for health care reform and to identify "asks" for CMS related to the new model.
- Future discussions will dive deeper into the technical aspects of TCOC, which may include:
  - Adjustments
  - Inclusions and exclusions of services and types of care
  - Setting baselines for trends

Overview of "Portfolio" Approach

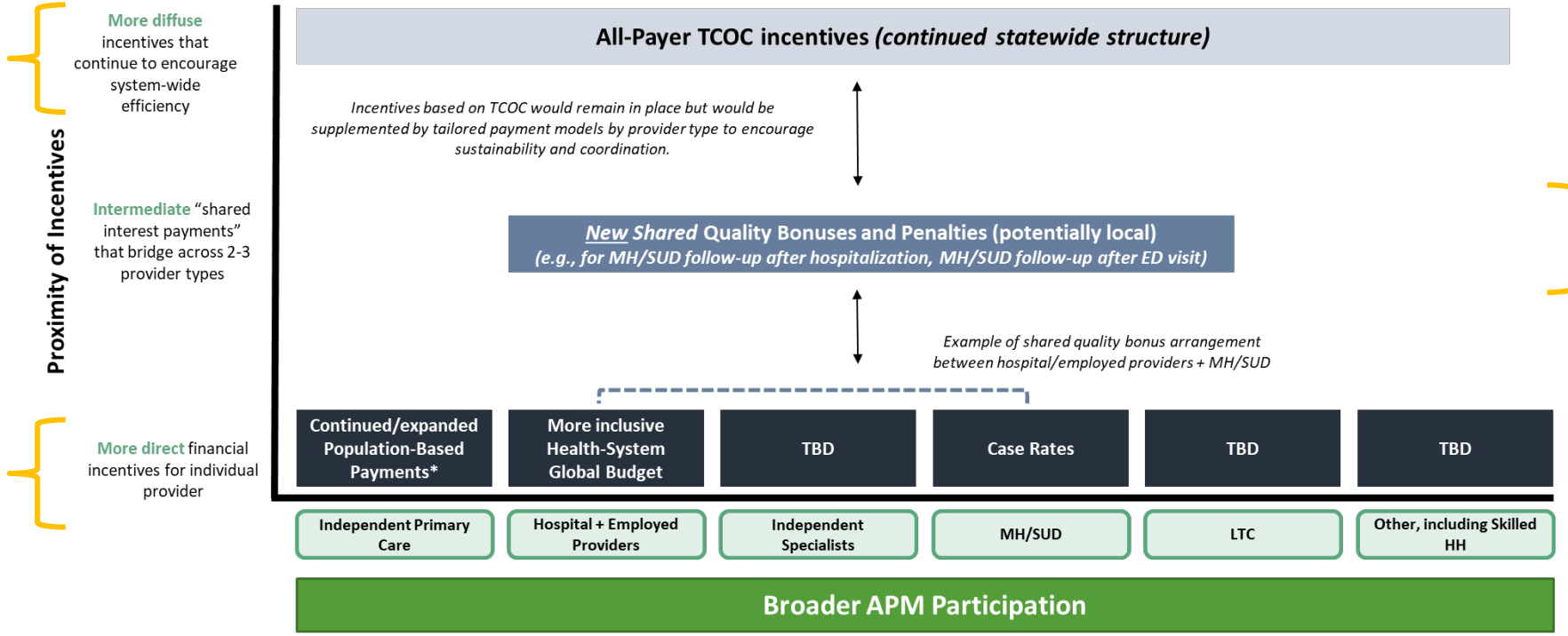


Subgroup Member Discussion on Portfolio Approach

- One subgroup member asked about the scope of services that would be included in global budgets. This is an issue for the global budgets subgroup to discuss further.
  - The subgroup member also noted the importance of aligning outcome measures across payers and considering whether incentives flow to individual providers or provider organizations.
- Another subgroup member agreed with the portfolio approach and noted that continued/expanded population-based payments for independent primary care should evolve from “ceremonial” population-based payments to unreconciled population-based payments to create stronger financial incentives.

Each Layer of the "Portfolio" Approach Plays an Important Role

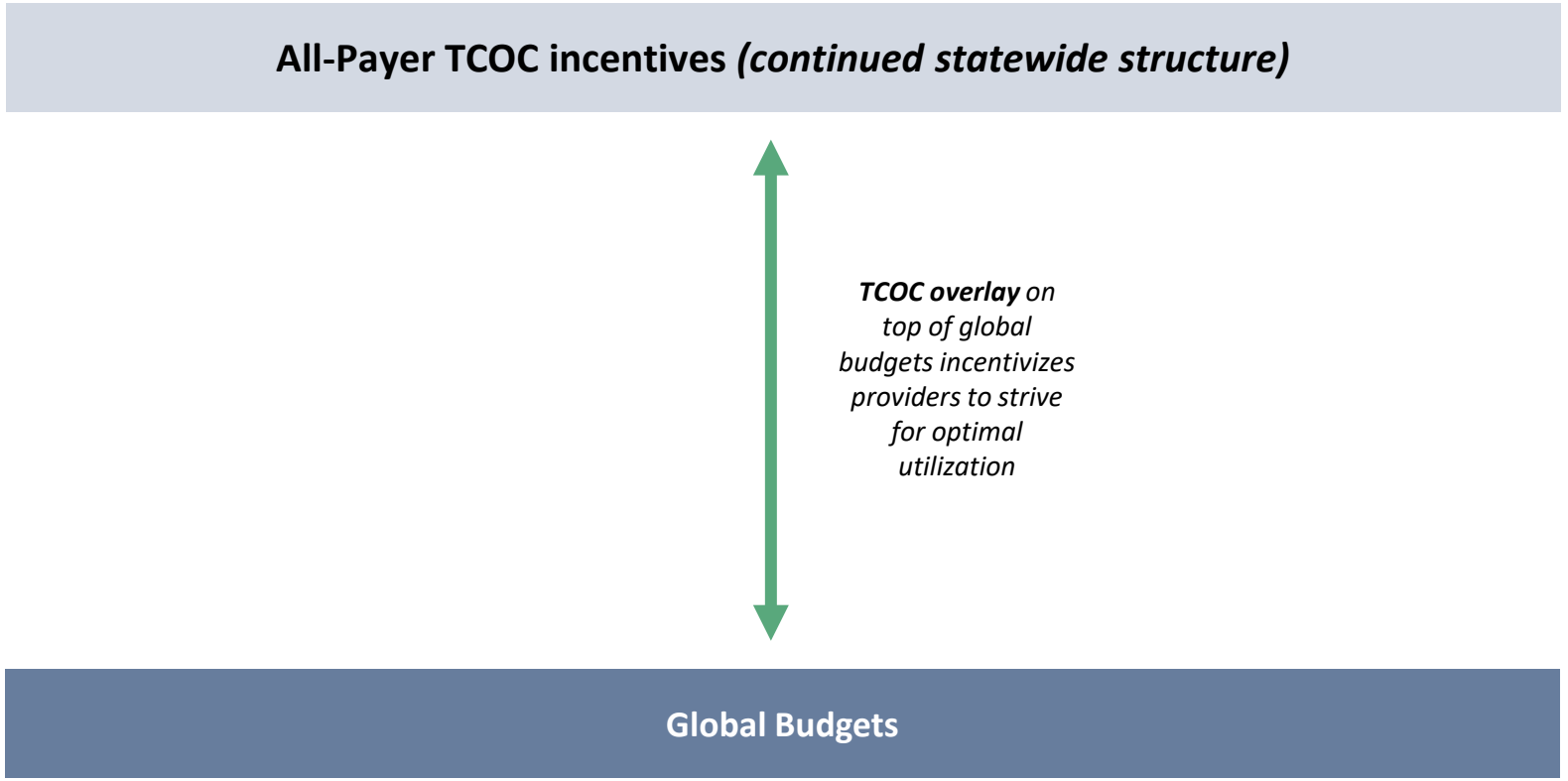
Top layer is focused on overarching costs and promoting statewide efficiency. TCOC also incentivizes providers to take a statewide perspective and discourages simply trying to "game" existing payment models by shifting care to other sites.



Middle layer ties different provider types together in a shared payment arrangement to align incentives and encourage provider collaboration.

Bottom layer brings incentives closer to individual providers so that providers see the direct financial impact of their behaviors. Incentives that are too distant will not be "felt" by providers, and therefore will not encourage optimal behavior.

Key Question: How does TCOC Interact with Global Budgets (And Other Fixed Payment Models)?



2. Level Set on How TCOC Works in Today's APM

Overview of How TCOC Works in Today's All-Payer Model

- The APM ACO Agreement includes targets for per capita growth in the CMS-agreed Statewide TCOC.
- Statewide TCOC design matters because:
  - The trend rate has been applied by GMCB to hospital budgets; and
  - If targets are missed, CMS can take back Medicare target setting authority from GMCB.
    - Medicare trend parameters are preferential to other Medicare ACO models in CMMI portfolio

What is Statewide TCOC?

$$\frac{\text{Claims-based + Nonclaims expenditures}}{\text{Vermont resident member months}}$$

Calculated for each payer type and then combined.

APM Agreement Targets

Expenditure growth is measured as in the Total Cost of Care (TCOC) per person for two groups:

	Population	Financial Target (2017 Baseline to 2022)
1) All-Payer	All Vermont residents with available claims	3.5% to 4.3% average annual growth
2) Medicare	• ACO-attributed Medicare FFS beneficiaries (2018 - 2020) • All Vermont beneficiaries in Medicare FFS (2021 - 2022)	Growth from -0.2 to +0.1 of national projections

3. CMS's Current Thinking on TCOC

Subgroup Member Discussion on Current CMS Approach to TCOC

- One subgroup member noted that details of TCOC approach will inform the work on global budgets.
- Several subgroup members noted that the future TCOC model needs to take into account that Vermont is a low-cost Medicare spend state.
  - Several members agreed that the TCOC model should not focus on reducing costs, but rather providing and managing care in a better way.
- One subgroup member mentioned the shift to Medicare Advantage means that Vermonters remaining in Medicare FFS look more like the national comparison group (higher risk on average than previously).
- One subgroup member noted concerns about Medicare/Medicaid shortfalls from the hospital perspective putting upward pressure on commercial rates.
- One subgroup member noted that the COVID-19 pandemic has impacted provider stability and sustainability. The current financial constraints brought about by the pandemic need to serve as a starting point for discussions around TCOC.

4. Total Cost of Care in an Evolving Model

In Theory: Concept of TCOC Shifts Depending on Underlying Payment Structure

TCOC checks FFS cost growth and blunts FFS incentives. When providers are successful at managing utilization, TCOC is below benchmark and depending on the payment model, shared savings may be higher.

Vermont is in the middle of the spectrum—some payments are prospective and fixed, while others are not. In Vermont, **TCOC, which includes both FFS and capitated payments, informs prospective budgets. Based on performance against those budgets, providers accrue savings/losses and these savings/losses bridge across providers participating in the APM.**

TCOC helps set prospective payments for the following year. When most payments to providers are fixed prospectively, provider behavior does not impact TCOC. Instead, TCOC acts as the aggregate budget that shapes the dollars available to providers. In this scenario, TCOC could be compared to what costs would have been under FFS as a way of setting the next year's fixed budget.

Key Question

How should TCOC function in Vermont under APM 2.0? What incentives are appropriate at the statewide level v. provider level?

Note: For the purposes of conceptual simplicity, this assumes all care is delivered in state. Actual model will need to account for out-of-state care.

Example: Maryland's Statewide TCOC Model and its Interaction with Global Budgets

Maryland Model Savings Targets

Under this Model, there are two targets—All-Payer *Hospital* and Medicare *TCOC*. Both are statewide.

All-Payer Hospital Target:

- All-payer *hospital* spending growth is less than or equal to **3.58 percent**

Medicare TCOC Targets:

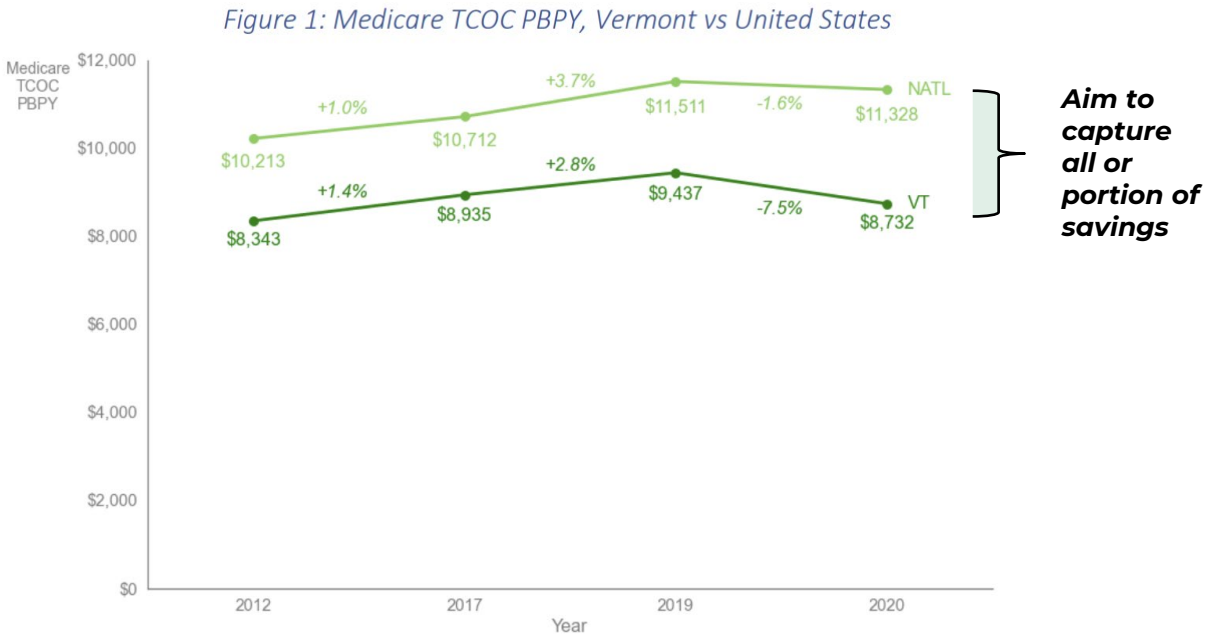
- Total Medicare spending meets annual savings targets of **$120 million** in 2019 and increases to **$300 million** by 2023
- Total Medicare spending growth **does not exceed the national Medicare growth rate** by more than 1 percent in any one year or more than national spending growth by any amount for two consecutive years

Hospital global budgets are the primary lever used to meet the Model's savings targets.

- During the first year of the model, Maryland met the Model's savings targets.
  - All-payer hospital spending growth was **2.51 percent**.
  - Maryland generated **$365 million** in Medicare savings.
  - Medicare spending per beneficiary was **0.6 percentage points lower** than the rest of the nation (3.4 v. 4.0 percent).
- The Health Services Cost Review Commission's (HSCRC's) ability to set hospital budget growth allowed the State to meet its targets.
- HSCRC determines how much hospital spending will grow each year. This not only impacts the all-payer hospital spending growth target, but also Medicare spending targets and growth rates since inpatient and outpatient hospital spending accounts for approximately 55 percent of all Medicare spending in Maryland.
- Therefore, whether the MD TCOC Model generates savings depends heavily on how HSCRC sets growth in hospital spending.

Source: Evaluation of the Maryland Total Cost of Care Model: Implementation Report

For Discussion: Ability to Reinvest Savings Under Medicare TCOC



Note: More information about the State's performance with respect to the Medicare TCOC Per Beneficiary Growth target is available in Vermont's Medicare TCOC Annual Report.

- Vermont commits to keeping Medicare TCOC per beneficiary per year growth rate below the national growth rate.
- A key ask for CMS would be to capture all or a portion of the savings under the Medicare TCOC for the State to invest in high priority areas (e.g., MH/SUD, home health).
- Areas for investment will be determined based on feedback from the community and other stakeholders and may vary by region.
- **What are the reactions to this ask?**

Discussion Questions

1. What are reactions to having an All Payer TCOC and a statewide Medicare TCOC? Have there been challenges with that model today?
2. What is the reaction if CMS sets the statewide Medicare TCOC rather than Vermont?
3. What feel like the right consequences for failing to meet TCOC targets? For All Payer? For Medicare?
4. Should the consequences be different as the underlying payment structures increasingly shift away from FFS to fixed payments?
5. Will the State need flexibility on non-hospital payments to be able to achieve TCOC spending targets?

Subgroup Member Discussion on TCOC

- Two subgroup members noted that under the current TCOC model, Vermont is not maximizing the amount of federal investment it could receive.
- One subgroup member raised that one of the lessons learned from Maryland's TCOC model is that primary care and other non-hospital providers need to be included in TCOC targets from the beginning.
- The group flagged that the TCOC model needs to account for patient movement across state lines to receive care.
- One subgroup member preferred the Medicare TCOC over the All-Payer TCOC, citing concerns that the All-Payer TCOC is complicated due to self-insured businesses and smaller insurers.

5. Future Topics for Discussion

Next Steps

- During the next several weeks, the TCOC subgroup will dive deeper into the technical aspects of TCOC. Topics include:
  - Services and products (e.g., dental) that should be included or excluded from TCOC measurement
  - Methodology for setting a baseline for trends
  - Considerations related to account for “good growth” (e.g., increased access to services that have been historically underinvested, remedying lower Medicaid payment rates, etc.)
- Weekly meetings are tentatively scheduled for Tuesdays from 9-10 am.
- If you have suggestions for other TCOC-related topics, please send them to Edith (estowe@manatt.com) and Lora (lykim@manatt.com).