

September 29, 2016

## Massachusetts Releases 2017 Acute Hospital Request for Applications and Contract

On August 24, 2016, the Massachusetts Executive Office of Health and Human Services (“EOHHS”) released the Rate Year 2017 Acute Hospital Request for Applications and Contract (“RY17 RFA”), which establishes the rates, reimbursement methodologies, and other requirements for in-state hospitals participating in the MassHealth (Medicaid) program. The key provisions of the RY17 RFA, which will take effect on October 1, 2016, include significant changes to the payment methodologies for outpatient hospital services and High Public Payer Hospital Supplemental Payments (formerly known as state-defined Disproportionate Share Hospital (“DSH”) Supplemental Payments), elimination of \$14.8 million in pediatric supplemental payments for complex care, reduction of pay-for-performance (“P4P”) payments by \$25 million, and addition of a new managed care organization (“MCO”) contracting requirement, as discussed in further detail below.

### Outpatient Hospital Services

Currently, MassHealth pays hospitals for outpatient services using the Payment Amount Per Episode (“PAPE”) payment methodology. For dates of service from October 1, 2016 through November 30, 2016, hospitals will be paid consistent with their RY16 PAPE for outpatient services. Effective December 1, 2016, and through September 30, 2017, MassHealth will pay hospitals using a new payment methodology called the Adjudicated Payment per Episode of Care (“APEC”). The APEC is both hospital-specific and episode-specific.

The APEC is the sum of (1) the Episode-Specific Total EAPG Payment and (2) the APEC Outlier Component, if applicable, both as defined below:

- **Episode-Specific Total EAPG Payment:** For each claim detail line within an episode, the APEC Outpatient Statewide Standard (the base) is multiplied by the claim detail line’s Adjusted EAPG Weight (based on relative weights determined by EOHHS for each Enhanced Ambulatory Patient Grouping, or “EAPG,” assigned to a particular claim detail line). The Episode-Specific Total EAPG Payment is the sum of these products within an episode.
- **APEC Outlier Component:** An outlier payment supplements the Episode-Specific EAPG Payment if (1) the Episode-Specific Total EAPG Payment is greater than \$0; and (2) the calculated cost of the episode (the product of the episode’s total allowed charges and the hospital’s fiscal year 2014 outpatient cost-to-charge ratio) exceeds the sum of the Episode-Specific Total EAPG Payment and a fixed outlier threshold set at \$2,100. This difference, multiplied by a marginal cost factor of 80%, equals the outlier component.

Under the PAPE payment methodology, an episode includes all PAPE-covered outpatient services (regardless of the number or type) provided to a MassHealth member in a single calendar day. In contrast, under the new APEC payment methodology, an episode may extend past midnight in cases of emergency or observation services. Unrelated services delivered on a second distinct visit to the hospital during the same day may, however, be considered a separate episode.

## Supplemental Payments

Hospitals that receive at least 63% of their gross patient service revenue<sup>1</sup> from government payers (*i.e.*, Medicare and Medicaid) and free care continue to be eligible to receive DSH supplemental payments (now referred to as High Public Payer Hospital Supplemental Payments). The amount and allocation methodology, however, will change significantly. The amount of funding will no longer be based on a fee-for-service system. Instead, the total amounts of funding allocated for inpatient discharges and outpatient episodes (\$6.5 million, each), will be distributed to each qualifying hospital on a *pro rata* basis, based on the number of MCO-reported paid inpatient discharges and paid outpatient episodes, respectively, in federal fiscal year 2017. As these numbers will not be finalized until March 31, 2018, hospitals will not receive High Public Payer Hospital Supplemental Payments in 2017.

The total amount of funding (\$13 million) allocated to High Public Payer Hospital Supplemental Payments is nearly half of what had been budgeted by the state for FY17.<sup>2</sup> The RY17 RFA also eliminates the Freestanding Pediatric Acute Hospital High Complexity Supplemental Payment and the Pediatric Specialty Unit High Complexity Supplemental Payment, which together accounted for \$14.8 million in supplemental payments to qualifying pediatric hospitals in RY16.

## P4P Payments

The RY17 RFA reduces available P4P payments (an incentive program based on certain quality measures) by half, from \$50 million to \$25 million.

## MCO Contracting and Rates Requirement

Effective January 1, 2017, any hospital providing non-emergency services must contract to join at least one MCO provider network if offered such a contract. In addition, non-network hospitals must accept an MCO reimbursement rate comparable to the RY17 RFA fee-for-service rate for that service as payment in full, unless the MCO negotiates a different rate with the hospital. This latter requirement applies to all services—not just emergency and post-stabilization services, as in the RY16 RFA—and represents a reversion back to a more expansive approach that was last present in the RY08 RFA.

## Implications

Along with implementing new payment methodologies and contracting requirements, the RY17 RFA significantly reduces MassHealth payments to hospitals. Not only does the RY17 RFA cut available funding for supplemental payments, it reduces funding for P4P payments by half. In total, the RY17 RFA and related policies will reduce MassHealth funding by up to \$150 million, according to some estimates.<sup>3</sup>

The RY17 RFA can be found at the COMMBUYS website [here](#), by clicking on “Bids” and entering “17LCEHSACUTEHOSPITAL” in the bid description search field. If you would like to discuss the RY17 RFA or any related matter, please contact any member of Ropes & Gray’s health care practice or your usual Ropes & Gray advisor.

<sup>1</sup> Based on the hospital’s FY15 cost report.

<sup>2</sup> Massachusetts Hospital Association, *State Proposes Even Further Cuts to Hospitals*, MONDAY REP., Sept. 3, 2016.

<sup>3</sup> *Id.*