

## IN THE LITERATURE

# Changes in Health Care Use Associated with the Introduction of Hospital Global Budgets in Maryland

### SYNOPSIS

Since 2014, acute-care hospitals in Maryland can annually accrue only a predetermined amount of revenue from all payers, including Medicare, Medicaid, and commercial insurers. This alternative payment system, known as an all-payer global budget, aims to reduce unnecessary and costly hospital stays and to shift care to less expensive primary care settings. After reviewing the program's first two years, Commonwealth Fund–supported researchers did not find that use of hospital or primary care services changed. The authors conclude that aligning the financial incentives of hospitals with physicians—who were excluded from the global budget model—may be needed to produce the desired results.

### THE ISSUE

Nationally, policymakers are looking to control escalating health care spending by redesigning the way providers are paid. Since the 1970s, Maryland has regulated prices for hospital services, but it did not limit spending: hospitals could increase their revenues by providing more services. Maryland built upon this system to create a global budget program that aims to rein in spending by reducing hospital volume. If hospitals reduce inpatient stays, readmissions, or emergency department (ED) visits, they can raise their prices by up to 5 percent above preset rates. Conversely, hospitals with high utilization must lower their prices to ensure they do not take in more than they are budgeted. This ensures hospitals receive their allotted budget while discouraging additional utilization. However, it is uncertain whether hospitals stayed within their budgets by lowering utilization—as policymakers had intended—or simply by reducing their prices.

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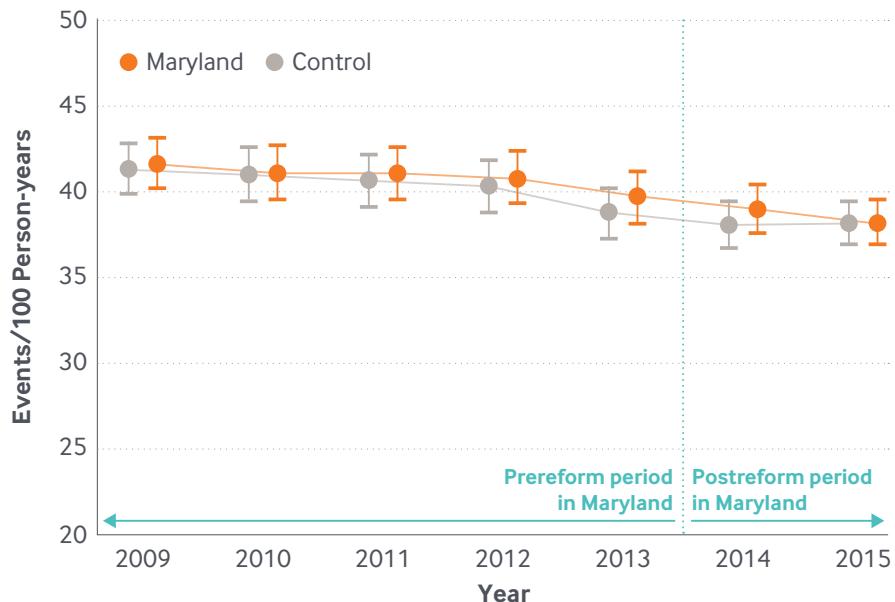
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### Hospital Stay Utilization in Maryland and Control Counties Before and After Global Budget Program



Note: These plots show unadjusted annual rates of hospital stays among fee-for-service Medicare beneficiaries residing in the 8 Maryland counties where hospitals received global budgets in 2014 vs the matched control counties.

Data: Adapted from E. T. Roberts, J. M. McWilliams, L. A. Hatfield et al., "Changes in Health Care Use Associated with the Introduction of Hospital Global Budgets in Maryland," *JAMA Internal Medicine*, published online Jan. 16, 2018.



The Commonwealth Fund

## KEY FINDINGS

- ▶ Prior to launching the global budget program in 2014, the number of hospital stays among Medicare patients in Maryland had been declining gradually. While stays continued to decline after the global budget program was launched, the rate of decline during 2014 and 2015 was similar to the rate of decline from 2009 to 2013.
- ▶ No appreciable changes were found in the number of ED visits, return hospital stays, hospital outpatient department visits, or primary care visits before and after the launch of the global budget program.
- ▶ Care utilization changes in Maryland were within the range of changes seen in other states.

## THE BIG PICTURE

By capping hospitals' spending growth from year to year, Maryland's all-payer global budget program aims to incentivize providers to reduce unnecessary hospital care. The program's design, however, may be limiting its effectiveness.

High-performing health care systems don't operate in silos, say the authors, and neither should their payment systems. By focusing only on hospital payments, Maryland's global budget program may not have been effective in aligning the incentives of hospitals and physicians, and consequently may have been ineffective in changing how care in Maryland was delivered. Recognizing this limitation, Maryland is planning to expand the program to include physicians.

**In updates to the model, Maryland plans to expand the scope of budgets to include physicians and to establish ACO-like organizations to manage Medicare beneficiaries' inpatient and outpatient spending.**

## ABOUT THE STUDY

The study examined changes in hospital and primary care utilization among fee-for-service Medicare beneficiaries in Maryland as well as in control counties outside the state. The researchers aimed to pinpoint utilization changes linked solely to the global budget intervention and not related to prior trends. To this end, the authors compared utilization before Maryland launched the program (from 2009 to 2013) and during the first two years of the program (2014 and 2015).

## THE BOTTOM LINE

After two years, Maryland's global budget program for hospitals — which caps annual hospital revenues — did not have a clear impact on hospital or primary care utilization. Broader application of the global budget approach to include physicians may produce the desired goal of reducing unnecessary hospital stays, readmissions, and emergency department visits.

E. T. Roberts, J. M. McWilliams, L. A. Hatfield et al., "Changes in Health Care Use Associated with the Introduction of Hospital Global Budgets in Maryland," *JAMA Internal Medicine*, published online Jan. 16, 2018.

This summary was prepared by Maggie Van Dyke.