



Health Security Plan Design Research, Year 1: Global Budgets for Hospitals

Why Global Budgets Is a Priority Research Issue

The Problem: Many New Mexico hospitals, especially those located in rural and underserved areas, are in serious financial trouble. Hospital expenses are increasing at dramatic rates due to higher costs for medical equipment and pharmaceutical supplies, staffing, and other factors. Loss of population in rural areas, which results in lower patient volumes, along with rising expenses, has led to serious threats to the economic viability of many community hospitals. The pandemic has only aggravated this situation.

The Global Budget Solution: Global budgets are an approach that provides hospitals with a predictable, stable revenue stream based on their budget. Reimbursement does not rely on the fee for service system (with multiple rates for the same service), where revenue is determined by the volume of services provided (and the more expensive the service, the higher the income). The advantage of a secure revenue source for its expected budget is that a hospital can now choose to invest in providing the multiple services that result in better care for local communities rather than depending on filling beds, expensive procedures, and costly emergency room services.

The Center for Medicare and Medicaid Innovation (CMMI), which is part of the Centers for Medicare and Medicare Services, offers multi-year funding to states that want to invest in alternative payment systems such as global budgets. Maryland was the first to develop a global budget program. Its success in reducing costs, lowering readmission rates, and maintaining quality has made it the poster child in any discussion of global budgets.

Global Budgets as One Critical Piece in the Health Care Jigsaw Puzzle: If New Mexico is to create its own health plan that automatically covers most residents, it is important that each design element be reviewed in terms of its connection to the other critical pieces of the system. For example, providers whose reimbursement is not subject to a global budget program can impact a hospital's budget. A successful global budget program will be connected to addressing other critical pieces of our health care system, including the cost of drugs, medical equipment, and supplies; rising patient out-of-pocket expenses; and inadequate access to preventive care so hospitals end up dealing with sicker patients.

As health economist Uwe Reinhardt writes in his final book, *Priced Out*: "A health insurance system this complex makes incremental health reform challenging. Changing the rules in one cell of the system can easily have an effect on other cells in the system." (pp. 24–25)

The global budget program and the Health Security Plan design process both need to be understood with Reinhardt's point in mind. Thus, the other two first-year Health Security Plan research issues – federal waiver possibilities and an analysis of payment models – are equally critical to the process of putting together the pieces of what can be described as an interconnected jigsaw puzzle picture of our health care system.

The Consultants

In 2021, the Superintendent of Insurance contracted with two consultants to explore the feasibility of New Mexico developing a global budget program.

- Landon & Associates (New Mexico)
- Bailit Health Purchasing, LLC (Massachusetts)

Their reports, released in early 2022, look at other states' global budget programs and provide suggestions for creating such a program in New Mexico.

Key Consultant Points

Outlook for New Mexico:

- Establishing a system of global budgets could be beneficial to our state. Bailit calls global budgets “a viable solution for funding New Mexico hospitals” (p. 15), and Landon states that “New Mexico hospitals could clearly benefit from a stable, predictable and sufficient revenue stream” (p. 2). This is especially true for New Mexico hospitals in financial distress. Bailit describes a possible global budget program as “a lifeline to struggling hospitals” (p. 3).

Lessons Learned from Other States:

- Maryland’s and Pennsylvania’s programs, whose setup and administration are funded by CMMI, are paid for through revenue contributions from public and private hospitals and include public and commercial payers. Maryland’s program requires all hospitals to participate; Pennsylvania’s is a voluntary model focusing on rural hospitals.
- The results thus far from other states are very encouraging.
 - The *Maryland* experience (2010–present) has enabled hospitals to invest in care coordination, staffing, and other critical services instead of relying on those that are the most profitable.
 - *Pennsylvania’s* experience (2019–present), while too recent to evaluate, does have initial short-term positive results, including a survey indicating a 92% satisfaction rate among responding hospital administrators, clinical leaders, and staff.
 - *Rochester, New York* (1980–1988) while very successful (substantial cost reductions, lower readmission rates) was a local program.
 - *Vermont* (2017–present) has set up a voluntary state-regulated health coverage model through which participating hospitals receive a portion of their payments through a global budget program. However, the majority of hospital revenue is still based on the volume-based fee for service (FFS) payment system. Bailit points out that hospitals “indicated that it was challenging to operate in both an FFS and global budget system simultaneously.” (p. 6)

Important Considerations for Creating a Global Budget Program in New Mexico:

- Need to ensure maximum participation of hospitals to receive the best results. Participation can be mandatory (as in Maryland) or voluntary (as in Pennsylvania).
- Need to design global budgets so there is “alignment” of payment systems between global-budgeted facilities and fee-for-service providers to avoid the problem of “stinting.” This term refers to the potential problem where hospitals avoid going over budget by cutting out certain services and shifting them to possibly more costly provider systems.
- Need to establish budgets that reduce risks, especially to financially stressed hospitals, and provide hospitals with the tools required to monitor utilization, health outcomes, and quality of care, and to make budget adjustments.
- Need to ensure that budgets include adequate funding for financially strapped hospitals to enable them to provide sufficient care services to their communities.
- Need to provide technical support to financially troubled hospitals that already have limited resources (financial and staff) and will need help when establishing a global budget system.

Section 6 of Bailit’s report (pp. 15–18) explains in detail the issues for New Mexico to consider.

Conclusion

Both consultants agree that New Mexico could benefit from a global budget program. However, the state needs to figure out how such a program might work in our state; as Landon advises, “New Mexico needs its own clear, viable and shared vision” (p. 2). To get there, more detailed information is needed to better understand how global budget programs work in other locations, especially Maryland and Pennsylvania. It also might be useful to explore the experiences of other countries, such as Germany, France, and Canada.

Another next step is to provide a venue for New Mexico hospitals to engage in global budget discussions. A hospital/health facility task force could be created that would also be charged with deciding on the program’s administrative structure. Both consultants point out the importance of the executive branch’s support and involvement in the process. Whether clinics, providers, and other groups would be asked to participate might be another consideration, especially given the importance of aligning global budgets with other payer systems. Ongoing consultation with CMMI would have to occur in order for the state to receive multi-year funding.

Any proposed global budget system will have to be analyzed in terms of its relationship to other key components of our health care system. The Health Security Plan design process provides an incredible opportunity to investigate an integrated approach to addressing our growing health care crisis, with the goal of creating a plan that will reduce rising health care costs, simplify an administratively complex system, and ensure that all New Mexicans have access to quality, affordable health care coverage.