State Health Policy Highlights

Implementing Hospital Global Budgets: Opportunities and Challenges

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STATE Health & Value STRATEGIES

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Introduction

In recent years, much attention has been given to transforming the way in which the United States pays for health care. As state policymakers seek to identify strategies to deliver higher-quality care at lower costs, payment reform efforts have largely centered on moving from a fee-for-service (FFS) health care system based on paying for volume, to one based on paying for value. This State Health Policy Highlight reviews the opportunities and challenges of implementing one type of prospective payment, hospital global budgets. The longer issue brief, Toward Hospital Global Budgeting: State Considerations, details potential solutions to the implementation challenges, and profiles efforts in three states: Maryland, Pennsylvania and Vermont.

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Opportunities and Challenges of Implementing Global Budgets

A hospital global budget caps the amount of revenue a facility can receive during the course of a given year regardless of the number of patients treated or the amount of services provided to those patients. As with any other fixed budget, cost increases incurred by the hospital beyond the cap will result in operating losses. However, if the hospital is able to reduce operating costs, it can retain the surplus. If structured appropriately, global budgets can also ensure some degree of financial stability for hospitals, particularly for facilities in rural areas.

Global budgets are meant to give hospitals clear incentives to manage provision of care within a defined budget constraint, emphasizing the policy objective of cost containment. However, global budgets have other general characteristics and features that make them relatively easy to implement and attractive from a policy perspective.

Hospital Global Budgets	
Opportunities	**Challenges**
• Usually based on a hospital's historical all-payer revenue base, and easy to calculate. • Prospectively determined and are trended from one year to the next by a factor that covers inflation in the cost of inputs. • Transfer manageable levels of financial risk from payers to hospitals, holding hospital managers (and other providers, such as hospital-employed physicians) accountable for the cost of services they can reasonably control. • Provide hospitals with a predictable revenue flow and thus give hospital management flexibility and autonomy. • Well-suited for hospitals or groups of hospitals that are dominant in a particular region and have populations that are naturally mapped to their hospital—particularly, rural facilities. • Can support other budget-based efforts at cost reduction, such as accountable care organizations (ACOs), because ACOs and hospitals under global budgets both face incentives to reduce unnecessary volume and improve the efficiency of care delivery. • Can be enhanced by the use of supplemental pay-for-performance programs incentivizing improved quality of care to make sure that providers don't reduce access or short-change care in an effort to control costs.	• Not easily implemented outside of an all-payer environment. • Strong incentives for cost reduction, can also encourage an under-provision of services and skimping on quality. • May induce hospitals to shift services to non-hospital providers in their area, resulting in higher overall expenditures because purchasers would be paying for the fixed budget of the target hospital and also for the care that has shifted. • More difficult to implement in suburban and urban areas that contain hospitals with overlapping patient service areas, thus creating difficulty in matching a specific reference population to each global budget hospital. • May not be aligned with the financial incentives facing community physicians or other providers in the health system if these providers continue to be paid on a FFS basis. • May involve more financial risk than hospitals are willing to accept and manage. • Less responsive to expanded health care service needs of a given community due to unexpected events such as a severe flu season or other epidemics or the ability to fund new drugs or health care technologies that were not accounted for in the previous year's expenses. • May not stand the test of time if they are merely voluntary in nature.

Conclusion

Relative to other hospital health care payment structures, global budget arrangements have great potential for controlling overall costs, including containing or reducing unnecessary hospital services. Overall, global budgets can create the conditions necessary to hold hospitals accountable for the cost of services they provide and operate under a stable and predictable amount of annual revenue. In addition, global budgets can facilitate more rational allocation of hospital resources and provide hospitals with increased financial flexibility to meet the diverse and unique health needs of the communities they serve.

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State Health and Value Strategies (SHVS) assists states in their efforts to transform health and health care by providing targeted technical assistance to state officials and agencies. The program is a grantee of the Robert Wood Johnson Foundation, led by staff at Princeton University's Woodrow Wilson School of Public and International Affairs. The program connects states with experts and peers to undertake health care transformation initiatives. By engaging state officials, the program provides lessons learned, highlights successful strategies and brings together states with experts in the field. Learn more at *www.shvs.org*.

ABOUT GLOBAL HEALTH PAYMENT, LLC

This brief was prepared by Robert Murray, president of Global Health Payment, LLC. Global Health Payment is a health care consulting firm with experience in the development and implementation of alternative prospective payment systems, including hospital global budgets and physician shared savings programs. Previously, Mr. Murray served as the executive director of Maryland's hospital rate setting agency, the Health Services Cost Review Commission from 1994 to 2011. For more information on Global Health Payment, please email *RMurray@GlobalHealthPayment.com*.