Appendix – Payment Adjustment Calculation

A. Hospitals (Fee for service or Per diem)

Payment to hospitals will be adjusted by a post-acute care episode adjustment factor (EAF). The EAF is a retrospective factor computed from historical data that is applied prospectively to subsequent payments for hospital based payments to hospitals. The objective of the EAF is to provide a financial incentive to hospitals. Following an admission for a mental health problem, the following two measures will be computed and used in the determination of the EAF:

- Potentially preventable ER visits
- Potentially preventable readmissions

The financial impact of both physical and mental preventable ER/Readmissions during the post-acute day period following an admission for a mental health problem is determined based on the following steps:

- Determine the national historical rate of preventable ER/Readmissions for any chronic illness.
- Based on the historical rate, determine the risk adjusted expected number of Preventable ER/Readmissions.
- Compare the actual and expected number of these preventable events to determine the number of excess events for each acute care hospital or free standing psychiatric facility.
- Quantify the financial impact of the excess preventable events for each acute care hospital or free standing psychiatric facility based on the payment for these preventable events.

Risk adjustment used to determine excess rates of preventable ER/Readmissions will take into account the acuity, chronic illness burden for all diagnoses and other factors.

B. ACOs/Medical Homes/Outpatient Psychiatrist(s)/Group of Health Care professionals (non-capitated payment)

For those who voluntarily sign up, payment to ACOs, Medical Homes, Outpatient Psychiatrists, or groups of health care professionals will be adjusted by a post-acute care episode adjustment factor (EAF). The EAF is a retrospective factor computed from historical data that is applied prospectively to subsequent ACO payments and/or bonuses.

- A virtual bundled episode payment is calculated across 90 days post discharge
- A payment adjustment is made for rates of preventable ER/readmissions above a risk-adjusted benchmark
- Failure to meet a minimum threshold for patient follow-up appointments and pharmacy fill rates results in the penalty being multiplied.

Similar calculations to those described in the hospital section are made with the exception that the window is extended to 90 days.

Managed Care Plans (capitation payment)

Capitation payment to managed care plans will be adjusted by a post-acute care episode adjustment factor (EAF*).* The EAF would be computed similarly to that described under the ACO/medical home

description. The application of the EAF to capitation payment adjustment is made prospectively. A qualifying 90 day mental health episode for an enrollee within a base year will result in the application of a multiplier to the capitation rate for the subsequent year. MCOs are thus encouraged to enroll complex enrollees that would otherwise present too high a financial risk.

As these enrollees are unstable, an outlier (reinsurance) pool would be formed by a mixture of new money and by redirecting current spending on potentially preventable events from that embedded within the existing capitation rate. Capitation rates paid to plans would therefore be the sum of the baseline risk-adjusted standard rate for an enrollee risk group plus an adjustment for enrollee specific episode history in the preceding period (the EAF). Payments throughout the year would be adjusted through the outlier pool.

Capitation payments would also be prospectively adjusted by quality measures. For the initial year they would include: outpatient service provision/ partial hospitalization, and/or intensive home/ outpatient care; treatment adherence. By the close of the second year, payers should restrict quality measures to outcomes. In addition to any above outcomes measures, payers should include: decreased potentially preventable (both physical and mental) admissions, ER visits and readmissions. A composite dollar impact will consist of excess rates of preventable events from any medical condition together with under-provision of expenditures for office visits, clinic visits, pharmaceuticals and partial hospitalization. Good performance on one measure is allowed to offset poor performance on other measures.