Value-based Reimbursement for hospitals

Frequently asked questions

Hospital cost efficiency

What is the hospital cost efficiency component of Value-based Reimbursement?

Hospital cost efficiency promotes the reduction of hospital-specific costs by improving how it functions. Blue Cross Blue Shield of Michigan will reward hospitals for improved cost efficiency across two performance years. As BCBSM assists hospitals with reducing their costs, a hospital stands to earn a higher margin across all payers. For this reason, hospitals earning a reward during the first two performance years for reducing their cost structure will grant a rebate to BCBSM in the third year of their Value-based Reimbursements for their portion of the hospitals’ overall savings.

How is hospital cost efficiency measured?

Hospital cost efficiency is measured using each hospital’s fiscal year, and there are two ways to measure it:

• The primary method rewards a hospital for any savings achieved from a year-over-year decrease in its cost per case value.

• The second method allows hospitals to focus on cost reductions in a specific clinical area, as long as it’s agreeable to BCBSM and deemed measurable. Potential cost efficiency savings in this method must be of a sufficient size. It also must equate to a 2 percent or greater reduction in total inpatient acute care payout to be eligible for a hospital cost efficiency reward payment.

What is a hospital’s cost per case value?

The cost per case value is defined as a hospital-specific, standardized, inpatient acute care cost per number of inpatient cases. Non-acute services such as psychiatric, rehabilitation and substance abuse services are excluded. Cost per case values are measured on each hospital’s fiscal year and are based on hospital-specific margin files, including the hospital’s full cost model.

When are hospital cost efficiency shared savings payments received?

For the first two years, hospitals are paid for achieved shared savings in the third quarter following the performance year.

How is the hospital cost efficiency rebate calculated?

During the third year, each hospital participating in the cost efficiency component will grant a portion of the average shared savings reward distributed in the first and second years. The rebate amount will be converted into a percentage reduction using historical data. It will be applied on a prospective basis by adjusting each hospital’s base rate, beginning with the hospital’s fiscal year in the third year of the Value-based Reimbursement.