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Eli's Hospice Insider

DOCUMENTATION: Prepare for Belt Tightening As MedPAC's Cost Cutting Hits Home

Longer LOS, more for-profits wear out hospice industry's goodwill.

First, the good news: MedPAC's recently proposed cuts for hospices aren't as steep as they are for some other providers. The bad news? Prepare for deep cuts next year if Congress heeds the advisory body's new recommendations.

In a Jan. 14 meeting, the Medicare Payment Advisory Committee approved a recommendation to leave hospices' inflation update intact for 2011, but make a "productivity" adjustment that would reduce the rate of increase.

With the 2011 market basket level currently projected to be 2.4 percent, the productivity adjustment would bring hospices' increase down to 1.1 percent, noted MedPAC staffer **Kim Neuman** at the meeting. Of course, the inflation update is subject to change before the Centers for Medicare & Medicaid Services actually sets rates, noted MedPAC Chair **Glenn Hackbarth**.

On one hand: Hospices are faring better than many other providers in MedPAC's 2011 recommendations. Home health agencies, skilled nursing facilities, long-term care hospitals, and inpatient rehab facilities would be subject to no market basket update under the proposal to Congress.

On the other hand: The cut to the inflation update is new territory -- hospices, generally have avoided MedPAC cut recommendations in the past. The productivity adjustment would strip $1 billion to $5 billion from Medicare hospice payments over five years, Neuman noted.

Why the change? The number of hospices has nearly doubled since 2000 to more than 3,300 hospices in 2008, Neuman pointed out in the meeting. The vast majority of those have been for-profits.

In addition, Medicare spending on hospices has quadrupled in that time period. Some of that is because more Medicare beneficiaries are electing the benefit -- 40 percent of benes who die as opposed to the previous 23 percent. But a big chunk is due to the longer lengths of stay hospice beneficiaries are racking up, Neuman explained. Average LOS went from 54 days in 2000 to 83 days in 2008. That increase goes across all diagnosis categories, not just non-cancer patients, she added.

More than 10 percent of hospices are exceeding the per beneficiary cap, she said. And those over-cap agencies have longer LOS and higher rates of discharging living patients than hospices that stay under the cap.

Relatively Modest Margins Help Hospices

MedPAC projects a 4.6 percent profit margin for hospices in 2010, Neuman said. That does not include overpayments based on the cap that must later be recouped.

Commissioner **Nancy Kane** of the Harvard School of Public Health questioned why MedPAC would give hospices an inflation update when providers with only slightly higher margins, such as LTCHs and IRFs, wouldn't receive one.

Hospices' margins are probably a bit inflated, admitted Hackbarth, an attorney and former Health Care Financing Administration deputy administrator. That's partly because Medicare doesn't recognize bereavement costs, but requires them as part of the benefit.

Also, hospices have historically had lower margins than those other provider types, he added.

The margin inflation is a serious problem, says the National Hospice and Palliative Care Organization. Bereavement services deduct about 1.5 percent from the margin and the administrative costs of required volunteer programs would take another 0.5 percent off, putting hospices' real profit margin closer to 2.6 percent, NHPCO maintains.

In light of that difference, "reducing the annual inflationary adjustment is absurd and potentially devastating to the hospice community," protests NHPCO's Jonathan Keyserling.

Helpful comment: Commissioners should not be blinded by the increasing LOS numbers, cautioned Commissioner **Robert Berenson**. "The median length of stay hasn't changed in 17 years," said the former internist who is a fellow at the Urban Institute. "It's still 17 days." LOS actually went down in the twenty-fifth quintile, he added.

"We still have a problem of toolate referrals," Berenson said in the meeting. "We should be dealing with both ends."

In addition to the new recommendation,MedPAC will reissue its recommendations from last year, which include reformatting the hospice payment system to pay more at the beginning and end of a hospice stay and less in the middle; requiring physician visits to long-stay patients before recertification; and other program integrity measures.