Eli's Hospice Insider

Payment: Hospice Payment Reform Is Knocking On Your Door

Prepare now for variable rates under the Medicare hospice benefit.

All that visit data you've been including on your hospice claims is about to come home to roost. Expect major changes to Medicare's hospice payment methodology soon.

Law- and policymakers have been sounding the alarm about problems with the hospice benefit in recent years. In its April 4 meeting, the **Medicare Payment Advisory Commission** reviewed troubles with the current payment methodology. In a nutshell, there's been a sharp increase in for-profit hospice providers, patients' long lengths of stay, and hospice profit margins (see top story, p. 47, for stats).

"The margins look very rich, even though this is a very critical benefit," MedPAC Commissioner **Craig Samitt** with **Dean Health System** in Madison, Wis., said in the meeting. Other commissioners seemed to agree with the physician.

Back in 2009, MedPAC recommended a change in how Medicare pays hospices. Currently, Medicare pays a flat per diem rate. The influential advisory body to Congress wants Medicare to change hospice reimbursement to a U-shaped model, in which hospices would receive higher payments at the beginning and end of a patient's stay and lower payments in the middle (if the stay is long enough).

Congress gave the **Centers for Medicare & Medicaid Services** authority to make such payment changes in the Affordable Care Act of 2010. CMS hasn't issued a rule proposing payment changes yet, but it has been working with a contractor and a Technical Expert Panel on the issue, MedPAC's **Kim Neuman** noted in the meeting's hospice discussion.

With Congress, policymakers and advisors agreeing that a change is needed, industry observers expect a proposed rule on the topic soon although the definition of "soon" varies.

Financial expert **William "Ted" Cuppett** with **The Health Group** in Morgantown, W.Va., expects proposed changes as early as fiscal year 2014, he says. "I'm preparing, and preparing clients, for variable rates," Cuppett tells **Eli**.

Financial consultant **Pat Laff** with **Laff Associates** in Hilton Head Island, S.C., thinks a 2015 date for rate changes is more likely.

Even 2015 may be an optimistic deadline, says **Judi Lund Person** with the **National Hospice and Palliative Care Organization**. "There is still a great deal of analysis of the data going on," Person tells **Eli**.

"CMS is trying to be very thorough in their approach," notes **Theresa Forster** with the **National Association for Home Care & Hospice**. "But there are significant gaps in available data."

Ultimately, payment reform timing may depend on political pressures. "If CMS is pressed, they could put an initial payment reform step in place" soon, Forster expects.

CMS didn't respond to questions about the likely date for hospice payment reform.

NHPCO is advocating for a pilot project testing multiple payment models before a final methodology is adopted, Lund Person notes.

Payment Reform Brought To You By The Letter 'U'

MedPAC has urged CMS to adopt a U-shaped model, and in its most recent meeting it even laid out suggestions for rates. MedPAC looked at data reported on hospice claims about the visit frequency and length for six types of staff nurses, aides, social workers, physical therapy, occupational therapy, and speech therapy plus social worker phone calls. Then it estimated labor costs for those visits and tracked them for lengths of stay varying from 14 to 150 days. Regardless of LOS, all stays followed a U-shaped trajectory with higher labor costs at the beginning and end of service.

Those labor costs account for 68 percent of hospices' direct costs, MedPAC figured. Thus, it recommends adjusting 68 percent of the current hospice per diem rate by the U-shaped trajectory and keeping 32 percent the same at least until more study is done.

Falling short: CMS needs to gather more data on hospice costs such as supplies, durable medical equipment, drugs, transport, and other non-labor items. Currently, neither claims nor the cost report provides this kind of data, Laff notes.

Policymakers are also considering a J-shaped model, Laff says. That would pay a slightly higher payment at the beginning of a stay, lower rate in the middle, and a much higher payment at the end, he explains.

Financial consultant **Tom Boyd** with **Boyd & Nicholas** in Rohnert Park, Calif., expects to see CMS adopt the U-shaped model. It addresses abuse concerns and should even out profit margins among provider types and lengths of stay.

Example: MedPAC offers five payment levels during the "U" timeframe in a scenario offered in the meeting. CMS would weight the rate at 1.97 for days 1-7, resulting in a per diem rate of $255 (66 percent above the current level). For days 8-14, the rate would go to 1.01, a mere 1 percent increase to $155. Then the rate would drop to 0.95 percent for days 15-30, to total $148 (a 4 percent decrease). The rate would hit its lowest point for days 31+, at 0.86 or $139 (a 10 percent drop from current levels). In the last seven days of the stay, Medicare would have a 1.15 add-on, equaling $120 on top of the regular rate per day.