

Eli's Hospice Insider

Reimbursement: Medicare's Hospice Payment Rates To Inch Up Next Year

Wage index adjustment strips \$100 million from hospice payments in 2013.

Medicare payment reform is on hospices' horizon, but it's not here yet. In the meantime, the feds continue to ratchet down hospice payment rate increases.

Hospices had been waiting anxiously for word of the Medicare payment rates that would take effect in a few short months on Oct. 1. When the **Centers for Medicare & Medicaid Services** released its 2013 rate notice on July 20 and wage index notice July 24, hospices received about what they were expecting, says **Judi Lund Person** with the **National Hospice and Palliative Care Organization**. Hospice rates will rise 0.9 percent for the next fiscal year. NHPCO has been estimating an increase between 0.8 and 1 percent, Person tells **Eli**.

National Association for Home Care & Hospice members had been hoping for a bit higher rate, based on a higher market basket inflation figure estimated earlier this year, NAHC noted in a message to members.

Five factors play into the reduced payment rate increase. CMS started with a market basket inflation update of 2.6 percent. Then the agency subtracted 0.7 percent for an Affordable Care Act-mandated productivity adjustment, 0.3 percent for another ACA-mandated reduction, 0.6 percent for the Budget Neutrality Adjustment (BNAF) phase-out, and 0.1 percent for other wage index changes. That totals the 0.9 percent pay bump for next year.

Background: This will be the fourth of seven years in which CMS makes a BNAF phase-out reduction. CMS phased out 10 percent of the BNAF in 2010, and will phase out additional 15 percent increments until 2016, the agency explains in the wage index notice slated for publication in the July 27 Federal Register.

The wage index changes will strip \$100 million from Medicare payments to hospice in 2013, CMS reveals in the notice. The agency doesn't provide an estimate of how much the ACA-mandated reductions will impact payment levels.

The BNAF cuts are particularly challenging because they are "invisible" to hospices, Person says. They are figured into the wage index calculations before providers compute their own payment rates.

"For most hospices the proposed minimal increase in payment rates will actually result in their losing ground -- in some cases significantly -- against the inflationary costs of doing business," worries consultant **Jay Mahoney** with **Summit Business Group** in Penfield, N.Y. Personnel costs and drugs are two of most hospices' largest expense line items, notes Mahoney, who headed the **National Hospice Organization** (now NHPCO) for 14 years.

"Recent reports peg drug cost increases at 3 percent, and that really doesn't reflect the more significant increases in some morphine products that hospice patients use in greater amounts than the typical patient population," Mahoney tells **Eli**. Health insurance costs have also risen significantly.

Hospices "are particularly vulnerable to Medicare payment policies" because like home health agencies, they depend heavily upon Medicare for payment, Mahoney points out. Hospices receive about 90 percent of their payment revenue from Medicare on average "and have little opportunity to shift costs to private payers," he notes.

The per beneficiary hospice cap for the cap year ending Oct. 31, 2012 is **\$25,377.01**, CMS says in July 20 Transmittal No. 2497 (CR 7857). That compares to this year's cap amount of \$24,527.69.

Hospice Costs Sprint Past Inflation Update

This year's pay bump is lower than in previous years, thanks mostly to the ACA-related reductions. CMS increased hospice payment rates by 2.5 percent for FY 2012, 1.8 percent for FY 2011, and 1.4 percent for FY 2010.

Hospices can expect more years of updates that hover around the 1 percent mark, Person expects, unless Congress legislates further cuts or increases. The ACA-mandated productivity adjustments are scheduled to occur every year, and the 0.3 percent ACA-initiated cut is scheduled until 2019 unless special circumstances occur.

Short-sighted: "These minimal increases can be characterized as the government being 'penny wise and dollar foolish,'" Mahoney contends. "Hospice care reduces the cost of caring for people in the last months of life, contributing in no small measure to the solvency of the Medicare Trust Fund." It helps hospitals reduce unnecessary re-admissions and use their own resources more effectively and efficiently, he adds.

Hospices have known these ACA cuts would kick in this year, and have been planning accordingly, Person relates. "Hospices that I know have been taking significant steps to get efficient," she relates. That often involves looking at areas like mileage, service area, staffing, and case load.

But some hospices will buckle under the financial strain, Mahoney believes. Some providers will have to "seek merger opportunities or simply go out of business." Expect to see small for-profit hospices affected most, as well as smaller not-for-profits, he predicts.

In the long term: If rates continue to grow slower than inflation costs, "larger for-profit hospices will become much less desirable investment vehicles," Mahoney forecasts. "And even large not-for-profit hospices will be forced to make very painful choices that will degrade their ability to be the community assets that they have become over the past three decades."

For example: Hospices may find themselves short-staffed or "forced to hire increasingly inexperienced nurses as personnel costs force layoffs or seasoned employees to find higher-paying jobs," Mahoney predicts. "The result ... can only be more hospice medical errors, increased and unnecessary suffering by hospice patients and increased and unnecessary hospital admissions, which is one of the primary drivers of increased health care costs in the first place."

Keep An Eye Out For Further Cuts

The cuts may not be over for 2013. ACA "sequestration" cuts are slated to take effect in January if spending exceeds certain levels. The cuts will be 2 percent across-the-board reductions for areas including Medicare payment rates. The chance of these cuts taking effect is "highly likely," NAHC said after CMS issued its home health prospective payment system proposed rule earlier in the month.

The sequestration cuts "are hanging out there as a worry," Person notes.

Hospices also will see a 2 percent cut starting in FY 2014 if they fail to collect and submit quality data in 2013, CMS adds in the wage index notice. (For more on quality reporting requirements included in the HH PPS proposed rule, see Eli's Hospice Insider, Vol. 5, No. 8.)

Meanwhile, CMS and its hospice payment reform contractor **Abt Associates** continue work on an overhaul to Medicare's payment methodology. That sea change may be a ways off, however -- CMS doesn't furnish any sort of timeline for the work in the wage index notice. (For more information on the payment reform initiative, see a future issue of Eli's Hospice Insider.)

Note: A link to the wage index notice is at www.cms.gov/Center/Provider-Type/Hospice-Center.html. The transmittal is at www.cms.gov/Regulations-and-Guidance/Guidance/Transmittals/Downloads/R2497CP.pdf.

