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Report to Congressional Requesters

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MEDICARE

Payments for Home Dialysis Much Higher Under Reasonable Charge Method

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Human Resources Division

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The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate

The Honorable Bob Packwood
Ranking Minority Member
Committee on Finance
United States Senate

Your August 12, 1988, letter asked us to review the amount of payments Medicare was making to Home Intensive Care, Inc. (HIC), for furnishing dialysis supplies and equipment to end stage renal disease (ESRD) patients who dialyze at home. Information you had received indicated that HIC was receiving about twice as much per treatment for home patients as were dialysis facilities[1] that supplied home patients. HIC claimed that total Medicare per-patient costs for its home patients were lower than those for facility patients because of lower use of inpatient hospital services, among other services. You also asked that we review these claims.

In Florida, where the majority of HIC's Medicare claims are processed for payment, HIC receives about $2,499 per home patient per month from Medicare for dialysis supplies and equipment versus about $1,240 per month received by dialysis facilities that served home patients. From January 1987 through July 1988, total monthly Medicare payments for HIC patients averaged about 35 percent more than for facility patients. A February 1989 analysis by the Health Care Financing Administration (HCFA) also concluded that total Medicare payments were higher for HIC patients than for facility patients. HIC receives twice as much per home patient for furnishing dialysis supplies and equipment as a facility would receive for serving the same patient at home. We do not believe that the additional payments represent a prudent expenditure of Medicare funds. HCFA is in the process of establishing a payment limitation for home dialysis supplies and equipment that would eliminate the additional payments. We support this proposed regulation.

Background

The Medicare program covers dialysis services for patients suffering from ESRD, which is that stage of kidney impairment that is considered

[1]Dialysis facilities are either part of hospitals or freestanding facilities where patients go to receive treatment.

irreversible and requires regular dialysis treatments or a kidney transplant to maintain life. Kidney dialysis is the process of cleansing excess fluid and toxins from the blood of patients whose kidneys do not function.

There are two general modes of dialysis treatment, hemodialysis and peritoneal dialysis, both of which can be performed at home. In hemodialysis, blood is taken from the patient's body and passed through a dialysis machine, which filters out body waste before returning the blood to the patient. In peritoneal dialysis, the blood is filtered within the patient's abdominal cavity without leaving the patient's body.

Hemodialysis is the most common mode of dialysis treatment, and each patient requires three 4-6 hour treatments a week. As of December 31, 1988, HCFA reported that there were 105,958 dialysis patients, of which 89,714, or about 85 percent, used hemodialysis. About 96 percent of the hemodialysis patients were being treated in a facility, and 4 percent were treated at home.

Medicare Payments for Dialysis Treatments

Medicare ESRD patients can receive their dialysis treatments either in a facility or at home. If a patient dialyzes in a facility, the facility receives a fixed payment for each treatment provided. Payment rates vary by geographic area because rates are adjusted to reflect differences in labor costs. As of January 1989, the nationwide average composite rate for independent dialysis facilities was $125 per treatment. Medicare pays the facility 80 percent of the fixed rate, and the patient is responsible for the remaining 20 percent.

Medicare patients who choose to receive their treatments at home may obtain their dialysis supplies and equipment either through dialysis facilities or directly from suppliers. The source of supply determines the method of payment. If supplies and equipment are obtained from a dialysis facility—Method I—the facility receives the same payment for each home dialysis treatment as it does for an in-facility treatment. The payment rate covers all necessary dialysis supplies and equipment and related support services. In March 1988, HCFA reported that about 77 percent of home patients were using Method I. As of June 1989 that percentage had decreased to about 66 percent.

If supplies and equipment are obtained directly from a supplier—Method II—Medicare payments are based on reasonable charges as determined by the Medicare carrier. In Florida the carrier is Blue Cross

and Blue Shield of Florida. Generally, the reasonable charge for a service or item is the lowest of (1) the actual charge, (2) the customary charge by a particular supplier, or (3) the prevailing charge. The prevailing charge is defined as the 75th percentile of customary charges for similar services in the local area. Should these rules result in payment rates that are considered inherently unreasonable[2] by HCFA or the carrier, they may establish special reasonable charge limits. When a home patient chooses to use a supplier and Method II payment applies, Medicare pays 80 percent of the reasonable charge and the patient is responsible for the remaining 20 percent.

HIC Staff-Assisted Home Dialysis Program

HIC is one of the nation's largest suppliers receiving Method II payments for selling dialysis supplies and renting or selling dialysis equipment to home patients. HIC also furnishes aides to assist its home patients during dialysis. Home patients need assistance to perform dialysis, and such assistance usually is furnished by a relative or friend. Medicare does not authorize payment for aides for home patients, and Method II suppliers do not usually send aides to patients' homes on a routine basis. HIC started its home hemodialysis program in May 1985 in South Florida and was reimbursed at first under Method I. HIC began billing for patients under Method II in June 1986. By November 1988, HIC had expanded into 15 states and was providing dialysis supplies and equipment to about 1,000 home patients. HIC is headquartered in Florida, and although most of its home patients reside in other states, about 90 percent of its Medicare Method II claims are processed and paid by the Florida carrier, Blue Cross/Blue Shield.

According to HIC's 1988 financial report filed with the Securities and Exchange Commission (10-K report), staff-assisted home hemodialysis accounted for about 94 percent of the company's revenues for the fiscal year ended September 30, 1988. HIC revenues for the period were about $27.7 million, with after-tax profits amounting to about $2.5 million. Medicare reimbursements accounted for about 71 percent of HIC's revenues.

Because Medicare does not authorize payments for home dialysis aides, to make a profit HIC must cover the costs of these aides with the payments it receives for home dialysis supplies and equipment. In Florida,

[2]Rates are considered inherently unreasonable when the rules for calculating reasonable charges result in grossly deficient or excessive charges. Examples of inherently unreasonable charges are when (1) the prevailing charge for a service in an area is significantly higher or lower than in other areas and (2) the charges are grossly lower or higher than acquisition or production costs.

HIC received about $252 per home dialysis treatment from Medicare and the patient, whereas facilities were getting about $125 per treatment.[3] The extra $127 per treatment enabled HIC to cover its costs of about $63 per treatment for home aides while making a profit.

Objectives, Scope, and Methodology

Our objectives were to determine (1) how HIC's Medicare Method II payments compared to its cost of providing staff-assisted home dialysis, (2) how total Medicare payments for HIC patients compared with payments for Florida facility patients, and (3) if HIC patient demographic characteristics differed from those of other Florida dialysis patients.

To determine how HIC's costs compared to its Method II payments, we reviewed cost information on staff-assisted home dialysis obtained from HIC for the period January to March 1988. For comparison purposes, we also obtained Method II payment rate information from Medicare carriers in states other than Florida that had received billings from suppliers of home hemodialysis supplies and equipment.

To compare total Medicare payments for HIC and facility patients in Florida, we obtained reimbursement data from the Medicare Automated Data Retrieval System. In the comparison, we excluded (1) patients who spent less than 6 months of the year in Florida, (2) HIC patients who had not been in the HIC program for at least 19 months (Jan. 1, 1987, through July 31, 1988), and (3) facility patients who had not been on dialysis for the same 19-month period. Our comparison included 50 HIC patients and 2,127 facility patients.

To compare demographic characteristics of HIC and other dialysis patients, we obtained data from the Florida End Stage Renal Disease Network for all dialysis patients in Florida as of July 31, 1988. This database covered 4,640 facility hemodialysis patients and 171 HIC staff-assisted home hemodialysis patients. We used July 31, 1988, data because they were the latest available from the network at the time of our visit. We compared general characteristics, such as age, sex, race, and length of time on dialysis, of HIC staff-assisted home hemodialysis patients with those of facility hemodialysis patients.

[3]Because HIC's home patients reside in states throughout the nation, we used the national average facility rate for comparison purpose. The average facility rate for Florida was about $119 per treatment.

We also reviewed documentation on HCFA's efforts to reduce Method II payment levels and obtained information on HCFA's estimate of future growth in ESRD program costs if Method II payment levels are not reduced. We visited the Northwest Kidney Center in Seattle to obtain information and examine cost data on its Method I home patient program, which furnishes paid home dialysis assistants. We also reviewed past studies on the various ESRD treatment modes, and correspondence and documentation related to the evolution of HIC's staff-assisted home dialysis program.

Because of delays in obtaining access to HIC's records, we did not audit or verify HIC's reported costs. We also did not verify the accuracy of information contained in the databases maintained by HCFA and the ESRD Networks. Except for these qualifications, we conducted our work in accordance with generally accepted government auditing standards from September 1988 through August 1989.

Medicare Pays HIC Enough to Cover the Costs of Noncovered Services

According to unaudited cost records supplied by HIC for the quarter ended March 31, 1988, HIC's cost of providing staff-assisted home dialysis averaged about $246 per treatment. These costs included $179 for direct patient care, $59 for home office and regional office costs, and $8 for other costs. Direct patient care costs included about $63 per treatment for technicians and nurses who assisted home patients during dialysis and about $4 per treatment for other services, such as dietitians, social workers, and physician peer reviews. The services represented by these $67 are not normally incurred by Method II suppliers.

During this period HIC billed Medicare $252 per treatment, the maximum allowed by the Florida carrier. The carrier paid 80 percent of the billed amount, or about $202 per treatment. Therefore, if the patient's 20-percent coinsurance liability was paid, about $50 per treatment, HIC's total reimbursement exceeds its total costs. This permits HIC, in effect, to be reimbursed for its costs of $67 per treatment for dialysis aides and other services even though they, as such, are not covered by Medicare.

HCFA Has Attempted to Reduce Method II Payment Levels

Florida Blue Cross/Blue Shield officials told us that when HIC began billing under Method II in 1986, the carrier had virtually no claims payment data upon which to base reasonable charges. In effect, HIC's charges became the prevailing charge in Florida because they were the only data available for calculating reasonable charges. We were also told that because of the low volume of Method II claims the carrier received in

1986, at that time it did not consider assessing the inherent reasonableness of the amount it was allowing on HIC's claims.

In February 1988, HCFA requested its Medicare carriers to evaluate the appropriateness of their Method II payment rates for home dialysis supplies and equipment. The Florida carrier surveyed dialysis facilities in the state to determine supply and equipment acquisition costs for home patients. The carrier determined that monthly dialysis supplies and equipment costs per patient ranged from about $510 to $1,294, with an average monthly cost of about $856. At that time, HIC's Medicare Method II billings for home dialysis supplies and equipment were about $3,124 per patient per month. The carrier concluded that Method II suppliers should be allowed no more than $1,625[4] a month for each hemodialysis patient served.

In October 1988, the carrier notified HIC and affected patients that the $1,625 monthly limit would become effective January 1, 1989. In November 1988, HIC and 10 of its patients, along with the National Kidney Patients Association, filed a suit against the Department of Health and Human Services, HCFA, and Blue Cross and Blue Shield of Florida to stop the planned Method II payment reduction. The court issued a preliminary injunction on December 22, 1988, stopping Medicare carriers from reducing Method II hemodialysis payments.

HCFA published a notice of proposed rule making in the Federal Register on January 12, 1989, to establish a special reasonable charge payment limit equal to the national average composite rate multiplied by 12.4, the average number of treatments per month patients receive. Currently, this limit would be $1,550 per month ($125 times 12.4). HCFA has received and reviewed comments on the proposed notice, but as of October 1989 had not published a final rule.

Most carriers that were processing Method II hemodialysis claims had reduced their payment rates before December 22, 1988, and were not affected by the preliminary injunction. However, the two carriers (in Florida and Illinois) that processed almost all of HIC's Method II hemodialysis claims had not reduced their payment rates. Table 1 shows the payment limits in effect as of December 1988 for the carriers that were processing Method II hemodialysis claims.

[4]The proposed monthly limit was based on 13 treatments per month at the national average composite rate of $125 per treatment.

Table 1: Method II Payment Limits in Effect as of December 1988 by Carrier Area

State	Payment rate	Effective date
Colorado	$1,300	[a]
Tennessee	1,376	8/15/88
Kentucky	1,432	9/18/88
Arizona	1,537	10/1/88
Maryland	1,550	11/6/88
Pennsylvania	1,550	8/22/88
South Carolina	1,550	10/1/88
Nevada	1,613	10/1/88
Georgia	1,625	11/1/88
Virginia	1,625	9/1/88
California (Southern)	1,650	10/1/88
Mississippi	1,724	[a]
Florida[b]	3,124	[c]
Illinois[b]	3,428	[c]

[a]Rates were not reduced by the carrier.

[b]According to information provided by HCFA, HIC has been billing for almost all of its Method II services through the Florida and Illinois carriers. Also, the carriers in these two states were processing almost all Medicare Method II claims for hemodialysis services

[c]Carriers in Florida and Illinois proposed maximum monthly rates of $1,625 and $1,710, respectively, to become effective January 1, 1989. However, a December 22, 1988, district court order prevented the two carriers from lowering their rates.

We identified one center, the Northwest Kidney Center in Seattle, which was furnishing services to home patients similar to HIC's staff-assisted home dialysis program, at a cost below the national average composite rate of $125 per treatment. The center operates five dialysis clinics and provides aides to assist its Method I home patients. More than two-thirds of the 200 home patients supported by the center had a paid assistant. According to the center's Executive Director, home hemodialysis costs, including the costs of paid assistants, averaged about $107 per treatment, or about $18 less than the Method II payment limit proposed by HCFA.

Future Program Costs Could Increase Significantly

Based on data obtained from HCFA, as of March 1988, about 23 percent of home dialysis patients had Medicare payments made for them using Method II. However, as of June 1989, Method II patients had increased to about 34 percent of all home patients. If this trend continues with current Method II reimbursement levels, HCFA estimated that program costs could increase by an additional $600 million over a 5-year period.

Table 2 shows HCFA's estimated growth in program costs due to increases in the number of Method II home patients.

Table 2: HCFA's Estimated Growth in Program Costs Due to Increases in the Number of Method II Patients

Fiscal year	Number of patients	Inflation (percent)	Additional cost (millions)
1989	5,900	3.9	$50
1990	7,850	4.5	70
1991	10,800	5.2	100
1992	15,400	6.0	150
1993	22,700	5.0	230
Total			**$600**

HCFA's estimate was made before some carriers had reduced their Method II payment levels. However, there is nothing to prevent suppliers from establishing billing offices in those states that have not reduced payment levels. In fact, some out-of-state suppliers have requested and received supplier billing numbers from the Florida carrier.

Similarly, facilities that currently bill under Method I could establish supply subsidiaries in another state in order to take advantage of higher Method II payment levels. For example, the Executive Director of the Northwest Kidney Center told us that he, and other providers who have Method I home patients, would have a strong incentive to convert to Method II if the disparity between Method I and II payment levels continues.

Total Medicare Payments Are Higher for HIC Patients

HIC claims that its staff-assisted home dialysis program may be a cost-effective alternative to facility dialysis, primarily because it believes that its home patients require less hospital care and other health services. However, our analysis showed that average monthly Medicare payments, including dialysis costs, were about 35 percent higher for HIC's staff-assisted home patients than for the average of all facility patients treated at home or in a facility. Total Medicare payments for HIC and facility patients averaged about $3,013 and $2,228 per month, respectively. Total inpatient hospital costs were similar for both patient groups—HIC patients averaged about $624 per month in Medicare inpatient hospital costs, while facility patients averaged about $655. Our analysis does not factor in differences between the two patient groups, such as in age, sex, and race, that might account for some of the difference in average Medicare payments.

Early in 1989, HCFA completed an analysis of Medicare payments for patients receiving home and in-facility dialysis treatments. HCFA's analysis involved patients in 20 states and the District of Columbia and was based on 1984 through 1988 Medicare data. HCFA compared total Medicare payments for four dialysis patient groups: HIC's Method II staff-assisted home patients, other Method II home patients, Method I home patients, and facility patients. The HCFA analysis concluded that

- HIC patients cost Medicare more than their counterparts in facility settings or at home and that the cost differential between HIC and other patients may be increasing and
- there was no evidence of significant savings in inpatient care for HIC patients.

HIC Patients Generally Older, With More Males and Fewer Minorities

As of July 31, 1988, Florida had 4,640 hemodialysis patients who were being treated in facilities and 171 who were using HIC's staff-assisted home dialysis program. The average length of time on dialysis for HIC and facility patients was the same, 3.4 years. Table 3 summarizes the results of our comparison of selected characteristics for the two patient groups.

Table 3: Comparison of Selected Characteristics for HIC and Facility Dialysis Patients in Florida

	HIC patients (percent)	Facility patients (percent)
Race:		
White	64.9	46.7
Black	29.8	40.2
Other	5.3	13.1
Sex:		
Male	59.6	51.1
Female	40.4	48.9
Age:		
Under 25	1.8	2.5
25-34	7.0	6.9
35-44	11.1	10.0
45-54	12.9	13.8
55-64	11.7	23.3
65+	55.6	43.5

Conclusions

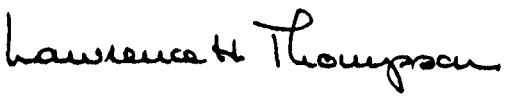
Medicare payments to HIC under Method II are much higher than payments dialysis facilities receive for serving home patients. In fact, payments to HIC are high enough to cover its costs of sending aides to assist patients in dialyzing at home, a service that is not authorized for payment under Medicare. Moreover, HIC's claim that Medicare's overall costs for its patients are lower than the total costs for facility patients was not substantiated by either our analysis or HCFA's.

Home dialysis patients need someone to assist them when they undergo hemodialysis, and the HIC-furnished aides fill that need. However, the paid aides would be in most cases a substitute for unpaid relatives or friends who normally assist patients. In some cases, patients may not have a family member or friend available who is willing and able to assist in dialysis. Furnishing a paid aide, as HIC does, would enable the patient to dialyze at home rather than in a facility. The question then becomes should Medicare pay twice as much per treatment to HIC to enable home dialysis for these patients. HIC receives $15,000 more per patient per year than a facility receives for treating a home patient. We believe this differential is not justified. This is especially true considering the fact that we identified a supplier, the Northwest Dialysis Center, that provides services similar to HIC's staff-assisted home dialysis program at about half the cost.

More patients are switching to Method II home hemodialysis. In addition, HCFA expects that some Method I providers will establish offices in states like Florida and Illinois to take advantage of the higher Method II payments unless the significant disparity between Method I and II payments is eliminated. If Method II payments are not reduced, ESRD program costs will probably increase significantly.

HCFA has published a proposed regulation that would limit payments under Method II to the amount paid under Method I. This would remove the incentive to use Method II and prevent Medicare costs from increasing based solely on where beneficiaries choose to obtain dialysis supplies and equipment. We support this proposed regulation.

As requested by your office, we did not obtain written comments on this report. Also as requested by your office, we will make no further distribution of this report for 30 days unless you publicly disclose its contents before then. At that time, we will send copies to the Secretary of Health and Human Services and other interested congressional committees and persons and will make copies available to others on request. Major contributors to this report are listed in appendix I.



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