

Change is Coming – Are You Ready

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NANT Symposium 2010

Agenda

- Review of ESRD Program History
- Costs of Caring for Patients – Medicare and other insurance providers
- Costs of Caring for Providers
- Reimbursement Past, Present and Future
- Other Issues facing the community
- What may the future hold

**“Those who do not
learn from history are
doomed to repeat it”**

George Santayana

Medicare End-Stage Renal Disease Program (ESRD) Inception

In 1972 Congress amended the Social Security Disability Act to allow individuals who are diagnosed with Chronic Renal Failure to be eligible for Social Security Disability benefits and Medicare benefits.

- Initial CBO estimates
 - 20,000 patients growing to 40,000
 - \$200 Million in costs growing to \$500 Million



End-Stage Renal Disease Benefit Qualifications

To Qualify for Social Security & Medicare benefits:

Patient, spouse or parent must have worked and paid into the Social Security System

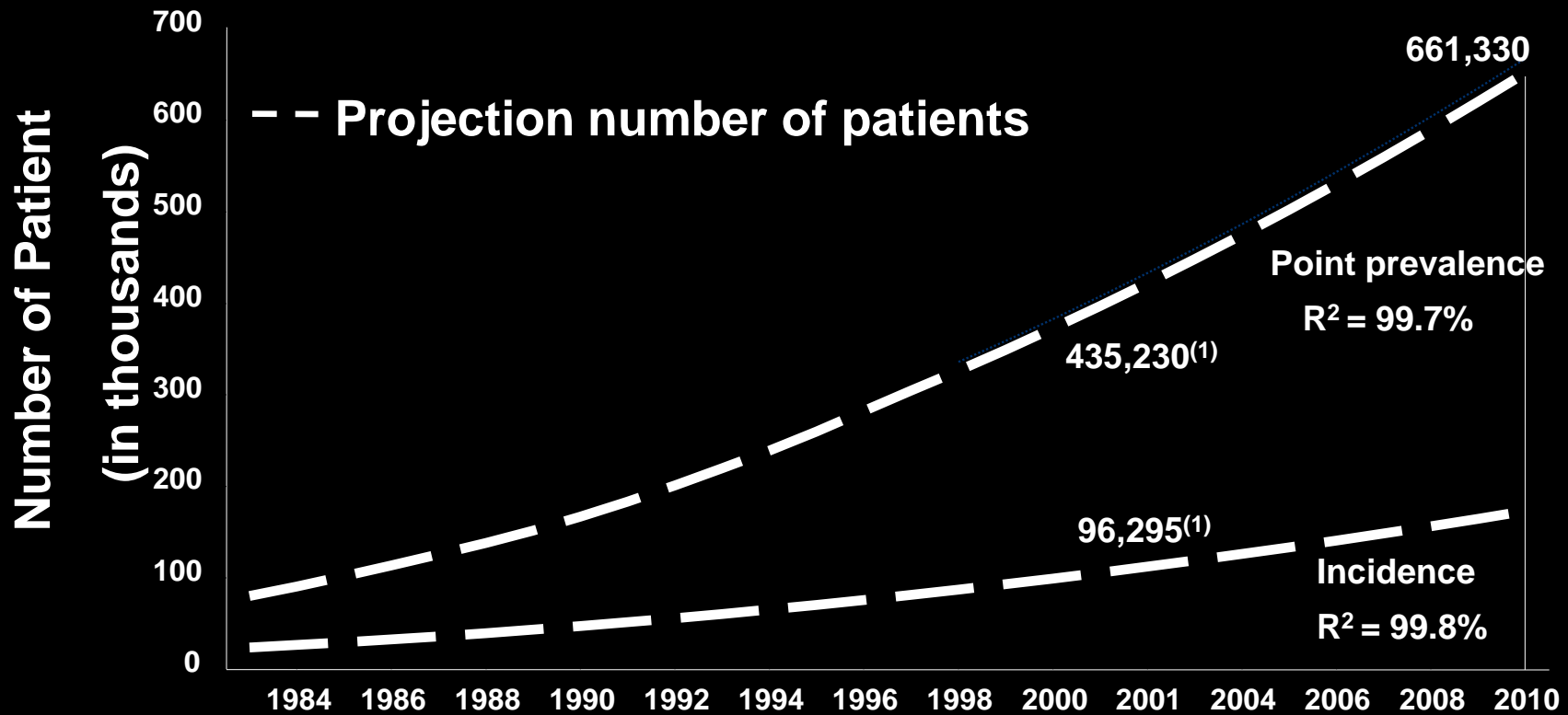
- Number of quarters to qualify for benefits depends on age
 - maximum of 40 quarters (10 years)

Facility & Nephrologist must submit medical evidence of chronic renal failure on CMS Form 2728
- Chronic Renal Disease Medical Evidence Report

Medicare ESRD Program Today

- 405,000 patients of which 335,000 are on dialysis
- Expenditures grew from \$5 Billion in 1991 to \$20 Billion in 2006
 - This rise is due to the growth in patients of approximately 4% per year.
 - If inflation is factored in addition to patient growth on a per patient basis the costs per patient declined by 0.8% per patient over this time
- The ESRD Patient Population is less than ½ of 1% of the Medicare beneficiaries yet uses 7.3% of the Medicare Budget

Number of Incident & Point Prevalent Patients *Projected to 2010*

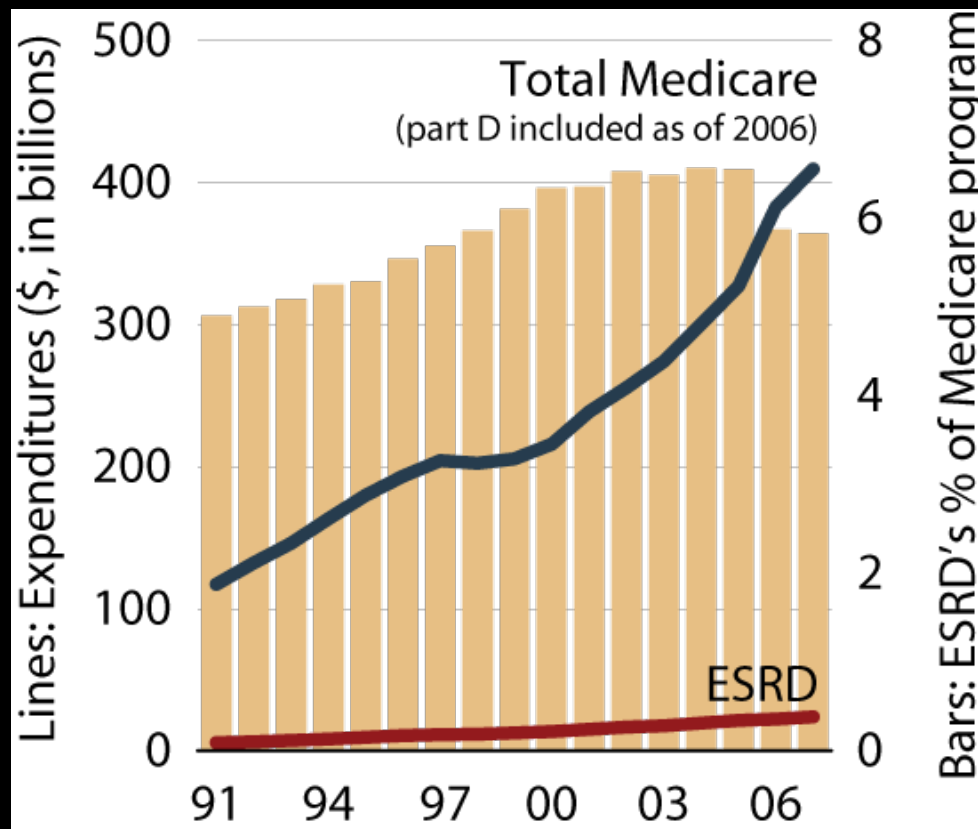


⁽¹⁾ *USRDS 2003 Annual Data Report*

Health Costs for Dialysis Patients

Costs of the Medicare & ESRD programs

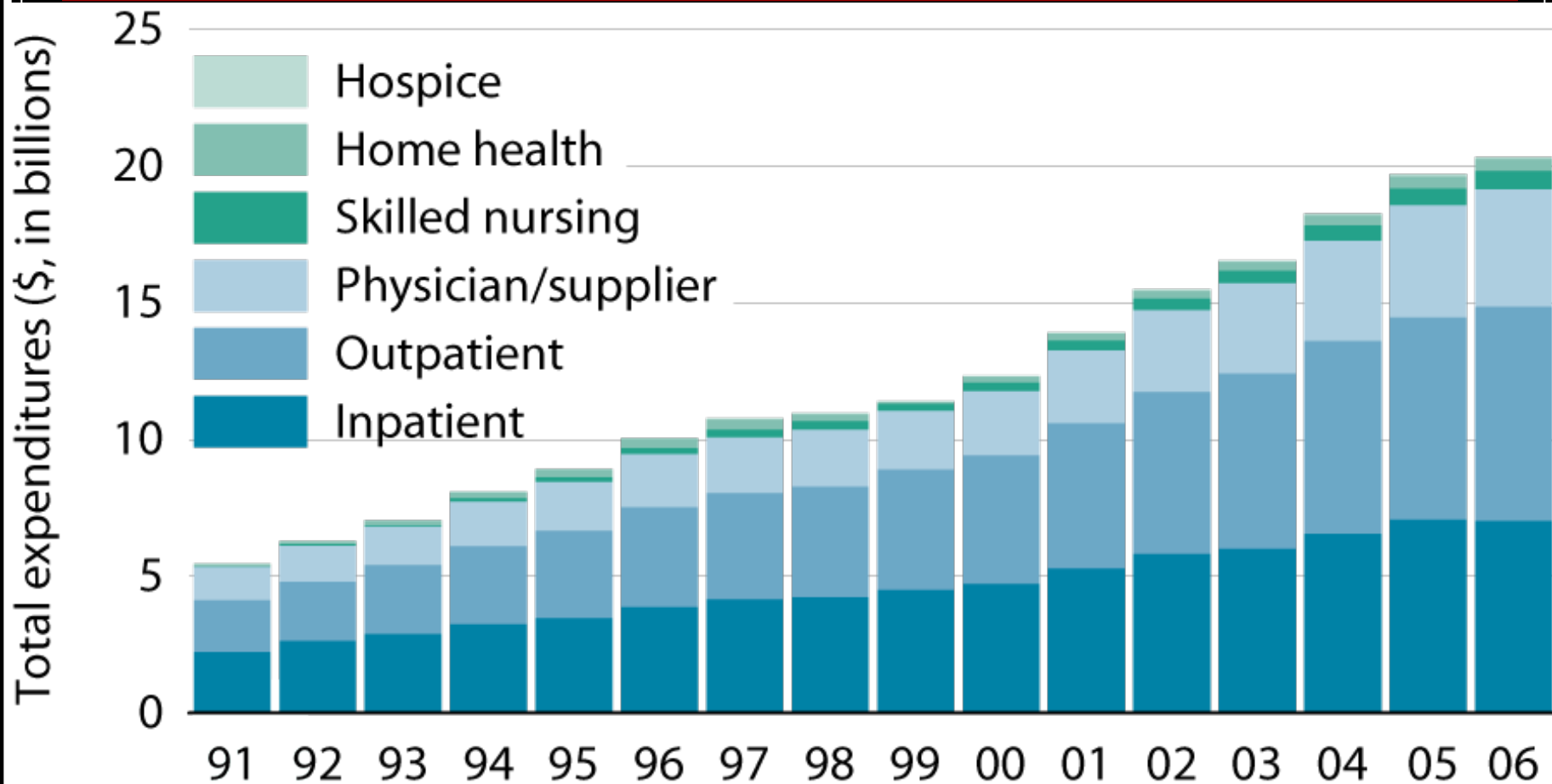
Figure 11.2 (Volume 2)



Total ESRD expenditures are from paid claims (Table K.2) as well as estimated costs for HMO & organ acquisition. ESRD costs in 2007 are inflated by 2 percent to account for costs incurred but not reported. Total Medicare expenditures obtained from the CMS Office of Financial Management, Division of Budget. Data for 2006 & 2007 include Part D amounts for total Medicare, but no Part D amounts for ESRD.

Total Medicare dollars spent on ESRD, by type of service

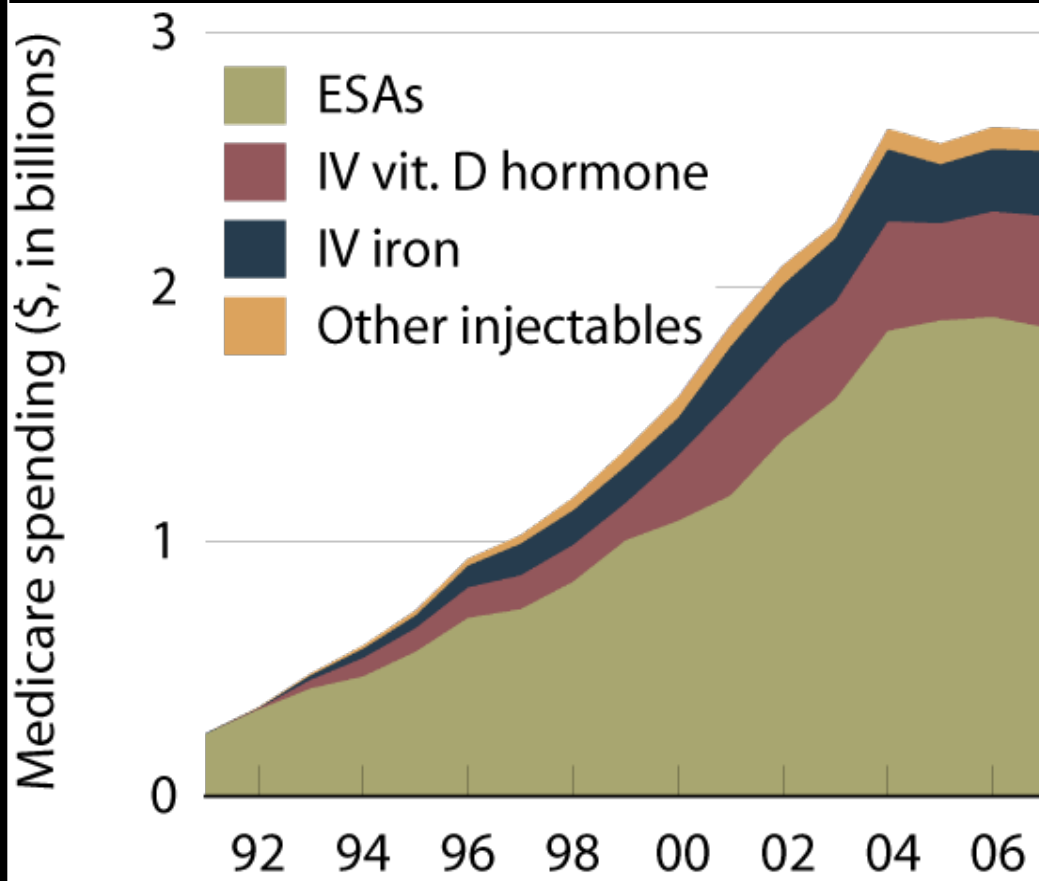
Figure 11.6 (Volume 2)



ESRD spending obtained from Medicare ESRD claims, & includes all Medicare as primary payor claims as well as amounts paid by Medicare as secondary payor.

Total Medicare spending on injectables

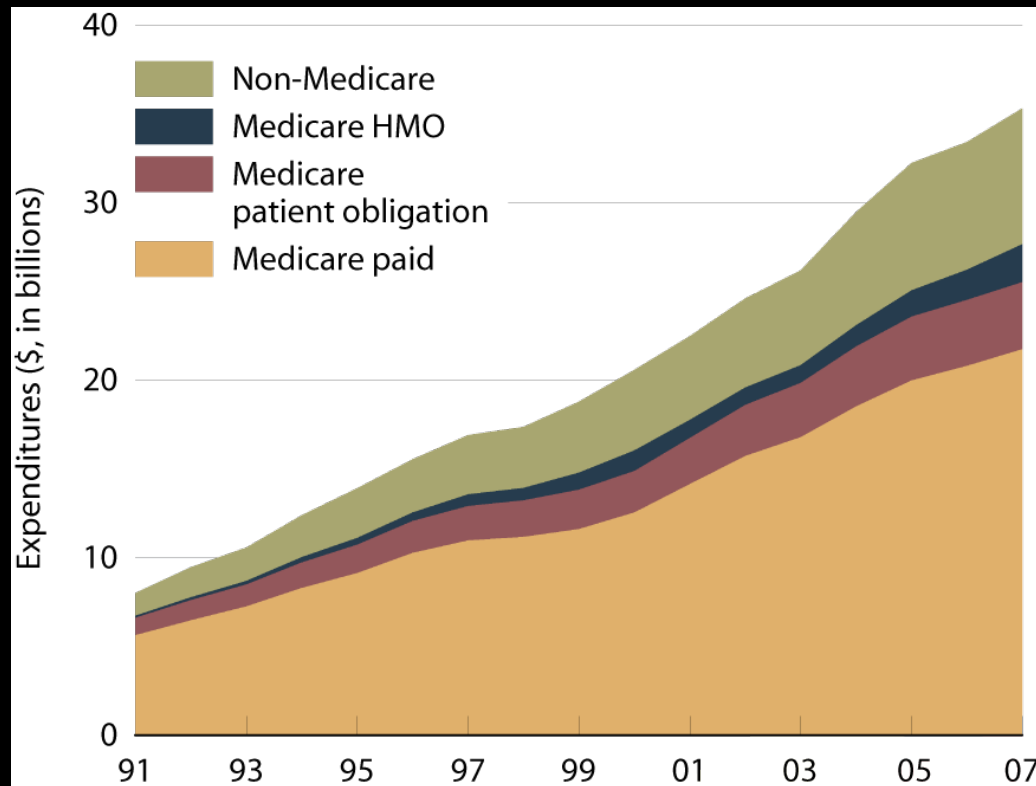
Figure 11.13 (Volume 2)



Period prevalent dialysis patients.
ESAs: erythropoiesis stimulating agents.

ESRD spending, by payor

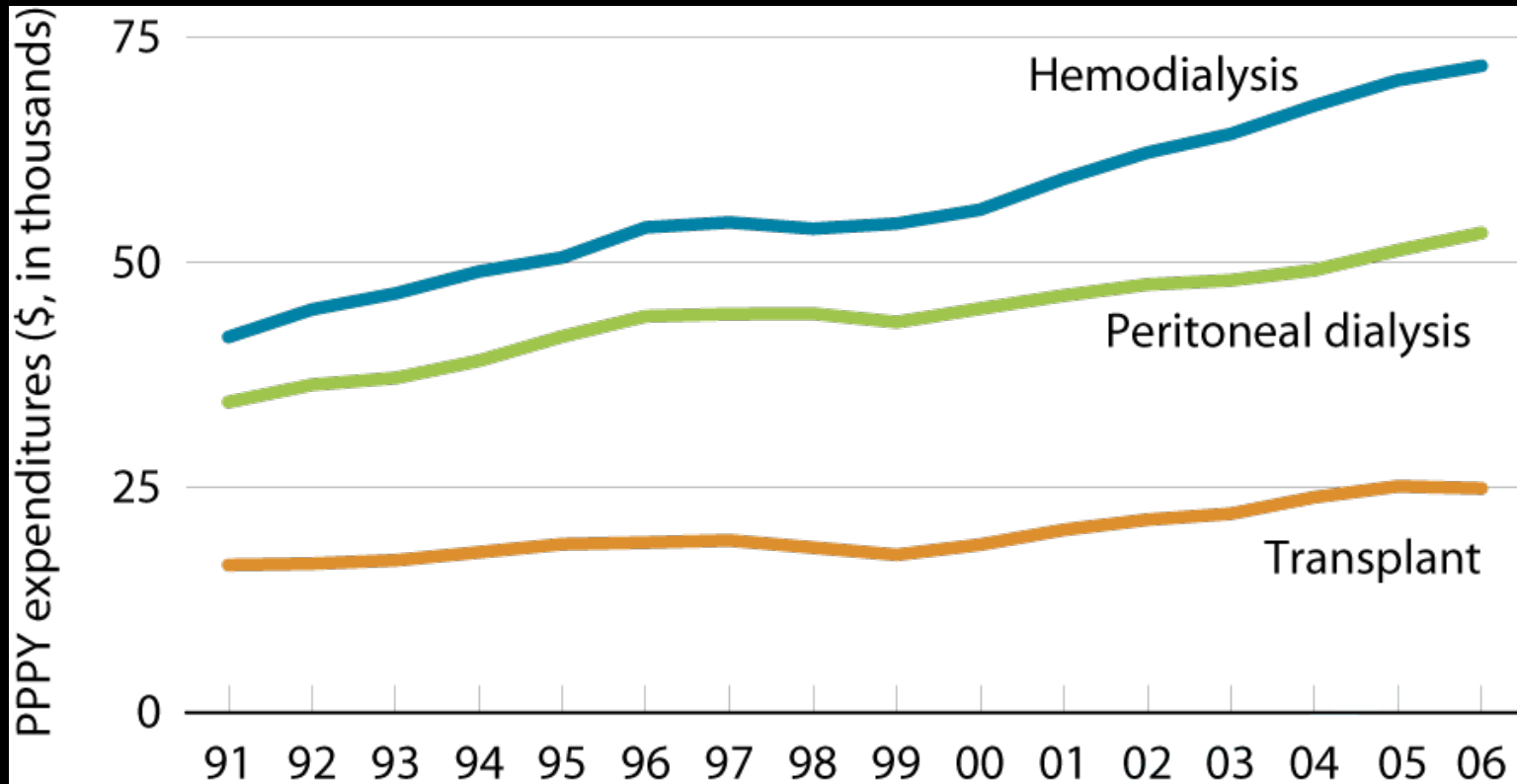
Figure 11.1 (Volume 2)



Medicare costs obtained from claims files, & include all Medicare as primary payor claims as well as amounts paid by Medicare as secondary payor (MSP). Medicare patient obligations estimated as the difference between the Medicare payment & the Medicare allowable cost, HMO costs estimated as the number of HMO months times the Medicare AAPCC rate, & organ acquisition costs estimated as \$25,000 per transplant. Non-Medicare estimate includes all non-Medicare patients (using AAPCC), the primary payor estimate for MSP patients, & estimated patient obligations.

Total Medicare expenditures per person per year, by modality

Figure 11.8 (Volume 2)



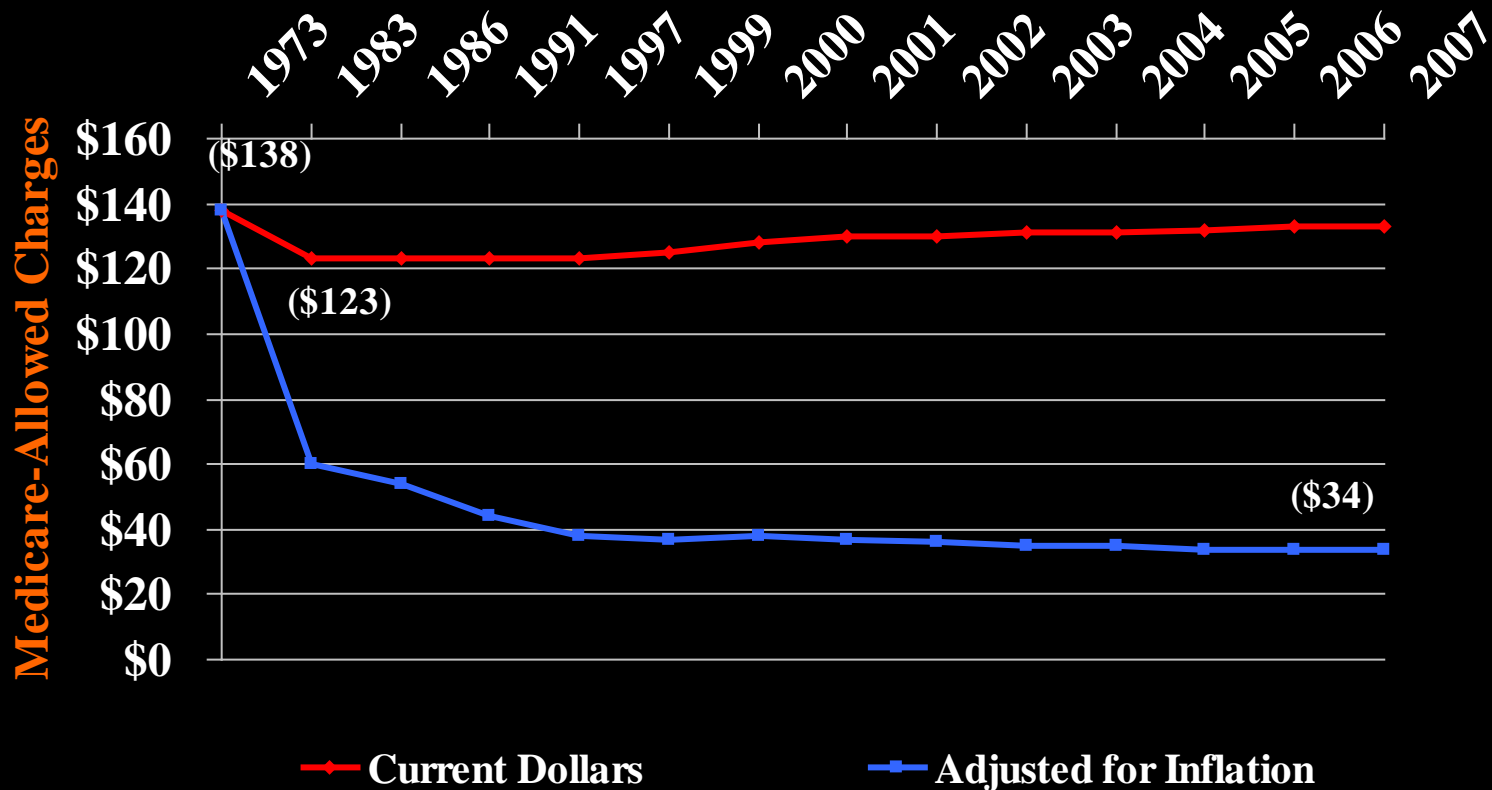
period prevalent ESRD patients. Modalities determined using Model 2 methodology; patients with Medicare as secondary payor excluded.

Major Changes to Medicare for ESRD

- 1972 Congress authorized the Medicare ESRD benefit
- 1983 HCFA implemented the composite rate system
 - Separately billable items and services currently paid outside composite payment system
- 2003-08 Secretary issued Reports to Congress describing an expanded bundle of services
- 2005 CMS implemented basic case-mix adjustments
- 2008 Medicare Improvements for Patients and Providers Act (MIPPA) enacted
- 2011 Expanded Bundled Rate per Treatment phase in starts

Reimbursement to Dialysis Providers

Average Medicare Payment Per Dialysis Treatment: 1973-2007



Source: Medicare Payment Advisory Commission

Source: GDP Inflation Calculator

What is reimbursed today

- Dialysis Treatment – case mix adjusted
 - Some medications, labs and other services included in composite rate starting in 1983
 - Age
 - Weight
 - Height
- Medications at ASP +6%
- Laboratory Tests

Future of Reimbursement

■ Cost Containment

- Increase the number of items and services included in the composite rate
- Poor outcomes penalty – loss of up to 2% of payment for 1 year
- Part D drugs included in the composite rate

Medicare Improvement for Patients and Providers Act (MIPPA)

- Comments on Proposed Rule - November 16, 2009 – Extended till December 15, 2009
- Take Effect on January 1, 2011
- Providers Options
 - All in – Accept Bundle on January 1, 2011 (36% estimated to do this by CMS)
 - Phase In
 - 25% New Rate and 75% Old Rate 2011
 - 50% New and 50% Old 2012
 - 75% New and 25% Old 2013
 - 100% New
- Payment per treatment

The Proposed ESRD PPS Bundle

- All composite rate services as of December 31, 2010
- ESRD drugs and biologics that are currently paid separately and some under part D
- Laboratory services currently administered for patients during dialysis treatments
- Labs for patients from nephrologists offices on those patients they receive a MCP
- Home dialysis and training – no more Method II
- “Blood Products” need to be defined

Part D Drugs included in composite rate

- Part D drugs add on to the composite rate:
 - Vitamin D Analogues
 - Calcitriol
 - Paracalcitol
 - Depxercalciferol
 - Calcimimetics
 - Cinacalcet Hydrochloride
 - Oral Phosphate Binders
 - Lantham Carbonate
 - Calcium Acetate
 - Sevelamer Hydrochloride
 - Sevelaer Carbonate
- \$14.00 per treatment add on to cover these = \$168 per month

Updates and Adjustments to the Base Rate

- Base \$261.58 unadjusted
- Standardization adjustment 0.7827 = \$204.74
- Outlier adjustment minus 1% = \$202.69
- Budget Neutrality Adjustment minus 3% = \$198.64
- Annual increase less 1% productivity adjustment to Market-basket adjustment

Case Mix Adjustments

- Patient Age
 - 18-44 = 19.4 % add on
 - 45-59 = 0% add on
 - 60-69 = 1.2% add on
 - 70-79 = 5.7% add on
 - 80+ = 7.6% add on

Case Mix Adjustment continued

- BSA = 3.4% cost/0.1m² increase from 1.87
- BMI = <18.5kg/m² 1.020 increase from 1.112
- Race not an adjustment but being considered
- Patient Sex = 13.2% add on for women

Case Mix Adjustment continued

- New Patient Adjustment = 47.3% add for the first 4 month
 - Stabilization need
 - Administrative and Labor cost
 - Initial Home Training
 - Adjustment for period of time of dialysis under the ESRD benefit

Case Mix Adjustment continued

- Co-morbid adjustments
 - Alcohol/drug dependence +15%
 - Cardiac Arrest +3.2%
 - Pericarditis (0-3 mos.) +19.5%
 - HIV/AIDS +31.6%
 - Hepatitis B +8.9%
 - Infection (0-3 mos.)
 - Septicemia +23.4%
 - Pneumonia/opportunistic infections +30.7%

Case Mix Adjustment continued

- Co-morbid adjustments
 - Gastrointestinal Tract Bleeding (0-3 mos.) +31.6%
 - Hereditary hemolytic or sickle cell anemia's +22.6%
 - Cancer since 1999 +12.8%
 - Myelodysplastic Syndrome +8.4%
 - Monoclonial Gammopathy +2.1%

Facility Level Adjustments

- Wage Area Index – eliminate the floor
 - Based on hospital wage index
 - Labor related share is 53.71% of whole
 - Wage area index budget neutrality – if we get \$1 some else loses a \$1
- Low Volume Adjustment – less than 3000 treatments per year +20.2%
 - Some other criteria will be used to verify

Facility Level Adjustments continued

- Elimination of Exception Requests
- Pediatric Patients
 - <13 or 13-17 with up to 2 co-morbid conditions
 - Capped at \$289.00 per treatment

Facility Level Adjustments continued

- Patient level eligibility
- Add on to per treatment payment amount
- Compare predicted and imputed payment amounts
- Imputed amounts $>$ predicted outlier services payment amount + outlier threshold (fixed dollar loss amount) would generate outlier payment
- Outlier Policy – high cost patients paid at 80% of additional costs
 - \$134.96 Adult
 - \$174.31 Pediatric
- Payment at 80% of additional costs

Market Basket Adjustment

- Use Hospital information as proxy for dialysis specific information on the following areas:
 - Wages
 - Supplies
 - Administrative overhead
 - Cost of capital

Quality Incentive in the ESRD Program

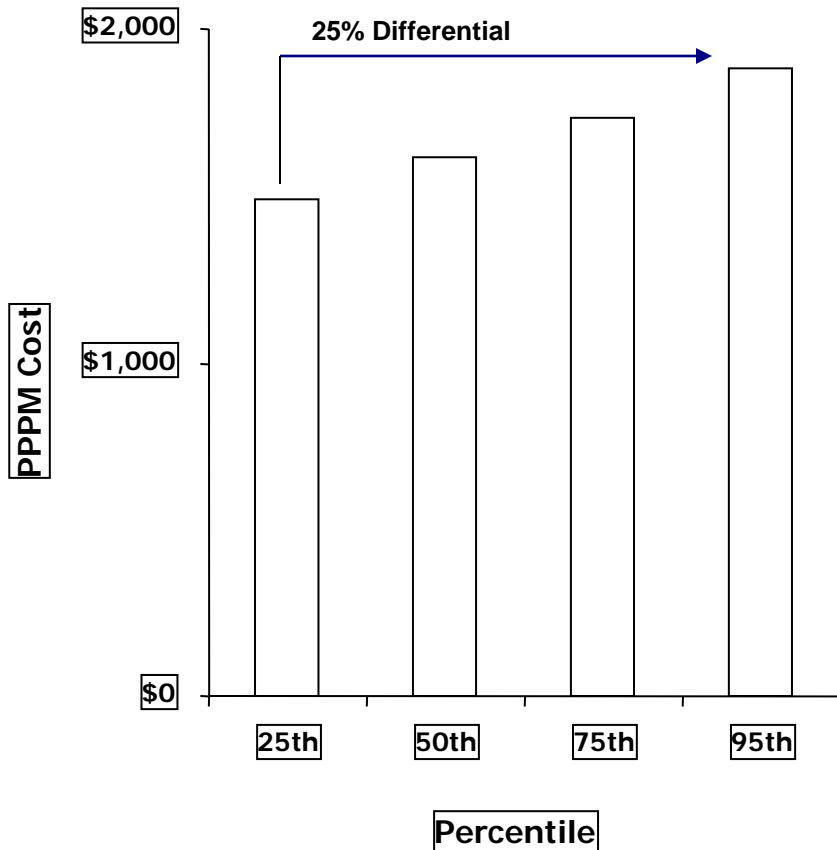
- Reduction of up to 2% for following year
- 2012 less of the
 - Provider/facility average results from 2008 claims data or
 - National average results from 2008 claims data
- Anemia
 - % less than 10
 - % greater than 12
- Adequacy % greater than 65%
- Weighted by 30 point system; examples 30 points 0% reduction, 20-22 points 0.5% reduction, 4-6 points 1.5% reduction

Bundling Concerns

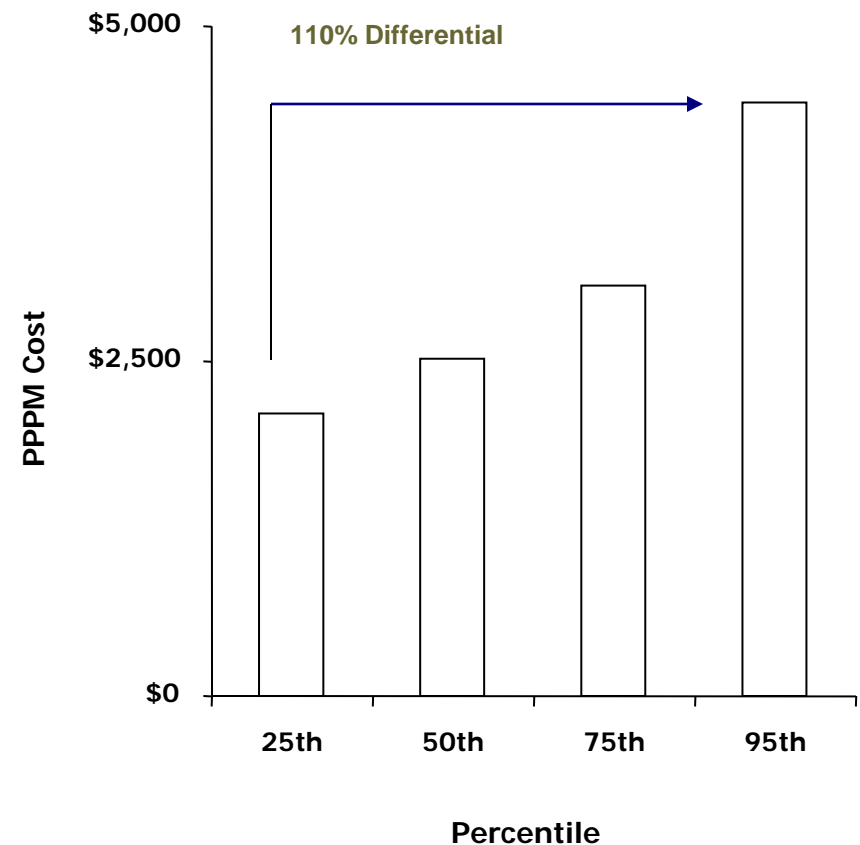
- Composite Rate history shows that the dialysis provider has not been treated fairly
- Current case mix has no basis in reality for the dialysis providers
- Wide variety of medication and lab use among patients makes rate setting difficult
- Average size facilities; 50-60 patients, unable to absorb risk
- Some patients could have difficulty being placed due to cherry-picking

Source: Advisory Board on the Demonstration of a Bundled Case-Mix Adjusted Payment System for End-Stage Renal Disease Services; May 24, 2005 "Descriptive Statistics on Possible Bundle Definitions"

Composite Rate

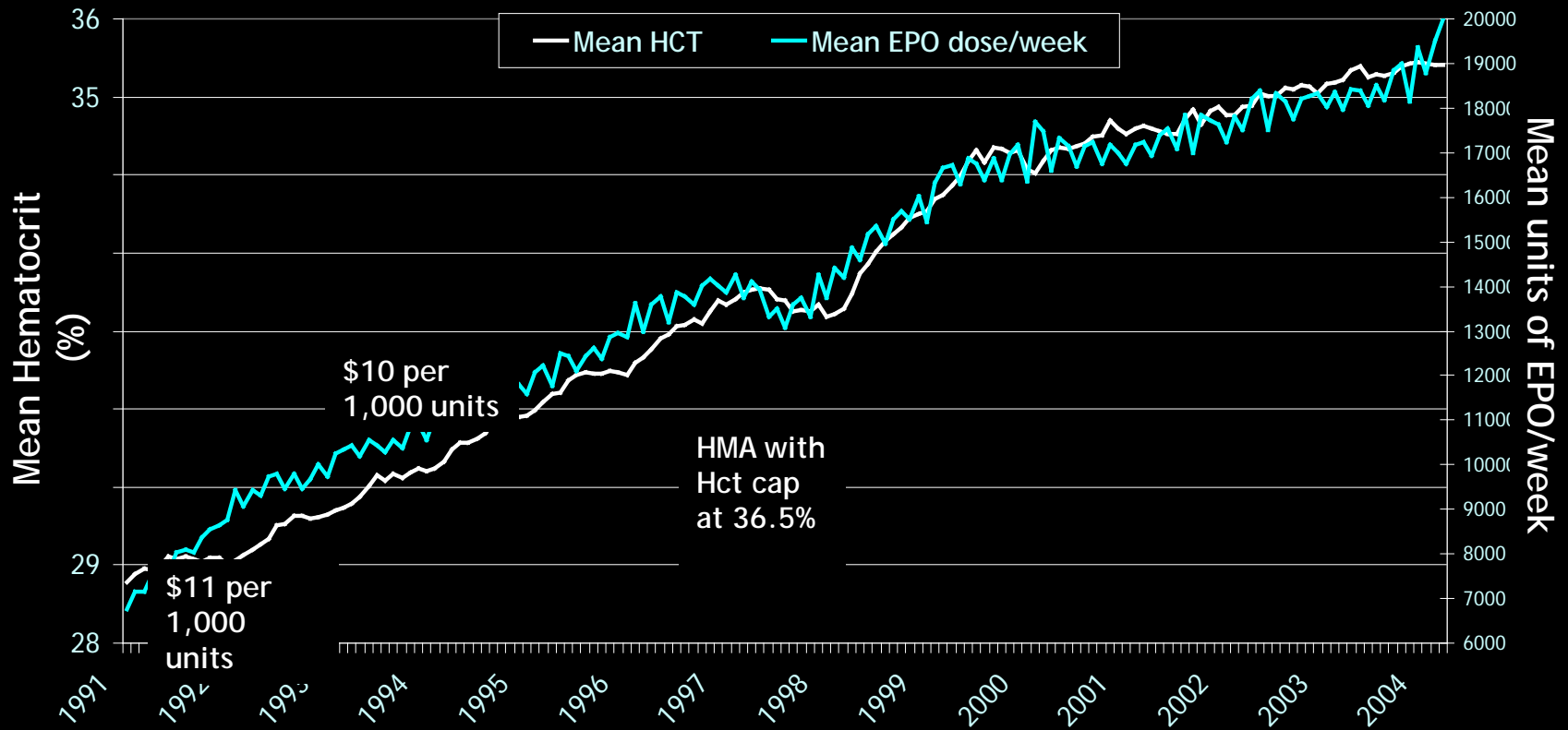


Composite Rate & Major Drugs



Historical Impact of Reimbursement Policy on Patient Outcomes

Mean HCT and EPO Dose per Week,
By Month, January 1991 - March 2004



Potential Impact on Providers

- Movement of services from revenue generation to cost of care
- Concern for cherry picking patients
 - 80% payment of outlier cost
- Impact of adding Part D Drugs to the bundled rate at \$14 per treatment – averages calculated between \$28 - \$54 per treatment in actuality

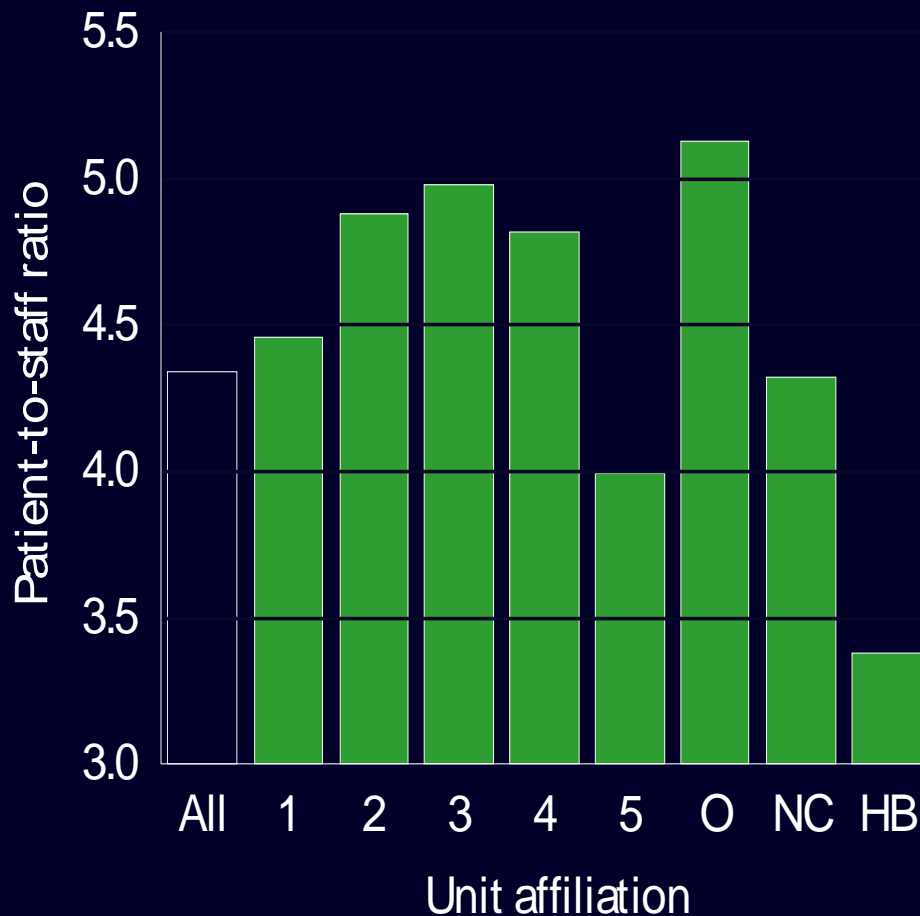
Changes in the Face of the ESRD Industry

Perfect Storm for Dialysis Providers

- Reimbursement Changes – MIPPA's Expanded Bundle per Treatment
- Crown Web – data submission on every patient per month
- Conditions for Coverage Changes
 - Life Safety Codes

Patient-to-staff ratios, by unit affiliation

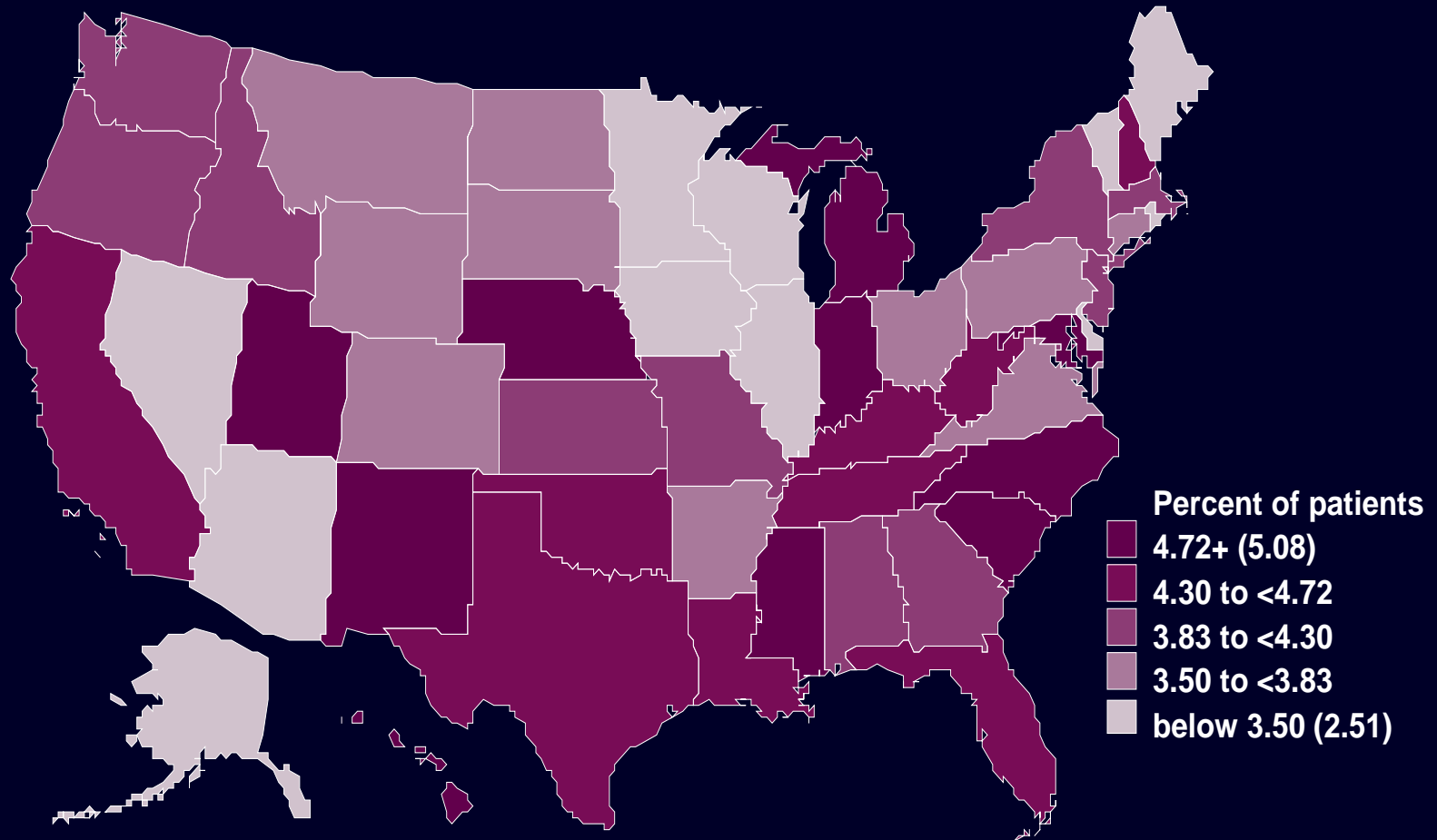
figure 11.20, dialysis patients, 2000



All · All units
Chain 1 · Fresenius
Chain 2 · Gambro
Chain 3 · DaVita
Chain 4 · Renal Care Group
Chain 5 · Dialysis Clinics, Inc.
O · All other chain-affiliated units
NC · Non-chain units
HB · Hospital-based units
U · Unknown affiliation

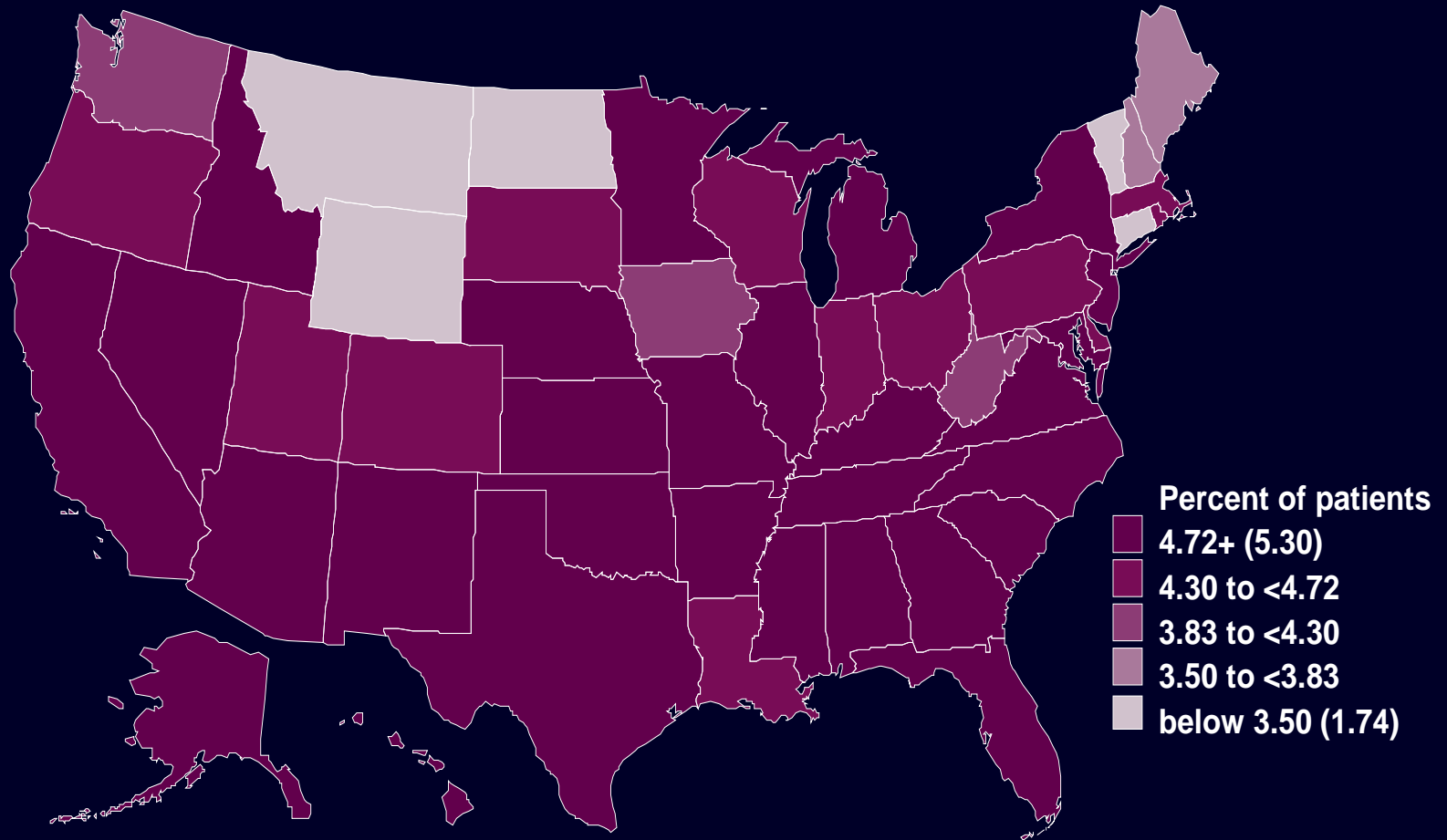
Geographic variations in patient-to-staff ratios: non-profit units

figure 11.21, dialysis patients, by state, unadjusted



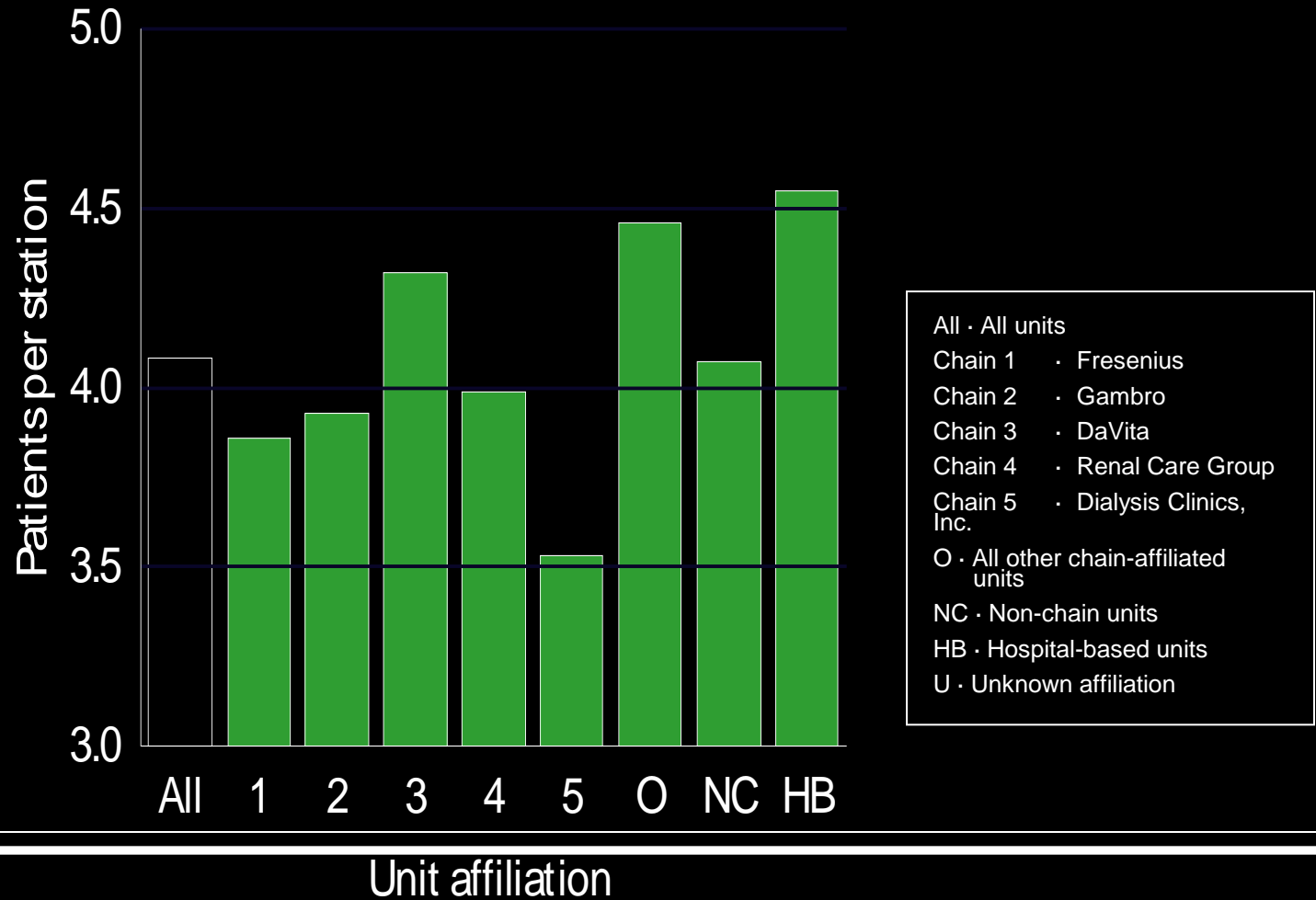
Geographic variations in patient-to-staff ratios: for-profit units

figure 11.21, dialysis patients, by state, unadjusted



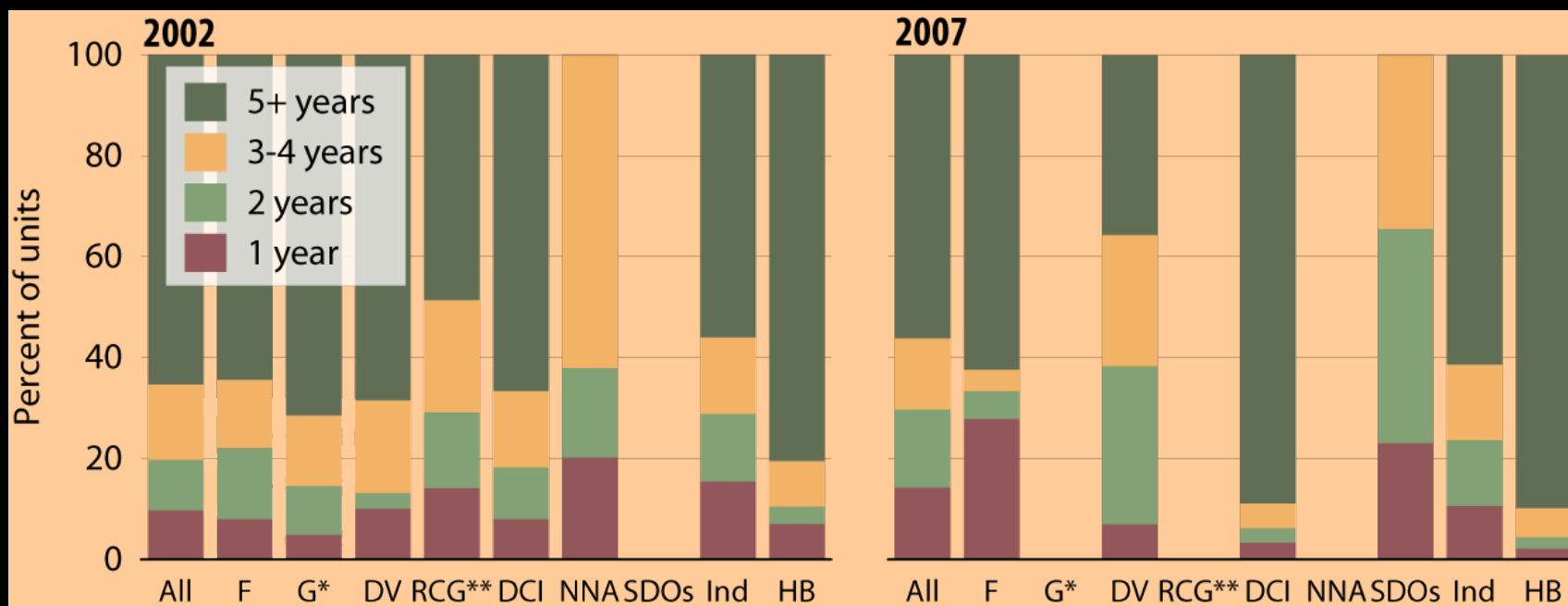
Number of hemodialysis patients per station

figure 11.19, 2000



Dialysis unit distribution, by affiliation & time managed (time under chain ownership)

Figure 10.4 (Volume 2)



CMS Annual Facility Survey.

All All units **F** Fresenius **G*** DaVita/Gambro (Gambro units were purchased by DaVita in October, 2005) **DV** DaVita **RCG**** Renal Care Group (RCG units purchased by Fresenius during 2006) **DCI** Dialysis Clinic, Inc. **NNA** National Nephrology Associates **SDOs** Small dialysis organizations (defined as 20–99 dialysis units; unit classification assigned by the USRDS, & not used prior to 2005) **Ind** Independent units **HB** Hospital-based units

What can we expect

- Uncertainty as we await the final regulations
 - How much time to change our medical records, billing practices and systems to handle this change
- A little chaos as this is integrated into our payment system
- Winners and losers – some programs that are very small will lose out and sell or close
- Providers will look at cost cutting measures – supplies, medications and staffing will be areas examined

What can you do

- Make sure everyone is aware of these changes and their potential impact
- Support positions of the various associations that commented on these regulations
 - Use CapWiz or other ways of talking to your Congressional Representatives

**“History is a pack of lies
about events that never
happened told by people
who weren't there”**

George Santayana

Questions?

