Improving Medicare's end-stage renal disease prospective payment system

Nancy Ray and Andy Johnson

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MEDPAC

Presentation overview

- Overview of how Medicare pays for new dialysis drugs
- Policy option: Eliminate the transitional drug add-on payment adjustment (TDAPA) for new drugs in an existing ESRD functional category
- Overview of how Medicare pays dialysis facilities that are low-volume and located in rural areas
- Policy option: Replace the low-volume and rural payment adjustments with a single payment adjustment that targets low-volume and isolated facilities
- Draft recommendations

TDAPA depends on whether new ESRD drug is in one of eleven existing functional categories

New ESRD-related drugs that:	Are *not* in an existing functional category	*Are* in an existing functional category
Initial policy year	2016	2020
How is payment set?	ASP	ASP
Length of add-on payment period	At least 2 years	2 calendar years
Is the ESRD PPS base rate updated at end of add-on payment period?	Yes	No

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Transitional drug add-on payment adjustment (TDAPA). Average sales price (ASP). Prospective payment system (PPS).

Issues with the TDAPA policy for new drugs in an existing ESRD functional category

- Paying separately for drugs in a functional category temporarily unbundles the ESRD bundle
  - Inhibits competition among drugs in the same functional category
  - Fails to provide an incentive to reduce new drug launch prices
- TDAPA payment is duplicative of bundled payment
  - TDAPA covers full cost of the new drug in addition to the payment for the functional category already included in the base rate
  - Paying TDAPA on a per unit basis in addition to the bundle increases the incentive to provide TDAPA-covered drugs and may promote their overuse

Policy: Eliminate the TDAPA for new drugs in an existing ESRD functional category

- At market entry, new ESRD drugs in an existing functional category would be included in the payment bundle
- No concurrent update to the base payment rate
- Monitor payment adequacy of Medicare's ESRD payments to identify need for rebasing
- Maintain the TDAPA for:
  - New drugs that do not fit into an ESRD functional category
  - Calcimimetics

Draft recommendation 1

- The Congress should direct the Secretary to eliminate the end-stage renal disease (ESRD) prospective payment system's transitional drug add-on payment adjustment for new drugs in an existing ESRD functional category.

Preliminary and subject to change.

Draft recommendation 1: Implications

- Spending: Estimated to decrease program spending by $250M to $750M over 1 year and by $1B to $5B over 5 years relative to current policy
- Beneficiaries and providers:
  - Would generate savings for beneficiaries through lower cost sharing
  - Not expected to affect beneficiaries' access to needed medicines
  - Would reduce future payments to dialysis facilities
  - Continued provider willingness and ability to care for beneficiaries

Preliminary and subject to change.

Current low-volume payment adjustment (LVPA) does not target isolated and low-volume facilities

- Current LVPA:
  - Increases base rate of eligible facilities by 23.9 percent
  - Eligible facilities furnish fewer than 4,000 treatments in each of the 3 years prior to the payment year in question
  - Distance to nearest facility only considered for facilities under common ownership if within 5 miles of each other
- Concerns with design of LVPA:
  - Single threshold may encourage limiting treatment or inaccurate reporting
  - Does not address higher costs at facilities with 4,000 to 6,000 treatments
  - Does not target isolated facilities; 40 percent within 5 miles of another facility

Estimates are preliminary and subject to change.
Source: MedPAC analysis of claims and cost reports submitted by dialysis facilities to CMS, CMS's Dialysis Facility Compare file, and CMS's impact analysis for the calendar year 2019 ESRD PPS final rule.

Rural adjustment does not target low-volume and isolated facilities

- In 2017, 18 percent of facilities received a 0.8 percent increase to their base rate for being located in a rural area
- Concerns with rural adjustment
  - About 30 percent of rural facilities were located within 5 miles of the nearest facility
  - About 50 percent of rural facilities were higher-volume, furnishing more than 6,000 treatments

Source: MedPAC analysis of claims and cost reports submitted by dialysis facilities to CMS, CMS's Dialysis Facility Compare file, and CMS's impact analysis for the calendar year 2019 ESRD PPS final rule. Data are preliminary and subject to change.

Policy: Replace the current low volume and rural payment adjustments with a single adjustment

- The low-volume and isolated (LVI) payment adjustment would target facilities that are both low-volume and isolated
- To model the LVI adjustment:
  - Facility must be isolated
    - Farther than 5 miles from nearest facility (regardless of ownership)
  - Facility must exhibit low volume over three preceding years
    - Provide up to 6,000 treatments per year

Draft recommendation 2

- The Secretary should replace the current low-volume and rural payment adjustments in the end-stage renal disease prospective payment system with a single adjustment for dialysis facilities that are isolated and consistently have low volume, where low volume criteria are empirically-derived.

Draft recommendation 2: Implications

- Spending: Estimated to be budget neutral with current policy.
- Beneficiaries and providers: Enhances beneficiaries' access to care at low-volume, isolated facilities. Not expected to affect providers' willingness or ability to serve beneficiaries.
  - Payments would increase or remain the same for low-volume, isolated providers that are necessary for maintaining access to dialysis treatment.
  - Payments would decrease for low-volume providers and rural providers that are in close proximity to another provider and for high-volume, rural providers.

Preliminary and subject to change.

Draft recommendations

- The Congress should direct the Secretary to eliminate the end-stage renal disease (ESRD) prospective payment system's transitional drug add-on payment adjustment for new drugs in an existing ESRD functional category.
- The Secretary should replace the current low-volume and rural payment adjustments in the end-stage renal disease prospective payment system with a single adjustment for dialysis facilities that are isolated and consistently have low volume, where low volume criteria are empirically-derived.
- Analyses will be included in a June 2020 chapter on ESRD PPS design issues