



*Advising the Congress on Medicare issues*

# Assessing payment adequacy: outpatient dialysis services

Nancy Ray

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# Background

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- Outpatient dialysis services used to treat individuals with end-stage renal disease in 2011
  - Beneficiaries: About 365,000
  - Providers: About 5,600
  - Medicare spending: \$10.1 billion
- Agenda
  - Overview of modernized payment method
  - Payment adequacy analysis

# Modernized PPS began in 2011

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- Expands the payment bundle
  - Composite rate services
  - Part B dialysis injectable drugs and their oral equivalents
  - ESRD-related laboratory services
  - Selected Part D drugs
- Adjusts for beneficiary characteristics
  - Age and body mass
  - 3 chronic and 3 acute comorbidities
  - Dialysis onset

# Key features of the new PPS

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- Adjusts for low volume
  - Based on total number of treatments
  - Increases base payment rate by 18.9 percent
- Includes an outlier policy
  - Portion of bundle that was previously separately billable
- Links payment to quality began in 2012
- Provides for a four-year transition

# Issues with new PPS

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- Outlier payments
- Case-mix adjusters
- Declining per capita use of dialysis injectable drugs
- Design of the low-volume adjuster does not consider the distance to the nearest facility
  - About 42% of all low-volume facilities are within 5 miles of another facility

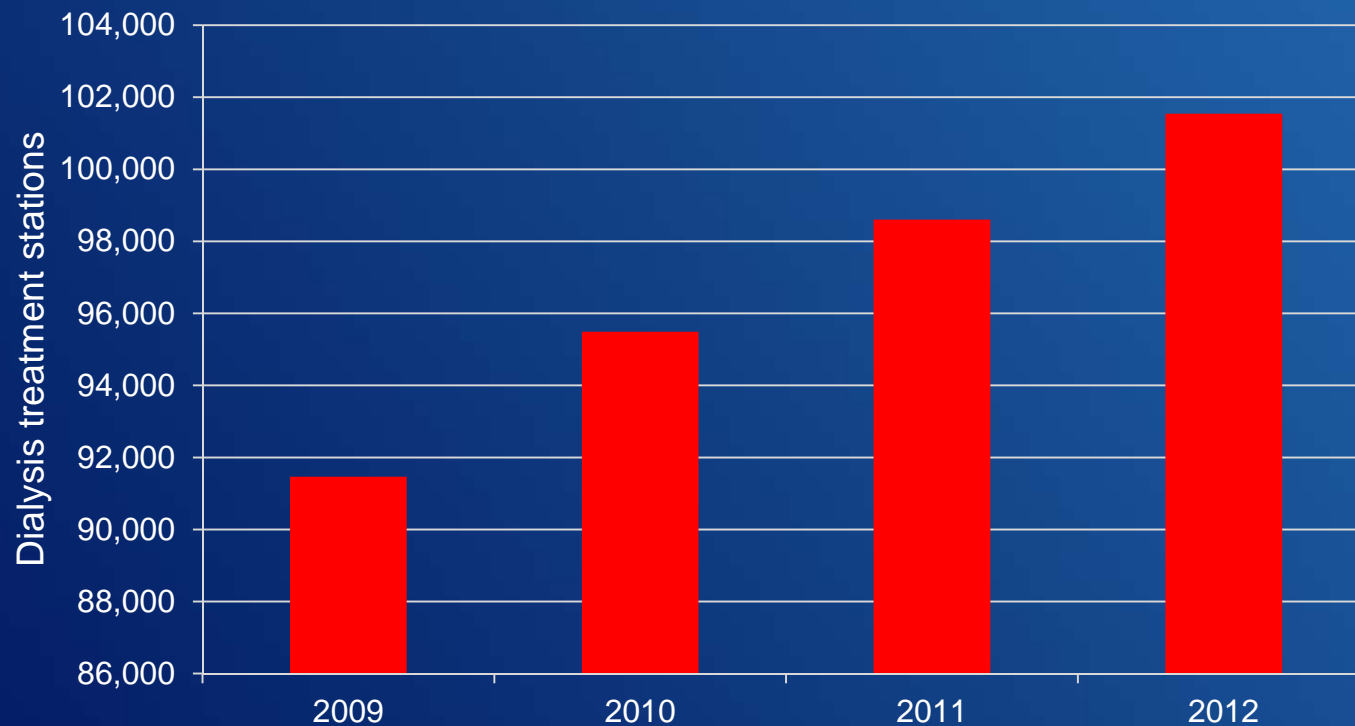
# Payment adequacy factors

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- Beneficiaries' access to care
  - Supply and capacity of providers
  - Volume of services
- Changes in the quality of care
- Providers' access to capital
- Payments and costs

# Dialysis capacity growing on average by 4 percent per year

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Data are preliminary and subject to change.

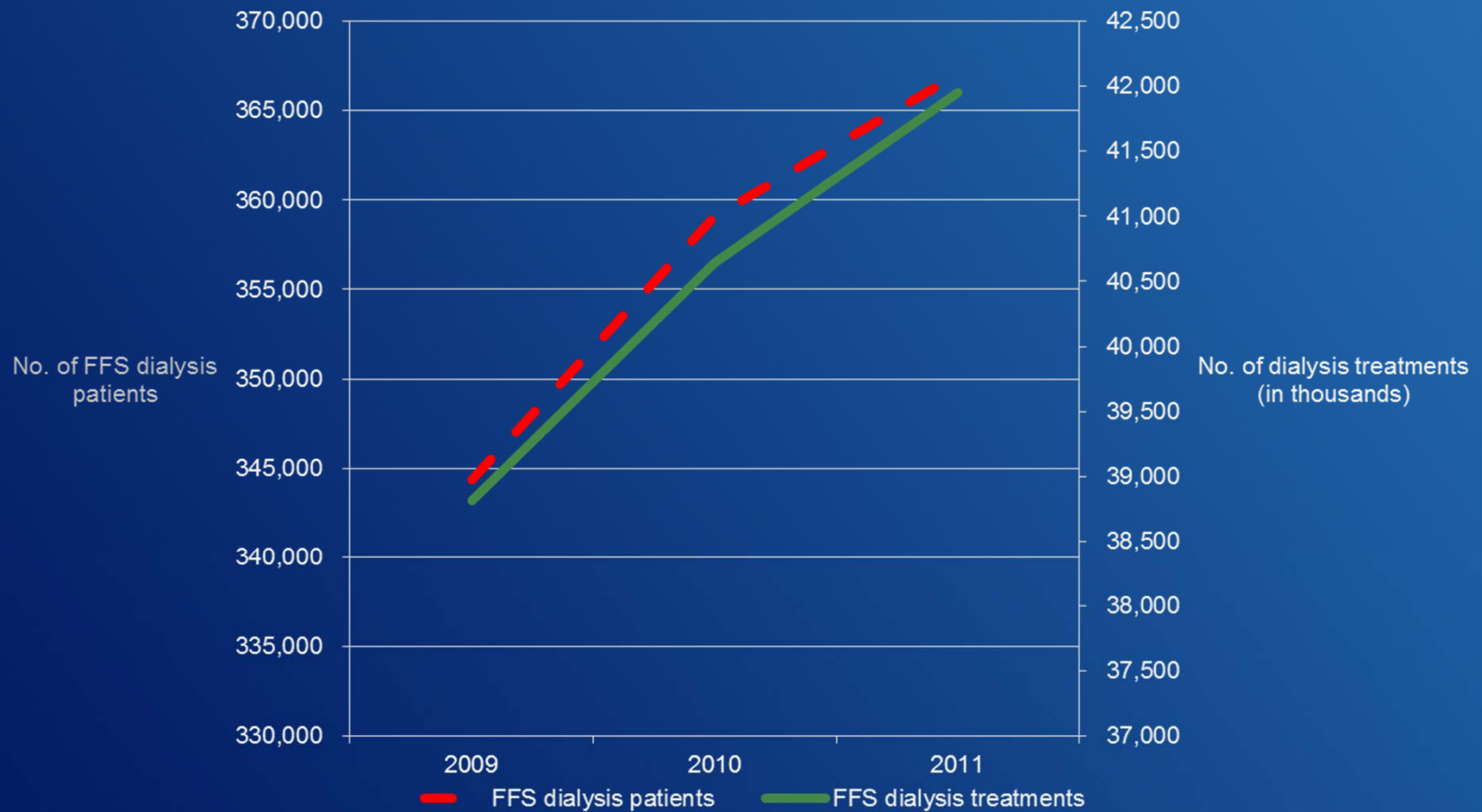
# Facility closures

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- Facility closures in 2010—linked to size and facility type
- Few beneficiaries (about 3,800) affected by closures
- Few differences in patients' characteristics in closed facilities compared to all other facilities
- Analysis suggests that beneficiaries affected by closures received care at other facilities

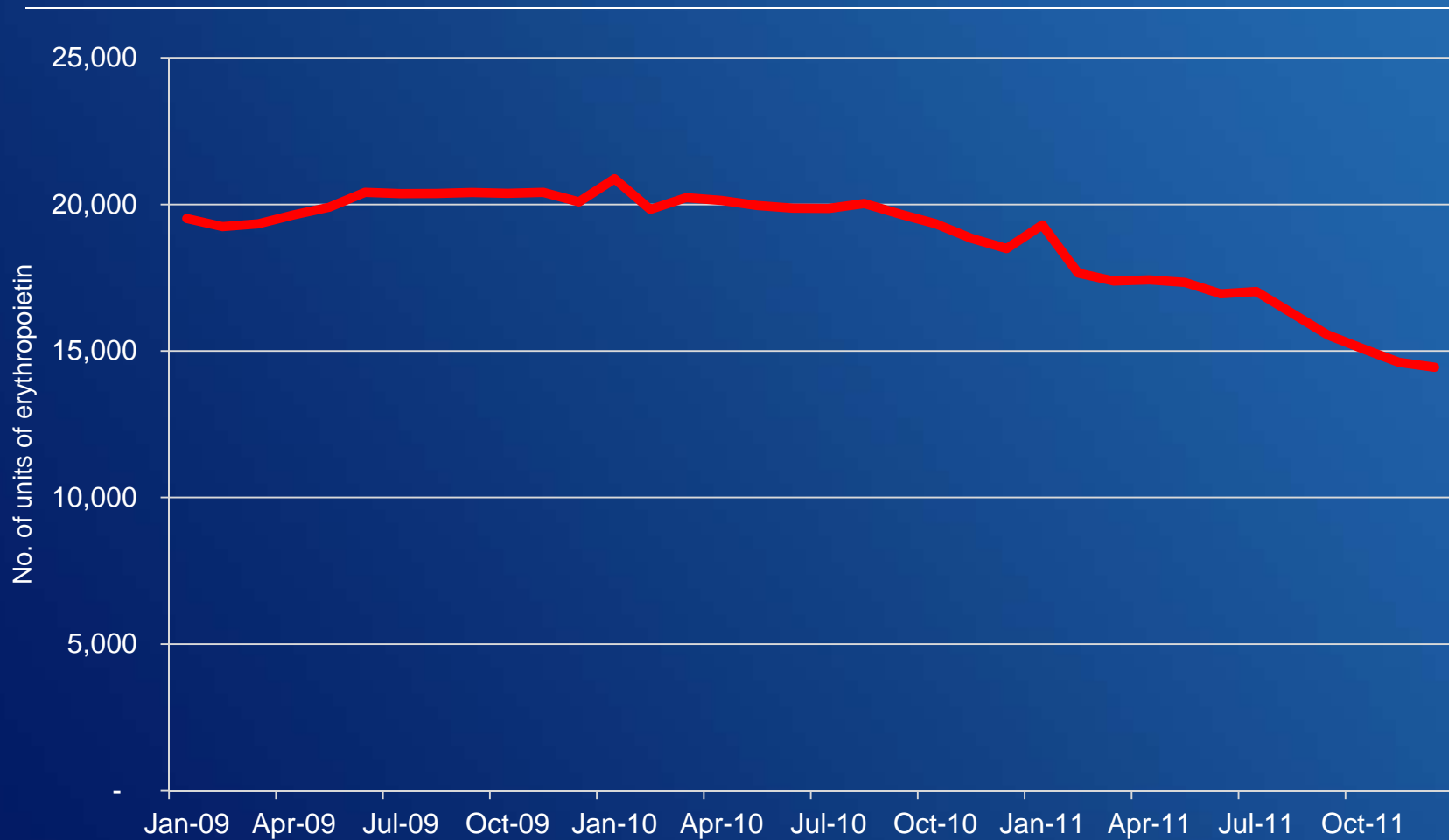


# FFS dialysis patients matches growth in FFS treatments



Data are preliminary and subject to change.

# Change in erythropoietin use, 2009-2011



MedPAC analysis of mean dose per beneficiary per week using 2009-2011 claims submitted by freestanding dialysis facilities to CMS. Data are preliminary and subject to change.

# Five-year trend in dialysis quality

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- Indicators high or improving:
  - Dialysis adequacy, use of AV fistula, nutritional status
- Indicators need improvements
  - Rates of hospitalization, rates of mortality, proportion of patients registered on the kidney transplant list and rate of kidney transplantation

# Dialysis quality since implementation of the modernized PPS

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- Rates of mortality, hospitalization and ED use high but steady
- Anemia management outcomes:
  - Increasing proportion of patients with lower hemoglobin levels
  - Rate of blood transfusions small increase

# Providers' access to capital

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- Increasing number of facilities that are for-profit and freestanding
- Both large and small chains have access to private capital to fund acquisitions

# Outpatient dialysis Medicare margins

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- Estimated 2011 Medicare margin
  - 2 to 3 percent

Data are preliminary and subject to change.

# How should Medicare's payments change in 2014?

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- CMS's latest forecast for price inflation for goods and services associated with the ESRD payment bundle is 2.8%
- ESRD update is subject to a multifactorial productivity adjustment of 0.4 percent
- In 2014, the year of the recommendation, CMS projected that the QIP would decrease total ESRD payments by about 0.3 percent