

Advising the Congress on Medicare issues

Assessing payment adequacy: outpatient dialysis services

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Background

- Outpatient dialysis services used to treat individuals with end-stage renal disease
- Agenda
 - Overview of new payment method
 - Payment adequacy analysis

Key features of the new PPS that begins in 2011

- Expands the payment bundle
 - Composite rate services
 - Part B dialysis 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 that begins in 2011

- Adjusts for low volume
 - Based on total number of treatments
- Includes an outlier policy
 - Portion of bundle that was previously separately billable
- Provides for a four-year transition
- Applies budget-neutrality adjustments
 - MIPPA: 2 percent reduction
 - Transitional budget-neutrality adjustment

Key features of the new PPS that begins in 2011

- Annually updates the payment rate
 - Implemented by MIPPA, modified by PPACA: market basket less productivity factor
- Links payment to quality
 - Medicare's first quality incentive program
 - 2 percent withhold
 - Uses clinical performance outcomes that dialysis facilities submit on claims

Issues with new PPS

- Limited information on Dialysis Compare
 - Expand available facility-level information on ESRD-related clinical outcomes, rates of hospitalizations and ED visits, and facilities' compliance with Medicare's health standards
- Implementing the transitional budget-neutrality adjustment
 - CMS estimated 43% of facilities would opt into the new PPS but industry reports are higher
- Calculating the ESRD market basket
 - OIG concerns about using the PPI as a proxy for the growth in dialysis drug prices

Payment adequacy factors

- Beneficiaries' access to care
 - Supply and capacity of providers
 - Beneficiary-level indicators
 - Volume of services & Medicare expenditures
- Changes in the quality of care
- Providers' access to capital
- Payments and costs

Dialysis sector continues to grow

- Net increase of about 250 facilities between 2008 and 2009
- Increasing proportion of facilities are freestanding and for profit
- About 60 percent of all facilities and 70 percent of freestanding facilities are affiliated with 2 large national chains

Rural and urban facilities continue to grow

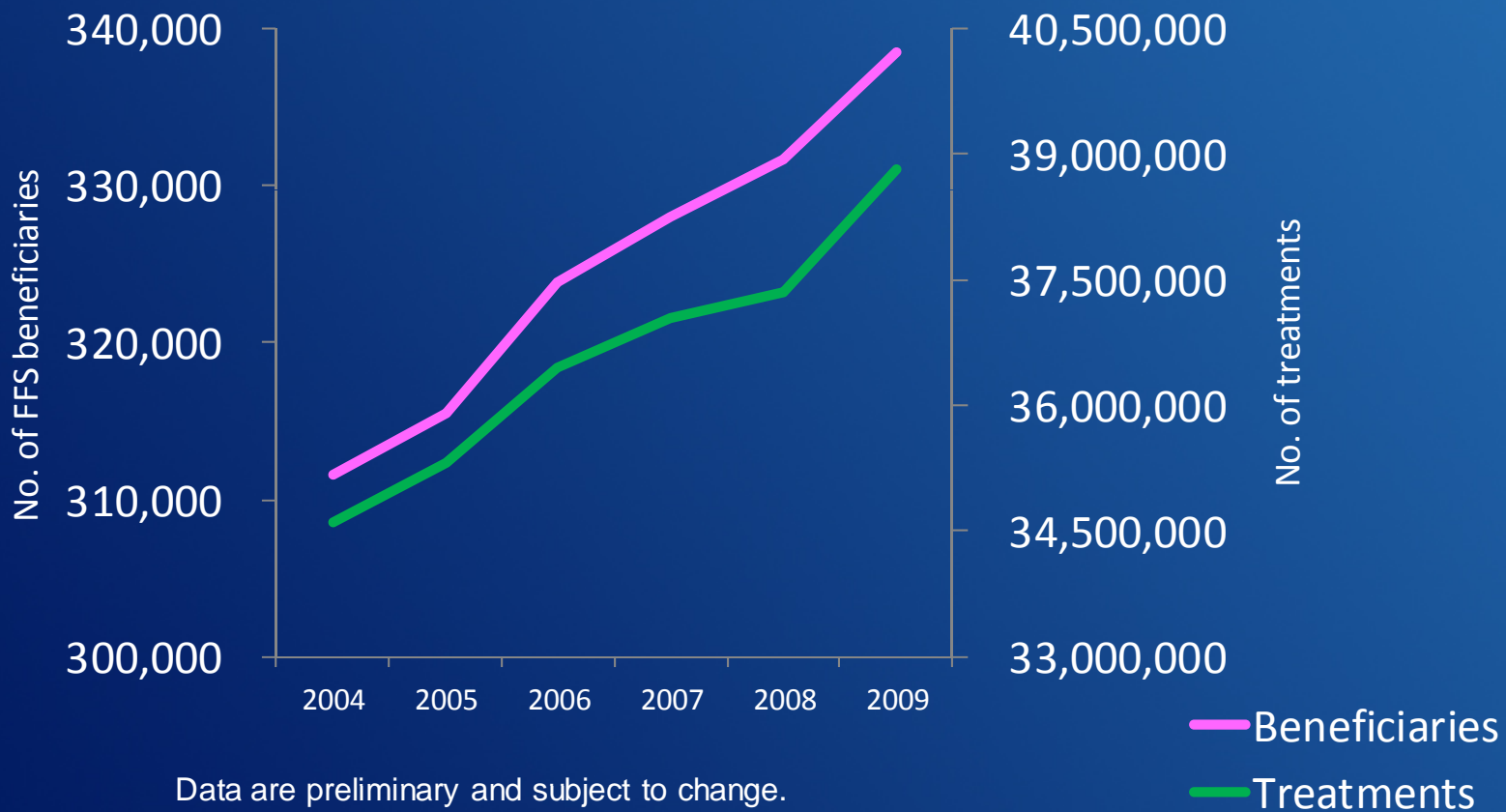
	No. of facilities in 2010	Average annual growth since 2005	Percent large dialysis chains
All	5,413	3.6%	61%
Urban	4,094	3.7	61
Rural	1,319	3.2	59

Data are preliminary and subject to change.

Beneficiaries' access to care

- The number of dialysis stations has kept pace with the growth in the number of all dialysis patients
- Few facility closures in 2008—linked to size and profitability—disproportionately affected selected beneficiary groups
- Little change in mix of beneficiaries by type of provider
- Driving distance has remained unchanged between 2004 and 2008

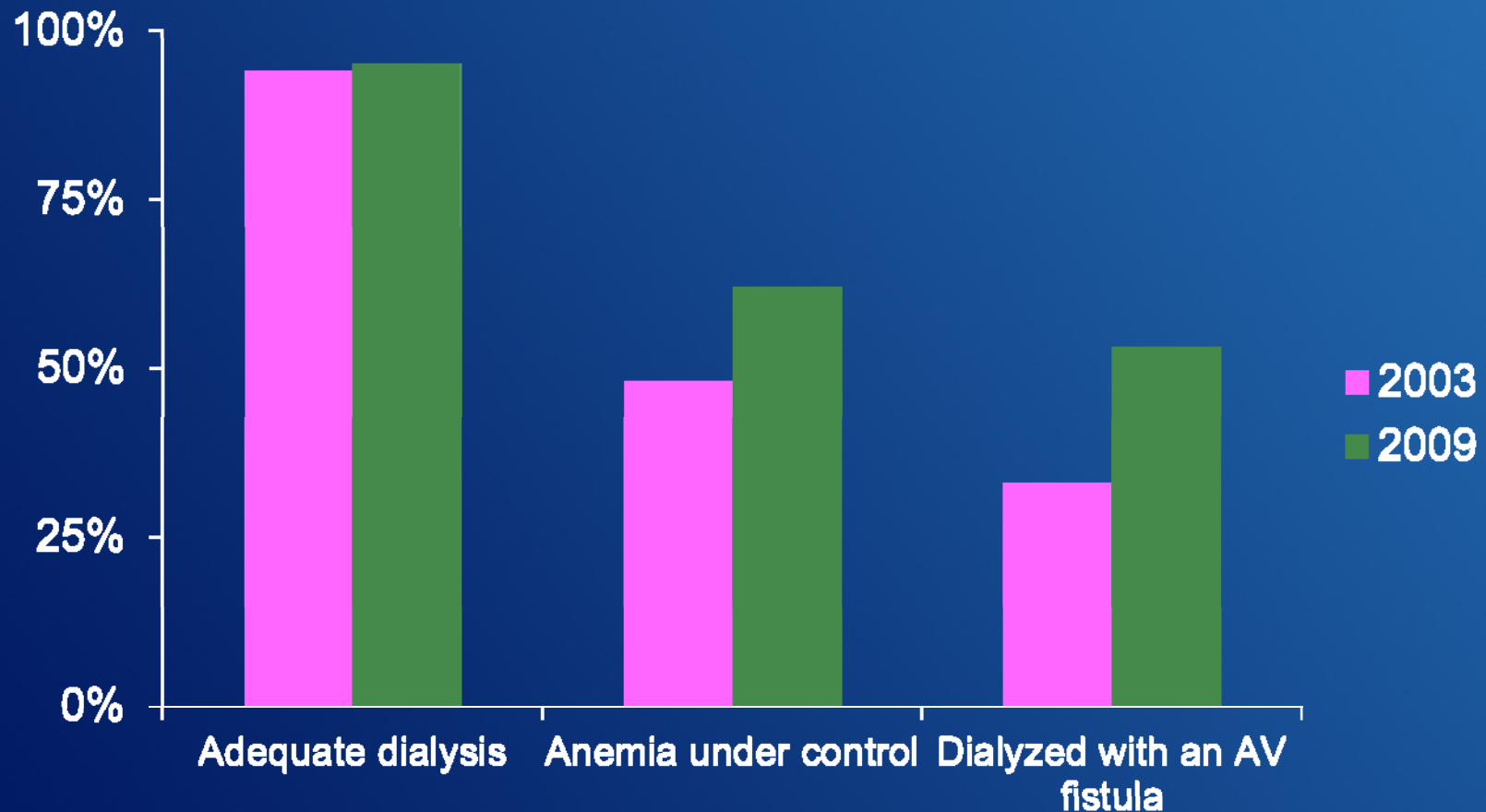
Growth in dialysis treatments keeps pace with growth in dialysis FFS beneficiaries



Change in volume for dialysis drugs

- ESAs: Accounts for about 70 percent of expenditures for dialysis drugs
 - Between 2005 and 2008, per capita use declined due to statutory & regulatory changes and new clinical evidence
 - Between 2008 and 2009, per capita use increased
- Other drugs
 - Since 2005, annual increase in total aggregate volume (holding price constant)

Dialysis quality is high or improving for some measures



Source: Elab Project and Fistula First.
Data are preliminary and subject to change.

Quality improvements are still needed for other clinical measures and outcomes

- Nutritional status
- Phosphorous and calcium management
- Rates of hospitalization
- Rates of mortality
- Proportion of patients registered on the kidney transplant list

Providers' access to capital

- Increasing number of facilities that are for profit and freestanding
- Two largest chains have received positive ratings from investor analysts
- Both small and large chains have access to private capital to fund acquisitions
- Investor analysts positive about the new PPS that begins in 2011

2009 Medicare margin for composite rate services and dialysis drugs for freestanding facilities

Type of provider	Percent of spending by freestanding dialysis facilities	Medicare margin
All	100%	3.1%
Affiliated with 2 largest dialysis chains	69%	4.4%
Not affiliated with 2 largest dialysis chains	31%	0.3%
Urban	83%	4.1%
Rural	17%	-1.4%

Data are preliminary and subject to change.