Assessing payment adequacy and updating payments: Hospice services

Kim Neuman
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Background: Medicare hospice benefit

- Palliative and supportive services for beneficiaries with terminal illnesses who choose to enroll

- Eligibility criteria:
  - Life expectancy of 6 months or less if disease runs its normal course
  - Physician(s) certify prognosis at outset of each hospice benefit period. Two 90-day periods, then unlimited number of 60-day periods
  - Beneficiary must agree to forgo conventional care for the terminal condition and related conditions

- Mixed evidence on whether hospice has reduced overall Medicare expenditures, but hospice has important benefits for beneficiaries
Background: Hospice payment system

- Medicare pays a daily rate for hospice (which is wage adjusted)
- Aggregate cap on total payments to a provider
- Four levels of care: Routine home care (RHC) (>98% of days) and three other higher intensity levels of care
- Recent CMS payment changes
  - 2020: Rebasing to substantially increase payment rates for three infrequent levels of care and slightly decrease RHC rates
Overview of Medicare hospice, 2021

- Hospice use:
  - Over 1.7 million beneficiaries
  - Nearly half of decedents
- Providers: Over 5,300
- Medicare payments: $23.1 billion

Note: Data are preliminary and subject to change.
### Hospice payment adequacy framework

<table>
<thead>
<tr>
<th>Beneficiaries’ access to care</th>
<th>Quality of care</th>
<th>Hospices’ access to capital</th>
<th>Medicare payments and hospices’ costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Supply of providers</td>
<td>• CAHPS survey</td>
<td>• Provider entry</td>
<td>• Overall Medicare margins in 2020</td>
</tr>
<tr>
<td>• Use, length of stay, visits</td>
<td>• Visits at end of life</td>
<td>• Financial reports and mergers and acquisitions</td>
<td>• Projected overall Medicare margin in 2023</td>
</tr>
<tr>
<td>• Marginal profit</td>
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</table>

**Update recommendation for hospice payment rates**

Note: CAHPS (Consumer Assessment of Healthcare Providers and Systems).
Supply of hospices increased 6 percent in 2021, driven by growth of for-profit hospices

Note: Data preliminary and subject to change.
Source: MedPAC analysis of Medicare hospice claims data, Provider of Service file, and Medicare cost reports from CMS.
Hospice use rates continue to be affected by coronavirus pandemic

In 2021:

- Overall, share of decedents using hospice declined to 47.3%, from 47.8% in 2020 (although the use rate increased among some subgroups)
- Decline in use rate is a reflection of the effects of the pandemic on death rates and patterns of care, not payment adequacy

Note: Data preliminary and subject to change.
Source: MedPAC analysis of data from the Common Medicare Enrollment file and hospice claims data from CMS.
## Indicators of access: Mostly favorable

| Utilization | Change from 2020-2021:  
| Number of hospice users: Stable  
| Total number of hospice days: Stable  
| Site of care: Continued shift from nursing facilities to home |
| ----- | --- |
| Length of stay among decedents | • ALOS: 92.1 days, down from 2020, but similar to 2019  
| **Median:** Decreased from 18 days (2020) to 17 days (2021) |
| Visits | • Average in-person visits per week edged upward to 3.8 in 2021 from 3.6 in 2020, but is below pre-pandemic levels |
| Marginal profit | • 18% in 2020 |

Note: ALOS (average length of stay). Length of stay reflects number of days the decedent was enrolled in the Medicare hospice benefit during his/her lifetime. Data are preliminary and subject to change. Sources: Analysis of Medicare claims, cost reports, and Common Medicare Enrollment file.
Quality of care: Difficult to assess in 2021

- Remains difficult to assess quality due to effects of pandemic
- Most recent available CMS quality data indicate:
  - Hospice CAHPS scores were stable in the most recent period
  - Composite of 7 processes of care at admission increased slightly but were topped out
- Claims data indicate in-person visits in the last 7 days of life were stable in 2021, after declining modestly in 2020

Note: Data are preliminary and subject to change. CAHPS (Consumer Assessment of Healthcare Providers and Systems). Sources: MedPAC analysis of CAHPS, Hospice Item Set, and claims data from CMS.
Access to capital appears positive

- Hospice is less capital-intensive than some provider types
- For-profit providers
  - Continued growth in the number of for-profit providers (over 8% increase in 2021)
  - Financial reports suggest the sector is viewed favorably by investors
- Nonprofit providers
  - Less information on access to capital for nonprofit freestanding providers, which may be limited
  - Provider-based hospices have access to capital through their parent institutions

Note: Data are preliminary and subject to change.
Hospice Medicare margins vary by type of provider

<table>
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<tr>
<th></th>
<th>2020</th>
</tr>
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<tbody>
<tr>
<td>All</td>
<td>14.2%</td>
</tr>
<tr>
<td>Freestanding</td>
<td>16.7</td>
</tr>
<tr>
<td>Home health-based</td>
<td>11.2</td>
</tr>
<tr>
<td>Hospital-based</td>
<td>-18.2</td>
</tr>
<tr>
<td>For profit</td>
<td>20.5</td>
</tr>
<tr>
<td>Nonprofit</td>
<td>5.5</td>
</tr>
<tr>
<td>Urban</td>
<td>14.3</td>
</tr>
<tr>
<td>Rural</td>
<td>13.5</td>
</tr>
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</table>

Medicare margin by provider length of stay quintiles:

- Lowest quintile: 11.8%
- Second quintile: 20.0%
- Third quintile: 24.1%
- Fourth quintile: 13.4%
- Highest quintile: -0.4%

Note: Data are preliminary and subject to change. Margins exclude cap overpayments and non-reimbursable costs. Provider length of stay quintiles are based on the providers’ share of stays exceeding 180 days. Source: MedPAC analysis of Medicare hospice claims, cost reports, Provider of Service file, and Common Medicare Enrollment file from CMS.
### Summary: Hospice payment adequacy indicators generally positive

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<td>• Increase in provider supply</td>
<td>• Difficult to assess in 2021</td>
<td>• Continued entry of for-profits</td>
<td>• 2020 Medicare margin: 14.2%</td>
</tr>
<tr>
<td>• Stable total users, total days; rise in in-person visits</td>
<td>• Most recent CAHPS stable</td>
<td>• Sector viewed favorably by investors</td>
<td></td>
</tr>
<tr>
<td>• Decline in decedent use rate and LOS</td>
<td>• Visits at end-of-life stable in 2021, after 2020 decline</td>
<td>• Provider-based have access via parent provider</td>
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<td>• Positive marginal profit (18%)</td>
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Note: LOS (average length of stay). Data are preliminary and subject to change.
Hospice aggregate cap

- Cap limits aggregate payments a hospice provider can receive annually ($32,486.92 in FY 2023 irrespective of geography)
- Hospices that exceed the cap have long lengths of stay and high margins
  - In 2020, 18.6% of hospices exceeded the cap. Their Medicare margin was about 23% before and 8% after return of cap overage
- Each year since March 2020, the Commission has recommended that the cap be wage adjusted and reduced 20%
  - Would make cap more equitable across providers and focus payment reductions on providers with longest stays and high margins

Note: Data are preliminary and subject to change. Sources: MedPAC analysis of hospice claims and Medicare beneficiary database.
Policy to modify the cap would focus payment reductions on providers with the longest stays

<table>
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<tr>
<th>Provider quintiles by share of stays &gt; 180 days</th>
<th>Simulated percent change in 2020 payments from policy to wage adjust and reduce cap</th>
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<tbody>
<tr>
<td>All</td>
<td>-3.3%</td>
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<tr>
<td>Lowest quintile</td>
<td>0.0</td>
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<td>Third quintile</td>
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<td>Fourth quintile</td>
<td>-6.7</td>
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<td>Highest quintile</td>
<td>-17.2</td>
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</table>

- Simulation with 2020 data, assuming no utilization changes
- Estimated share of hospices over cap rises from 18.6% to 33.5%
  - New above-cap hospices: mostly for-profit (89%) and freestanding (93%), with an aggregate margin of 25% in 2020
- Payment reduction focused on hospices with the longest stays, while payments for other hospices unaffected

Note: Data are preliminary and subject to change.
Source: MedPAC analysis of Medicare claims and cost report data and Medicare beneficiary data base from CMS.