

# Assessing payment adequacy and updating payments: Hospice services

Kim Neuman

December 8, 2022

# 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

# Hospice payment adequacy framework

## Beneficiaries' access to care

- Supply of providers
- Use, length of stay, visits
- Marginal profit

## Quality of care

- CAHPS survey
- Visits at end of life

## Hospices' access to capital

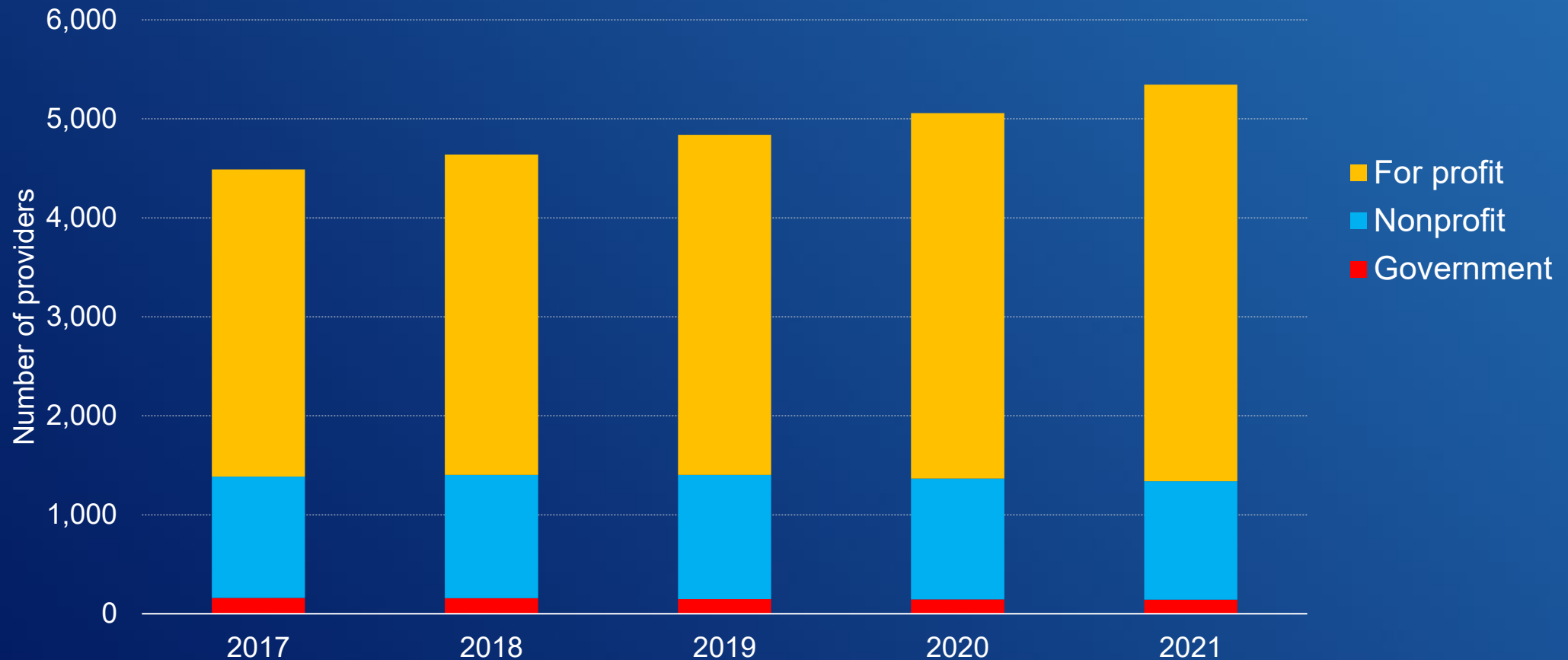
- Provider entry
- Financial reports and mergers and acquisitions

## Medicare payments and hospices' costs

- Overall Medicare margins in 2020
- Projected overall Medicare margin in 2023

Update recommendation for hospice payment rates

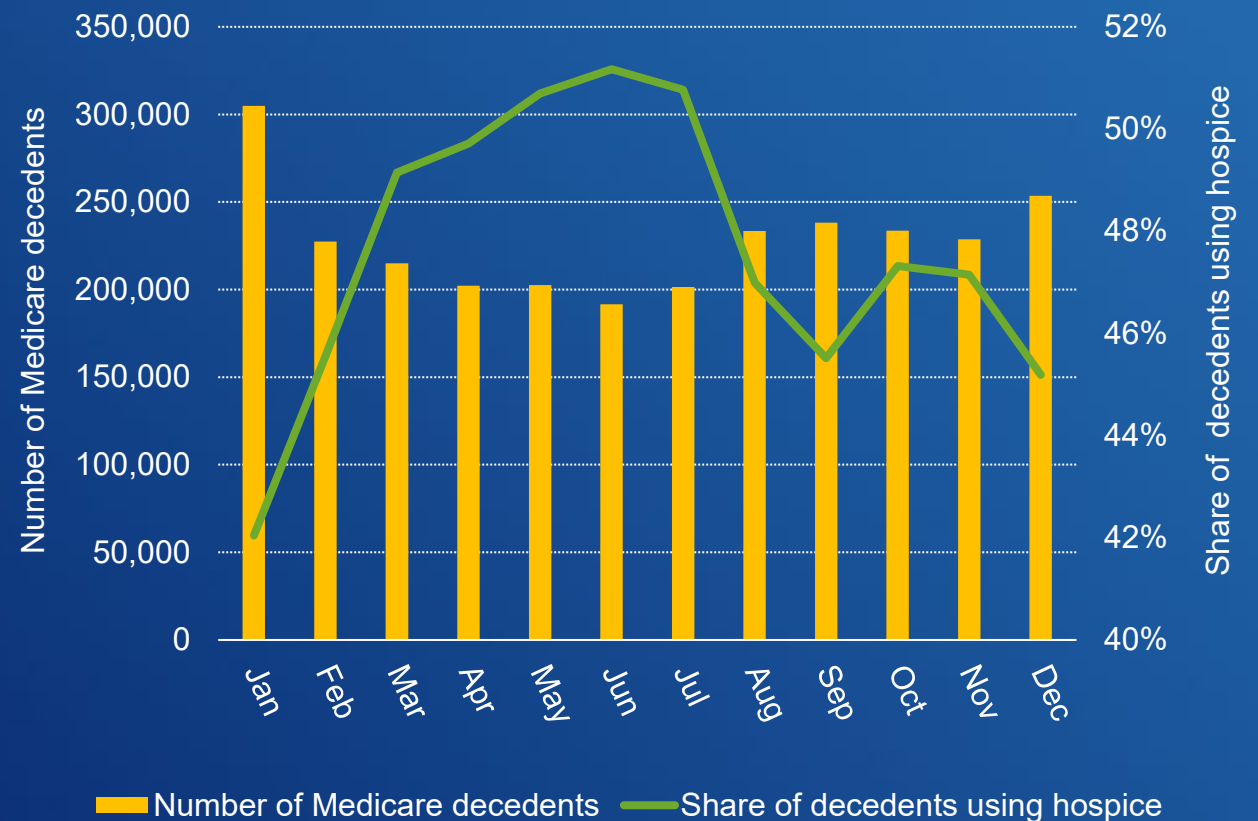
# Supply of hospices increased 6 percent in 2021, driven by growth of for-profit hospices



# 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



# 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



# 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

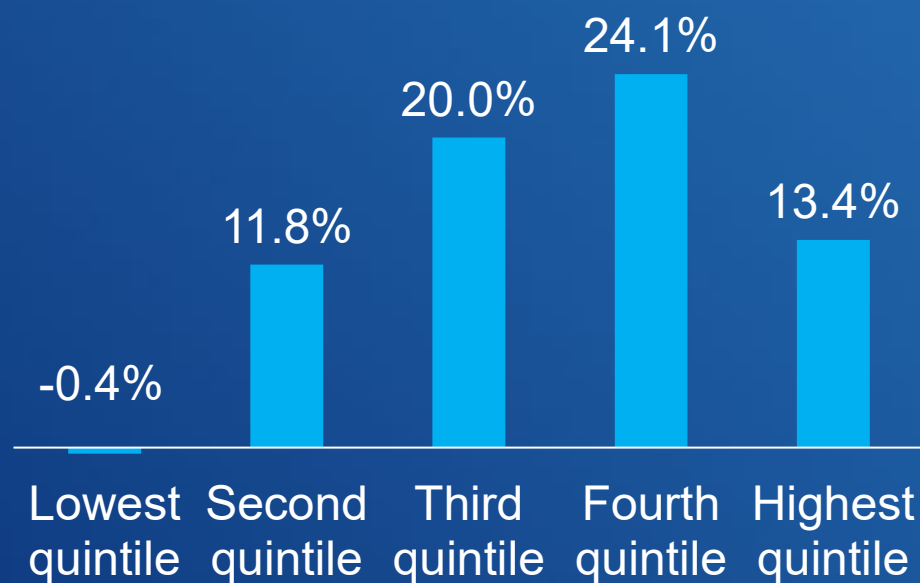
---

- 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

# Hospice Medicare margins vary by type of provider

	2020
All	14.2%
Freestanding	16.7
Home health-based	11.2
Hospital-based	-18.2
For profit	20.5
Nonprofit	5.5
Urban	14.3
Rural	13.5

Medicare margin by provider length of stay quintiles



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

Beneficiaries' access to care	Quality of care	Hospices' access to capital	Medicare payments and hospices' costs
<ul style="list-style-type: none"><li>• Increase in provider supply</li><li>• Stable total users, total days; rise in in-person visits</li><li>• Decline in decedent use rate and LOS</li><li>• Positive marginal profit (18%)</li></ul>	<ul style="list-style-type: none"><li>• Difficult to assess in 2021</li><li>• Most recent CAHPS stable</li><li>• Visits at end-of-life stable in 2021, after 2020 decline</li></ul>	<ul style="list-style-type: none"><li>• Continued entry of for-profits</li><li>• Sector viewed favorably by investors</li><li>• Provider-based have access via parent provider</li></ul>	<ul style="list-style-type: none"><li>• 2020 Medicare margin: 14.2%</li></ul>

# 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

# Policy to modify the cap would focus payment reductions on providers with the longest stays

Provider quintiles by share of stays > 180 days	Simulated percent change in 2020 payments from policy to wage adjust and reduce cap
All	-3.3%
Lowest quintile	0.0
Second quintile	0.0
Third quintile	-0.2
Fourth quintile	-6.7
Highest quintile	-17.2

- 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.