

*Advising the Congress on Medicare issues*

# Assessing payment adequacy: outpatient dialysis services

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# Background

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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	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

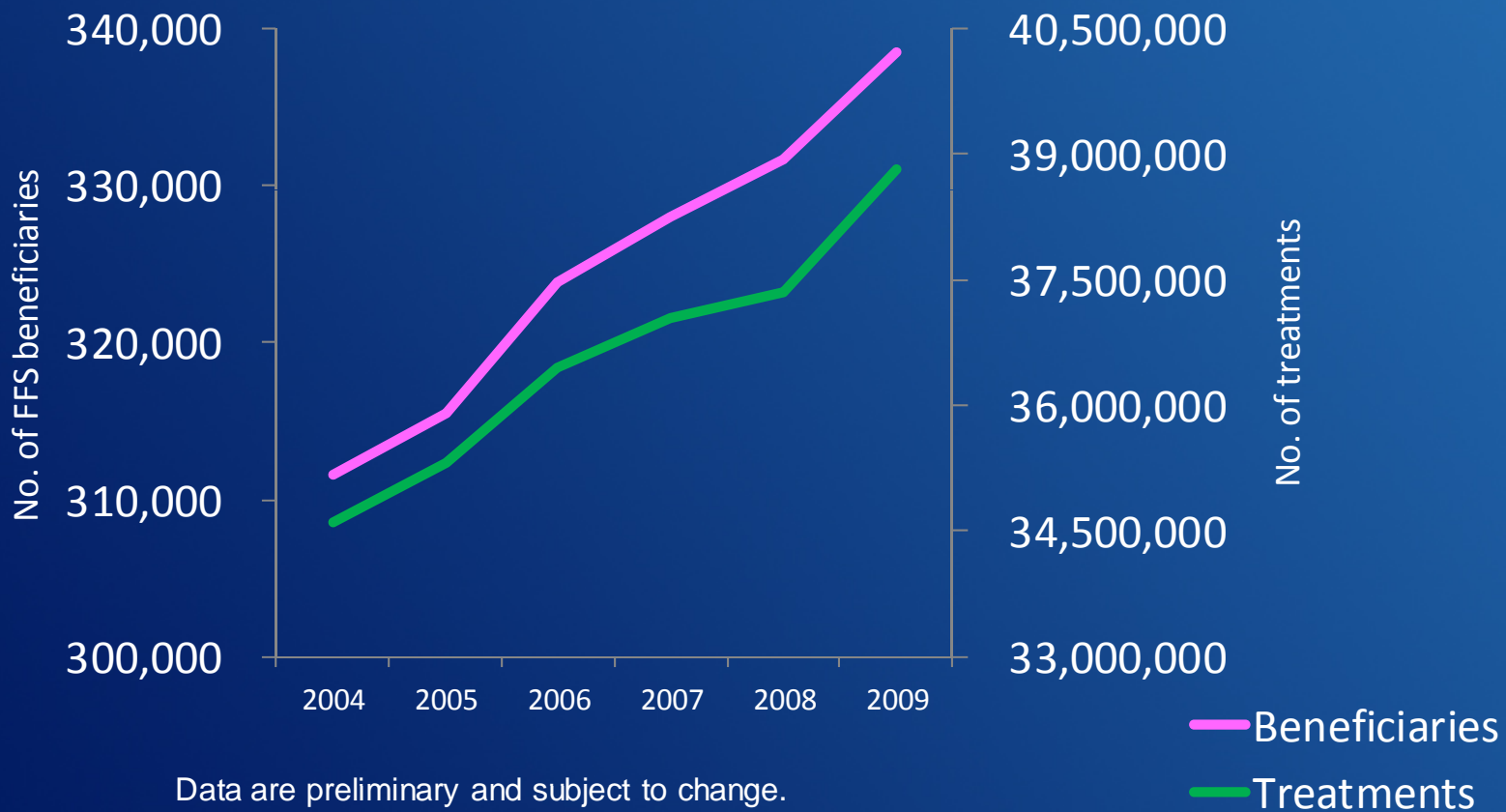
Data are preliminary and subject to change.

# Beneficiaries' access to care

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- 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

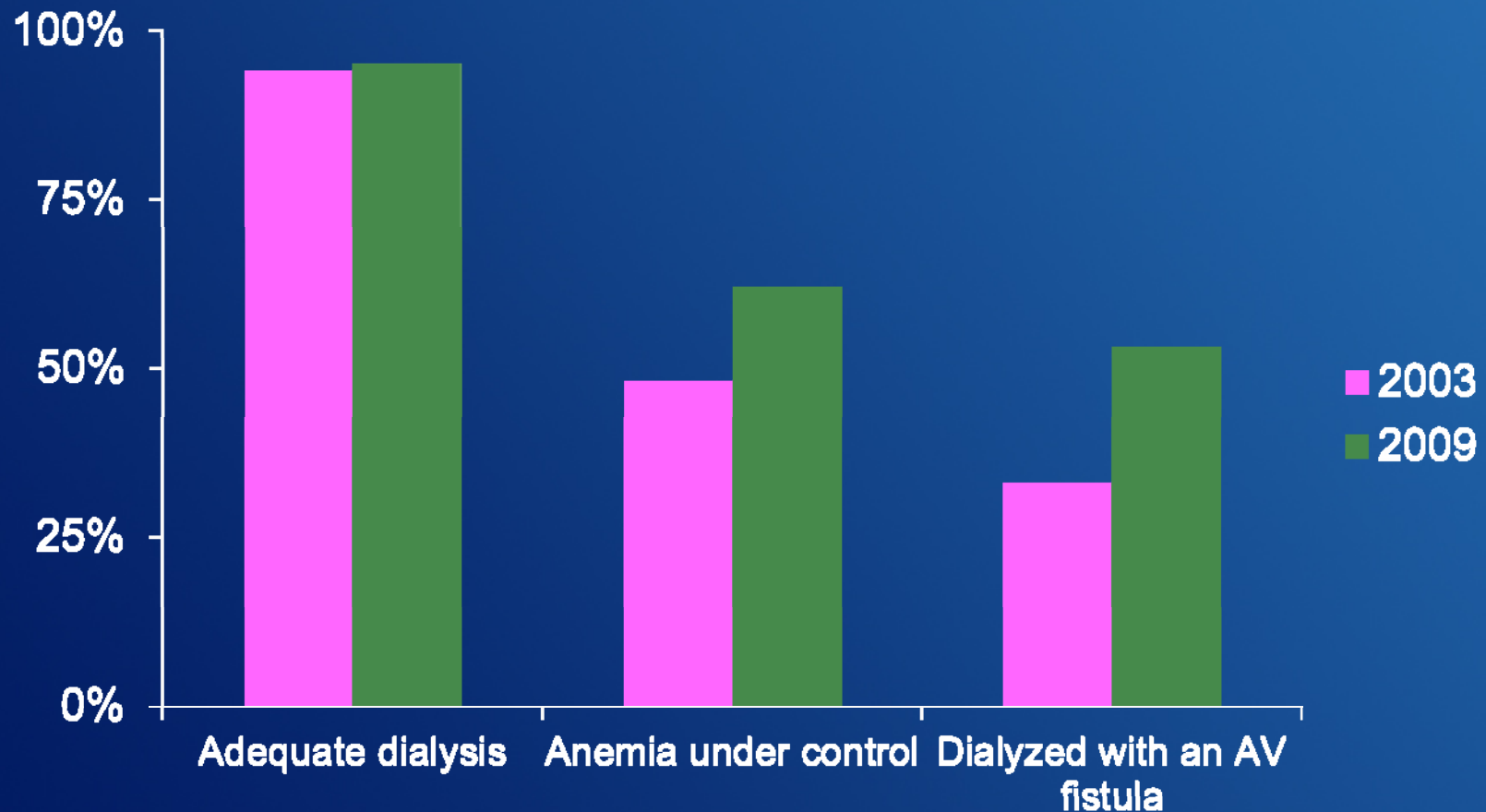


# Change in volume for dialysis drugs

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- 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

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- 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

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- 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.