

Assessing payment adequacy and updating payments: Outpatient dialysis services

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December 3, 2020

Overview of outpatient dialysis services, 2019

- Outpatient dialysis services used to treat individuals with end-stage renal disease
- Dialysis facilities paid for each treatment they furnish using a defined “ESRD bundle” that includes equipment, supplies, labor, drugs, and labs
- FFS beneficiaries: About 395,000
- Providers: About 7,700 dialysis facilities
- Medicare FFS dialysis spending: \$12.9 billion

Source: MedPAC analysis of 100 percent claims submitted to dialysis facilities to CMS and CMS's Dialysis Compare files.
Data are preliminary and subject to change.

Outpatient dialysis payment adequacy framework

Beneficiaries' access to care

- Supply and capacity of dialysis facilities
- Volume of services
- Marginal profit

Quality of care

- Dialysis adequacy and anemia management
- Home dialysis use
- Mortality

Access to capital

- Provider entry
- Financial reports and mergers and acquisitions
- All payer margin

Medicare payments and providers' costs

- Payments and costs
- Overall Medicare margins in 2019
- Projected overall Medicare margin in 2021

Update recommendation for outpatient dialysis payment rate

Dialysis capacity continues to increase

- Between 2018 and 2019, in-center treatment stations increased by 3 percent; capacity growth exceeded FFS dialysis beneficiary growth
- Net increase in number of facilities (about 220)
 - Few facilities closed in 2018; closed facilities (about 50) were more likely to be small, nonprofit, and hospital-based
 - Analysis suggests that beneficiaries affected by closures (< 1 percent) received care at other facilities

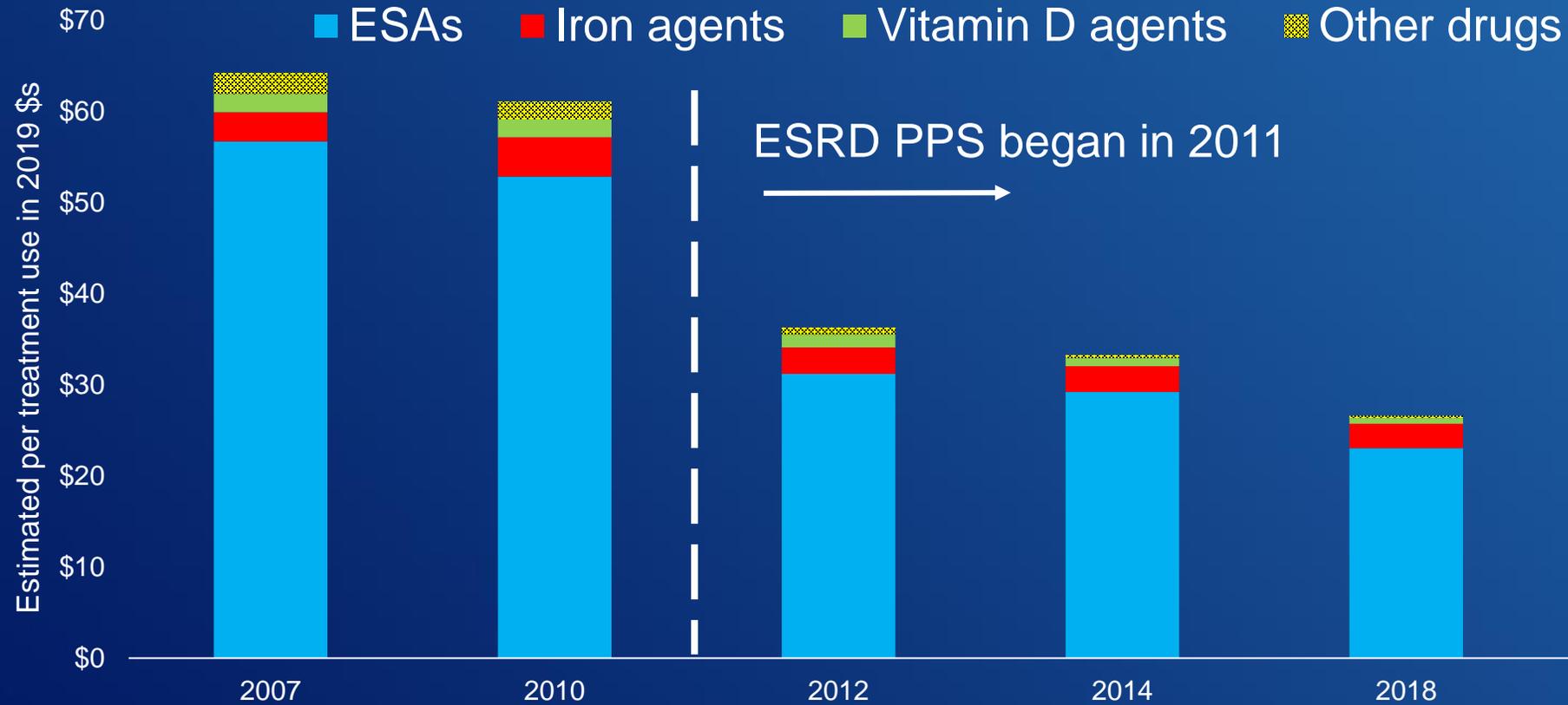
Source: MedPAC analysis of 100 percent claims submitted by dialysis facilities to CMS and CMS's Dialysis Compare files.
Data are preliminary and subject to change.

Growth in FFS beneficiaries matches growth in dialysis treatments

- Between 2018 and 2019:
 - Total number of dialysis FFS beneficiaries and total number of dialysis treatments remained steady
- In both years, average treatments per beneficiary \approx 115
- 25 percent marginal profit suggests that providers have a financial incentive to continue to serve Medicare beneficiaries

Source: MedPAC analysis of 100 percent claims.
Data are preliminary and subject to change.

Use of ESRD drugs in the PPS bundle continues to decline with no sustained changes to beneficiaries' health status



Note: All drugs included in this analysis are paid under the ESRD PPS base rate. Use of drugs is estimated by multiplying drugs units reported on claims by 2020 average sales price. Drugs included are: epoetin alfa, epoetin beta, darbepoetin (ESAs); iron sucrose, sodium ferric gluconate, ferumoxytol, ferric carboxymaltose (iron agents); calcitriol, doxercalciferol, paricalcitol (vitamin D agents); daptomycin, vancomycin, alteplase, and levocarnitine (all other drugs). ESAs (erythropoietin stimulating agents). Source: MedPAC analysis of 100 percent claims submitted by dialysis facilities to CMS. Data are preliminary and subject to change.

Dialysis quality stable between 2014 and 2019

- Percent of dialysis FFS beneficiaries meeting guidelines for dialysis adequacy remains high
- Home dialysis use increased from 10 percent to nearly 13 percent
- Hospital admissions per beneficiary held steady
- Rates of mortality and hospital readmission held steady
- Percent of beneficiaries with an ED visit increased slightly from 11 percent to 12 percent

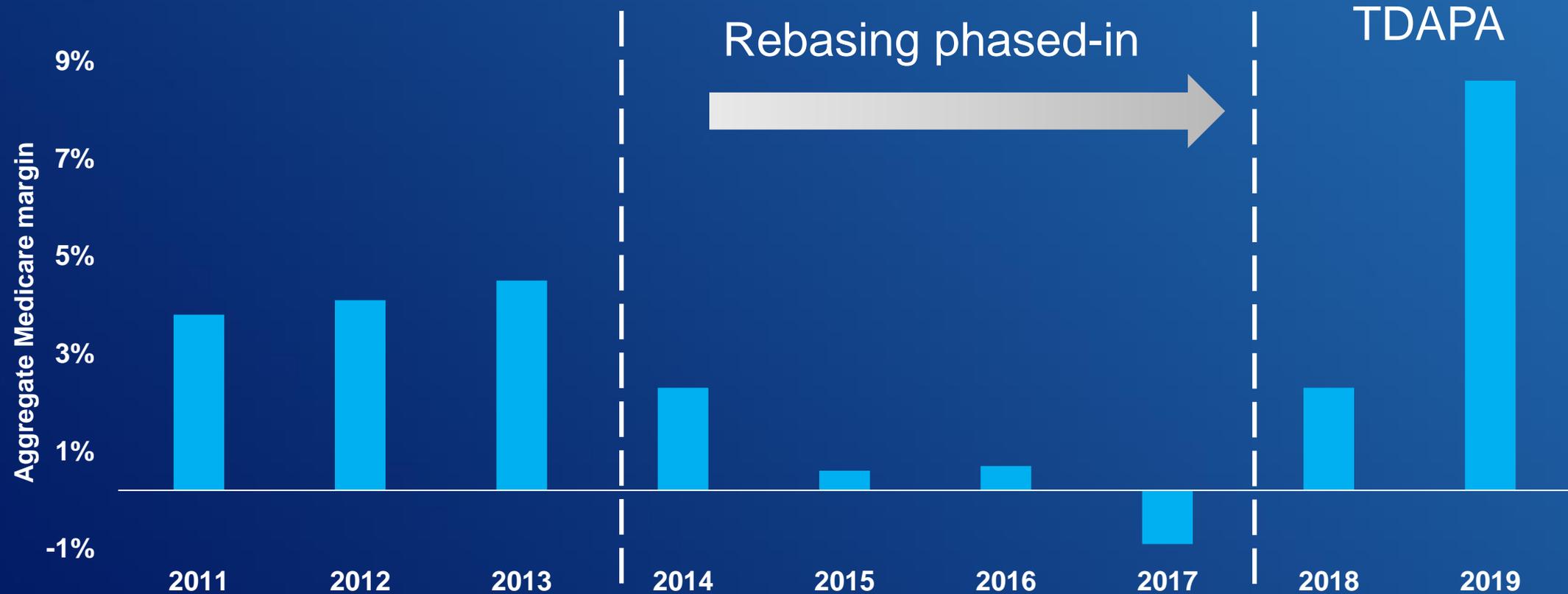
Source: MedPAC analysis of 100 percent claims submitted by dialysis facilities to CMS.
Data are preliminary and subject to change.

Access to capital appears positive

- Growing number of facilities that are for-profit and freestanding
- Both large and small organizations have access to private capital to fund acquisitions
- Under the ESRD PPS, two large dialysis organizations (that account for 75 percent of all facilities) have grown with acquisitions and mergers
- New entrants in the dialysis sector
- 2019 all-payer margin estimated at 18 percent

Source: MedPAC analysis of cost reports submitted by freestanding dialysis facilities to CMS.
Data are preliminary and subject to change

Aggregate Medicare margin changed in response to payment policies



TDAPA significantly affects aggregate Medicare margin

- TDAPA payment is based on each drug's ASP
 - Payment rate is set based on ASP data from two quarters prior
 - When drug prices go down, providers may benefit from the payment lag until ASP “catches up”
- Oral generic calcimimetics became available in 2019
- In 2019, TDAPA payment per treatment is roughly four times providers' cost per treatment
- Preliminary data suggest that TDAPA payment per treatment in 2020 is roughly 30 percent lower than in 2019*
- In 2021, CMS will include calcimimetics in the PPS bundle and increase the base payment rate by \$9.93 (in 2020 dollars)

Note: Data are preliminary and subject to change. ASP (average sales price). TDAPA (transitional drug add-on payment adjustment).

*Analysis compared spending during the first 6 months of 2019 and 2020.

Source: MedPAC analysis of 100 percent claims submitted by dialysis facilities to CMS.

2019 Medicare margin varies by treatment volume

Type of freestanding dialysis facility	Medicare margin	% freestanding dialysis facilities	% freestanding dialysis treatments
All	8.4	100%	100%
Treatment volume (quintiles)			
Lowest	-14.4	20	7
Second	-1.4	20	13
Third	6.4	20	18
Fourth	10.4	20	24
Highest	15.2	20	39
Urban	9.0	84	88
Rural	5.0	16	12

Source: MedPAC analysis of 100 percent claims and cost reports submitted by dialysis facilities to CMS.

Data are preliminary and subject to change

Dialysis patients are at increased risk of severe illness from COVID-19

- We compared first 6 months of 2019 to first 6 months of 2020:
 - The number of dialysis beneficiaries declined by 2 percent
 - Slight decline in total dialysis treatments by 0.1 percent
 - Medicare payment per treatment (excluding TDAPA payments) increased by 2 percent
- According to the LDOs:
 - Increased mortality, particularly of elderly patients
 - Growth in treatments and capacity but at a slower rate than 2019
 - One LDO accepted CARES Act assistance while other LDO returned grant
- Long-term effects of public health emergency on the delivery of dialysis services appears unlikely

Note: Data are preliminary and subject to change. LDO (large dialysis organization).

Summary: Outpatient dialysis payment adequacy indicators generally positive

Beneficiaries' access to care	Quality of care	Access to capital	Medicare payments and providers' costs
<ul style="list-style-type: none">• Growth in provider supply and capacity• Positive marginal profit: 25%	<ul style="list-style-type: none">• Modest increase in home dialysis use• Mortality and readmission rates steady	<ul style="list-style-type: none">• Continued entry of for-profits• Sector viewed favorably by investors• All payer margin: 18%	<ul style="list-style-type: none">• 2019 Medicare margin: 8.4%• 2021 projected margin:
Positive	Stable	Positive	Positive