Codify
BY AAPC

Eli's Hospice Insider

Budget: Rising Hospice Indicators Fuel MedPAC's Cap Cut, Rate Freeze Recommendations

Recs could threaten vulnerable patients' access to hospice care.

What do longer lengths of stay, higher rates of live discharges, and double-digit profit margins add up to? A harsh reimbursement recommendation from an influential advisory body to Congress.

In its annual report to Congress released last month, the Medicare Payment Advisory Commission recommends that lawmakers eliminate the rate update for hospice payment rates and reduce the aggregate cap by 20 percent. MedPAC projects the update will be 2.4 percent, so eliminating it would strip up to $2 billion from hospice spending in 2022.

MedPAC bases its recommendation on a number of statistics, including a 12.4 percent average Medicare profit margin for hospices in 2018, the most recent year for which the commission says it has data. However, at the top of its chapter MedPAC instead lists a "marginal profit" of "roughly 16 percent."

MedPAC's emphasis on this so-called marginal profit figure is misleading, suggests **Tom Boyd**, CEO of Aftercare Nursing Services. The commission began using the marginal profit figure in 2016, and it's always higher than the true profit margin figure, critics note. Marginal profit supposedly takes into account whether providers have a financial incentive to serve more Medicare beneficiaries.

Plus: **Mark Sharp** with BKD in Springfield, Missouri, is "not sure why MedPAC only reviewed 2018 cost report data for margin info," he says. "BKD has already reviewed 2019 Medicare hospice cost reports," Sharp adds.

Another problem with MedPAC's profit margin calculation is that it "relies on Medicare cost reports that intentionally do not include all hospice costs, such as bereavement support," notes National Association for Home Care & Hospice President **William Dombi** in a report summary.

MedPAC does point out in the report that adding in bereavement costs would "reduce the 2018 aggregate Medicare margin by at most 1.3 percentage points," and probably not even that much. Likewise, adding in nonreimbursable volunteer costs would reduce the margin by possibly 0.4 percent, MedPAC estimates.

Perhaps due to its exploration of hospice payment reform, MedPAC has a longer-than-usual hospice chapter delving into many statistics and complexities of the payment system. The commission suggests additional oversight is needed in locations with high growth numbers - particularly California and Texas. And it highlights perceived problems with long lengths of stay, live discharges, hospices not providing all four levels of care, high ratios of patients in nursing and independent living facilities, and more.

The number of hospices grew 4.3 percent to 4,840 in 2019. Also up were the percentage of Medicare decedents who used hospice in 2019 (a 1 percent increase to 51.6 percent); Medicare hospice spending (up 8.5 percent to $20.9 billion); and the number of hospice users (up 3.7 percent to 1.61 billion).

But the increases in indicators don't mean a rate freeze is called for, industry veterans insist. Eliminating the update means there will be "no recognition of cost inflation in 2022 rate setting," Dombi criticizes.

"You could find some hospices really struggling without a market basket update in their payment rates," Sharp warns.

Beware Limited Access For Dementia Patients

Of particular concern to the commission are hospices that exceed their caps, largely based on long LOSs. The average LOS among decedents rose from 90.3 days in 2018 to 92.6 days in 2019. The median length of stay was stable at 18 days in that period, MedPAC says.

As usual, decedents with cancer had the lowest average LOS at 52 days in 2019, while those with neurological conditions had the highest at 155 days. For-profit hospices averaged 112 days as their ALOS, while nonprofits logged a 71-day-stay average.

Freestanding hospices had an ALOS of 95 days, home health agency-based hospices 72 days, and hospital-based hospices 59 days.

Hospices' margins were larger when they had more patients in nursing and assisted living facilities, MedPAC's data analysis shows.

Impact: In the most recent data year, 2018, 16 percent of hospices exceeded the aggregate hospice cap. That figure would have been 28 percent under the 20 percent lower cap and wage index rebasing also proposed, MedPAC says.

Consulting firm The Health Group in Morgantown, West Virginia, thinks the 16 percent figure is low, according to its electronic newsletter.

MedPAC doesn't venture a prediction on how many agencies would be affected by the reduced cap amount. But industry experts think it will be a lot more than 16 percent.

"Based on the work we do and discussions with my peers, I would guesstimate 20 percent and up exceeded the cap in 2020," Sharp tells AAPC.

"Our exposure to hundreds of hospices annually clearly indicates that the number of hospices exceeding the cap continues to grow," The Health Group agrees.

That means hospices potentially adversely affected by a lower cap would be larger than the 28 percent estimated by MedPAC - perhaps much larger.

MedPAC also estimates "the cap policy would have reduced aggregate Medicare program payments in 2018 by about 3.2 percent (assuming no changes in utilization)," the report says. "The reductions in payments would occur among a subset of providers with disproportionately long stays and high margins."

Hospices and their representatives are voicing strident opposition to the proposed change (see story, p. X).

Industry veterans seem more accepting of MedPAC's suggestion to wage-adjust the cap. "We definitely can see the need for wage index application on the Medicare hospice annual payment cap," Sharp says. It "seems fair to match the payment cap with the wage index-adjusted payment cap."

The "geographical adjustment … with some phase-in period is justifiable and eliminates the discriminatory nature of the cap itself," The Health Group allows. "However, any such change must be transparent in calculation."

Note: The report is at http://medpac.gov/docs/default-source/reports/mar21_medpac_report_to_the_congress_sec.pdf.