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FACT SHEET

MEDICARE'S PROPOSED PAYMENT SYSTEM FOR END-STAGE RENAL DISEASE WOULD REDUCE SPENDING, IMPROVE QUALITY

OVERVIEW: On September 14, 2009, the Centers for Medicare & Medicaid Services (CMS) issued a proposed rule that would establish a prospective payment system (PPS) for dialysis services for Medicare beneficiaries with end-stage renal disease (ESRD).

Under the proposed ESRD PPS, CMS would make a single, prospectively determined (“bundled”) payment to ESRD facilities, taking into account patient and facility characteristics. The new payment system would give ESRD facilities flexibility to allocate treatment resources efficiently and would pay more appropriately for items and services based on the patient’s clinical needs.

The proposed rule is the first step toward implementing a requirement in the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) that CMS adopt an ESRD PPS that would foster improved outcomes for ESRD patients. The new system, to be effective by January 1, 2011, would improve care by establishing performance standards for dialysis facilities while also constraining the rapid growth in spending in the ESRD program. MIPPA specifically requires that the new system trim two percent of the estimated payments that would have been made in 2011 under the previous payment system.

The proposed rule includes three proposed quality measures, based on data currently used on Dialysis Facility Compare (www.medicare.gov/dialysis/) to evaluate dialysis facilities. The proposal also provides a conceptual framework for a new quality incentive program (QIP) that would tie dialysis facility payments to their performance on the three proposed quality measures. The proposed quality measures and the QIP conceptual framework are discussed in a separate fact sheet also issued today. CMS plans to adopt the QIP through a separate rulemaking process.

BACKGROUND: Medicare makes payments for dialysis services to 591 hospital-based and 4,330 independent ESRD facilities under a BASIC case-mix adjusted payment system. Currently, Medicare makes a composite rate payment to ESRD facilities for furnishing outpatient maintenance dialysis in the facility or in the beneficiary's home. The composite rate payment covers dialysis treatment costs and certain routinely furnished ESRD-related drugs, laboratory tests, and supplies. The composite rate is adjusted by a drug add-on payment that accounts for changes in the drug pricing methodology that occurred in 2005, and by basic case-mix adjustment factors including age and body size. A special adjustment is applied for services to pediatric patients. In addition, the composite rate is adjusted for geographic differences in costs using a wage index. For 2009, the unadjusted composite rate is \$133.81 and the drug add-on payment is \$20.33.

The composite rate does not include a number of other ESRD-related items and services, particularly injectable drugs such as erythropoietin (EPO) to treat ESRD-associated anemia, iron sucrose, vitamin D, and non-routine laboratory tests. These items and services are currently billed separately under Medicare. Over time, payments for separately billed items and services have increased dramatically. In 2007, Medicare paid approximately \$9.2 billion for dialysis and related services, of which \$5.7 billion, or about 62 percent, was paid under the composite rate. In comparison, \$3.5 billion, or about 38 percent, was paid for separately billable ESRD-related items and services, including injectable drugs, non-routine laboratory tests, supplies and services for home dialysis patients who deal directly with a durable medical equipment supplier, and ESRD-related drugs that are currently paid under Part D.

PROPOSAL FOR A FULLY BUNDLED PROSPECTIVE PAYMENT SYSTEM: As required by MIPPA, CMS is proposing to create an ESRD PPS that would establish a single, prospectively determined ("bundled") payment rate to be applied on a per treatment basis. The law further required CMS to phase in the new bundled payment system over a four-year period. However, facilities will be given the opportunity to choose to be paid entirely under the new payment system beginning on January 1, 2011.

ESRD Base Rate and Bundle of Services: CMS is proposing to pay a base rate of \$198.64 per dialysis treatment, representing the average Medicare allowable payment per treatment for composite rate and separately billable services, including training and home dialysis costs, laboratory services and all ESRD-related Part B and former Part D drugs. The proposed base rate would be adjusted to reflect patient- and facility-specific differences in case-mix and other adjustments as required by MIPPA.

To arrive at a base rate, CMS is proposing to adjust the average payment per treatment using 2007 claims data adjusted to reflect 2011 projected prices. The rate will not include positive adjustments for case-mix and the wage index as those will be introduced into the payment formula at a later time. This standardized amount must then be reduced by 1.0 percent to fund the proposed outlier policy, and reduced by the percentage required by MIPPA to reflect 98 percent of the estimated payments that would have been made absent the statutory changes.

- *Proposed Standardized Amount:* Based on 2007 claims data, total per treatment payments in CY 2011 are projected to be \$261.58. To eliminate the overall positive

effects of the proposed case-mix and geographic adjustments, CMS is proposing a 21.73 percent reduction, yielding a standardized amount of \$204.74.

- ***Proposed Outlier Adjustment:*** CMS is proposing to reduce the standardized amount by 1.0 percent for outlier payments for cases requiring unusually high amounts of drugs or other services that are separately payable under the current payment system. This 1.0 percent reduction lowers the standardized amount of \$204.74 to \$202.69.
- ***MIPPA Required 98 Percent Adjustment:*** As required by MIPPA, CMS is also proposing to adjust the reduce the standardized amount by 2.0 percent to ensure that estimated total Medicare payments to ESRD facilities in CY 2011 are 98 percent of what they would have been under the existing system. This additional reduction yields a proposed base rate of \$198.64.
- ***Transition Budget Neutrality Adjustment:*** Also required by MIPPA, CMS is proposing that a transition budget neutrality adjustment factor (a 3.0 percent reduction) be applied to all payments during the four-year phase-in and would make payments under the transition the same as they would have been had there not been a transition. As part of this transition budget neutrality adjustment, during the transition, CMS is proposing to apply a \$14 per treatment adjustment to the composite rate portion of the blended payment amount to reflect ESRD-related Part D drugs.

Patient-Level Adjustments: As authorized by MIPPA, CMS is proposing to adjust the base rate for case mix using a variety of factors which have been found to affect costs. Under the existing payment system, the composite rate is adjusted for age, body surface area (BSA), body mass index (BMI), and pediatric status. The proposed rule would add adjustments for patient sex (female patients) and certain co-morbidities, as well as a “new patient adjustment” that recognizes that patients have higher costs in their first four months of maintenance dialysis. In addition, special payment adjusters would apply for providers of pediatric services. CMS is specifically seeking comment about these and other patient characteristics that may affect costs of treatment and for which a payment adjustment may be appropriate.

Facility-Level Adjustments: MIPPA specifically requires CMS to adopt an adjustment for low-volume facilities and gives the HHS secretary discretion to adopt additional facility-level adjustments. Based on an analysis of ESRD data, CMS is proposing to define low-volume facilities as those facilities that: (1) furnished fewer than 3,000 treatments in each of the three years preceding the payment year; and (2) have not opened, closed, nor received a new provider number due to a change in ownership during the three years preceding the payment year. Other definitions may be added to include geographic restrictions. CMS is also proposing to continue to apply a wage index adjustment using the core-based statistical area (CBSA) definitions. The index would be based on the most current hospital wage data, prior to application of the rural floor and occupational mix adjustments, and geographic reclassifications.

Outlier Policy: MIPPA requires CMS to make adjustments for high cost patients, called outlier payments, to ESRD facilities that treat patients who use more than the predicted amount of services, including the amount of erythropoietin stimulating agents (ESAs) used to manage

dialysis-related anemia. As noted previously, CMS is proposing to reduce the standardized amount for all dialysis treatments by 1.0 percent, to fund the proposed 1.0 percent policy under the new ESRD PPS. CMS is proposing a fixed loss dollar amount of \$134.96 for adult and \$174.31 for pediatric dialysis patients. Once the fixed dollar amount is met, CMS would pay 80 percent of the ESRD facility's outlier service costs. CMS projects that approximately 5.3 percent of adult and 2.6 percent of pediatric patient months would qualify for outlier payments.

Annual Payment Rate Updates: As required by MIPPA, beginning in CY 2012 the ESRD PPS base rate will be updated annually by an ESRD market basket index minus one percentage point. The proposed rule includes a discussion of how the ESRD market basket would be calculated.

Beneficiary Coinsurance: CMS is proposing that the beneficiary coinsurance amount be 20 percent of the ESRD bundled payment amount, including applicable case-mix adjustments and outlier payments.

CMS will accept comments on the proposed rule through November 2009, and will respond to them in a final rule to be issued in 2010. The new payment system would apply to renal dialysis services furnished to Medicare beneficiaries on or after January 1, 2011.

For more information, please see: <http://www.cms.hhs.gov/ESRDPayment/>