



Advising the Congress on Medicare issues

Medicare's hospice benefit

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Medicare's hospice benefit – key points

- Provides beneficiaries with an alternative to intensive end-of-life curative treatment
- Benefit implemented in 1983 on presumption that it would be less costly to Medicare than conventional end-of-life treatment
- Medicare hospice spending = \$10 billion in 2007
- Rapid growth in recent years
- Medicare payment system embodies conflicting incentives

Medicare's hospice benefit

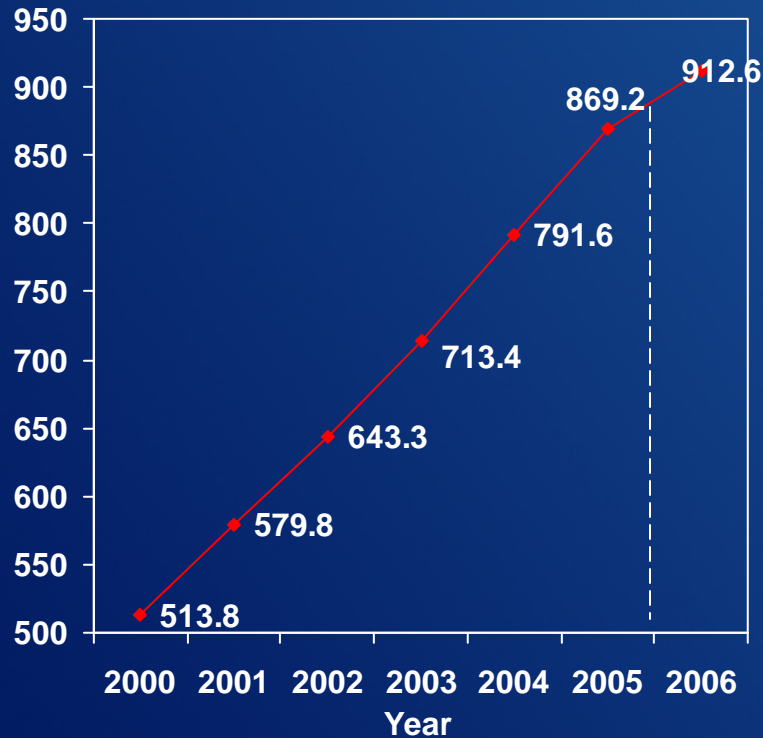
- Beneficiaries at end of life can elect hospice care
- Must be certified by a physician as likely prognosis of death within six months
- Beneficiaries electing hospice explicitly forego curative treatment

Medicare's hospice benefit (cont.)

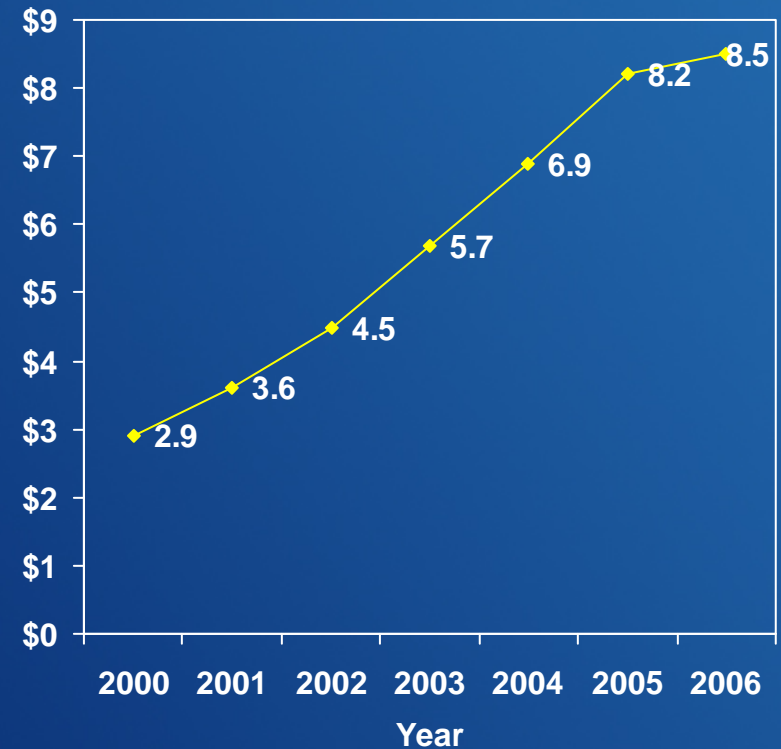
- Services under hospice benefit
- Minimal beneficiary cost sharing
- Per-diem payment for four categories of service
 - Routine home care
 - Continuous home care
 - Inpatient respite care
 - General inpatient care
- Per-beneficiary limit on Medicare payments (“hospice cap”)

Hospice utilization and spending grew rapidly between 2000 - 2006

Beneficiaries (thousands)



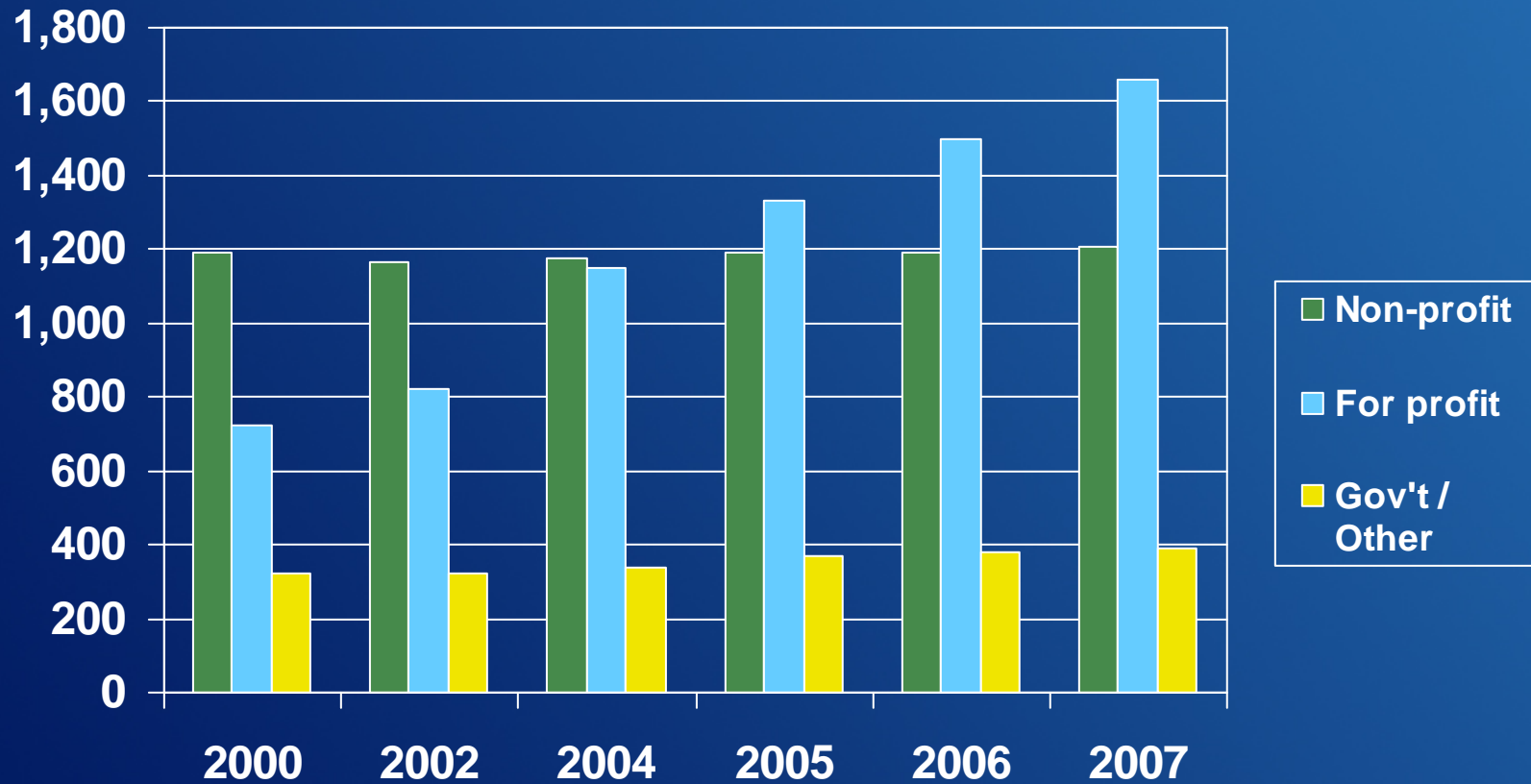
Spending (billions)



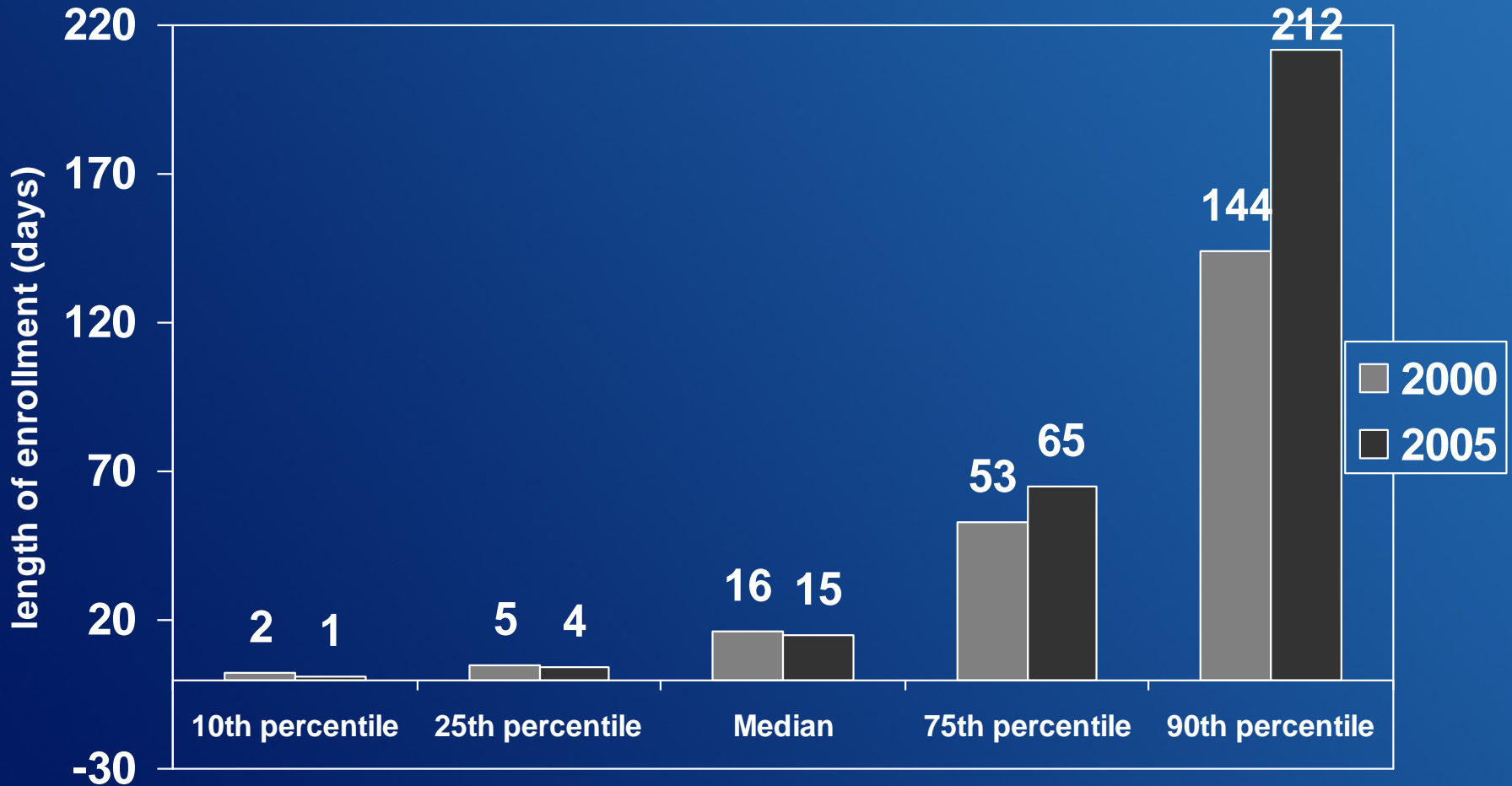
Source: Centers for Medicare and Medicaid Services.

Note: 2006 utilization data is calendar year, all others are fiscal year.

Most hospice growth due to for-profit providers, 2000 - 2007



Average hospice length of stay increasing overall, but with significant variation



Variation in hospice mean length of stay, by diagnosis, 2005

- Alzheimer's disease: 86 days
- Chronic ischemic heart disease: 82 days
- Adult failure to thrive: 70 days
- Lung cancer: 44 days
- Renal failure: 24 days

Hospices reaching the aggregate per-beneficiary payment cap, 2002 – 2005

| CAP YEAR | 2002 | 2003 | 2004 | 2005 |
|---|---------|---------|---------|---------|
| Number of Hospices | 2,286 | 2,401 | 2,580 | 2,809 |
| Number of hospices subject to cap | 60 | 98 | 150 | 220 |
| Percent of all hospices | 2.6% | 4.1% | 5.8% | 7.8% |
| Payments over the cap subject to recovery (in millions) | \$28 | \$65 | \$112 | \$166 |
| Total FY spending (in millions) | \$4,517 | \$5,682 | \$6,897 | \$8,155 |
| Cap excess payments as % of total spending | 0.6% | 1.2% | 1.6% | 2.0% |

Source: MedPAC analysis of 100% Hospice Standard Analytical File (claims) data, 2002 - 2005, and PDQ data, 2002 - 2005, from CMS.

Characteristics of hospices reaching the cap in 2005

Cap hospices:

- Are more likely to be proprietary
- Are more likely to be free-standing (rather than provider-based)
- Have smaller annual patient loads (137 vs. 282)
- Have much longer lengths of stay (139 vs. 68 days (free-standing hospices))

Source: MedPAC analysis of Medicare hospice cost reports and 100% hospice claims standard analytical files (SAF) from CMS.

Hospice length of stay (days), selected diagnoses, by cap status, 2005

| | <u>Non-cap</u> | <u>Cap</u> |
|----------------------------------|----------------|------------|
| ▪ Alzheimer's disease: | 83 | 144 |
| ▪ Chron. ischemic heart disease: | 74 | 134 |
| ▪ Adult failure to thrive: | 69 | 112 |
| ▪ Lung cancer: | 44 | 56 |
| ▪ Renal failure: | 24 | 52 |

States with most hospices per capita have highest hospice cap rate, 2005

| State | Number of hospices (2005) | Percent change, 2000 - 2005 | Hospices per 10,000 beneficiaries | Percent of hospices reaching cap in 05 |
|----------------------|---------------------------|-----------------------------|-----------------------------------|--|
| Oklahoma | 145 | 88% | 2.9 | 28% |
| Utah | 52 | 174% | 2.4 | 21% |
| Mississippi | 100 | 122% | 2.3 | 36% |
| Alabama | 103 | 78% | 1.5 | 42% |
| Arizona | 50 | 35% | 0.7 | 20% |
| Nevada | 11 | 83% | 0.4 | 0% |
| Maryland | 21 | 0% | 0.3 | 0% |
| District Of Columbia | 2 | -33% | 0.3 | 0% |
| Rhode Island | 4 | 33% | 0.3 | 0% |
| New York | 51 | -6% | 0.2 | 0% |

Source: CMS PDQ system (October 18, 2007), MedPAC analysis of 2005 hospice claims standard analytical file (SAF), and Medicare enrollment data from CMS.

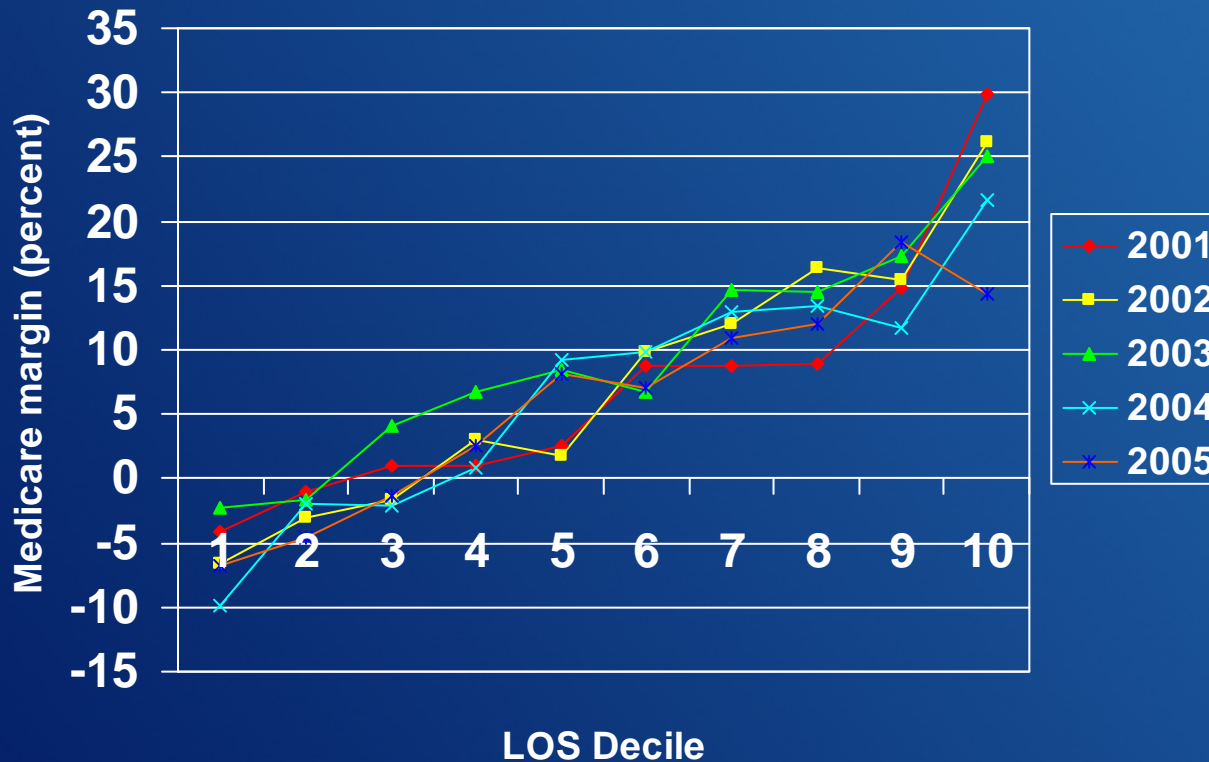
Illustration of incentives for longer LOS

- Parameters
 - First / last day cost: \$175
 - Interim day costs: \$125
 - Payment per day: \$140
- Estimated margins
 - 10 days: 3.6%
 - 45 days: 9.1%
 - 90 days: 9.9%
 - 150 days: 10.2%

Hospice Medicare margins (percent), 2005

| <u>Category</u> | <u>Margin</u> |
|------------------------------|---------------|
| Overall | 3.4 |
| For-profit | 11.8 |
| Non-profit | - 2.8 |
| Urban | 3.4 |
| Rural | 3.3 |
| Non-cap | 1.5 |
| Cap (including overpayments) | 18.9 |
| Cap (excluding overpayments) | - 2.9 |

Hospice margins increase with longer length of stay



Source: MedPAC analysis of 2001 - 2005 100% hospice claims standard analytical files (SAF) and Medicare hospice cost reports from CMS.

Dilemma

- Evidence suggests hospice can result in lower Medicare spending than conventional end of life care
- But - as hospice stays get longer, the spending differential is reduced, and may even be eliminated
- Medicare's hospice payment system contains incentives for longer stays

Policy direction

- Payment system incentives
- Accountability
- Need for more information