

Keeping pace with



THE COST OF CARE

Keeping Pace with the Quality of Today's Hospice Care

Cost of Care

National Hospice and Palliative Care
Organization



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The Medicare Hospice Benefit is 20 years old. Since hospice legislation was passed in 1982, the benefit has provided more than 4 million Americans with end-of-life care of unparalleled quality. But 20 years later, the underlying reimbursement mechanisms of this milestone in American health care must be updated to keep pace with new trends and to promote continued access and growth.

Today's hospice care – like the rest of our healthcare system – has seen enormous progress and change. Hospice is caring for more people every year – continuously enhancing quality and providing state-of-the-art medical care and social, emotional, and spiritual support. But compared with 20 years ago, more intense levels of care, shorter lengths of service, and more advanced, more expensive interventions, pharmaceuticals, and treatments now typify today's hospice care. And like the rest of health care, change and progress have come with challenges. The costs of hospice care have skyrocketed, and Medicare reimbursement lends have not kept pace.

Today, Medicare reimbursement for routine home hospice care does not cover the costs incurred by hospice organizations to deliver this service. *The Costs of Hospice Care: An Actuarial Evaluation of the Medicare Hospice Benefit* – a recent study by the National Hospice and Palliative Care Organization (NHPCO) and the highly respected actuarial firm Milliman USA, Inc. found that – on average – hospice costs exceed revenue by about 10 to 20 percent.¹ The complete study is available at www.nhpc.org.

The findings and conclusions of *The Costs of Hospice Care* are summarized and referenced here; they clearly show that if no changes are made, the dynamics of hospice care will only increase financial pressure in the future. Continuing shortfalls of this magnitude would be serious for any healthcare sector and pose significant financial threats to hospice care.

To better understand why today's hospices are facing financial challenges, NHPCO sought to compare hospice costs with hospice revenue. Based on the analysis of 1998-1999 hospice cost and service data from nearly 10,000 patients, *The Costs of Hospice Care* identified two important contributors to the shortfalls that hospices are experiencing today:

The intensity of hospice services has increased dramatically resulting in an increase in the hospice cost per day. The rapid growth in prescription drug and outpatient costs has especially contributed to this increase. In addition, Medicare does not reimburse hospices for required and essential services and activities such as grief and bereavement support and volunteer coordination that add to hospice care's value to patients, families, and communities.

The length of time patients actually receive hospice services has decreased resulting in an increase in per-diem costs for each patient, while per-diem income has remained flat.

In the future, this costly combination – the downward trend in average length of hospice service, the current structure of Medicare reimbursement, and the increased intensity of needed care services – strongly leads to the conclusion that financial shortfalls will probably grow for routine home care hospice services.

The Medicare Hospice Benefit: Two Decades of Progress

The Medicare program put into place the original Medicare Hospice reimbursement rate in 1983 after analyzing two years of data from 3,889 hospice patients who participated in a Medicare demonstration project.² Reimbursement for four separate levels of care was established including routine home care, continuous home care, inpatient respite care, and general inpatient care.

Routine home care accounts for 95 percent of hospice care days, according to a Medicare sample from 1998.³ Routine home care includes visits by registered nurses, home health aides, social workers, and spiritual caregivers plus a wide range of other services including durable medical equipment, physician home visits, diagnostic tests, and prescription drugs. In 1999, Medicare paid a hospice a national rate of about \$97.11 per day for each routine home care day. This rate is decreased or increased regionally by a wage index intended to account for local labor costs. A hospice patient will require varying amounts of care services on any particular day.

The Centers for Medicare & Medicaid Services (CMS), formerly the Health Care Financing Administration, estimated the original cost of delivering routine home care by analyzing the main service components of routine home care from data collected during the 1980-1982 Medicare Demonstration Project. The components included:

- Care visits (registered nurse, home health aide, social worker)
- Home respite care
- Interdisciplinary group
- Drugs
- Medical supplies
- Durable medical equipment
- Outpatient hospital services such as palliative chemotherapy or radiation

CMS based the original rate on estimates of incurred costs available in 1980–82, which considered the type of hospice care delivered *more than 20 years ago*. In the ensuing two decades, CMS has made no explicit adjustments for technological, pharmaceutical, and medical delivery advances. Many hospice organizations report these advances have increased expenses significantly, well beyond the market basket adjustments used by CMS.

1 *The Costs of Hospice Care: An Actuarial Evaluation of the Medicare Hospice Benefit*, NHPCO, Alexandria, VA, and Milliman USA, Inc. New York, NY, Cheung, Fitch and Pyenson, August 2001.

2 Federal Register Part VII, Department of Health and Human Services, Health Care Financing Administration, Medicare Program; Hospice Care; Final Ruling, December 1983.

3 The 1998 5% Medicare sample is produced annually by CMS and provides claims experience on a random sample of Medicare beneficiaries.

Congress, at hospices' urging, increased the routine home care rate in 1984, and all hospice rates in 1986, 1989, and 2001. Since 1989, CMS has adjusted the hospice payment annually, based on a hospital market basket index rate. This annual adjustment has been subject to federal deficit reduction legislation, resulting in a reduction to the index rate for each of the past several years.



As recently as 2000, in the Benefits Improvement & Protection Act, Congress increased all levels of hospice reimbursement. In addition to a five-percent across-the-board rate increase, Congress also included statutory language aimed at increasing access to hospice care and removing perceived barriers to care. Further, Congress required the Medicare Payment Advisory Commission to undertake an 18-month review of factors impacting access to hospice care. Also, the Secretary of Health and Human Services is required, within two years, to analyze the application and interpretation of current eligibility criteria and its impact on access to hospice care.

Advancing Hospice Care for Another 20 Years

In order to ensure continued growth in access to hospice care, CMS's reimbursement methodology must account for the major forces in play since the early 1980s:

- The explosion in new technology and treatments, and
- Patients are receiving hospice care much later in their terminal illness and spending less time in hospice care.

CMS's original per-patient per-day reimbursement assumed a 70-day average length of hospice service in the original demonstration project. The per-patient per-day rate spread total costs over a 70-day average length of hospice service. The average length of hospice service in NHPCO's 1999 member survey, however, was reported at 48 days. Costs have not decreased proportionately, contributing significantly to financial pressures.

Particularly striking are the rising costs for prescription medications and outpatient therapies. The 1983 Medicare demonstration project yielded a per-patient per-day cost of pharmaceuticals of \$1.06. This accounted for two percent of the total per-patient per-day costs to care for a hospice patient. *The Costs of Hospice Care* estimates the 1999 per-patient per-day cost of pharmaceuticals at \$15.72, which is 13 percent of the total per-patient per-day cost for routine home care.



The data also show an increase in intensity of outpatient services. Outpatient services include radiation therapy, chemotherapy, diagnostic testing, outpatient treatments, emergency room visits, and transportation including ambulance. The original Medicare rate for outpatient services was based on figures that showed these costs accounting for 6 percent of the total routine home care costs. *The Costs of Hospice Care* estimates the cost of outpatient services at \$17.20 per patient per day, which is 15 percent of the per-patient per-day cost for routine home care.

On the Horizon

Other pressures on the hospice providers are, at this time, hard to quantify but must be factored into any plans to update Medicare's hospice care reimbursement formulas.

Technological advances: In addition to the advances mentioned above, other improvements in technology and medical practices for palliative end-of-life care have added to the increased intensity and frequency of services needed to care for the hospice patient. Examples of these include more technologically advanced pain management techniques requiring more frequent clinical supervision and specialized skills.

Cost shifting: *The Costs of Hospice Care* indicates that recent pressures on hospitals to reduce inpatient costs and lengths of stay from both Medicare and managed care have increased the intensity of services needed to

care for hospice patients. These pressures have resulted in shorter acute care inpatient hospital stays and earlier discharge from hospital to home hospice care. A patient who enrolls in a hospice program immediately after an acute inpatient stay will require more intense and frequent services.



The Final Analysis

The analysis may understate the shortfalls in reimbursement. Current hospice cost reporting methods do not capture costs comprehensively. *The Costs of Hospice Care* relied upon data from larger hospices that can realize economies of scale. Small or rural hospice organizations that account for over half of the hospice patient population cannot readily capture such economies. They are also much more vulnerable to financial shortfalls, and current trends can be expected to especially hurt these programs.

Most hospices have, historically, depended on charitable contributions to meet their budgets. Current dynamics suggest that hospices will face increasing pressures to cut costs and increase reliance on fundraising and donations.

The Costs of Hospice Care strongly indicates the necessity of continued analysis of hospice costs – and the exploration of possible solutions to ease financial pressure upon hospices.

In the final analysis, however, it is not about reimbursement, data, or even costs. It's about quality care. It's about our grandparents, our parents – all of us. To ensure that more Americans benefit from the services of hospice care, it is time to ensure the future of hospice. It's crucial to keep pace with the cost of care because the value to our society of dignified, life-affirming care for America's dying and their loved ones is immeasurable.

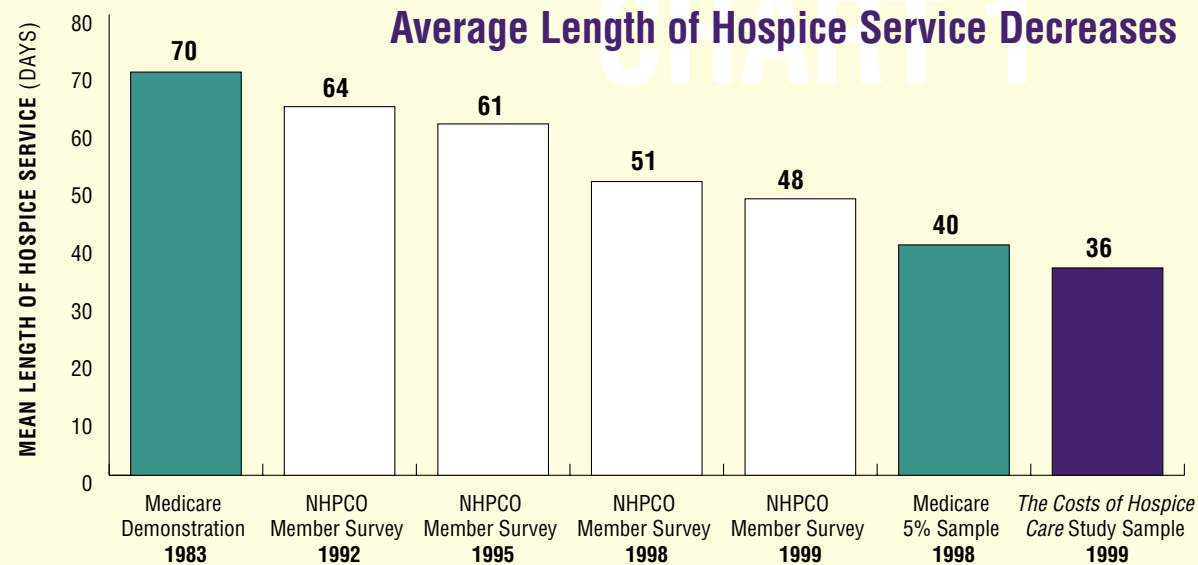
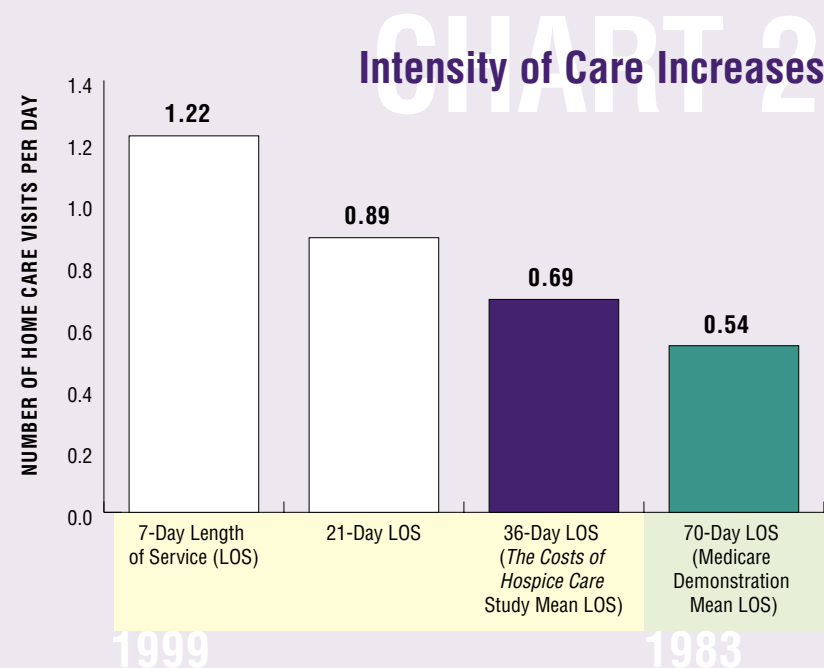


Chart 1 shows the average length of hospice service from various sources. While the sources are not strictly comparable, they indicate the trend toward shorter average length of hospice service.



Pharmaceuticals, Social Services, and Outpatient Services Factor Heavily

Pharmaceutical Costs

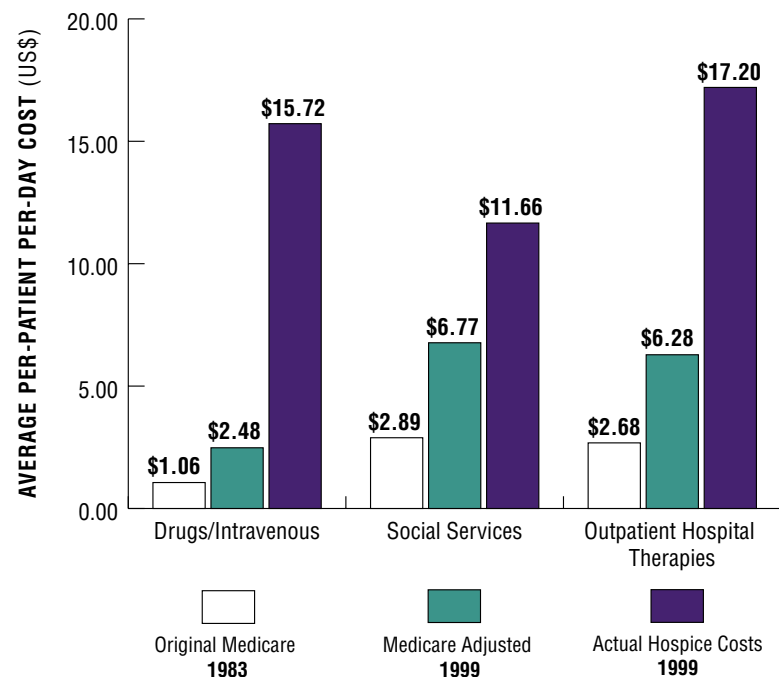
A significant finding from *The Costs of Hospice Care* is the large rise in the per-patient per-day pharmaceutical costs. As with the nation's recent overall experience with pharmaceuticals, hospices have faced increased costs for pharmaceuticals and advances in pharmacotherapy for symptom control and pain management in end-of-life care. Hospices have experienced a profound increase in per-patient per-day pharmaceutical costs. The 1983 Medicare demonstration project yielded a per-patient per-day cost of pharmaceuticals of \$1.06. This accounted for two percent of the total per-patient per-day costs to care for a hospice patient. *The Costs of Hospice Care* estimates the 1999 per-patient per-day cost of pharmaceuticals at \$15.72, which is 13 percent of the total per-patient per-day cost for routine home care.

Social Services

Rising hospice expenses are not only attributable to the rising costs of medications and technology; social services, too, factor into increasing hospice costs. Social services are a vital part of hospice's mission to address the needs of dying patients and their families. *The Costs of Hospice Care* estimates the cost of social services at \$11.66 per patient per day, which is nearly 10 percent of the per-patient per-day cost for routine home care.

Outpatient Services

The data also show an increase in intensity of outpatient services. Outpatient services include radiation therapy, chemotherapy, diagnostic testing, outpatient treatments, emergency room visits, and transportation including ambulance. The original Medicare rate for outpatient services was based on figures that showed these costs accounting for six percent of the total routine home care costs. *The Costs of Hospice Care* estimates the cost of outpatient services at \$17.20 per patient per day, which is 15 percent of the per-patient per-day cost for routine home care.



as Length of Service Decreases

Hospices receive a flat Medicare reimbursement for each day that a patient is in a hospice program. This per-diem rate is intended to allow for the variation in daily expenses over an average length of hospice service. As the average length of hospice service shrinks, however, intensive service days required at the onset of hospice enrollment and during the last phase of a terminal illness comprise a higher percentage of days. This results in a higher per-patient per-day cost to hospices, with flat reimbursement.

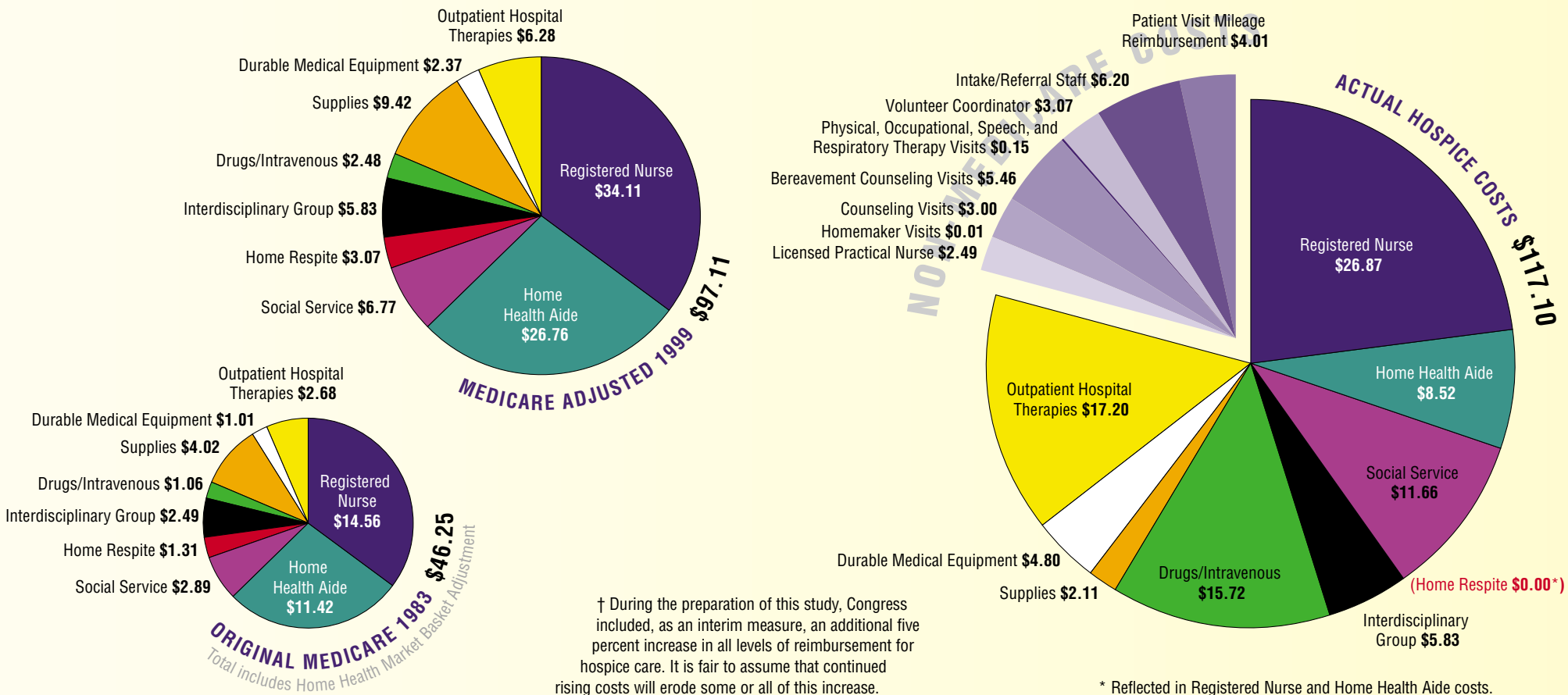
Here, the intensity of service is measured by home care visits per day. The per-patient per-day home care visits in *The Costs of Hospice Care* study were almost 20 percent higher than the per-patient per-day home care visits identified by Medicare in the 1983 demonstration project.

Together, the acuity and intensity of service needs of the patient and their families (as measured by number of home care visits per day) and a significant drop in average length of hospice service severely compound costs to hospices.

CHART 3

Graphically demonstrating the comprehensive range of hospice care services, the three pie charts show 1983 and 1999 Medicare hospice reimbursement rates and compare them with *The Costs of Hospice Care*'s estimate of \$117.10 in actual daily costs for routine home hospice care. While per-patient per-day costs for hospice services have increased significantly in almost all categories, cost increases have been most dramatic in the areas of prescription medication, social services, and outpatient services. Those comparisons are highlighted in chart 4.

Summary Comparison of 1983 Medicare Cost Components to Current Costs† ▼



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The National Hospice and Palliative Care Organization is the oldest and largest nonprofit membership organization representing hospice and palliative care programs and professionals in the United States. The organization is committed to improving end-of-life care and expanding access to hospice care with the goal of profoundly enhancing quality of life for Americans dying and their loved ones.