



To: National Hospice and Palliative Care Organization

From: Avalere Health

Date: March 12, 2014

Re: Estimated Federal Impact of a Proposal to Shift Hospice Spending to Medicare Advantage

Summary

The National Hospice and Palliative Care Organization (NHPCO) asked Avalere Health (Avalere) to estimate the federal costs or savings from a proposal to modify spending on hospice care for Medicare beneficiaries enrolled in a Medicare Advantage (MA) plan. Under current law, if a Medicare beneficiary enrolled in an MA plan elects hospice care, the Medicare fee-for-service (FFS) program is responsible for payments to hospice providers as well as for any medical care unrelated to the terminal diagnosis rather than the MA plan. The Medicare Payment Advisory Commission (MedPAC) has recently developed a policy recommendation that would instead require the MA plan to maintain primary payer responsibility for all payments for hospice enrollees.

We estimate this proposal would increase federal spending by \$1.3 billion over the 2015-2024 federal budget window. This amount reflects a combination of an estimated \$64.9 billion in new payments to MA plans to account for the estimated costs of hospice enrollees, offset by an estimated \$63.6 billion in lower spending on hospice enrollees in the traditional FFS program. Since MA plans provide care on a calendar year basis, these estimates assume implementation starting in CY 2015.

Estimated Change in Federal Spending due to Shifting Hospice Spending to Medicare Advantage

	<i>\$ in billions, by fiscal year</i>										2015-2024
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Total change in Federal spending											
Increase in MA payments	3.9	5.2	5.2	5.4	5.9	6.4	7.1	7.8	8.6	9.4	64.9
Decrease in FFS spending	-3.8	-5.1	-5.1	-5.4	-5.8	-6.3	-7.0	-7.7	-8.4	-9.1	-63.6
<i>Net change due to proposed legislation</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>	1.3

Background

Once a Medicare beneficiary is diagnosed with a terminal condition, he or she may elect to enroll in hospice to receive palliative care and forgo aggressive curative treatments. All care related to the terminal condition is provided by the hospice provider, which receives a daily payment from the Medicare fee-for-service program (FFS) to cover the costs of providing this care. The Medicare FFS system also covers the payment for any treatment outside of the hospice system for conditions that are unrelated to the hospice enrollee's terminal diagnosis.

Medicare Advantage (MA) plans are not responsible for covering the costs of hospice care nor any spending on care unrelated to the terminal diagnosis for hospice enrollees. Once an MA enrollee elects to receive hospice care, the traditional FFS program assumes the primary payer responsibility for these individuals. However, the individual is still considered "enrolled" in the MA plan. The MA plan remains responsible for providing any supplemental benefits to the hospice enrollee, including services such as vision and dental care. In addition, if the hospice enrollee receives care unrelated to the terminal diagnosis from an in-network provider with the MA plan, the enrollee is only required to pay the MA plan cost sharing amount, and the MA plan is required to pay the difference between the in-network and the traditional FFS cost sharing amounts. If the hospice enrollee receives care from an out-of-network provider, the enrollee is responsible for the entire FFS cost sharing amount.¹

MA plans submit a bid to cover traditional FFS costs in each of their markets. The Centers for Medicare & Medicaid Services (CMS) compares each plan's bid to a local benchmark which reflects the average FFS spending for individuals residing in the same market area. This benchmark ranges from 95 percent to 115 percent of the local FFS costs, depending on a variety of factors. If a plan bids below the benchmark, it receives a portion of the difference in the form of a rebate. The rebate must be used by the plan to offer additional benefits to enrollees. Importantly, the benchmark for each market does not include any payments made by the FFS program for hospice enrollees, including payments to hospice providers as well as payments for care unrelated to the terminal diagnosis.²

Once an MA enrollee elects hospice care, the plan no longer receives the portion of payment that was based on its bid. However, the MA plan still receives the rebate portion of the payment for hospice enrollees, minus any amounts that the MA plan allocated to reduce the enrollee's Part B or Part D premium. The MA plan is expected to use the rebate dollars to cover any supplemental benefits that a hospice enrollee requires, as outlined above.

Recently, the Medicare Payment Advisory Commission (MedPAC) developed a recommendation to Congress that would require MA plans to cover the costs for MA enrollees who elect hospice care. At its November 2013 meeting, MedPAC staff noted that such a policy would "promote coordination and care management" and "synchronize Medicare policy across delivery systems", while also noting that the policy could reduce the number of hospices that MA

¹ Medicare Managed Care Manual, Chapter 8 – Payments to Medicare Advantage Organizations, available at <https://www.cms.gov/Regulations-and-Guidance/Manuals/downloads/mc86c08.pdf>.

² Advance Notice of Methodological Changes for Calendar Year (CY) 2012 for Medicare Advantage (MA) Capitation Rates, Part C and Part D Payment Policies and 2012 Call Letter, available at <http://cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Downloads/Advance2012.pdf>.

enrollees could choose from as well as increase administrative costs for MA plans and hospice providers.³

Data Sources

We used the following data sources to develop our estimate:

- 2013 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trust Funds.
- Congressional Budget Office. May 2013 Medicare Baseline.
- 2010-2012 Medicare 5 Percent Limited Data Sets for all settings of care

Assumptions and Methodology

Hospice Spending and Utilization under Current Law

The 2013 Medicare Trustees Report estimates that hospice spending will be \$17 billion in 2015, increasing to \$37 billion by 2024. In addition, historical data suggests that approximately 2.5 percent of all Medicare enrollees use hospice services each year; we have assumed this ratio will remain constant over the next 10 years.

We separately developed an estimate of Medicare spending on hospice enrollees for care unrelated to the terminal diagnosis. Using the Medicare claims data, we identified all Medicare beneficiaries who elected hospice in 2011 or 2012. In order to measure the total spending on unrelated care after the election of hospice, we excluded any hospice enrollee who had a live discharge. The analysis therefore includes enrollees who died in either year or were still alive and receiving hospice care at the end of 2012.

We then measured total Medicare payments to non-hospice providers for this group of hospice enrollees. In order to avoid counting claims from providers for care prior to the election of hospice that may have been submitted for payment after the hospice start date, we included the spending for hospitals, skilled nursing facilities, and physicians if the date of service was seven or more days after the election of hospice. Due to the monthly claims submission process for home health or durable medical equipment providers, we only included Medicare spending from these providers if the date of service was 30 or more days after election of hospice.

After these adjustments, we estimate that Medicare paid approximately \$443 million in 2012 on hospice enrollees for care unrelated to their terminal diagnosis. This represents 0.2 percent of all non-hospice FFS spending. Since we estimate a relatively stable percentage of the Medicare population will use hospice services over the next 10 years, we also assumed that spending for unrelated care on hospice enrollees would represent the same percentage of total FFS spending. Using the expected growth in total FFS cost from the CBO, we estimate that Medicare will spend \$583 million for this care in 2015, increasing to \$1.2 billion in 2024.

Hospice Use by MA Enrollees

A recent study found that, after controlling for various demographic factors, MA enrollees had a higher rate of hospice use in the year preceding death than FFS enrollees.⁴ The study found

³ MedPAC "Medicare managed care topics". Presentation to the Commission on November 8, 2013. Available online at http://www.medpac.gov/transcripts/MA_topics11_13l.pdf.

that the difference in election rates had narrowed between 2003 and 2009. MedPAC recently reached a similar conclusion using 2011 claims data, finding that 49 percent of MA decedents and 44 percent of FFS decedents used hospice.⁵

For purposes of determining the federal impact of this proposal, however, we investigated the percentage of hospice enrollees who were enrolled in an MA plan versus traditional FFS. Using the same sample of beneficiaries as described above, we found that 24.2 percent of hospice enrollees in 2011 and 25.6 percent of hospice enrollees in 2012 were also MA enrollees at the time of hospice election. In the entire Medicare program, 25.5 percent of beneficiaries were enrolled in MA in 2011 and 27.0 percent were enrolled in MA in 2012. This suggests the distribution of MA-to-total enrollment in hospice is approximately 5 percent lower than the distribution of MA-to-total enrollment in the overall Medicare program.

To estimate hospice participation for MA enrollees in the future, we assumed the distribution would remain approximately 5 percent lower than the overall rate of MA enrollment. We calculated the adjusted ratio using the expected MA distribution from the CBO through 2023, and then applied this rate to our total expected hospice enrollment as described above. Using this process, we estimate in 2015 that 373,000 hospice enrollees will be enrolled in MA, increasing to 433,000 hospice enrollees in MA by 2024.

MA Payments for Hospice Enrollees under Current Law

Since MA plans are paid the rebate amount for MA enrollees who elect hospice, we determined the average rebate amount that will be paid to plans over the next 10 years. We first used the average bid and rebate amount as published in the 2013 Medicare Trustees Report. These estimates suggest that rebates will represent between five and six percent of total payments to MA plans over the next decade. We then applied this ratio to the total estimated payment to MA plans from the CBO. Based on this analysis, we estimate the average MA plan will receive an annual rebate payment of \$539 per enrollee in 2015, increasing to \$935 per enrollee in 2024.

Estimating MA Payments for Hospice Enrollees under MedPAC Proposal

In order to determine how payments to MA plans would change if all spending on hospice enrollees remained the responsibility of the MA plan, we determined how the MA benchmarks would change if FFS spending on hospice enrollees was added to the calculation. We excluded the estimated spending associated with MA enrollees, in order to determine the amount only applicable to individuals in the FFS program. We assumed that both hospice spending as well as spending on care unrelated to the terminal condition is the same for the average FFS hospice enrollee as well as the average MA hospice enrollee. This assumption is based on an analysis of the Medicare claims data for these individuals wherein we determined that the average length of hospice stay was the same in 2011 and 2012 for both types of enrollees.

To calculate the expected increase in MA benchmarks, we took the total estimated spending on all hospice enrollees minus the estimated spending on MA hospice enrollees in each year. We assumed this entire amount would be added to the MA benchmarks. Since MA benchmarks are expressed on a per capita basis, we divided this total spending by the estimated number of FFS

⁴ Stevenson, David et. al. "Service Use at the End-of-Life in Medicare Advantage Versus Traditional Medicare". Medical Care. 2013; 51(10): 931-937

⁵ MedPAC "Medicare managed care topics". Presentation to the Commission on November 8, 2013.

enrollees in the entire Medicare program in each year. Using this process, we estimate that MA benchmarks would increase by an average of \$341 in 2015 and \$531 in 2024. This represents an approximate 3.5 to 3.7 percent increase relative to the current estimated benchmark amounts.

We then estimated the increase in payments to MA plans. We assumed that plans will bid at the same ratio to FFS costs as under baseline expectations. According to estimates from the 2013 Medicare Trustees Report, the average MA plan bid will range from 97 to 98 percent of FFS costs over the next 10 years. We applied these ratios to the estimated increase in MA benchmarks and multiplied the new estimated bid by the total MA enrollment to calculate the increase in MA payments. Notably, since MA plans are already paid the rebate amounts for hospice enrollees, we did not assume any change in the rebate payments to plans.

We have not included any additional administrative costs that plans may occur from contracting and paying for hospice providers, nor have we included any assumed efficiencies that plans may develop from creating networks of lower-cost hospice providers. In addition, we have not assumed any fundamental change in the risk adjustment methodology that CMS uses to adjust payments to plans.

Estimating FFS Payments for Hospice Enrollees under MedPAC Proposal

After estimating the increase in MA payments, we next determined the expected decrease in FFS spending. Using the same assumptions as described above, we estimate that approximately 27 percent of FFS spending on hospice enrollees in 2015 would be for individuals in MA plans, and that this ratio would vary depending on the percentage of MA enrollees in the overall Medicare program. We reduced total FFS spending by the annual percentage of MA hospice enrollees.