



## Hospice Action Network

### Issue Background: Hospice Payments and the Budget Neutrality Adjustment Factor

Hospices are paid at one of four rates for each day a Medicare beneficiary receives hospice care, based on the type of care needed that day. These rates are set and annually updated pursuant to provisions in the Medicare statute. However, as with the rates of other Medicare providers, these rates also are adjusted geographically, through use of a wage index, to reflect variations in the wages that hospices must pay their staff in different areas of the country.

The hospice wage index has been a part of the Medicare hospice benefit since its inception in 1984. In an effort to more accurately reflect wage variations around the country, the original wage index formula was revised in 1997 pursuant to a “negotiated rulemaking” process that involved a series of meetings of a Negotiated Rulemaking Committee, comprised of hospice stakeholders and CMS representatives. The wage index agreed to by the Committee, and incorporated into a final rule, included the BNAF, which the Committee agreed would be maintained “during and after the [3 year] transition period” in which use of the new wage index was phased in. Use of the BNAF ensured that aggregate Medicare payments for hospice services would remain at the same level as they would have under the previous wage index.

Since 1997, the BNAF has been a part of CMS’s calculation of the hospice wage index. Until the Bush Administration proposed in 2008 to eliminate it, no one had ever suggested that it should or would ever be removed from the formula. After a gradual seven year phase out process ending in FY2016, the BNAF will no longer be used in the hospice wage index calculation. The reduction in hospice reimbursement is estimated at -4.2 percent when the phase out is complete.