Current State of the Hospice Community

November 2013
The Unique Nature of Hospice

Hospice provides quality, compassionate, comprehensive end-of-life care for people facing a life-limiting illness or injury. These patients are some of the most vulnerable and most expensive in our health care system. Hospice care is unique in that it involves a team-oriented approach to expert medical care, pain management, and emotional and spiritual support expressly tailored to the patient’s needs and wishes at the end of life. Medicare spent $170 billion, or 28% of total dollars spent on health care in 2011, on patients’ last six months of life. Of that $170 billion, only $13.8 billion was spent on hospice.¹

Research has found that the Medicare investment in hospice care has led to reduced expenditures in other parts of healthcare. A March 2013 study from the Icahn School of Medicine at Mount Sinai reveals that as the period of hospice enrollment lengths, there is a reduction in the use of hospital services and numbers of hospital days, hospital admissions and hospital deaths. As a result, hospice care translates to savings for the Medicare system overall.² Additionally, nursing home residents enrolled in hospice have been less likely to be hospitalized in the final 30 days of life (24% vs. 44%).³

The Hospice Community: The Current Landscape

Over the past 5 years, the hospice community has been on the forefront of financial and administrative changes, which has made hospice care delivery increasingly challenging. Hospices are facing a perfect storm – multiple Medicare reimbursement reductions, a series of costly regulatory changes, and hospice payment reform looming.

The National Hospice and Palliative Care Organization (NHPCO) conducted an Economic Impact Survey to evaluate the implications of recent and pending changes on the hospice community, and the community’s ability to serve patients and families. The results are alarming. With the confluence of reimbursement cuts, increased regulatory and administrative burdens, and the prospect of significant additional changes to the Medicare Hospice Benefit in the near future, the health of the hospice community is in danger. Additional cuts to hospice at this time would have a devastating effect on the quality, compassionate care that hospice provides to individuals who are terminally ill and their families.

Table 1: Assumptions for Calculating Annual Hospice Profit Margins and Estimated Median Profit Margin, 2012-2023 (Moran Company Analysis)

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Revenue Analysis</th>
<th>Cost Analysis*</th>
<th>Estimated Median Profit Margin</th>
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</thead>
<tbody>
<tr>
<td>Column</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Hospital Market-Basket Increase¹</td>
<td>3.2%</td>
<td>-0.9%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Hospice Market-Basket Adjustment²</td>
<td>3.2%</td>
<td>-0.9%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Estimated Productivity Factor³</td>
<td>3.3%</td>
<td>-1.3%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Annual Percent Reduction for BNAF Phase-Out⁴</td>
<td>3.4%</td>
<td>-1.5%</td>
<td>1.8%</td>
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<tr>
<td>Annual Change in Revenue</td>
<td>3.5%</td>
<td>-0.3%</td>
<td>1.6%</td>
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<tr>
<td>Annual Change in Revenue Due to Sequestration⁵</td>
<td>3.4%</td>
<td>-0.3%</td>
<td>1.7%</td>
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<tr>
<td>Net After Sequestration</td>
<td>3.2%</td>
<td>-0.3%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Annual Change in Costs</td>
<td>3.0%</td>
<td>-0.3%</td>
<td>1.1%</td>
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<tr>
<td>Estimated Median Profit Margin</td>
<td>3.0%</td>
<td>-0.6%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

¹ CBO March 2012 Baseline. ² ACA policy Adjustment, 1814(i)(1)(C). ³ 2013: Actual CMS estimated productivity factor, 2014–2022: CBO March 2012 Baseline. ⁴ BNAF reduction, 7 year reduction applied to the labor portion of the hospice rate (68.71%). ⁵ Medicare 2% Sequester from 2011 Budget Control Act. ⁶ Increase in costs adjusted by application of productivity factor to non-labor portion of costs (market basket = productivity factor* 31.3%).
Reductions to Hospice Reimbursement

Since 2009 hospice reimbursement has endured a series of reductions: the Budget Neutrality Adjustment Factor (BNAF) rate cut (4.2%); sequestration (2%); and the “productivity adjustment” instituted by the Affordable Care Act (ACA) (11.8% over ten years). A majority of hospices surveyed indicated that they experienced a moderate to severe effect from the combination of these cuts and even more anticipate a similarly significant effect in 2014. The Moran Company projects that hospices will soon see negative margins, even without additional changes (Table 1).

New Regulatory Requirements and Changes

At the same time hospices are adapting to lower reimbursement rates, a series of new regulatory requirements and increased data collection requirements have also been applied to hospice, and compliance with them has imposed an additional financial burden. NHPCO and the hospice community strongly support policies that promote transparency, integrity, and accountability. Compliance with state and federal operating guidelines and statutes promotes trust and confidence in providers. Moreover, adherence to regulatory requirements protects patients who are turning to hospice in increasing numbers at the end of life.

However, new requirements such as the Brief Physician Narrative, Face-to-Face encounter, and changes to the use of Debility and Failure to Thrive as primary diagnoses, coupled with additional quality and compliance measures, have NHPCO members expressing the need to hire additional staff in order to comply. Many programs (74.9%) are reporting that they have increased current employee workloads in lieu of hiring additional clinical staff. Hospices are also reporting an increase in physician time required to reassess and re-code diagnoses for patient claims. As one Economic Impact Study respondent noted, “overall, the changes we have seen seem to have decreased access to hospice for those who truly need it the most.”

Increased Expenses Related to Day-to-Day Operations

According to the Economic Impact Study, hospices are experiencing increases in pharmacy and labor costs and unreimbursed care while experiencing decreased revenue. More than 80% of hospices have seen a moderate to severe budgetary effect for the increased expenditures; close to three-quarters of hospices have increased expenditures, which represent over 5% of their annual operating budget. Hospices reported increased expenditures relating to benefits and compensation (85%), medication and supplies (83%), overhead costs (70%), and uncompensated care (68%). At a time when budgets are tight across the country, hospices are receiving greater numbers of requests for charity care but finding it more and more difficult to accommodate these patients.

Why is the Impact on Hospice so Dramatic?

Hospice is unique in that Medicare reimburses services using a flat, per-diem rate encompassing all aspects of the patient’s care, including all services delivered by the interdisciplinary team, drugs, medical equipment and supplies. Hospice care also relies far more heavily on Medicare and Medicaid reimbursements (92.3% of patients), compared to other types of providers. This poses a challenge for hospice providers, allowing little room for shifting costs in response to the financial, administrative, and regulatory challenges. MedPAC projected that the aggregate margin for the hospice community will be 6.3% in 2013.

Once other mandatory but non-reimbursable costs are included (bereavement services and volunteer programs), the aggregate margin drops to 4.6%, and that is before taking into account the effects of sequestration.

As a result, the hospice community cannot endure further erosion of their budget without taking actions such as reducing staff, assigning higher caseloads to current staff, and closing facilities, consequently limiting access to high-quality hospice care. In addition to increasing staff workload and/or caseloads, over two-thirds of hospices report spending less on continuing education, an essential element for hospices to ensure staff continues to provide high-quality care. Hospices anticipate that they will assume even greater debt in the next two years as new regulatory and quality requirements go into effect.

Protecting Access to Hospice for the Future

As hospice navigates significant challenges while maintaining the highest standards of expert medical care, pain management, and emotional and spiritual support, additional payment reforms are looming. The ACA gave the Secretary of Health and Human Services the authority to collect and analyze extensive data prior to
implementing a new payment system for hospice on or after fiscal year 2014. While no specific proposal has been identified by CMS as the expected direction for hospice payment reform, some of the options under consideration include a case mix adjuster, a rebasing of the hospice rate, a site of service adjustment for patients in nursing facilities, and a new U-shaped curve model. Moving forward too quickly with any of these options at a time when hospice is already trying to navigate the combined effects of reimbursement cuts, and increased regulatory and administrative burdens will put the health of hospice care on the brink. Moreover, the data influencing payment reform efforts come from the hospice cost reports; these reports have never been audited and CMS has acknowledged they are flawed. Medicare hospice payment reform efforts should be approached with caution and should be thoroughly tested, before being fully implemented, to evaluate the impact on all segments of the hospice community.

As Congress seeks structural reforms to entitlement programs to address the nation’s fiscal crisis and ensure long-term sustainability of the Medicare and Medicaid programs, beneficiary access to hospice care must be protected. To date, policymakers have recognized the unique nature of hospice and have protected individuals facing end of life care and their families from the burden of additional costs through deductibles or copays/coinsurance. Any changes to this model that would shift costs onto patients and families will prove extremely difficult for hospices to administer. NHPCO believes that the current treatment of hospice should be continued in the future.

NHPCO asks for your support in protecting hospice now and for future generations by preventing any further cuts to the Medicare Hospice Benefit, and by helping to preserve access to high-quality end-of-life care for the future.

For more detail on the impact of recent changes to the hospice community and to view our proactive Program Integrity Package, please visit: [www.hospiceactionnetwork.org/perfectstorm](http://www.hospiceactionnetwork.org/perfectstorm).