

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**Medicare Reimbursement for
Hospital Beds in the Home**

Prices



**JUNE GIBBS BROWN
Inspector General**

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EXECUTIVE SUMMARY

PURPOSE

To determine the reasonableness of Medicare's reimbursement for rental of hospital beds in the home when compared to other Federal, State, private insurance companies, and managed care organizations.

BACKGROUND

Medicare authorizes beneficiaries to obtain hospital beds for use in their home. This is done on the basis of a rental schedule with an option to purchase the bed. Suppliers receive monthly reimbursement from the Medicare Durable Medical Equipment Regional Carriers based upon a fee schedule. This schedule is limited by the Health Care Financing Administration's (HCFA) established national payment ceilings, and is adjusted annually for inflation based upon the Consumer Price Index. The rental fee schedule caps the rental payments at 120 percent of the allowable charge for purchase. In calendar year (CY) 1996, Medicare allowed charges of over \$272 million for the four categories of hospital beds included in this study. Semi-electric beds (code E0260) comprised 86 percent of this total while total electric beds accounted for less than one-half of one percent

We surveyed sampled entities from Medicare risk managed care organizations, Medicaid State Agencies, the top 50 health insurance companies as ranked by policies in force, and a listing of companies providing national and local coverage in the Federal Employees Health Benefits program. Overall, we achieved an 82 percent response rate.

This is one of two reports examining Medicare's policies and reimbursement for hospital bed equipment. A companion report "*Medicare Reimbursement for Hospital Beds in the Home: Payment Methodology*" OEI-07-96-00222 compares Medicare's rental reimbursement payment methodologies to those of other medical insurance payers.

FINDING

Medicare Rates for Rental of Hospital Beds for Home Use Are Substantially Higher than Rates Paid by Most Other Payers

Comparison of Average Monthly Rental Payments for Semi-Electric Beds

Ninety-seven percent of our respondents pay for rental of hospital beds (72 of 74 respondents). We analyzed the rates for each hospital bed to identify the entities that paid uniform rates for rental and those that paid variable rates which depend on locale and market competition.

Of the 51 entities furnishing information on both the rental rates and the frequency of these payments for the four categories of hospital beds included in this inspection, 37 (72.6 percent) use a uniform monthly rate schedule, and 14 (27.4 percent) pay variable rates.

We found that on average, other payers' uniform monthly rental rates were more than 14 percent lower than the corresponding Medicare monthly rate for semi-electric hospital beds. For entities using a variable rate schedule, their highest rate ranged from 22 percent above to almost 23 percent below the corresponding Medicare average rate for this bed. We found similar results for manual, manual-adjustable, and total-electric hospital beds.

Comparison of Actual Monthly Rental Rates for Semi-Electric Beds

Since Medicare, unlike other entities, pays an enhanced rate for the first 3 months of rental, we also compared their actual rate for months 1 - 3 and months 4 - 15 to the rates of other entities. We found Medicare's rates for months 1 - 3 were from 18 percent to 38 percent higher, and for months 4 - 15 were from 9 percent lower to 18 percent higher.

Maximum Potential Rental Payments

We compared Medicare's rental payments for a semi-electric hospital bed during the maximum potential rental period of 15 months to other payers' maximum rental payments. We found entities paying a uniform rate were on average over 30 percent lower than Medicare's maximum payments. Also, entities who predominately reimburse from their highest variable rate schedule were on average 30 percent lower. Those payers primarily paying from their lowest rate schedule were on average 43 percent lower. Similar results were obtained for manual, manual-adjustable and total-electric hospital beds.

RECOMMENDATION

HCFA Should Take Immediate Steps to Reduce Medicare Payments for In-Home Hospital Beds

Medicare's monthly rates for the four types of hospital beds studied, when considered with total rental payments during the 15 month extended rental period, exceed the rates of other payers by more than 14 percent. The Balanced Budget Act of 1997 provides HCFA with the necessary tools to immediately reduce rates if there is compelling evidence that their rates exceed those generally being paid in the marketplace. We believe that this is the case here. If this authority is exercised for the four types of hospital beds surveyed, we estimate that annual savings at a 12 - 15 percent reduction would be approximately \$32.7 to \$40.9 million. Projected over 5 years, Medicare would save over \$163 to \$204 million.

We also believe that the payment method used by Medicare inappropriately overcompensates for rental use during the first 3 months of each rental period. We discuss this more thoroughly in our companion report, "***Medicare Reimbursement for Hospital Beds in the Home: Payment Methodology***" ***OEI-07-96-00222***. In that report we include a recommendation that HCFA seek legislation to correct that aspect of the problem. Overall, we believe that a combination of both approaches would be best. However, the savings would not be additive.

AGENCY COMMENTS

The HCFA concurs with the intent of our recommendation and is undertaking a comparison of hospital bed rates and a competitive bidding demonstration project as a prelude to making hospital bed rate changes. Appendix F contains the complete text of these comments. We remain available to provide technical assistance to HCFA on this matter.

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INTRODUCTION

PURPOSE

To determine the reasonableness of Medicare's reimbursement for rental of hospital beds in the home when compared to other Federal, State, private insurance companies, and managed care organizations.

BACKGROUND

The Medicare Supplemental Medical Insurance program pays for the rental or purchase of medically necessary Durable Medical Equipment (DME) used in a beneficiary's home when determined by a physician to be medically required. Certain categories of DME, including hospital beds, are reimbursed as "capped rental" items.

Medicare Reimbursement Methodology for Hospital Beds

Under Medicare capped rental DME rules, a hospital bed is initially furnished to a beneficiary as a rental item. At the 10th month, the beneficiary is offered the option of purchasing a new or used bed, which is effective with the 14th month. If the beneficiary elects to continue to rent the bed, Medicare payments will end upon completion of the 15th month. After rental payments end, Medicare will pay for necessary servicing and maintenance of capped rental equipment once every 6 months (which cannot exceed the charge for a 1 month rental). When the hospital bed is no longer needed by the beneficiary (due to death or medical improvement) the supplier is free to reclaim the used item for rental or sale to other clients.

Suppliers receive monthly reimbursement from the Medicare Durable Medical Equipment Regional Carriers (DMERC) under a fee schedule. This schedule is limited by the Health Care Financing Administration's (HCFA) established national payment ceilings, and is adjusted annually for inflation based upon the Consumer Price Index. The fee schedules reimburse a supplier:

- 10 percent of the average of allowed purchase price on assigned claims for new equipment for each of the first 3 months of rental, and
- 7.5 percent of the average of allowed price for new equipment, for each of the remaining months not to exceed 12 additional months of continuous use.

Each month's rental applies toward the purchase price if the beneficiary elects this option, or applies to the 15 month maximum rental cap. Table 1 is a summary of the Medicare fee schedule. Medicare allows 105 percent for a purchased item or 120 percent if rented through the 15th month.

Table 1
Medicare Reimbursement Schedule for Hospital Beds

| <u>Rental Month</u> | <u>Percent of Purchase Price</u> | <u>Cumulative Percent</u> |
|---------------------|----------------------------------|---------------------------|
| 1 | 10.0% | 10.0% |
| 2 | 10.0% | 20.0% |
| 3 | 10.0% | 30.0% |
| 4 | 7.5% | 37.5% |
| 5 | 7.5% | 45.0% |
| 6 | 7.5% | 52.5% |
| 7 | 7.5% | 60.0% |
| 8 | 7.5% | 67.5% |
| 9 | 7.5% | 75.0% |
| 10 | 7.5% | 82.5% |
| 11 | 7.5% | 90.0% |
| 12 | 7.5% | 97.5% |
| 13 ¹ | 7.5% | 105.0% |
| 14 | 7.5% | 112.5% |
| 15 ² | 7.5% | 120.0% |

¹ If elected, the purchase option is effective upon completion of the 13th rental month.

² Rental payments terminate upon completion of the 15th rental month.

In calendar year (CY) 1996 the DMERCs allowed charges of over \$272 million for the four categories of hospital beds included in this study. Semi-electric beds (code E0260) comprised 86 percent of this total while total electric beds accounted for less than one-half of one percent (refer to Table 2).

Table 2
Allowed Charges for Hospital Beds
January 1, 1996 - December 31, 1996¹

| | |
|--|----------------------|
| Manual Hospital Bed (E0250) | \$7,085,989 |
| Manual Adjustable Hospital Bed (E0255) | \$30,720,446 |
| Semi-Electric Hospital Bed (E0260) | \$233,607,390 |
| Total Electric Hospital Bed (E0265) | \$1,084,068 |
| Total: | \$272,497,893 |

¹ Source: Statistical Analysis DMERC (Palmetto Government Benefits Administrators)

Related Studies

General Accounting Office

A July 1992 General Accounting Office (GAO) Report, "***Medicare, Program, and Beneficiary Costs Under Durable Medical Equipment Fee Schedules,***" HRD-92-78, identified the greatest increase in program costs and beneficiary liability as "capped rental" items that were purchased under the reasonable charge system, but rented under the fee schedule. The GAO noted that the Omnibus Budget Reconciliation Act (OBRA) 1990 made changes to OBRA 1987 which established national capped payment ceilings and floors for "capped rental" items, added a beneficiary purchase option in the 10th rental month (which is effective with the 14th month), and reduced the overall supplier reimbursement from 150 percent to 120 percent for equipment rented for the entire 15 month "capped rental" period.

The GAO also concluded that OBRA 1990, when fully implemented, would offset the increased program costs that occurred under OBRA 1987, and would substantially reduce the variability in rates among the carriers for the same or similar items. They estimated that Medicare program costs will be essentially the same under OBRA 1990 as they would have been under the reasonable charge system that the fee schedules replaced.

HHS/Office of Inspector General (OIG)

A May 1993 OIG report, "***Review of Medicare Part B Reimbursement of Hospital Beds,***" A-06-91-00080, found that Medicare reimbursement rates for "capped rental" hospital beds were excessive because HCFA failed to take into account the useful life of the bed and how many times it can be rented. The OIG estimated Medicare savings of \$6.2 to \$7.8 million in just one State. HCFA did not accept OIG's recommendations to change the way they reimburse for hospital beds in part because the study was limited to rentals in only one State.

Health Care Financing Administration

Public Law 103-432 § 135(c) [the 1994 Amendments to the Social Security Act] mandated that HCFA study variations in DME suppliers' product and service costs. HCFA contracted with Jing Xing Health and Safety Resources of Annandale, VA to complete this project. The report, "***Durable Medical Equipment Supplier Product and Service Cost Study,***" was released to Congress in February 1997. The report stated that ". . . the construction of a geographic payment index for DME will present a very difficult challenge to HCFA because of 1) the inability of DME suppliers to readily provide the kinds of item-specific cost data normally used by HCFA in developing geographic indices, 2) the lack of data and standardization on cost shares by product type, and 3) the likely objections that would be raised by any methodology that estimates cost shares and geographic variation using proxy data."

In response to the report, HCFA stated its belief that Medicare frequently pays too much for durable medical equipment and believes that competitive bidding, which is used by the

Department of Veterans' Affairs (VA) and other Federal, State and private health care purchasers, would ensure that reliable market prices are paid for these items. HCFA further cited its "Competitive Bid Demonstration" as a source for addressing congressional concerns. This involves a demonstration to test whether competitive bid pricing can be used to purchase some DME and supplies for Medicare beneficiaries. Hospital beds are included as one of the competitive bid items. There will be a total of three metropolitan demonstration sites in the southeast and southwest United States. The demonstration proposal, which is administered by Palmetto Government Benefits Administrators (a DMERC), is in clearance with the Office of Management and Budget. HCFA initially estimated that one of the three demonstration sites would be operational by the Spring of 1998. However, they now estimate that the study will not begin until later in the year.

A second HCFA project involves a study of the "inherent reasonableness" of Medicare payments for DME and supplies. HCFA awarded this contract to AFYA, Inc. of Adelphi, MD in November 1995, and specified analysis of 100 DME items, including hospital beds. The AFYA report has been completed, and HCFA plans to release the report information to the DMERCs for comparison against the current reimbursement rate structure.

Congressional Study

Senator Harkin (D-IA) released a staff report, "***Medicare Payments for Medical Equipment and Supplies,***" July 1996, in which his staff analyzed 18 durable medical equipment items, including hospital beds. They compared Medicare payments for purchase and rental of these items against the payments made by the Department of Veteran's Affairs (VA) Medical Center in Iowa City, IA. In addition, they compared Medicare's payments against wholesale and retail prices for these items advertised through medical equipment and supply catalogs. They found Medicare rental payments for DME and supplies to be excessive when compared to VA and wholesale payments. They estimated that by adopting the advertised wholesale price as the maximum payment amount, the Medicare program would save 40 percent, or over \$82 million annually. If Medicare paid the VA price for the bed, they estimated the Medicare program would save 37 percent, or over \$75 million annually.

Recent Legislation Impacting HCFA's Ability to Adjust Payments

As part of the ***Balanced Budget Act of 1997***, Public Law 105-33, [42 U.S.C. § 1395u(b)], Congress enacted provisions which provide HCFA greater flexibility in determining the appropriate rate of reimbursement for items and services when rates are found to be grossly excessive, deficient, or not inherently reasonable. This law allows HCFA to increase or decrease rates, without publishing Federal Register notices, up to 15 percent annually if "the payment amount for an item or service under this part is substantially higher or lower than the payment made for the item or service by other purchasers."

If HCFA determines that rates need to be adjusted by more than 15 percent annually, then it must, through the rule making process, consult with suppliers or other individuals furnishing the services, and publish the proposed revised rates in the Federal Register. Section 4316 (a) of the Balanced Budget Act amended § 1842 (b)(8)(C) of the Social Security Act to require the Secretary to consider the following factors in making “inherent reasonableness” determinations:

- Medicare and Medicaid are the sole or primary sources of payment for a category of items or services;
- the payment amounts for a category of items or services do not reflect changing technology or changes in acquisition, production or supplier costs;
- the payment amounts are grossly higher or lower than the payments made for the same category of items or services by other purchasers in the same locality; and
- other factors as determined by the Secretary to be appropriate [these factors are defined in Code of Federal Regulations Title 42 CFR § 405.502 (g)(1)].

On January 7, 1998, HCFA published an interim final rule in the Federal Register implementing the provisions of the Balanced Budget Act. This rule specified additional factors the Secretary considers to be appropriate in making “inherent reasonableness” determinations. The resulting factors include, but are not limited to, a determination that the Medicare program is paying excessive rates because:

- the marketplace is not competitive;
- the payment amounts in a particular locality grossly exceed amounts paid in other localities for the same category of items or services;
- the payment amounts grossly exceed acquisition or production costs for the category of items or services; and
- there have been increases in payment amounts that cannot be explained by inflation or technology.

METHODOLOGY

We researched the Federal laws, regulations and HCFA policies that cover the establishment, reimbursement, and purchase options for capped rental hospital beds. We also reviewed various private and governmental entities’ reimbursement methodologies for these items.

We obtained listings of Medicare risk managed care organizations (MCOs) with 450 or more members, Medicaid State agencies, the top 50 private health insurance companies in the United States as ranked by number of policies in force, and a listing of the companies providing national and local coverage through the Federal Employees Health Benefits Program (FEHB). We selected a judgmental sample from each of these groups, and requested them to complete a mailed survey questionnaire. For the sampled private insurance companies with multiple components, we surveyed their private, MCO, and government insurance divisions. In total, we contacted 90 entities.

As a means to obtain direct information and validate it, we selected a sub-sample from each of the above organizations for on-site visits. The criteria for selection was based upon size, location, and proximity to other on-site contacts for economy of travel. In addition, we sent surveys to the VA, the Indian Health Service, and the Department of Defense Tri-Care program, formerly the Office of Civilian Health and Medical Program of the Uniform Services (CHAMPUS). As part of all surveys, we requested the entities' written policies for reimbursement methods, schedules, and rates for the following types of new and used hospital beds:

- Manual Hospital Bed (HCPCS Code E0250)
- Manual Adjustable Hospital Bed (HCPCS Code E0255)
- Semi-Electric Hospital Bed (HCPCS Code E0260)
- Total Electric Hospital Bed (HCPCS Code E0265)

We inquired if these purchasers of hospital beds maintain ongoing data or have conducted studies to address supplier expenses for acquisition, delivery, setup, patient education, maintenance, tear down, pick up, sanitation, billing, or supplier profit. We also asked if they are utilizing competitive bidding for either the rental or purchase of these items. In addition, we asked them to provide both their lowest and highest payment rates for each of the beds included in this study and an estimate for the percentage of time these rates were paid. Any unclear responses were clarified by telephone and follow up contacts made to non-responders. Overall we achieved an 82 percent response rate. Appendix A breaks out the various entities surveyed and identifies responders by sample category. It should be noted that because not all responders provided answers to each question on the survey instrument, we reported our data based on the percentage of responders who answered the question. Appendix B lists the response rates for each of the sample categories.

These rates were then grouped by type of respondent and compared to the corresponding Medicare rental rates. Since the Medicare program pays a higher rate during the first three months of rental, we performed three comparative analyses. First, we totaled the Medicare rate for the entire 15 month maximum rental period and divided the result by 15 to determine Medicare's monthly average rate. This average was then compared to other entities' rental rates. Second, we compared Medicare's enhanced rental rate for months 1 - 3 and their lower rate paid for months 4 - 15 to the corresponding rates for other entities. Lastly, we compared the maximum Medicare rates for a 15 month rental to the maximum rental payments of the other entities.

This is a companion report to "***Medicare Reimbursement for Hospital Beds in the Home: Payment Methodology***" OEI-07-96-00222, which compares Medicare rental reimbursement methodology for hospital beds used in the home to policies utilized by other Federal, State, private insurance companies, and managed care organizations.

We conducted our review in accordance with the ***Quality Standards for Inspections*** issued by the President's Council on Integrity and Efficiency.

FINDING

MEDICARE RATES FOR RENTAL OF HOSPITAL BEDS FOR HOME USE ARE SUBSTANTIALLY HIGHER THAN RATES PAID BY MOST OTHER PAYERS

We found that Medicare's rate and method of payment differed from the other entities. Medicare has a two tier rate structure, an enhanced rate which is paid in the first 3 months of rental, and a lower rate that is paid for months 4 - 15 of the rental period. All other entities we surveyed paid a uniform rate. Therefore, to obtain a clearer perspective of this difference, we compared Medicare's average monthly payment to rates of other entities and then compared Medicare's actual payment amounts for both the enhanced rate for the first 3 months of rental, and months 4 - 15 to other entities rental rates.

We found that semi-electric beds accounted for over 85 percent of the CY 1996 Medicare allowable charges for the four categories of beds included in this study (refer to Table 2). The variance in semi-electric payment rates between Medicare and other payers is consistent with the other three hospital bed codes. Therefore, for this report, we decided to focus on the comparison of only the semi-electric bed rates. However, a complete comparison of four bed categories is contained in Appendix C.

Comparison of Average Monthly Rental Payments for Semi-Electric Beds

Ninety-seven percent of our respondents pay for rental of hospital beds (72 of 74 respondents). We analyzed the rates for each hospital bed by type of respondent to identify the entities that paid uniform rates for rental, and those that paid variable rates which depend on locale and market competition. Of the 51 entities furnishing both the rental rates and the frequency of these payments, 37 (72.6 percent) use a uniform monthly rate schedule and 14 (27.4 percent) pay variable rates.

We found on average, other payers' uniform monthly rental rates were more than 14 percent lower than the corresponding Medicare monthly average rate for semi-electric beds. For entities using a variable rate schedule, their highest rates ranged from 22 percent above to almost 23 percent below the corresponding Medicare average rate for this bed (refer to Table 3 for information on the percent of respondents paying at the variable "high" and "low" rates).

Table 3

Medicare’s Monthly Average Rental Rate For Semi-Electric Hospital Beds Compared to Rates of Other Payers

| Type of Rate Paid | Percent of Respondents Paying Rate | Percent Rate is Above or Below Medicare’s Rate |
|---|---|---|
| Uniform | 72.6% | -14.1% |
| Variable “High” | 15.7% | 22.0% |
| Variable “Low” | 5.9% | -22.7% |
| Pay neither “High” or “Low” Variable rate | 5.9% | Not Obtained |

Comparison of Medicare’s Monthly Rental Rates for Semi-Electric Beds to Other Payers

Since Medicare, unlike other entities, pays an enhanced rate for the first 3 months of rental, we also compared their actual rate for months 1 - 3 and months 4 - 15 to other entities’ rates for the same periods. We found Medicare’s rates for months 1 - 3 were from 18 percent to 38 percent higher and for months 4 - 15 were from 9 percent lower to 18 percent higher, the 9 percent representing the variable “high” rate paid by some entities (Table 4).

Table 4

Medicare’s Actual Rental Rates for Months 1 - 3 and Months 4-15 Compared to Rates of Other Entities

| Type of Rental Rate Compared | Mean Medicare Rental Rate 1 - 3 Months | Mean Other Entities’ Rental Rate 1 - 3 Months | Percent Difference Over / Under Medicare | Mean Medicare Rental Rate 4 - 15 Months | Mean Other Entities’ Rental Rate 4 - 15 Months | Percent Difference Over / Under Medicare |
|-------------------------------------|---|--|---|--|---|---|
| Uniform | \$153.74 ¹ | \$105.47 | -31.3% | \$115.31 | \$105.47 | -8.4% |
| Variable High | \$153.42 ² | \$125.61 | -18.2% | \$115.07 | \$125.61 | 9.0% |
| Variable Low | \$153.42 ² | \$94.83 | -38.1% | \$115.07 | \$94.83 | -17.5% |

¹ This is the mean Medicare rental rate for the 37 providers who paid a uniform rate.

² This is the mean Medicare rental rate for the 14 providers who pay either a high or low variable rate.

The difference in Medicare payment rates and those of other entities is significant, particularly since almost one-half (47 percent) of hospital bed rentals are 3 months or less in duration (Refer to Appendix D for Analysis of Duration of Hospital Bed Rental).

Maximum Potential Rental Payments

We reviewed the limits under which Medicare and the surveyed insurers paid for rentals, as this is an important factor in determining the total rental payment amount. For Medicare, the maximum reimbursable continuous rental period is 15 months. For entities paying a uniform rate, their maximum payments averaged over 30 percent lower than Medicare’s maximum payments. Also, entities which predominately reimburse from their highest variable rate schedule also averaged 30 percent lower. Those payers primarily reimbursing from their lowest rate schedule were on average 43 percent lower (refer to Table 5).

Table 5

Medicare’s Maximum Rental Reimbursement For Semi-Electric Hospital Beds Compared to Maximum Reimbursement of Other Payers

| Type of Rate Paid | Percent of Respondents Paying Rate | Percent Maximum Reimbursement is Above or Below Medicare’s Maximum Reimbursement |
|---|---|---|
| Uniform | 72.6% | -30.9% |
| Variable “High” | 15.7% | -30.0% |
| Variable “Low” | 5.9% | -43.4% |
| Predominately pay neither “High” or “Low” Variable rate | 5.9% | Not Obtained |

Similar results were obtained for manual, manual-adjustable and total-electric hospital beds. Refer to Appendix C for detailed information.

The great deviation in maximum potential payment amounts is due mainly to different payment policies between these entities and the Medicare program. We found that 60 percent of other payers end reimbursement when the total rental payments equal the amount the company would pay for outright purchase of the item. Conversely, the Medicare program allows aggregate rental payments to a maximum of 120 percent of the purchase price if the bed is rented for 15 months.

RECOMMENDATION

HCFA Should Take Immediate Steps to Reduce Medicare Payments for In-Home Hospital Beds

Federal law, regulations and Medicare policy provide that HCFA may adjust supplier reimbursement when found to be unreasonable and not comparable to rates paid in the marketplace. We have demonstrated through the survey of private and governmental payers' comparative rates that HCFA is paying too much for hospital beds. We believe that HCFA can achieve significant program savings by modifying its reimbursement policies for capped rental hospital beds to be comparable to what other insurers are paying.

Use the Newly Enacted Authority to Make an Immediate 12 to 15 Percent Reduction

Medicare's monthly rates for the four types of hospital beds studied, when considered with total rental payments during the 15 month extended rental period, exceed the rates of other payers by more than 14 percent. The Balanced Budget Act of 1997 provides HCFA with the necessary tools to immediately reduce rates if there is compelling evidence that their rates exceed those generally being paid in the marketplace. We believe that this is the case here. If this authority is exercised for the four types of hospital beds surveyed, we estimate that annual savings at a 12 - 15 percent reduction would be approximately \$32.7 to \$40.9 million. Projected over 5 years, Medicare would save over \$163 to \$204 million.³ Our savings calculations are described in detail in Appendix E.

We also believe that the payment method used by Medicare inappropriately overcompensates for rental use during the first 3 months of each rental period. We discuss this more thoroughly in our companion report, "*Medicare Reimbursement for Hospital Beds in the Home: Payment Methodology*" OEI-07-96-00222. In that report we include a recommendation that HCFA seek legislation to correct that aspect of the problem. Overall, we believe that a combination of both approaches would be best. However, the savings would not be additive.

AGENCY COMMENTS

The HCFA concurs with the intent of our recommendation and is undertaking a comparison of hospital bed rates and a competitive bidding demonstration project as a prelude to making hospital bed rate changes. Appendix F contains the complete text of these comments. We remain available to provide technical assistance to HCFA on this matter.

³ These savings estimates are based on calendar year 1996 payments and are not indexed for inflation.

APPENDIX A

ENTITIES INCLUDED IN THE SAMPLE

PRIVATE INDEMNITY COMPANIES

| <u>Name</u> | <u>State</u> | <u>Response Received</u> |
|---|--------------|--------------------------------------|
| Aetna Life and Casualty Co | CT | Y |
| Blue Cross & Blue Shield of Florida | FL | Y |
| Blue Cross & Blue Shield of Michigan | MI | Y |
| Blue Cross & Blue Shield of Texas, Inc. | TX | Y |
| Empire Blue Cross Blue Shield | NY | N |
| Metropolitan Life Insurance Company | FL | Dropped (sold to United Health Care) |
| Mutual of Omaha | NE | Y |
| New York Life Insurance Company | NE | Y |
| Prudential Insurance Company of America | PA | N |
| United Health Care (formerly Travelers) | CT | Y |
| Total Companies: 10 | | Total Responders: 7 |

MEDICAID STATE AGENCIES

| <u>Name</u> | <u>State</u> | <u>Response Received</u> |
|--|--------------|-----------------------------|
| Arizona Health Care Cost Containment System ¹ | AZ | Y ² |
| Department of Human Services ¹ | HI | Y |
| Department of Human Services | ID | Y |
| Department of Health & Mental Hygiene | MD | Y |
| Division of Medicaid | MS | Y |
| Department of Human Services | ND | Y |
| New Mexico Human Services Department | NM | Y |
| Department of Social Services | NY | Y |
| Department of Human Services ¹ | OH | Y |
| Department of Human Services | WI | Y |
| Total States: 10 | | Total Responders: 10 |

¹ Medicaid § 1115 Waiver State

² The Arizona Health Care Cost Containment System (the Medicaid State Agency) has seven subcontractors who provide Medicaid Coverage. Ventana Health Systems, provided the only response. This contractor furnishes Medicaid health care to 7 of 15 Arizona Counties.

FEDERAL EMPLOYEE HEALTH BENEFITS PROGRAM--LOCAL PLANS

| <u>Name</u> | <u>State</u> | <u>Response Received</u> |
|---|--------------|---|
| Foundation Health | CA | Y |
| CIGNA Healthcare of Colorado | CO | N |
| Health New England | CT | N |
| Suburban Health Plan, Inc. | CT | Y |
| Exclusive Health Care | IA | Y |
| BCI HMO, Inc | IL | Y |
| Personal Care Blue Shield HMO | IL | Y |
| Advantage Care, Inc. | KY | Dropped--No longer participating in FEHB Plans. |
| HMO Maine | ME | Y |
| AETNA Health Plans of the Mid-Atlantic States | MD | Y |
| Health Alliance | MI | N |
| Prudential Health Care HMO | MO | N |
| United Health Care Select | MO | Y |
| Exclusive Health Care | NE | Y |
| FHP New Mexico | NM | Y |
| Presbyterian Health Plan | NM | N |
| GHI Health Plan | NY | Y |
| Healthsource HMO of New York | NY | Y |
| Independent Health Association | NY | Y |
| Personal Care Plan of North Carolina | NC | Y |
| PHP, Inc. | NC | Y |
| HMO Health Ohio | OH | Dropped--No longer participating in FEHB Plans. |
| Prudential Northern Ohio | OH | Y |
| Pacific Care of Oregon | OR | N |
| United Health Plans of New England | RI | Y |
| Harris Methodist | TX | Y |
| HMO Blue | TX | Y |
| Total Companies Contacted: 25 ³ | | Total Responders: 19 |

³ Total does not include the two companies that no longer participate in the Federal Employees Health Benefits Program.

FEDERAL EMPLOYEE HEALTH BENEFITS PROGRAM--NATIONAL PLANS

| <u>Name</u> | <u>Response Received</u> |
|--|---------------------------------|
| Alliance | Y |
| American Postal Workers Union (APWU) | Y |
| Blue Cross & Blue Shield | Y |
| Government Employees Hospital Association (GEHA) | Y |
| Mail Handlers | Y |
| National Association of Letter Carriers (NALC) | Y |
| Postmasters | Y |
| Association Benefit Plan | Y |
| BACE | Y |
| Foreign Service | N |
| Panama Canal Area | Y |
| Rural Carrier Benefit Plan | Y |
| Special Agents' Mutual Benefit Association (SAMBA) | Y |
| Secret Service | N |
| Total Companies: 14 | Total Responders: 12 |

MEDICARE RISK HEALTH MAINTENANCE ORGANIZATIONS

| <u>Name</u> | <u>State</u> | <u>Response Received</u> |
|--|--------------|-----------------------------|
| Health Partners of Alabama | AL | Y |
| Blue Cross of Arizona | AZ | Y |
| Blue Cross of California | CA | N |
| FHP, Inc. | CA | N |
| Foundation Health, A California Plan | CA | Y |
| Kaiser Foundation HP, Inc. | CA | Y |
| Kaiser Foundation HP of Colorado | CO | Y |
| Kaiser Foundation HP of NY | CT | Y |
| AV-Med Health Plan, Inc. | FL | Y |
| U.S. Healthcare Delaware | DL | Y |
| Health Alliance Plan of Michigan | MI | N |
| Partners National Health Plans of North Carolina, Inc. | NC | Y |
| First Option Health Plan of New Jersey, Inc. | NJ | Y |
| CIGNA Healthcare of New York | NY | Y |
| Independent Health Plan, Inc | NY | N |
| NYLCARE Health Plans, Inc. | NY | Y |
| Family Health Plan, Inc. | OH | Y |
| Community Care HMO, Inc. | OK | Y |
| Kaiser Foundation of the Northwest | OR | Y |
| Geisinger Health Plan | PA | Y |
| Keystone Health Plan Central, Inc. | PA | Y |
| Qualmed Plans for Health, Inc. | PA | Y |
| U.S. Healthcare, Inc. - Delaware | PA | Y |
| U.S. Healthcare Systems of Pennsylvania | PA | Y |
| IHC Care, Inc. | UT | Y |
| Total Companies: 25 | | Total Responders: 21 |

OTHER FEDERAL GOVERNMENT HEALTH INSURANCE PROGRAMS

| <u>Name</u> | <u>Response Received</u> |
|---|---|
| Indian Health Service (Department of Health & Human Services) | Y |
| Tri-Care (Department of Defense) ⁴ | Y |
| Railroad Retirement Board (RRB) | Dropped ⁵ |
| Department of Veteran's Affairs (VA) | Y |
| Total Government Programs in Sample: 6 ⁴ | Total Responders: 5 ⁴ |

⁴ Tri-Care (formerly CHAMPUS) contracts with several insurance companies to administer the rate and method of reimbursement for claims filed under their program. Three of these contractors responded to our survey. Each was coded as a separate response, since payment rates are State specific. Comparisons were performed against Medicare's rates for those States.

⁵ We dropped the Railroad Retirement Board (RRB) from the sample. Contact with them confirmed that retirees' health claims are covered by Medicare and are processed by the DME Regional Carriers (DMERCS). Therefore, HCFA policies for payment are followed and the reimbursement rates are the same as for non RRB Medicare clients.

APPENDIX B

SAMPLE RESPONSE RATE

| Type of Health Insurer | Number in Sample | Number Responding | Response Rate |
|---|------------------|-------------------|-------------------|
| Private Indemnity Insurance | 10 | 7 | 70% |
| Medicaid State Agencies | 10 | 10 ¹ | 100% ¹ |
| Federal Employee Local Insurance Plans | 25 | 19 | 76% |
| Federal Employee National Insurance Plans | 14 | 12 | 86% |
| Medicare Risk Health Maintenance Plans | 25 | 21 | 84% |
| Other Government Health Insurers | 6 | 5 | 83% |
| Total: | 90 | 74 | 82% |

¹ The Arizona Health Care Cost Containment System (the Medicaid State Agency) has seven subcontractors who provide Medicaid Coverage. Ventana Health Systems, provided the only response. This contractor furnishes Medicaid health care to 7 of 15 Arizona Counties.

A P P E N D I X C

**MEDICARE'S
MONTHLY AND MAXIMUM
RENTAL REIMBURSEMENT
FOR HOSPITAL BEDS
COMPARED TO
REIMBURSEMENT BY
OTHER PAYERS**

**MEDICARE'S MONTHLY AND MAXIMUM RENTAL REIMBURSEMENT FOR HOSPITAL BEDS
COMPARED TO REIMBURSEMENT BY OTHER PAYERS**

Manual Non-Adjustable Hospital Bed (HCPCS Code: E0250)

| Type of Rate Paid | Number of Respondents Paying Rate | Percent of Respondents Paying Rate | Percent MONTHLY Rental Rate is Above or Below Medicare's Rate | Percent MAXIMUM Rental Payments is Above or Below Medicare's Rate |
|---|--|---|--|--|
| Uniform | 36 | 73.47% | -9.9% | -34.4% |
| Variable "High" | 8 | 16.33% | 15% | -26.0% |
| Variable "Low" | 3 | 6.12% | -31.8% | -46.7% |
| Pay neither "High" or "Low" Rate | 2 | 4.08% | Not Obtained | Not Obtained |
| Total: (66.2% of total respondents) ¹ | 49 | 100% | Not Obtained | Not Obtained |

¹ There were a total of 74 responders to the survey questionnaire. However, 25 are not included in the calculations above because: 15 (20.3% of total respondents) did not respond or could not provide either the rate or the frequency that the rate was paid 10 (13.5% of total respondents) did not cover this item for rental reimbursement.

Manual-Adjustable Hospital Bed (HCPCS Code: E0255)

| Type of Rate Paid | Number of Respondents Paying Rate | Percent of Respondents Paying Rate | Percent MONTHLY Rental Rate is Above or Below Medicare's Rate | Percent MAXIMUM Rental Payments is Above or Below Medicare's Rate |
|---|--|---|--|--|
| Uniform | 38 | 73.08% | -10.8% | -30.6% |
| Variable "High" | 10 | 19.23% | -4.6% | -39.3% |
| Variable "Low" | 3 | 5.77% | -39.9% | -56.0% |
| Pay neither "High" or "Low" Rate | 1 | 1.92% | Not Obtained | Not Obtained |
| Total: (70.2% of total respondents) ² | 52 | 100% | Not Obtained | Not Obtained |

² There were a total of 74 responders to the survey questionnaire. However, 22 are not included in the calculation above because: 17 (23% of total respondents) did not respond or could not provide either the rate or the frequency that the rate was paid 5 (6.8% of total respondents) did not cover this item for rental reimbursement.

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**MEDICARE'S MONTHLY AND MAXIMUM RENTAL REIMBURSEMENT FOR HOSPITAL BEDS
COMPARED TO REIMBURSEMENT BY OTHER PAYERS**

Semi-Electric Hospital Bed (HCPCS Code: E0260)

| Type of Rate Paid | Number of Respondents Paying Rate | Percent of Respondents Paying Rate | Percent MONTHLY Rental Rate is Above or Below Medicare's Rate | Percent MAXIMUM Rental Payments is Above or Below Medicare's Rate |
|---|--|---|--|--|
| Uniform | 37 | 72.55% | -14.1% | -30.9% |
| Variable "High" | 8 | 15.69% | 22% | -30.0% |
| Variable "Low" | 3 | 5.88% | -22.7% | -43.4% |
| Pay neither "High" or "Low" Rate | 3 | 5.88% | Not Obtained | Not Obtained |
| Total: (68.9% of total respondents) ³ | 51 | 100% | Not Obtained | Not Obtained |

³ There were a total of 74 responders to the survey questionnaire. However, 23 are not included in the calculations above because: 17 (23% of total respondents) did not respond or could not provide either the rate or the frequency that the rate was paid 6 (8.1% of total respondents) did not cover this item for rental reimbursement.

Total Electric Hospital Bed (HCPCS Code: E0265)

| Type of Rate Paid | Number of Respondents Paying Rate | Percent of Respondents Paying Rate | Percent MONTHLY Rental Rate is Above or Below Medicare's Rate | Percent MAXIMUM Rental Payments is Above or Below Medicare's Rate |
|---|--|---|--|--|
| Uniform | 36 | 70.59% | -16% | -30.9% |
| Variable "High" | 8 | 15.69% | 7.6% | -27.7% |
| Variable "Low" | 4 | 7.84% | -27.8% | -46.0% |
| Pay neither "High" or "Low" Rate | 3 | 5.88% | Not Obtained | Not Obtained |
| Total: (68.9% of total respondents) ⁴ | 51 | 100% | Not Obtained | Not Obtained |

³ There were a total of 74 responders to the survey questionnaire. However, 23 are not included in the calculations above because: 16 (21.6% of total respondents) did not respond or could not provide either the rate or the frequency that the rate was paid 7 (9.5% of total respondents) did not cover this item for rental reimbursement.

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APPENDIX D

| Duration of Hospital Bed Rental by Medicare Beneficiaries ¹ | | | | | |
|---|--|---|---|---|--|
| Rental Month | Percent Renting Semi Electric Hospital Beds | Percent Renting Manual- Adjustable Hospital Beds | Percent Renting Manual Hospital Beds | Percent Renting Total-Electric Hospital Beds | Total Percentage of Beneficiaries Renting Hospital Beds |
| 1 | 77.28% | 16.17% | 4.20% | 2.35% | 100.00% |
| 2 | 50.51% | 10.16% | 2.75% | 1.25% | 64.67% |
| 3 | 41.16% | 8.53% | 2.26% | 0.23% | 52.18% |
| 4 | 35.07% | 7.39% | 1.93% | 0.18% | 44.57% |
| 5 | 30.83% | 6.60% | 1.68% | 0.10% | 39.21% |
| 6 | 27.48% | 5.96% | 1.49% | 0.07% | 35.00% |
| 7 | 24.81% | 5.43% | 1.34% | 0.06% | 31.64% |
| 8 | 22.65% | 5.01% | 1.21% | 0.06% | 28.93% |
| 9 | 20.76% | 4.62% | 1.10% | 0.07% | 26.55% |
| 10 | 18.79% | 4.21% | 0.99% | 0.06% | 24.05% |
| 11 | 16.93% | 3.81% | 0.86% | 0.06% | 21.66% |
| 12 | 15.25% | 3.42% | 0.77% | 0.04% | 19.48% |
| 13 | 13.65% | 3.06% | 0.68% | 0.05% | 17.44% |
| 14 | 10.52% | 2.54% | 0.53% | 0.05% | 13.64% |
| 15 | 9.16% | 2.21% | 0.46% | 0.02% | 11.85% |

¹ Source: Statistical Analysis Durable Medical Equipment Regional Carrier (SADMERC) based on 1996 Payment data

A P P E N D I X E

CALCULATION OF SAVINGS

BREAKOUT OF DMERC 1996 ALLOWED CHARGES FOR THE HOSPITAL BED CODES SURVEYED

| Procedure Code | DMERC Allowed Charges for 1996 | Total Allowed Charges for Rentals of only 1 Month Duration | Total Allowed Charges for Rentals of Only 2 Months Duration | Total Allowed Charges for Rentals of Only 3 Months Duration | Total Allowed Charges for Rentals of 4 - 15 Months Duration |
|-----------------------|---------------------------------------|---|--|--|--|
| E0250 | \$7,085,989 | \$2,437,580 | \$836,147 | \$559,793 | \$3,252,469 |
| E0255 | \$30,720,446 | \$11,428,006 | \$3,102,765 | \$2,150,431 | \$14,039,244 |
| E0260 | \$233,607,390 | \$80,828,157 | \$28,266,494 | \$18,454,984 | \$106,057,755 |
| E0265 | \$1,084,068 | \$576,724 | \$106,239 | \$82,389 | \$318,716 |
| Total | \$272,497,893 | \$95,270,467 | \$32,311,645 | \$21,247,597 | \$123,668,184 |

Estimated Savings if Rental Rates are Reduced by 12 Percent

| Procedure Code | DMERC Allowed Charges for 1996 | Allowed Charges If Reduced by 12 percent | Annual Savings in 1996 Dollars (Not Indexed to Inflation) | Five Year Savings Projection in 1996 Dollars (Not Indexed to Inflation) |
|-----------------------|---------------------------------------|---|--|--|
| E0250 | \$7,085,989 | \$6,235,670 | \$850,319 | \$4,251,595 |
| E0255 | \$30,720,446 | \$27,033,992 | \$3,686,454 | \$18,432,270 |
| E0260 | \$233,607,390 | \$205,574,503 | \$28,032,887 | \$140,164,435 |
| E0265 | \$1,084,068 | \$953,980 | \$130,088 | \$650,440 |
| Total | \$272,497,893 | \$239,798,145 | \$32,699,748 | \$163,498,740 |

¹ Savings estimates are based upon total DMERC Allowed Charges for January 1 - December 31, 1996 and are not indexed for inflation.

Estimated Savings if Rental Rates are Reduced by 15 Percent ¹

| Procedure Code | DMERC Allowed Charges for 1996 | Allowed Charges If Reduced by 15 Percent | Annual Savings in 1996 Dollars (Not Indexed to Inflation) | Five Year Savings Projection in 1996 Dollars (Not Indexed to Inflation) |
|-----------------------|---------------------------------------|---|--|--|
| E0250 | \$7,085,989 | \$6,023,091 | \$1,062,898 | \$5,314,490 |
| E0255 | \$30,720,446 | \$26,112,380 | \$4,608,066 | \$23,040,330 |
| E0260 | \$233,607,390 | \$198,566,280 | \$35,041,110 | \$175,205,550 |
| E0265 | \$1,084,068 | \$921,458 | \$162,610 | \$813,050 |
| Total | \$272,497,893 | \$231,623,209 | \$40,874,684 | \$204,373,420 |

¹ Savings estimates are based upon total DMERC Allowed Charges for January 1 - December 31, 1996 and are not indexed for inflation.

A P P E N D I X F

AGENCY COMMENTS



DATE: OCT 21 1998

TO: June Gibbs Brown
Inspector General

FROM: Nancy-Ann Min DeParle
Administrator

NMD

SUBJECT: Office of Inspector General (OIG) Draft Reports: "Medicare Reimbursement for Hospital Beds in the Home--Prices," (OEI-07-96-00221) and "Medicare Reimbursement for Hospital Beds in the Home--Payment Methodology," (OEI-07-96-00222)

We reviewed the above-referenced reports that examine Medicare rates paid for four categories of in-home hospital beds against the rates paid by other agencies and private insurance payers. Findings of this report indicate that Medicare rates are substantially higher than rates paid by most other payers. In particular, Medicare was the only insurer that allows a higher rate of reimbursement for rental periods lasting less than 4 months.

The Health Care Financing Administration (HCFA) concurs with the intent of the OIG recommendations. Our detailed comments follow:

OIG Recommendation - Prices (OEI-07-96-00221)

HCFA should take immediate steps to reduce Medicare payments for in-home hospital beds.

HCFA Response

We concur, and intend to take steps to do this, but we must follow the law governing the "inherent reasonableness" authority that permits HCFA to reduce Medicare payments by up to 15 percent a year only when HCFA has made a determination that current payment allowances are grossly excessive.

We have begun this process of examining Medicare's payment allowances for hospital beds by requesting payment amounts and methodologies from other purchasers of hospital beds, such as the Department of Veterans Affairs and state Medicaid agencies.

We intend to propose a payment adjustment when these data are received and a comparison is made between Medicare's payment amounts and those of the other payers. We are also conducting a competitive bidding demonstration project in Polk County,

Florida which includes hospital beds. Based on these data, and data collected by OIG as part of its study, we will then make a determination. If it is determined that Medicare payment allowances are grossly excessive, we will begin the process of making an adjustment using our inherent reasonableness authority.

OIG Recommendation - Payment Methodology (OEI-07-96-00222)

HCFA should seek legislation to eliminate the 2.5 percent enhanced rate for the first 3 months of rental. We realize that legislative action could take some time. Therefore, in the interim, we recommend that HCFA use the authority under the Balanced Budget Act of 1997 to reduce rates overall.

HCFA Response

We concur with the intent of the recommendation. Should our requested data on hospital bed pricing indicate that Medicare's allowances are excessive, we will consider Medicare's payment methodology regarding "enhanced payments" during the first 3 rental months. However, it is not clear that the approach recommended in this report (eliminating the enhanced payment methodology) is preferable to using our inherent reasonableness authority or conducting competitive bidding to address pricing issues. There are a number of factors that should be considered in determining the best approach. For example, if almost half of the Medicare beneficiaries rent beds for a period of 3 months or less, then the current policy of enhanced payment might be justified to allow suppliers to recoup their costs of transporting hospital beds to and from beneficiaries' homes. We want to work with the OIG to determine the best approach to achieve a fair price for hospital beds if the data does support that Medicare's payments are excessive.