

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**OXYGEN CONCENTRATOR
REIMBURSEMENT: MEDICARE AND THE
DEPARTMENT OF VETERANS AFFAIRS**

MANAGEMENT ADVISORY REPORT



Richard P. Kusserow
INSPECTOR GENERAL

OEI-03-91-00711

PURPOSE

To compare amounts allowed by Medicare for home oxygen concentrators to the amounts paid by the Department of Veterans Affairs (VA).

BACKGROUND

The Medicare program reimburses medically necessary home oxygen under the authority of Section 1861(s)(6) of the Social Security Act. There are three types of home stationary oxygen systems: liquid, gaseous, and concentrators.

- ▶ Liquid oxygen systems provide the highest purity of oxygen. They are prescribed for patients requiring a large amount of oxygen, generally more than four liters per minute (LPM).
- ▶ Gaseous tank systems are supplied to patients who require only two LPM rather than a continuous flow.
- ▶ Concentrators are stationary machines which operate electronically to generate higher concentrations of oxygen from room atmosphere. They are designed for patients requiring continuous oxygen with a flow rate of up to four LPM and who are house-bound or have minimal portability needs.

The Omnibus Budget Reconciliation Act of 1987 (OBRA) established reimbursement for oxygen based on a fee schedule. The fee schedule established monthly payment amounts for two broad categories of oxygen systems -- stationary and portable. By establishing only two payment rates, OBRA bundled the varieties of oxygen delivery systems, contents, and accessories into a modality neutral payment scheme.

Reimbursement for home oxygen services represents about one-half of total Medicare expenditures for durable medical equipment (DME). In 1989, Medicare allowed \$620 million for stationary oxygen equipment and contents.

The HCFA's FY 92 budget includes a proposal to reduce Medicare payments for oxygen.

Previous Office of Inspector General (OIG) Work

In 1987, the OIG conducted a study comparing Medicare reimbursement for home oxygen and oxygen equipment with amounts paid by non-Medicare payers. We found non-Medicare payers had developed cost-effective reimbursement methods for home oxygen which resulted in monthly payments as low as one-quarter the amount paid by Medicare.

One of the non-Medicare payers mentioned in the report was the VA. We contacted 122 VA hospitals and found all paid less than Medicare for each home oxygen system. The greatest difference was for oxygen concentrators.

The VA hospitals have independent authority to decide whether competitive bid procedures, open market methods, or other alternative services provided by the individual hospital would be the most cost-effective. About 73 percent of the 122 hospitals contacted provided home oxygen systems through the competitive bid process. There are currently 172 VA hospitals.

We are now identifying trends in home oxygen use. Preliminary results indicate that oxygen concentrators were the most frequently used stationary system in 1989. We estimate concentrators represented approximately 80 percent of the Medicare reimbursement for oxygen and 78 percent of oxygen services.

METHODOLOGY

We selected a random sample of 35 of the VA hospitals that had been contacted in the 1987 review. We obtained copies of the contract Award Sheet from the VA hospitals where contracts were competitively bid. (The contract award sheet lists the amount reimbursed by the VA for each type of system.) Nine hospitals were not included in our results since they owned their own oxygen equipment and contracted only for service on their equipment.

We also discussed oxygen procurement with VA hospital personnel. Discussions focused on how the oxygen services were provided, contracting policies, types of oxygen systems provided, and reimbursement costs for each system.

We obtained the HCFA 1991 DME fee schedule for oxygen and oxygen equipment. The fee schedule provides the Medicare allowed amounts for oxygen by carrier by each State. We compared the Medicare allowed amount to the VA paid amount in the State where the hospital was located. Generally, Medicare's outlay is 80% of the allowed amount.

Our review focused on oxygen concentrators since they represent a significant amount of Medicare services and reimbursement for oxygen.

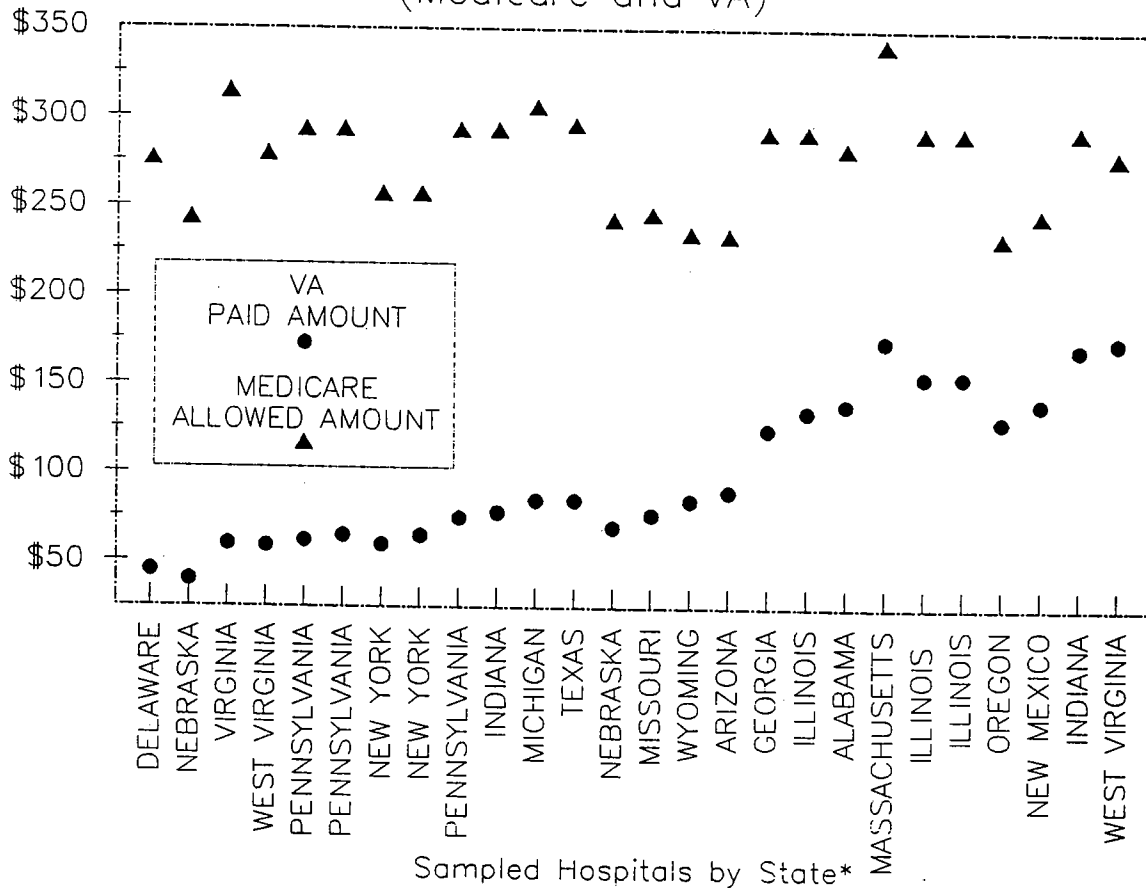
FINDING

Medicare allowed amounts were more than twice the amount the VA pays for oxygen concentrators.

Based on our 1991 sample, Medicare on the average, allowed 174 percent more than the VA reimburses for oxygen concentrators. Specifically, the VA average monthly reimbursement for an oxygen concentrator is \$100.73 while Medicare's average monthly allowance is \$276.36.

As the following chart shows, the VA reported a range of reimbursement rates for oxygen concentrators from a low of \$40.00 to a high of \$175.00 per month. Medicare's allowed amounts for oxygen concentrators range from \$232.75 to \$340.10.

VARIATION IN MONTHLY REIMBURSEMENT
FOR OXYGEN CONCENTRATORS
(Medicare and VA)



* Refers to State where VA hospital is located. States with more than one VA hospital appear more than once.

Medicare allowances range from 59 percent to 512 percent higher than the VA reimbursement. We found no instances where the Medicare allowed amount was less than the VA reimbursement.

CONCLUSION

Our report clearly demonstrates that the VA reimburses considerably less for oxygen concentrators than Medicare. This information may be useful to HCFA as a point of reference in formulating future budget proposals.