

CMS Changes Reimbursement Method for End Stage Renal Disease

On July 26, 2010, CMS announced their final decision to replace the current composite payment system for End Stage Renal Disease (ESRD) patients with a single bundled case mix-adjusted payment. The Final Rule, published August 12, 2010, explains that the new reimbursement scheme implements the payment system required by Section 153(b) of the Medicare Improvements for Patients and Providers Act (MIPPA). MIPPA calls for a single payment to be made to providers and facilities for renal dialysis services.¹ The new regulations will go into effect over a four year transition period for any procedure done after January 1, 2011.²

Under Section 2911 of the Social Security Amendments of 1972, all ESRD patients are covered under Medicare regardless of age.³ Before the August 12 Final Rule, ESRD reimbursements were processed using a basic case-mix adjusted composite payment system. Payments were calculated by taking the cost of treatment (including some drugs, tests, and supplies) adjusted by a drug add-on payment and case-mix factors which included age, body size, and pediatric status.⁴ Components of ESRD related services not covered within the composite payment included: home dialysis patients responsible for providing their own equipment and supplies; physician's professional services; separately billable laboratory services; separately billable drugs; blood and blood products; and bad debt.⁵ "Separately billable" services accounted for 40 percent of the total payment per dialysis treatment not covered within the composite payment to be billed to Medicare.⁶

The new bundled case mix-adjusted payment will consist of a base rate of \$229.63 for each dialysis treatment, adjusted by case-mix factors accounting for the following: age; body surface area; low body mass index; sex; eleven co-morbidity categories; and, the patient's dialysis longevity.⁷ Additional adjustments will be incorporated for pediatric patients, facilities with volumes under 4,000 treatments per year, patients whose care will cost significantly more than the Medicare reimbursement, and the geographic wage index.⁸ The new base rate represents a 41.7 percent increase, accounting for the addition of services previously billed separately under Medicare.⁹ Under the new methodology reimbursements for ESRD are expected to decline by two percent, or \$200 million, in 2011.¹⁰ While the

prospective payment system (PPS) system will go into effect over the next four years, oral drugs without injectable equivalents will have payments delayed until January 1, 2014. Facilities have a one-time option to be excluded from the transition period and begin receiving payments under the new system for any applicable procedure after January 1, 2011.¹¹

CMS also included in the Final Rule a proposed rule to establish a quality incentive program (QIP) component to ESRD reimbursement, also required under MIPPA. Under the QIP, institutions that did not meet or exceed quality standards by January 1, 2012 will see up to a two percent reduction in their PPS reimbursements.¹² The quality standards include two metrics that assess whether patients receive appropriate anemia treatments, and a third metric that evaluates urea reduction ratios to determine the efficiency of dialysis treatments at removing waste.¹³

The QIP is the first program allowing CMS to reduce payments if a facility fails to reach performance scores.¹⁴ Both the ESRD bundled payments and the QIP foreshadow the direction of reimbursement policies which incentivize quality of care provisions included in Patient Protection and Affordable Care Act.¹⁵

¹ "Medicare Program; End-Stage Renal Disease Prospective Payment System; Final Rule and Proposed Rule" Federal Registrar Vol. 75, No. 155 (August 12, 2010), p. 49030; "Medicare Improvements for Patients and Providers Act of 2008: Renal Dialysis Provisions" H.R. 6331§153(14)(A)(i) (July, 10, 2008).

² "Medicare Program; End-Stage Renal Disease Prospective Payment System; Final Rule and Proposed Rule" Federal Registrar Vol. 75, No. 155 (August 12, 2010), p. 49082.

³ "Medicare Program; End-Stage Renal Disease Prospective Payment System; Final Rule and Proposed Rule" Federal Registrar Vol. 75, No. 155 (August 12, 2010), p. 49031.

⁴ "End Stage Renal Disease (ESRD) Payment: Overview" Centers for Medicare and Medicaid Services, July, 22, 2010, <http://www.cms.gov/ESRDPayment/> (Accessed 8/18/10).

⁵ "End Stage Renal Disease (ESRD) Payment: Overview" Centers for Medicare and Medicaid Services, July, 22, 2010, <http://www.cms.gov/ESRDPayment/> (Accessed 8/18/10).

⁶ "End Stage Renal Disease (ESRD) Payment: Overview" Centers for Medicare and Medicaid Services, July, 22, 2010, <http://www.cms.gov/ESRDPayment/> (Accessed 8/18/10).

⁷ "Medicare Program; End-Stage Renal Disease Prospective Payment System; Final Rule and Proposed Rule" Federal Registrar Vol. 75, No. 155 (August 12, 2010), p. 49031,49082.

⁸ "Medicare Program; End-Stage Renal Disease Prospective Payment System; Final Rule and Proposed Rule" Federal

(Continued from previous page)

Registrar Vol. 75, No. 155 (August 12, 2010), p. 49031, 49063, 49065, 49118.

⁹ "The Centers for Medicare & Medicaid Services ("CMS") Issue New Prospective Payment System ("PPS") for End-Stage Renal Disease ("ESRD") Facilities" Brown McCarroll, Health Law E-Alert, August, 2, 2010; "End Stage Renal Disease (ESRD) Payment: Overview" Centers for Medicare and Medicaid Services, July, 22, 2010, <http://www.cms.gov/ESRDPayment/> (Accessed 8/18/10).

¹⁰ "ESRD Final Rule August Payment System Changes for Other Providers" By Robert M. Wolin and Gregory N. Etzel, Baker Hostetler, Health Law Update, August 5, 2010.

¹¹ "The Centers for Medicare & Medicaid Services ("CMS") Issue New Prospective Payment System ("PPS") for End-Stage Renal Disease ("ESRD") Facilities" Brown McCarroll, Health Law E-Alert, August, 2, 2010; ¹ "Medicare Program; End-Stage Renal

Disease Prospective Payment System; Final Rule and Proposed Rule" Federal Registrar Vol. 75, No. 155 (August 12, 2010), p. 49082.

¹² "ESRD Final Rule August Payment System Changes for Other Providers" By Robert M. Wolin and Gregory N. Etzel, Baker Hostetler, Health Law Update, August 5, 2010.

¹³ "ESRD Final Rule August Payment System Changes for Other Providers" By Robert M. Wolin and Gregory N. Etzel, Baker Hostetler, Health Law Update, August 5, 2010.

¹⁴ "ESRD Final Rule August Payment System Changes for Other Providers" By Robert M. Wolin and Gregory N. Etzel, Baker Hostetler, Health Law Update, August 5, 2010.

¹⁵ "ESRD Final Rule August Payment System Changes for Other Providers" By Robert M. Wolin and Gregory N. Etzel, Baker Hostetler, Health Law Update, August 5, 2010.



(800) FYI - VALU

*Providing Solutions
in the Era of
Healthcare Reform*

Founded in 1993, HCC is a
nationally recognized healthcare
economic financial consulting firm

- [HCC Home](#)
- [Firm Profile](#)
- [HCC Services](#)
- [HCC Experts](#)
- [Clients Projects](#)
- [HCC News](#)
- [Upcoming Events](#)
- [Contact Us](#)
- [Email Us](#)

HEALTH CAPITAL CONSULTANTS (HCC) is an established, nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, Missouri, with regional personnel nationwide. Founded in 1993, HCC has served clients in over 45 states, in providing services including: valuation in all healthcare sectors; financial analysis, including the development of forecasts, budgets and income distribution plans; healthcare provider related intermediary services, including integration, affiliation, acquisition and divestiture; Certificate of Need (CON) and regulatory consulting; litigation support and expert witness services; and, industry research services for healthcare providers and their advisors. HCC's accredited professionals are supported by an experienced research and library support staff to maintain a thorough and extensive knowledge of the healthcare reimbursement, regulatory, technological and competitive environment.



Robert James Cimasi, MHA, ASA, FRICS, MCBA, AVA, CM&AA, serves as President of **HEALTH CAPITAL CONSULTANTS (HCC)**, a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Intuition of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: *“The U.S. Healthcare Certificate of Need Sourcebook”* [2005 - Beard Books], *“An Exciting Insight into the Healthcare Industry and Medical Practice Valuation”* [2002 – AICPA], and *“A Guide to Consulting Services for Emerging Healthcare Organizations”* [1999 John Wiley and Sons].

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious *“Shannon Pratt Award in Business Valuation”* conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows.



Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the Senior Vice President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician integration and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; overseen the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia, and is a Fellow of the American College of Healthcare Executives. He has co-authored *“Research and Financial Benchmarking in the Healthcare Industry”* (STP Financial Management) and *“Healthcare Industry Research and its Application in Financial Consulting”* (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser's Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.



Anne P. Sharamitaro, Esq., is the Vice President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where she focuses on the areas of Certificate of Need (CON); regulatory compliance, managed care, and antitrust consulting. Ms. Sharamitaro is a member of the Missouri Bar and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as an editor for the Journal of Health Law, published by the American Health Lawyers Association. She has presented healthcare industry related research papers before Physician Hospitals of America and the National Association of Certified Valuation Analysts and co-authored chapters in *“Healthcare Organizations: Financial Management Strategies,”* published in 2008.