

Memorandum (March 17, 2011)

TO: Office of Health Policy, NHPCO
 FROM: The Moran Company
 SUBJECT: Summary of Profit Margin Analysis for Urban and Rural Hospices, 2009-2019

The 2010 Patient Protection and Affordable Care Act (ACA) and the 2010-2011 hospice payment rules have implemented the phase-out of the Budget Neutrality Adjustment Factor (BNAF), the annual hospital market basket adjustment, and the reduction to the market basket update due to a decrease in the productivity factor. The Moran Company estimated the effect of the changes on profit margins for Medicare-certified hospices, particularly hospices that serve patients in rural areas.¹

- We estimate that the median Medicare profit margin for the hospice industry could decrease from 4% in 2008 to -11% by 2019.
- Hospices that serve mostly rural patients would be the most severely affected (profit margin decreases ranging from 0% in 2008 to -16% in 2019).
- We estimate that 66% of hospices could have negative Medicare profit margins by 2019 (61% of moderately rural and 76% of mostly rural hospices).

Summary of Analysis

Hospices were classified as urban (less than 50% of patient days in a rural county), moderately rural (50-74% rural) or mostly rural (75%+ rural) using the 2008 100% Medicare Standard Analytic Files (Table 1).

Table 1: Urban and Rural Composition of Hospices Included in Trend Analysis

	Number of Hospices	Percent of Hospices
Urban	1,618	76%
Rural	513	24%
50-74% Rural	95	4%
75-100% Rural	418	20%
Total	2,131	

Using cost and revenue data from the Hospice Cost reports and the Medicare claims data, we calculated Medicare profit margins per patient day for each hospice and estimated 2009-2019 profit margins based on the three policies affecting hospice rates (Table 2).²

We estimate that median Medicare profit margins for all hospices would decrease from 4% in 2008 to -11% by 2019 when applying the market basket update to costs (Figure 1).³ For urban hospices, median profit margins are estimated to decrease from 6% to -10%. Profit margins are also estimated to decrease significantly for rural hospices (0% to -16% for mostly rural hospices and 9% to -6% for moderately rural hospices). We estimate that the percent of hospices with negative profit margins would increase from 43% in 2008 to 66% in 2019 (Figure 2). The percent

¹ This memorandum summarizes the findings of an October, 2010, study. Please see the complete memorandum for more detail on the methodology employed for this analysis and results.

² Profit Margin = $\frac{\text{Medicare revenue/patient day} - \text{Total reimbursable/bereavement/volunteer costs/patient day}}{\text{Medicare Revenue/patient day}}$

We do not account for hospice repayments associated with the "cap" policy. Additionally, this analysis relies upon Medicare hospice cost reports which may contain errors and variations in the completeness of reporting.

³ We report trends using median profit margins rather than mean profit margins because of considerable variability and incompleteness in cost report data resulting in extreme high and low values.

of hospices with negative margins that service mostly rural areas would increase from an estimated 50% to 76%, and would increase from 39% to 61% for moderately rural hospices.

Table 2: Assumptions for Calculating Changes in Revenue and Costs for Hospice Profit Margin Trend Analysis, 2009-2019

Column	Assumptions			Revenue Analysis	Cost Analysis
	1	2	3	1 + 2 + 3	1
Effective Date (October 1)	Hospital Market-Basket Increase ¹	Annual Percent Reduction for BNAF Phase-Out ²	Estimated Productivity Factor ³	Annual Change in Revenue	Market Basket Update
2019	2.4%		-1.6%	0.8%	2.4%
2018	2.4%		-1.6%	0.8%	2.4%
2017	2.4%		-1.6%	0.8%	2.4%
2016	2.4%		-1.6%	0.8%	2.4%
2015	2.4%	-0.4%	-1.6%	0.4%	2.4%
2014	2.4%	-0.4%	-1.6%	0.4%	2.4%
2013	2.4%	-0.4%	-1.6%	0.4%	2.4%
2012	2.4%	-0.4%	-1.6%	0.4%	2.4%
2011	2.4%	-0.4%		2.0%	2.4%
2010	2.6%	-0.4%		2.2%	2.6%
2009	2.4%	-0.3%		2.1%	2.4%

¹ CBO estimates for 2012-2019; values provided for 2009-2011 are actual market-basket increases.

² BNAF reduction, 7 year reduction of 4.2%; beginning at 6.1775% in 2010. This reduction is only applied to the wage portion of the hospice rate (68.7%).

³ Productivity reduction- 1.3% for all providers with 0.3% delay to 2013 from 2010 Patient Protection and Affordable Care Act (ACA).

Figure 1: Estimated Median Profit Margins, 2008-2019

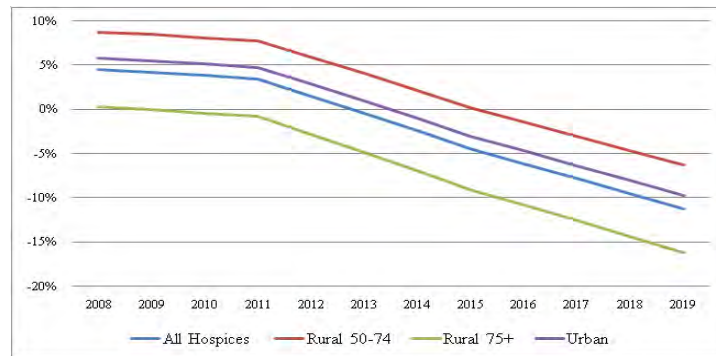


Figure 2: Estimated Percent of Hospices with Negative Profit Margins, 2008-2019

