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The Honorable William M. Thomas
Chairman, Subcommittee on Health
Committee on Ways and Means
House of Representatives

Subject: Medicare: Comparative Information on Medicare and VA Patients, Services, and Payment Rates for Home Oxygen

Dear Mr. Chairman:

In fiscal year 1996, almost 480,000 Medicare beneficiaries received home oxygen at a cost of about $1.7 billion. Studies within the Department of Health and Human Services (HHS) and legislation introduced previously in the Congress proposed reductions in the Medicare payment levels for home oxygen, but to date no rate reductions have been implemented through the regulatory processes of HHS' Health Care Financing Administration (HCFA) or through legislation.

We recently reported to the Senate Committee on Finance that Medicare's fee schedule allowances for home oxygen are significantly higher than the rates paid by the Department of Veterans Affairs (VA).[1] Our analysis showed that even after adding a 30-percent adjustment to VA rates to account for differences between the Medicare and VA programs, Medicare would have saved over $500 million in fiscal year 1996 had it reimbursed oxygen suppliers at the adjusted VA rates.

As agreed with your office, we are providing you with additional information on our analysis of the Medicare and VA payment rates. Specifically, this correspondence addresses questions and criticisms raised by the home oxygen industry about (1) the comparability of the Medicare and VA home oxygen patient populations used in our analysis, (2) differences in the frequency and

[1]Medicare: Comparison of Medicare and VA Payment Rates for Home Oxygen (GAO/HEHS-97-120R, May 15, 1997).

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quality of services Medicare and VA expect from their suppliers, (3) differences in the use of portable oxygen equipment and supplies by Medicare and VA patients, and (4) the rates paid for home oxygen by other insurers.

In summary, the medical criteria used by Medicare and VA to determine patient eligibility for home oxygen use are the same. Experts confirmed that there are no clinical or demographic differences between Medicare and VA home oxygen patients that would affect their treatment. Our analysis showed that suppliers serving VA patients must meet accreditation standards, comply with the service and quality requirements of their contracts, and are subject to quality controls. Medicare does not have comparable requirements for its home oxygen suppliers. Regarding access to portable equipment, only 75 percent of the Medicare population is provided portable equipment compared with over 97 percent of the VA patients in our sample. The VA patients also received more refills for their portable equipment than the Medicare patients in our sample. Finally, we did not compare Medicare's home oxygen payment rates with those of other insurers primarily because we could not find any other insurer with a sufficiently large patient population on home oxygen.

COMPARABILITY OF THE MEDICARE AND VA PATIENTS INCLUDED IN OUR ANALYSIS

The medical criteria for patients with pulmonary insufficiency are the same for Medicare and VA. Both Medicare and VA use criteria established by the American Thoracic Society that conform to clinical practice guidelines established by the American Association of Respiratory Care. Some VA patients receive compressed gas for the treatment of other ailments such as cluster headaches, but we excluded from our analysis all VA patients using only compressed gas. We included only VA patients who were using an oxygen concentrator or a liquid oxygen system for the treatment of pulmonary insufficiency and who were required to meet the same eligibility criteria as Medicare patients on home oxygen.

Throughout our review, we asked medical practitioners, including pulmonary specialists and respiratory therapists, whether there were any known clinical or demographic differences between Medicare and VA patients with pulmonary insufficiency that would affect the costs of providing home oxygen therapy to those two patient populations. The answer was consistently no. No individual or organization could provide us with any evidence that the Medicare and VA patient populations would require different oxygen therapy treatment for pulmonary insufficiency. A clinical study of the hospitalization rates or other patient outcomes among VA and Medicare patients receiving home oxygen was

beyond the scope of our study, and to our knowledge no other organization has performed such a study.

COMPARABILITY OF THE LEVEL AND QUALITY OF SERVICES PROVIDED TO MEDICARE AND VA PATIENTS IN OUR ANALYSIS

Although VA's adjusted payment rate for home oxygen is lower than Medicare's average fee schedule allowance, we did not find any evidence that VA patients receive fewer or lower quality services. In fact, VA medical centers have specific service requirements that oxygen suppliers must follow, while Medicare has not established standards for the frequency or quality of services for home oxygen suppliers.

In our review of about 550 Medicare patient records, we found that 49 percent of the patients received at least one clinical assessment by their supplier's respiratory therapists within a 3-month period. Another 30 percent, while not receiving a clinical assessment, were visited by the supplier for the purpose of checking the oxygen equipment. For 20 percent of Medicare patients whose records we reviewed, there was no evidence in the suppliers' records that the patient had been visited by their supplier within that 3-month period for either a clinical assessment or an equipment check. In 1994, HHS's Office of Inspector General reported on the level of services provided Medicare beneficiaries using oxygen concentrators.[2] They found that 17.5 percent of Medicare beneficiaries did not receive an equipment check within a 3-month period, while over 60 percent did not receive any other patient services, such as a clinical assessment, during that same time period.

In contrast, VA has published a program guide for all VA medical centers to follow in administering their home oxygen programs, and each oxygen supplier under contract with a VA medical center must follow the service requirements set forth in its contract. Of the 46 VA medical centers in our sample, 43 medical centers, or 93 percent, require that the supplier perform a patient assessment and/or an equipment check at least once every 3 months. Of these 43 medical centers, 36 required monthly patient assessments or equipment checks. The remaining three medical centers required that visits be conducted in accordance with the oxygen equipment manufacturers' specifications or in compliance with standards established by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

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[2]Oxygen Concentrator Services, HHS OIG, OEI-03-91-01710 (Washington, D.C.: HHS, Nov. 1994).

Consistent with VA central office policy, each of the 46 VA medical centers in our survey required that firms providing their patients with home oxygen equipment and services be accredited by JCAHO or comply with its standards. To maintain accreditation, every 3 years a supplier must demonstrate to JCAHO surveyors that the firm is sustaining a level of performance that indicates it is providing its patients with quality care.

VA does not rely on JCAHO as the only quality control check on its oxygen suppliers. For example, VA policy is to schedule random home visits for a minimum of 10 percent of VA patients on home oxygen each year. The purpose of these visits is to ensure that VA patients are receiving good quality care and that the supplier is providing the proper equipment and services as specified in its contract. Furthermore, each VA medical center is required to establish a Home Oxygen Therapy Clinic Team to monitor and evaluate the program on a continual basis. This team is composed of representatives from the various hospital departments involved with the home oxygen program.

In contrast, the Medicare program has no such quality controls in place. Medicare does not require its suppliers to be accredited by JCAHO or any other accrediting organization. To be eligible to supply home oxygen equipment and services to Medicare beneficiaries, a company must obtain a supplier number from the National Supplier Clearinghouse and follow basic business practices such as filling orders, delivering goods, honoring warranties, maintaining equipment, disclosing requested information, and accepting returns of substandard or inappropriate items from beneficiaries. Other than the broad requirement that the equipment be properly maintained, Medicare has no specialized standards that relate to the provision of home oxygen.

During our visits to oxygen suppliers, we asked them if they varied the type of care they provided their patients on the basis of the source of reimbursement for their services. They typically answered that they had established policies for providing home oxygen and that those policies applied to all patients whether their care was being paid by Medicare, VA, Medicaid, or private insurance.

USE OF PORTABLE OXYGEN EQUIPMENT AND SUPPLIES BY MEDICARE AND VA PATIENTS

The use of portable oxygen equipment by patients who are on home oxygen can increase the costs of servicing those patients because, depending on the type of equipment used, the patient may require more frequent service calls to replenish oxygen contents for portable tanks. We found that VA patients in our

sample were receiving more portable equipment and oxygen contents than Medicare patients, even though VA's adjusted payment rate is lower than Medicare's average fee schedule allowance.

Medicare claims databases show that, for about 75 percent of the Medicare patients on home oxygen, Medicare is also billed for a portable unit. In contrast, in our sample of approximately 5,000 VA patients, over 97 percent were provided portable equipment. Liquid oxygen is frequently used for patients who are highly mobile, since some patients can refill their liquid portable units from stationary liquid reservoirs in their homes. We found that 16 percent of the VA patients we sampled were using liquid systems, and 14 percent of all Medicare patients are on liquid systems. For those patients who use gas portable units, we found that, on average, the VA patients in our sample received about 4 cylinders per month. In contrast, the Medicare patients whose records we reviewed received an average of about 2 cylinders per month.

For our comparison of Medicare and VA payment rates, we included the cost of all supplies and services provided to the approximately 5,000 VA patients in our sample, including the cost of all portable systems and their contents. Even though VA provides almost all of its home oxygen patients with portable units, and Medicare was billed for portable units for only about 75 percent of its home oxygen patients, the cost of VA's home oxygen program was substantially less than Medicare's cost.

RATES PAID FOR HOME OXYGEN BY OTHER INSURERS

We did not compare Medicare's home oxygen payment rates with those of other private insurers primarily because we could not find any other insurer with a sufficiently large patient population on home oxygen. Furthermore, the coverage criteria for home oxygen not only varied from company to company but also varied within the same company on the basis of the type of coverage purchased by an individual or a group health plan. Before comparing the Medicare rates with the private insurer rates, each client's policy and coverage would have to be evaluated to determine its comparability with Medicare. Even after such an evaluation, very limited data would be available for the comparisons.

To obtain a full picture of private insurance reimbursement rates for home oxygen for comparison to Medicare, we would also want to include information on the rates negotiated between managed care firms and oxygen suppliers. However, none of the managed care plans that we contacted were willing to

discuss payment levels they had negotiated with suppliers because they considered that information proprietary.

AGENCY COMMENTS

We made draft copies of this correspondence available for review by officials at HCFA and VA. HCFA officials suggested some changes, and we modified the text to reflect their comments. VA officials stated that the draft accurately described the VA home oxygen program.

As agreed with your office, we will make no further distribution of this letter until 3 days after its date. At that time, we will make copies available to other congressional committees and Members of Congress with an interest in this matter, and to the Secretaries of Health and Human Services and Veterans Affairs.

Please call William Reis at (617) 565-7488 or me at (202) 512-7114 if you or your staff have any questions about the information in this letter. Other contributors to this document were Frank Putallaz and Suzanne Rubins.

Sincerely yours,

William J. Scanlon

William J. Scanlon
Director, Health Financing and
Systems Issues

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