



UNITED STATES GENERAL ACCOUNTING OFFICE  
REGIONAL OFFICE  
ROOM 7054, FEDERAL BUILDING  
300 NORTH LOS ANGELES STREET  
LOS ANGELES, CALIFORNIA 90012

JUN 3 1970

Mrs. Marcia Leton Kahn  
Regional Representative  
Bureau of Health Insurance  
Social Security Administration  
50 Fulton Street, Room 245  
San Francisco, California 94102



Dear Mrs. Kahn:

In November 1969, we discussed with members of your staff our initial observations on the possibility of aiding Medicare beneficiaries in getting needed durable medical equipment at lesser cost to them and to the Government. We pointed out that our work at Occidental Life Insurance Company showed that rental costs for durable medical equipment often exceeded the purchase prices. This observation was based on our sample of 150 claim files for beneficiaries who obtained durable medical equipment from three major suppliers.

We are aware of your concern with the increasing costs of Medicare and the desire of your organization to control program costs without reducing the services available to beneficiaries. Since the November 1969 meeting, we have completed additional work and have summarized for your comments certain measures which we believe could be helpful in achieving this objective.

RENTAL PAYMENTS EXCEEDED  
PURCHASE PRICE OF EQUIPMENT

The Social Security Amendments of 1967 provide for reimbursement under part B of the Medicare program of 80 percent of the costs for durable medical equipment, whether rented or purchased, including iron lungs, oxygen tents, hospital beds, and wheelchairs used in the patients' homes. The SSA Part B Intermediary Manual states that the beneficiary, rather than the carrier, makes the decision to rent or purchase durable medical equipment and may elect to rent even though purchase appears more economical.

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For the 12 months ending September 30, 1969, Occidental paid claims for medical equipment amounting to \$2,817,300, most of which was for durable equipment. In Los Angeles and Orange Counties, California, rental agreements between most of the larger suppliers and the beneficiaries carried a 1-month purchase option which provided for crediting the initial rental payment to the purchase price.

The 150 beneficiaries included in our sample acquired durable medical equipment in the following ways:

Rented	124
Purchased	21
Combination rental/purchase	<u>5</u>
	<u>150</u>

At the end of September 1969, the 150 beneficiaries had incurred \$47,741 in rental costs and \$6,792 in purchase costs. Rental charges incurred by 56 of the 150 beneficiaries exceeded the purchase prices by about \$13,000. In 19 cases, the equipment was still being rented in December 1969. During interviews with six of these 19 beneficiaries, we were told by five that they did not know that they could purchase the equipment, and one told us that he thought he could purchase the equipment but did not understand how the purchase option worked.

Rental payments exceeded the purchase prices for equipment rented by the 56 beneficiaries after an average of 7.2 months. These 56 beneficiaries actually rented equipment, however, for an average period of 13.7 months. In addition, the average rental payments for equipment rented by the 56 beneficiaries were about \$363, while the average purchase price of the same rented equipment was about \$199. Several examples of rental payments by the 56 beneficiaries that exceeded purchase prices are summarized as follows:

- A standard 2-crank hospital bed, priced at \$262, was rented for 29 months at an average rate of \$36.66. Total rent paid was \$1,063, or \$801 more than the purchase price of the equipment.

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--A walker was rented for 32 months at a rate of \$14.50. Although the purchase price for this item was only \$119, total rent payments were \$464, or \$345 more than the purchase price.

--A standard folding wheelchair, renting for \$18.50 per month, was rented for 13 months. Total rent payments for this period were \$240.50 as compared with the purchase price of \$153. Rental payments exceeded the purchase price for this item by \$87.50.

The quotation from the report of the Committee on Ways and Means on H.R. 12080 contained in your letter to us dated December 4, 1969, in response to our inquiry on this matter, indicates that SSA's position that the beneficiary, rather than the carrier, is to make the decision on whether to rent or purchase durable medical equipment appears consistent with congressional intent. However, the Medicare legislation also provides that entitlement to payment for part B services will be based on reasonable charges. Although the beneficiary has the right to rent or purchase durable medical equipment, we believe that SSA could issue regulations under the reasonable charge criteria providing that carriers determine whether rent or purchase would be more economical based on the information available at the time of the determination.

We believe that a system could be implemented enabling carriers to assist beneficiaries in making prudent rental or purchase decisions by consideration of (1) the estimated length of time the equipment will be required; (2) the length of time required for rental costs to exceed purchase costs; and (3) the need for regulatory or legislative change to permit lump-sum reimbursement of purchases of expensive items of equipment when it appears that purchasing would be more economical. Present limitations on reimbursement of purchases of expensive equipment and the need for greater compliance with requirements for physicians' prescriptions are discussed below.

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LIMITATIONS ON LUMP-SUM  
REIMBURSEMENT OF PURCHASES

Medicare legislation limits the reimbursement for purchases of expensive items of durable medical equipment to periodic payments equal to rental payments over the period of need. Reimbursement for purchases of inexpensive equipment may be made in a lump sum when less costly or more practical than periodic payments. The legislation was apparently intended to discourage purchases of expensive equipment which may be needed for short periods of use. The Part B Intermediary Manual defines inexpensive equipment as any item of durable medical equipment for which the reasonable charge is \$50 or less.

Three additional beneficiaries of the 19 still renting equipment in December 1969 informed us that they wanted to purchase the equipment but could not afford the lump-sum payment required by the suppliers. Purchase prices of the equipment rented by these beneficiaries ranged from \$294 to \$534. Occidental officials agreed that the lump-sum reimbursement regulation could discourage purchase when rental seemed less economical, but stated that they had strictly enforced the regulation by limiting lump-sum reimbursement to items of \$50 or less.

Most of the durable medical equipment rented by the beneficiaries in our sample was priced in excess of \$50, as shown below:

<u>Purchase price</u>	<u>Equipment items rented by 129 beneficiaries</u>		<u>Items rented by 56 beneficiaries whose rental payments exceeded purchase price</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
\$ 50 and under	26	13	18	23
51 - 100	41	20	21	27
101 - 200	49	24	12	15
201 - 300	16	8	9	11
301 - 500	62	31	15	19
Over \$500	<u>8</u>	<u>4</u>	<u>4</u>	<u>5</u>
Totals	<u>202</u>	<u>100</u>	<u>79</u>	<u>100</u>

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We recognize that if carriers were to determine under the reasonable charge criteria that it would be less expensive in a given case to purchase the equipment and limit reimbursement to the purchase price, it may not be reasonable to expect a beneficiary to make a lump-sum payment for the purchase and then receive partial payments on a periodic basis until 80 percent of the cost is recovered. SSA may be able to overcome this problem by revising its definition of inexpensive equipment to take into account the estimated period of use. For example, a \$50 item may be considered inexpensive if it is to be used for 3 months, but a \$100 item may also be considered inexpensive if needed for 6 months. Such a definition may be consistent with the legislation which states that lump-sum payments may be made for purchases of inexpensive equipment if the Secretary of Health, Education, and Welfare (HEW) finds that such method of payment is less costly or more practical than periodic payments.

LIMITED COMPLIANCE WITH  
REQUIREMENTS FOR PHYSICIANS'  
PRESCRIPTIONS

SSA guidelines require that each claim for durable medical equipment be accompanied by a physician's prescription as evidence of the medical necessity for such equipment. The prescription is to include the reason the equipment is required and the estimated period of need. The guidelines allow the carrier to make reasonable inferences from other information on the prescription when any required information is lacking.

Occidental officials advised us that a physician's prescription is required only when the information in the beneficiary's claim file is insufficient to establish the medical necessity for durable medical equipment. They further stated that the physician's diagnosis of the beneficiary's illness shown on the claim form is generally considered sufficient for the claims examiner's determination of medical necessity.

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Our review of the 150 cases showed that physicians' prescriptions or other billing documentation showing an estimate of the duration of need were not on file in 55 cases. Also, in 52 of the remaining 95 cases with prescriptions on file, the period of need was not specified.

Without physicians' prescriptions or other documentation evidencing the estimated duration of need for durable medical equipment, the carrier cannot determine whether rental or purchase would be more economical to the beneficiary and the Government. SSA guidelines already require that such information be available in the carrier's files. Therefore, we suggest that Occidental officials be advised that their practice is not consistent with SSA guidelines to permit determinations of the most economical rent-purchase alternatives.

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Based on our review at Occidental, it appears possible, by utilizing special computer runs, to develop overall estimates of savings available to beneficiaries and the Government through prudent rent-purchase determinations for durable medical equipment. Occidental officials advised us that to develop a program and prepare a magnetic tape listing durable medical equipment items from which a preliminary random sample of items could be selected would cost about \$1,500. Since a determination of the overall potential savings at one large carrier would provide valuable information as to the significance of the need for legislative or regulatory change, we suggest that SSA arrange for such a study.

In your letter of December 4, 1969, you suggested that legislative changes may be necessary before substantial changes can be made in SSA regulations. We have since held discussions with an HEW assistant general counsel in Baltimore who indicated that regulatory changes may be possible under existing legislation. Accordingly, you may want to submit this matter to your legal counsel for a formal determination. If a legislative change is determined to be necessary, we believe that the study we are suggesting would be helpful in developing legislative proposals.

Mrs. Marcia Leton Kahn

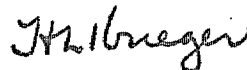
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Because some of the matters discussed in this report may warrant study at other carriers to determine the overall significance of savings available from prudent rent-purchase arrangements with a view toward determining the need for legislative or regulatory change, we are furnishing copies to appropriate officials of SSA and HEW.

We wish to acknowledge the cooperation and assistance given our representatives during the review. Your comments on the matters discussed in the report and advice as to any action taken in connection with those matters would be appreciated.

Sincerely yours,



H. L. KRIEGER  
Regional Manager