MEDICARE DIALYSIS FACILITIES

Beneficiary Access Stable and Problems in Payment System Being Addressed

What GAO Found

GAO found that from December 31, 1998, through December 31, 2001, the total number of dialysis facilities nationwide increased at about the same rate as the Medicare dialysis population, 16 and 15 percent, respectively, and the total number of stations (that is, treatment areas and equipment, including dialysis machines, needed to dialyze the patient) increased by over 24 percent, a rate greater than the growth in the Medicare dialysis population. The dialysis industry opened facilities in more counties across the country, although facilities were more likely to be available to beneficiaries in urban counties than in rural counties. In addition, while almost all facilities provided in-facility hemodialysis, fewer facilities provided home dialysis.

GAO estimates that total payments to freestanding dialysis facilities exceeded providers' allowable costs by 3 percent in 2001. Although payments were higher than costs overall, payments did not meet costs for small facilities. In addition, composite rate payments, intended to cover the costs of dialysis services associated with a treatment, including nursing, supplies, social services, and certain laboratory tests, were 11 percent less than the costs of providing those services, while payments for separately billed drugs, drugs not included in the composite rate, exceeded the costs of those services by 16 percent. Because of this imbalance, providers have an incentive to maximize the use of profitable separately billed drugs to compensate for inadequate payments under the composite rate.

CMS generally agreed with GAO's findings. The agency noted that it has been working to redesign the payment system since 2000. Under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), the Secretary of Health and Human Services is required to develop a report by October 1, 2005 detailing the elements and features necessary in the design and implementation of a broader payment system that includes separately billed drugs. MMA also requires the Secretary to conduct a 3-year demonstration project, beginning January 1, 2006, that uses a broader payment system incorporating patient characteristics identified in the report.