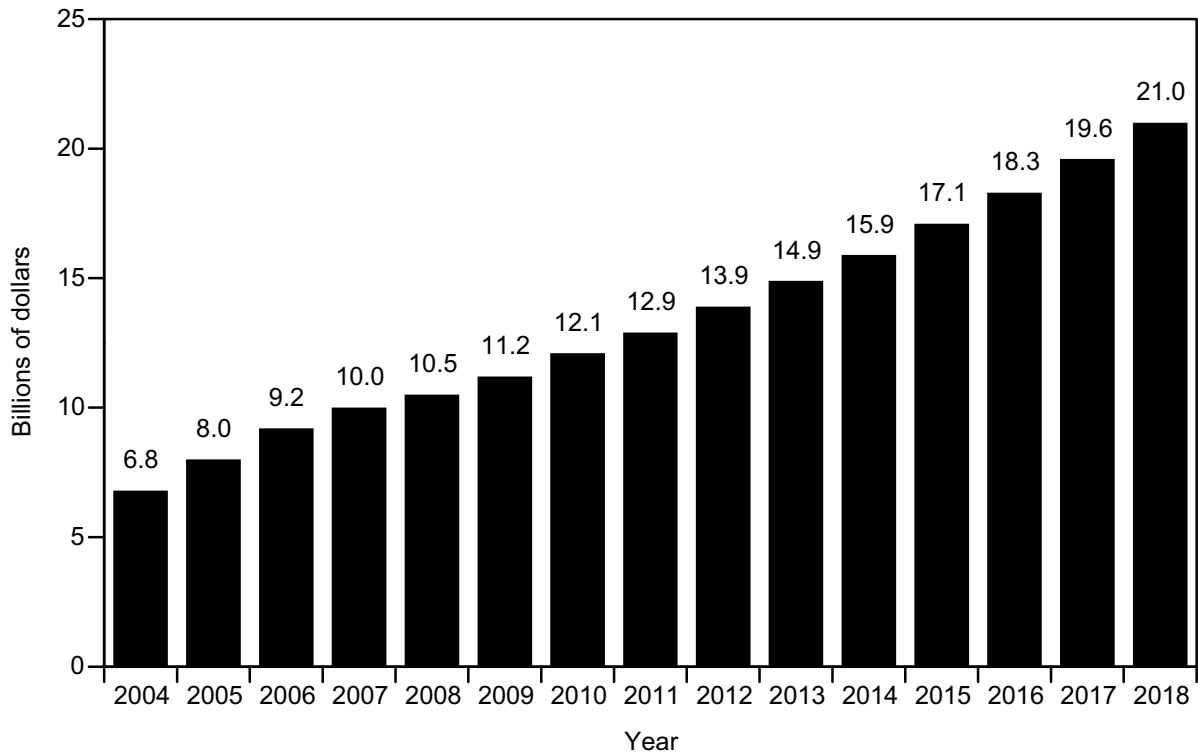


Chart 12-8. Rapid growth in Medicare hospice spending projected to continue

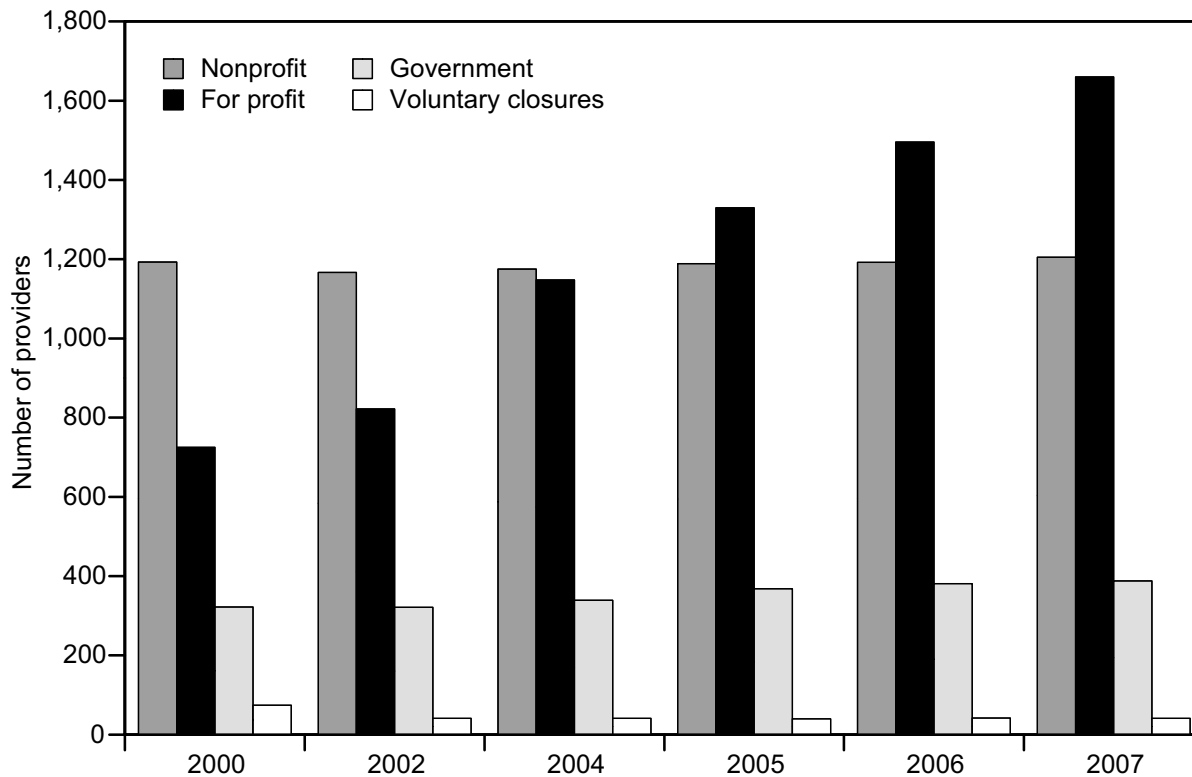


Note: 2004–2006 are incurred expenses; 2007 forward are projections.

Source: Office of the Actuary 2008 Trustees Report, Current Services.

- Medicare spending for hospice exceeded \$10 billion in 2007.
- Medicare spending for hospice is projected to more than double in the next 10 years.

Chart 12-9. Number of Medicare-participating hospices has increased, largely driven by for-profit hospices



Source: CMS Providing Data Quickly Query, February 25, 2008, https://pdq.cms.hhs.gov/report_select.jsp?which=8.

- There were over 3,200 Medicare-participating hospices in 2007. A majority of these were for-profit hospices.
- For-profit hospices have made up over 90 percent of hospices that began participating in Medicare since 2000.
- Between 2002 and 2007, just over 40 hospices voluntarily exited the Medicare program in any given year, on average.

Chart 12-10. Hospices that exceeded Medicare's annual payment cap, 2002–2005

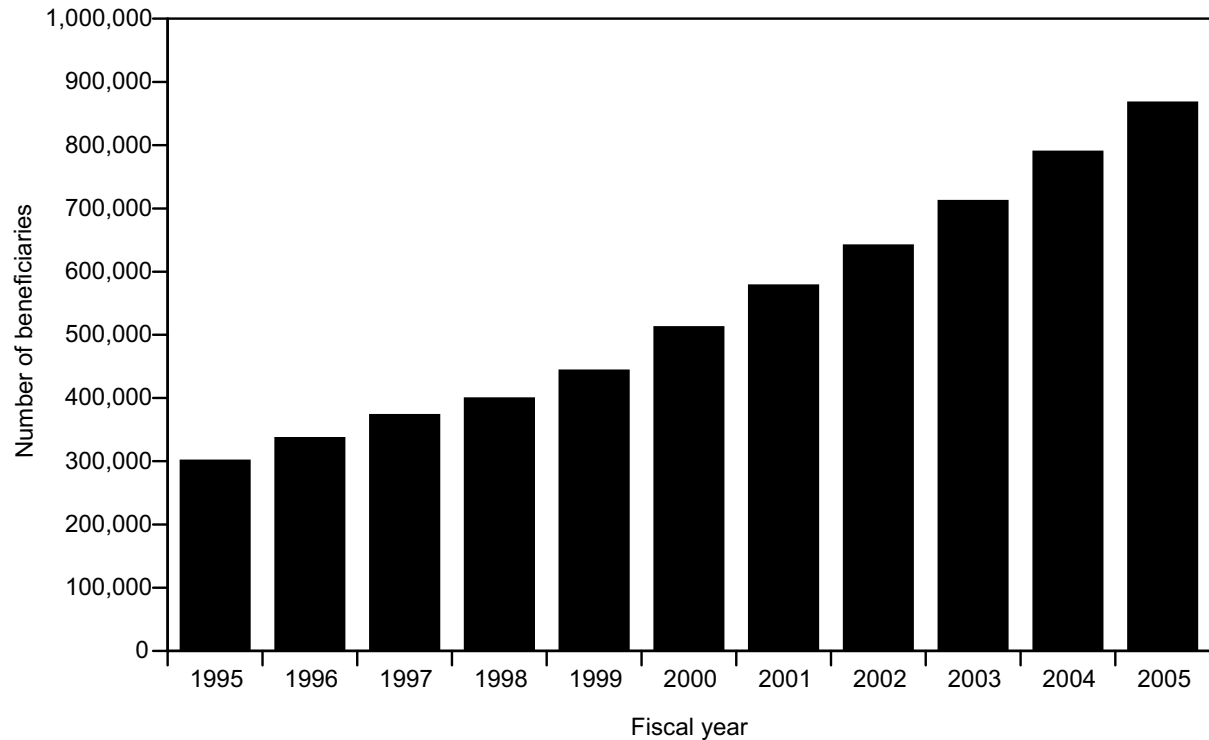
Year	2002	2003	2004	2005
Total number of hospices	2,286	2,401	2,580	2,809
Total spending (in millions)	\$4,517	\$5,682	\$6,897	\$8,155
Number of hospices exceeding cap	60	98	150	220
Percent of hospices exceeding cap	2.6%	4.1%	5.8%	7.8%
Payments over the cap subject to recovery (in millions)	\$28.2	\$65.1	\$112.3	\$166.0
Payments over the cap as percent of overall Medicare hospice spending	0.6%	1.2%	1.6%	2.0%

Note: The cap year is defined as the period beginning September 28 and ending September 27 of the following year.

Source: MedPAC analysis of 100 percent hospice standard analytical file (claims) data, 2002–2005; Medicare hospice cost reports, 2001–2005; CMS Provider of Services file data, 2002–2005; and CMS Providing Data Quickly file.

- A small but growing number of hospices exceed Medicare's aggregate average per beneficiary payment limit, or "cap."
- About 8 percent of hospices exceeded the cap in 2005. These hospices provided care for about 5 percent of Medicare hospice patients.

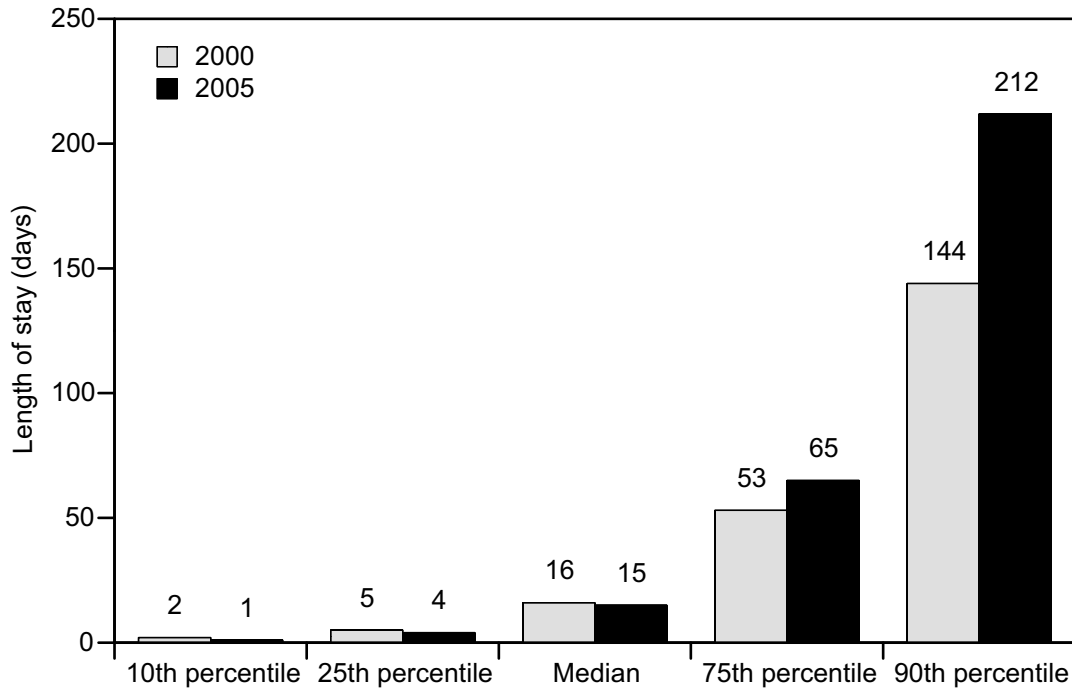
Chart 12-11. Number of unique beneficiaries using hospice, fiscal years 1995–2005



Source: Centers for Medicare & Medicaid Services, 2007. Data available at: http://www.cms.hhs.gov/PropMedicareFeeSvcPmtGen/downloads/FY05update_hospice_expenditures_and_units_of_care.pdf.

- The number of Medicare decedents who had elected hospice continues to grow.
- In 2005, about 40 percent of Medicare decedents died under the care of hospice.

Chart 12-12. Long hospice stays are getting longer, while short stays persist



Note: Data are for decedent beneficiaries in both fee-for-service Medicare and Medicare Advantage.

Source: MedPAC analysis of 2007 100 percent MBD file from CMS.

- The median length of stay in hospice was roughly two weeks (15 days) in 2005.
- Short hospice stays (those at or below the median) have remained almost unchanged between 2000 and 2005.
- Long hospice stays (those above the median) have grown longer. For example, at the 90th percentile, average length of stay increased from 144 days in 2000 to 212 days in 2005, an increase of nearly 50 percent.

Chart 12-13. Average days per hospice patient, by disease category, below-cap and above-cap hospices, all diagnoses, 2005

Disease category	Below-cap hospices			Above-cap hospices			Difference in ALOS, cap vs. non-cap
	Number of cases	Percent of total cases	ALOS	Number of cases	Percent of total cases	ALOS	
Cancer (except lung cancer)	194,089	27.2	45.9	4,831	14.5	68.3	48.9%
Lung cancer	79,560	11.2	43.6	1,914	5.8	53.6	22.9
Circulatory, except heart failure	77,653	10.9	51.4	5,200	15.7	114.2	122.1
Heart failure	57,010	8	58.3	4,184	12.6	120.5	106.8
Debility, NOS	51,616	7.2	65.1	2,485	7.5	115.5	77.3
Chronic airway obstruction, NOS	39,796	5.6	67.4	2,495	7.5	118.9	76.4
Alzheimer's and similar disease	39,572	5.5	81.9	3,184	9.6	129.7	58.4
Unspecific symptoms / signs	36,770	5.2	66.1	2,567	7.7	107.2	62.1
Dementia	28,830	4	71.3	2,136	6.4	119.2	67.3
Genitourinary diseases	23,118	3.2	21.3	579	1.7	37.3	75.3
Organic psychoses	22,907	3.2	71.6	1,282	3.9	116.1	62.1
Respiratory diseases	18,300	2.6	41.7	444	1.3	89.9	115.9
Nervous system, except Alzheimer's	18,179	2.5	77.9	996	3	134.4	72.7
Other	14,168	2	43.8	572	1.7	104.3	138.1
Digestive diseases	11,576	1.6	36.5	356	1.1	63.9	75.1
Total	713,144	100	54.4	33,225	100	104.8	92.6

Note: ALOS (average length of stay), NOS (not otherwise specified).

Source: MedPAC analysis of 2005 100 percent hospice standard analytical file from CMS.

- Hospices that exceed the cap have a different mix of patients than hospices that do not exceed the cap.
- Above-cap hospices have a smaller share of cancer patients, on average, who tend to have shorter lengths of stay than patients with neurological or non-specific diagnoses.
- Patients at hospices that exceeded the cap had longer lengths of stay than patients at below-cap hospices for all diagnoses. Stays for lung cancer patients at above-cap hospices were 23 percent longer than at below-cap hospices. Stays for patients with circulatory diseases were 122 percent longer at above-cap hospices than below-cap hospices.

Chart 12-14. Hospice aggregate Medicare margins, 2001–2005

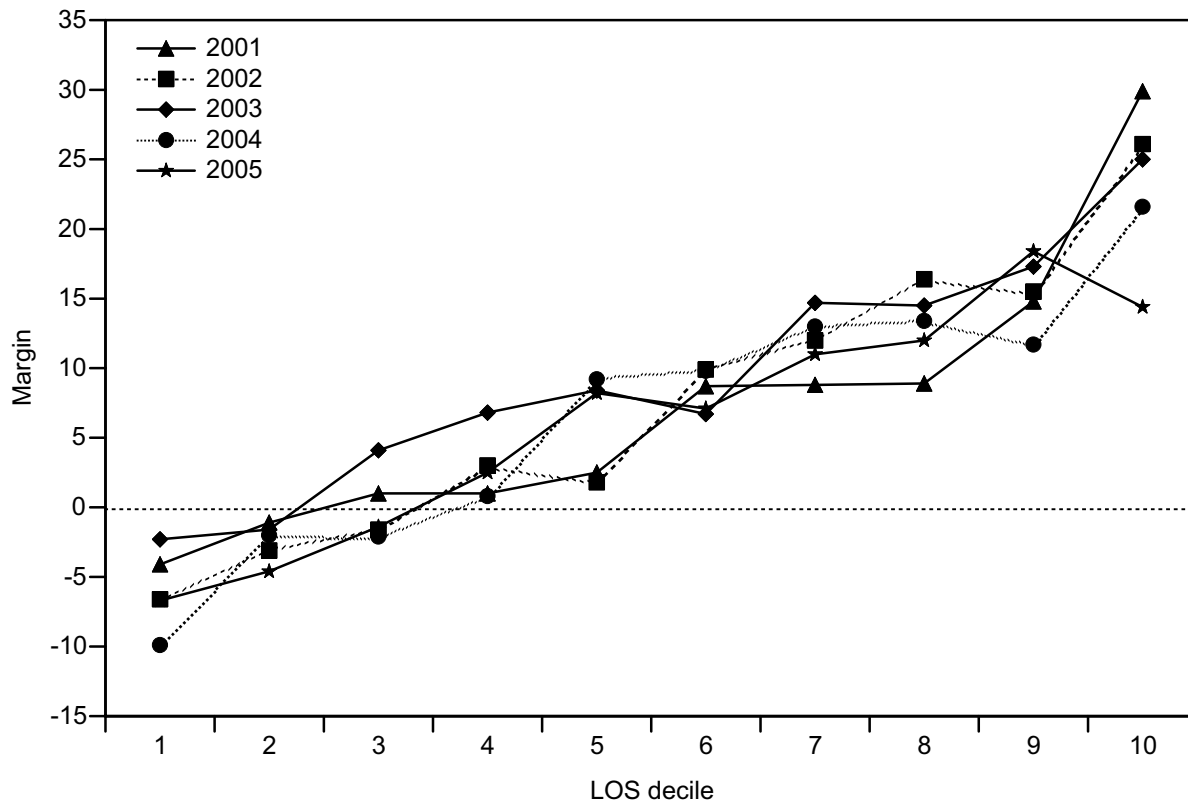
Category	Percent of hospices (2005)	2001	2002	2003	2004	2005
All	100	1.0	3.1	4.5	3.2	3.4
Freestanding	59	5.6	6.8	9.0	6.7	6.3
Provider-based	41	-10.5	-7.6	-8.9	-7.5	-5.6
For-profit	43	12.0	14.6	15.9	12.4	11.8
Nonprofit	48	-4.4	-3.7	-2.9	-3.6	-2.8
Urban	64	1.4	3.6	4.9	3.6	3.4
Rural	36	-1.8	0.1	2.5	0	3.3
Below-cap	91	N/A	2.1	3.3	1.8	1.5
Above-cap (including overpayments)	9	N/A	30.1	23.0	17.4	18.9
Above-cap (net of overpayments)	9	N/A	13.3	2.1	-4.6	-2.9

Note: N/A (not available). Totals by ownership do not sum to 100 percent due to exclusion of government facilities.

Source: MedPAC analysis of Medicare hospice cost reports, 100 percent hospice claims standard analytical file (SAF), and Medicare Provider of Services data from CMS.

- Aggregate hospice margins are generally positive in all years from 2001 to 2005.
- Freestanding hospices' margins are positive, at just over six percent in 2005. Provider-based hospices tend to have negative margins, on average.
- Provider-based hospices' costs tend to be higher than those of free-standing hospices, partly reflecting allocating of overhead costs from the parent provider.
- For-profit hospice margins are strongly positive, at nearly 12 percent in 2005. Non-profit hospices' margins were -2.8 percent in that year.
- Hospices that exceed Medicare's payment cap have the highest margins of any category of hospices, prior to the return of overpayments to Medicare.

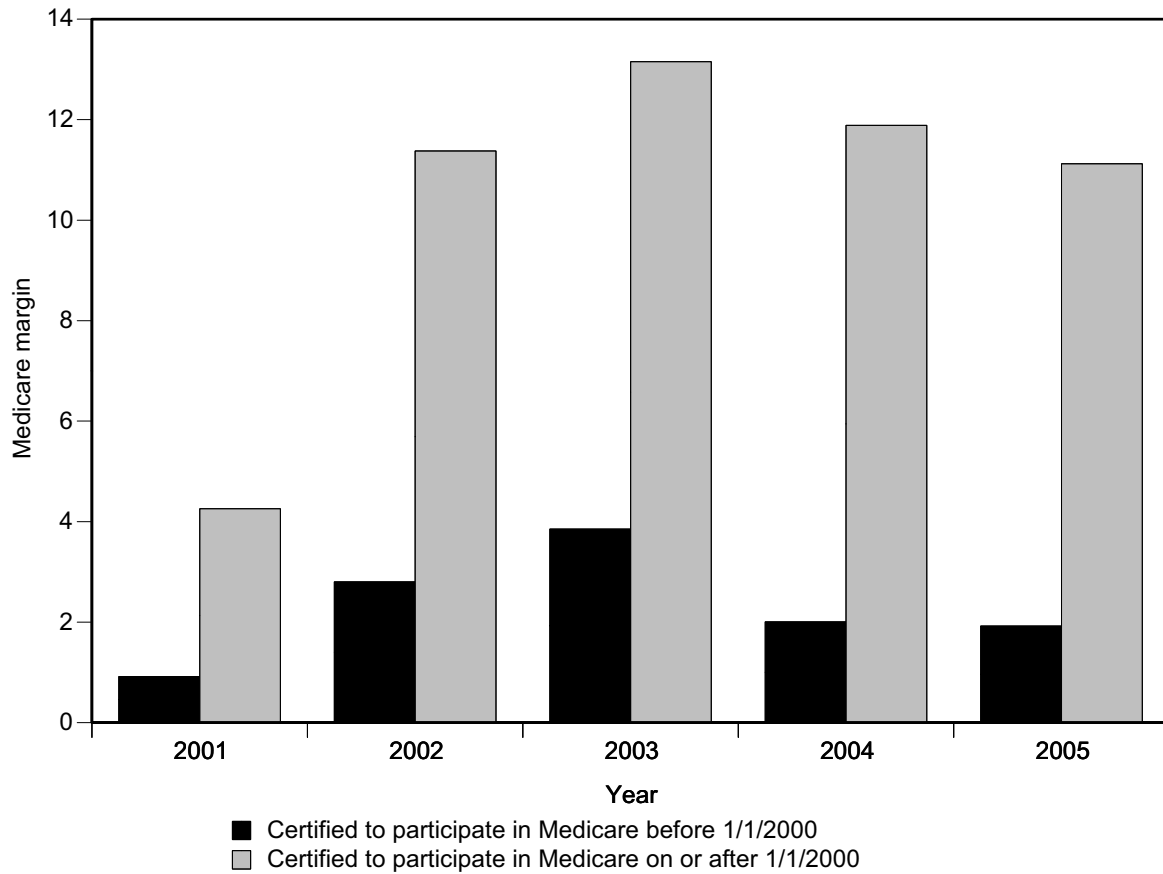
Chart 12-15. Hospice Medicare margins increase with length of stay, 2001–2005



Source: LOS (length of stay). MedPAC analysis of Medicare hospice cost reports, 100 percent hospice claims standard analytical file, and Medicare Provider of Services data from CMS.

- Medicare’s per-diem-based payment system for hospice provides an incentive for longer lengths of stay.
- Extremely short hospice stays (those below the 20th percentile of the length of stay distribution) tend to be unprofitable.
- Profitability of Medicare hospice episodes (prior to the return of overpayments received by above-cap hospices) increases almost linearly with length of stay.

Chart 12-16. Hospice Medicare margins are greater for new hospices, 2001–2005



Source: MedPAC analysis of Medicare cost reports, 100 percent hospice claims standard analytical file (SAF), and Medicare Provider of Services data from CMS.

- Nearly all hospices newly participating in Medicare since 2000 are for-profit entities.
- Consistent with this trend, newer hospices have margins five to six times higher than more established hospices. Again, these margins include overpayments that above-cap hospices are required to return to Medicare.

Chart 12-17. Hospice access not compromised by the cap at the 10 states with highest rate of Medicare patient hospice election, 2005

State	Number of hospices, 2005	Hospices per 10,000 beneficiaries	Percent of hospices in state exceeding the cap	Medicare hospice users/ decedents
Utah	52	2.4	21.2%	70.2%
Arizona	50	0.7	20.0	67.6
Oklahoma	145	2.9	28.3	60.0
Colorado	45	0.9	0.0	57.4
Florida	41	0.1	4.9	57.3
Alabama	103	1.5	41.7	56.5
New Mexico	39	1.6	17.9	56.3
Oregon	48	1.0	2.1	53.2
Mississippi	100	2.3	36.0	51.5
Kansas	49	1.3	6.1	50.8

Source: CMS Providing Data Quickly Query, October 18, 2007, https://pdq.cms.hhs.gov/report_select.jsp?which=8; MedPAC analysis of 100 percent Medicare hospice claims standard analytical files; and Medicare hospice cost reports from CMS.

- Access to hospice, measured by the number of hospice users over Medicare decedents, is highest in Utah, Arizona, and Oklahoma.
- Among the 10 states with the highest Medicare access to hospice by this measure, three are states with the highest rates of hospices exceeding the Medicare payment cap.