



**The Kidney Care Council
Issue Brief
End Stage Renal Disease**

Background

End Stage Renal Disease (ESRD) refers to the permanent damage to the kidneys that result in loss of normal kidney function. ESRD is irreversible and fatal without chronic, life-long treatment. There are two methods of treatment for ESRD: dialysis and kidney transplantation. Of the 485,000 Americans who live with ESRD, 341,000 are treated by dialysis and 144,000 have received a kidney transplant. ESRD affects people of all ages and races, but African Americans are disproportionately affected and represent 30 percent of ESRD patients. The rate of new cases of ESRD is nearly four times greater among African Americans as it is among Caucasians. The annual growth rate in the number of new patients is 3%. Dialysis patients can dialyze in outpatient settings (90%, 3-4 times per week) that are either free-standing or hospital-based, or they can dialyze in their homes (10%).

Kidney failure can be temporary or permanent. Chronic Kidney Disease (CKD) may take several years to reach Stage 5 otherwise known as “end stage”. CKD includes conditions that damage kidneys and decrease their ability to work properly, raising the risk of premature death. Diabetes, obesity and hypertension are the primary causes of kidney damage. According to the Centers for Disease Control, CKD is rising in the U.S. especially among older adults and people with obesity, diabetes, heart disease or high blood pressure. The latest statistics show that 26 million Americans (one in nine adults) have some form of CKD and many don't know it. If untreated, CKD can lead to ESRD – permanent and irreversible kidney failure.

Issue

Medicare reimburses dialysis facilities through a prospective payment system (PPS) and the payment is known as the “composite rate”, which is a per-treatment payment limited with few exceptions to three or four times per week. Unlike other Medicare PPS mechanisms, the dialysis payment system has no annual update mechanism to adjust for inflation. Only an act of Congress can change the payment level.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) changed the way Medicare pays for dialysis treatments and dialysis drugs. The law increased the payment rate for dialysis treatments and decreased the payment for dialysis drugs. However, the MMA did not change the two-part structure of the outpatient dialysis payment system.

One part is the prospective payment called the “composite rate” that covers “all necessary services” required for dialysis and that also includes a drug add-on payment component. The drug add-on payment was created by the MMA and reflects the historical drug margins under the Average Wholesale Price reimbursement methodology when Medicare

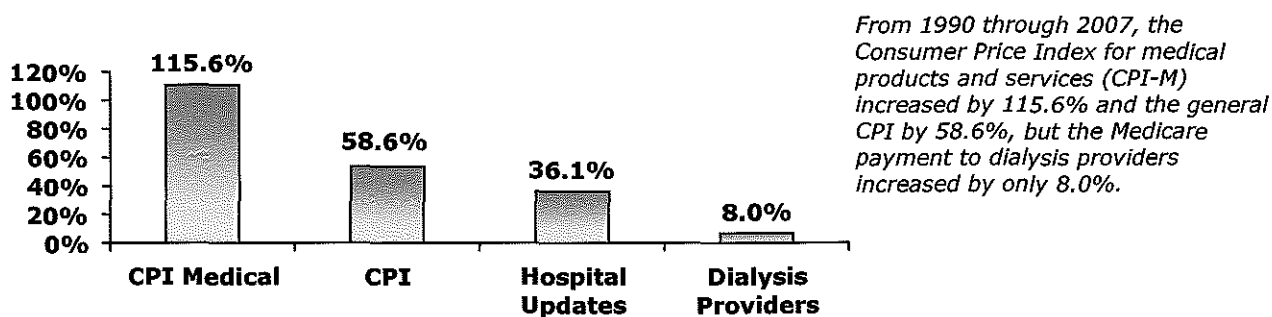
transitioned to an Average Sales Price reimbursement mechanism. The common elements of a dialysis treatment that are included in the composite rate include: personnel (physician, registered nurse, licensed practical nurse, technician, social worker, and dietitian); equipment and supplies (dialysis machine and its maintenance, disposable supplies); some laboratory tests with specific frequencies; overhead; and general administrative services.

In addition to the composite rate, payment is made separately for drugs administered during dialysis (i.e., erythropoietin - Epo, iron, vitamin D) that were not available when Medicare implemented the composite rate in 1983.

As a result, there are two components in the total payment for dialysis facilities: 1. the composite rate including the drug add-on payment, and 2. the drug reimbursement. As an example, for 2007 the projected composite rate is approximately \$133 with a drug add-on payment of approximately \$20 and the average drug reimbursement of \$90 to \$95. Thus, for a four-hour treatment session, the average payment to a dialysis facility is approximately \$62.00 per hour.

The cost of treating Medicare beneficiaries with ESRD has been rising at a rate far above the Medicare reimbursement for dialysis services. Dialysis providers have experienced substantial increases in all labor costs. In spite of the stagnant payment rate, providers have experienced increases in all components of providing care, especially with respect to modernizing equipment and facilities.

Dialysis Payments Losing Ground: Cumulative % Increases 1990-2007



In 2005 and 2006, Congress passed, respectively, a 1.6% increase in the composite rate for years 2006 and 2007. In its 2008 Report to Congress, the Medicare Payment Advisory Commission (MedPAC) recommended an update to the composite rate of 1% for 2009. The 2009 Senate Budget Resolution contains report language stating "The Committee recognizes the importance of high quality kidney care to Medicare beneficiaries and urges review of the impact on patient care that the lack of an automatic annual update for dialysis, as well as a lack of patient education, has had on beneficiaries".

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