VGM Continues to Push for Higher Reimbursement Rates. Here's Why.

For several years reimbursement rates for providers have been declining while the cost to provide services has been increasing. Medicare beneficiaries need to be able to access DMEPOS products and services when and where they need them. While VGM Government has been pushing for higher rates for years, this was further highlighted with COVID-19. Providers did see some relief with the CARES Act that included 75/25 blended rates in the non-rural, non-CBAs and VGM continues to advocate for this rate beyond the PHE. Many reasons factor into why VGM Government continues to push for these rates.

As you may be aware, in December of 2020, VGM and other major industry stakeholders submitted comments to Ms. Seema Verma, Administrator of the Centers for Medicare & Medicaid Services (CMS). Included within the subject Proposed Rule were certain DMEPOS Fee Schedule Adjustments (Proposed 42 C.F.R. §414.210) affecting Medicare fee-for-service reimbursement amounts for "non-rural" patient ZIP codes, as well as "non-rural and non-competitively bid area" (CBA) ZIPs as well as CBAs ZIPs.

The non-rural proposal was endorsed by virtually all stakeholders, as it would make the current 50/50 blended rate (50 percent adjusted rates and 50 percent unadjusted rates) methodology permanent, regardless of when the public health emergency (PHE) was declared over by HHS. VGM commented "We are pleased that CMS acknowledged that the adjusted rural fee schedule amounts were too low (i.e., were insufficient to cover the supplier's costs, particularly for delivering items in rural areas) and could have an adverse impact on beneficiary access to items and services furnished."

However, VGM did not support the CMS position for non-rural/non-CBAs. The proposal stated that, subsequent to the declaration of the end of the PHE, CMS would maintain the current payment methodology that is 100% of the adjusted rates…effectively reverting back to the regional single payment amounts (RSPAs) based on 2016 competitive bid rates. A portion of our comments follows:

"VGM and other stakeholders opine these payment rates should increase, because they were based on pre-PHE demand and cost structure and were developed via an arguably flawed auction bid methodology which included a "median bid" concept. The DMEPOS market has changed dramatically since the most recent "rounds" (i.e. Round 2 recompete and Round 2017), and, further, the reimbursement amounts are not applicable to current higher acquisition costs. VGM proposes that CMS continue the 75/25 blended rates (enabled via the CARES Act) in the non-rural, non-CBAs. This payment should last not just through the end of the PHE, but until the product categories can be re-bid under a program structured to reflect true market conditions."

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To demonstrate the actual effects of the potential reimbursement, VGM has created the following table:

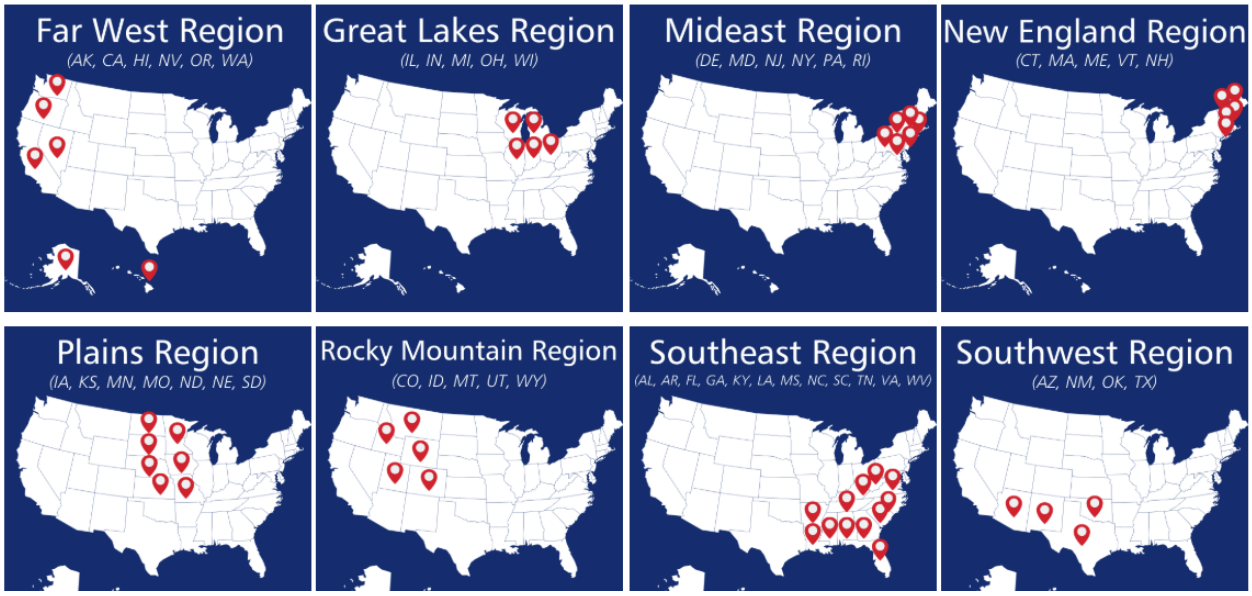
HCPCS Code	HCPCS Code Description	2015	2020NR	April 2021 75/25	$ increase to fee schedule at 75/25	$ increase per unit billed after month 3 90/10 (Capped Rental)	$ increase per unit billed after month 3 75/25 (Capped Rental)	$ Savings from 2015 Fee Schedule at 75/25	% Savings from 2015 Fee Schedule at 75/25
E1390RR	Oxygen Concentrator, Single Delivery Port, Capable Of Delivering 85 Percent Or Greater Oxygen Concentration At The Prescribed Flow Rate	$ 180.92	$ 73.14	$110.07	$ 36.93			$ 70.85	39.16%
E0260RR	Hospital Bed, Semi-Electric (Head And Foot Adjustment), With Any Type Side Rails, With Mattress	$ 134.38	$ 59.92	$ 81.17	$ 21.25	$ 5.58	$ 15.94	$ 53.21	39.60%
E0570RR	Nebulizer, With Compressor	$ 17.87	$ 5.74	$ 9.08	$ 3.34	$ 0.91	$ 2.51	$ 8.79	49.19%
E0601RR	Continuous Positive Airway Pressure (CPAP) Device	$ 92.72	$ 39.59	$ 54.75	$ 15.16	$ 3.98	$ 11.37	$ 37.97	40.95%
E0143NU	Walker, Folding, Wheeled, Adjustable Or Fixed Height	$ 102.47	$ 46.50	$ 62.51	$ 16.01			$ 39.96	39.00%
E0163NU	Commode chair, mobile or stationary, with fixed arms	$ 104.05	$ 54.00	$ 68.03	$ 14.03			$ 36.02	34.62%
K0001RR	Standard wheelchair	$ 56.04	$ 22.91	$ 31.98	$ 9.07	$ 2.48	$ 6.80	$ 24.06	42.93%
E2402RR	Negative pressure wound therapy	$ 1,642.09	$657.89	$926.92	$ 269.03			$ 715.17	43.55%
E0630RR	Patient lift, hydraulic	$ 97.67	$ 59.28	$ 70.33	$ 11.05	$ 2.88	$ 8.29	$ 27.34	27.99%
E0277RR	Powered pressure reducing air mattress	$ 672.98	$204.41	$330.67	$ 126.26			$ 342.31	50.86%
B4035NU	Enteral feeding supply kit; pump fed, per day, includes but not limited to feeding/flushing syringe, administration set tubing, dressings, tape	11.95	5.44	7.24	1.80			$ 4.71	39.41%

Since the time of the comment submission (December 3, 2020) VGM completed this month an updated “delivery cost survey” with the purpose to ascertain what effects, if any, the PHE added to the DMEPOS suppliers’ costs of doing business. It may be found at https://www.vgmdclink.com/resource-center/delivery-cost-survey-2021.

2021 Home Medical Equipment Delivery Cost

As the pandemic continues, Home Medical Equipment (HME) providers play a critical, frontline role in patient care and minimizing hospitalizations. This survey of nearly 100 independent HME providers demonstrates the real cost of providing equipment, such as oxygen, hospital beds, mobility equipment, and more to patients' homes before and during the public health emergency.

Click on the graphics below to see the results of each corresponding region.



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Two examples follow; the differences/increases were noted in all regions.

2021 HOME MEDICAL EQUIPMENT DELIVERY COST

Government Relations

PRE- AND POST-PANDEMIC

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Southeast Region

(AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV)

2021 Reimbursement Rates - 100% Adjusted Fee Schedule* - National Average

E1390 - Oxygen Concentrator - $71.05
E0260 - Hospital Bed - $61.04
K0001 - Standard Wheelchair - $24.26
E0601 - CPAP Machine - $40.56

*Competitive bid areas

	PRE-PANDEMIC	POST-PANDEMIC
Round Trip to Home/Institution	66.1 miles	71.7 miles
Vehicle Cost Per Trip	$34.09	$42.03
PPE Expense	NA	$9.65
Labor Cost Per Hour	$16.88	$17.10
Time of travel + in-home product set-up/ instruction/pick-up	24.8 Min	29.3 Min
Average Total Delivery Cost	$91.03	$122.45 (35%)

The data does not include product acquisition cost.

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Great Lakes Region

(IL, IN, MI, OH, WI)

2021 Reimbursement Rates - 100% Adjusted Fee Schedule* - National Average

E1390 - Oxygen Concentrator - $70.59
E0260 - Hospital Bed - $59.27
K0001 - Standard Wheelchair - $23.11
E0601 - CPAP Machine - $41.11

*Competitive bid areas

	PRE-PANDEMIC	POST-PANDEMIC
Round Trip to Home/Institution	43.1 miles	45.6 miles
Vehicle Cost Per Trip	$30.53	$40.32
PPE Expense	NA	$10.10
Labor Cost Per Hour	$17.03	$17.16
Time of travel + in-home product set-up/ instruction/pick-up	21.0 Min	27.5 Min
Average Total Delivery Cost	$73.80	$105.51 (43%)

The data does not include product acquisition cost.

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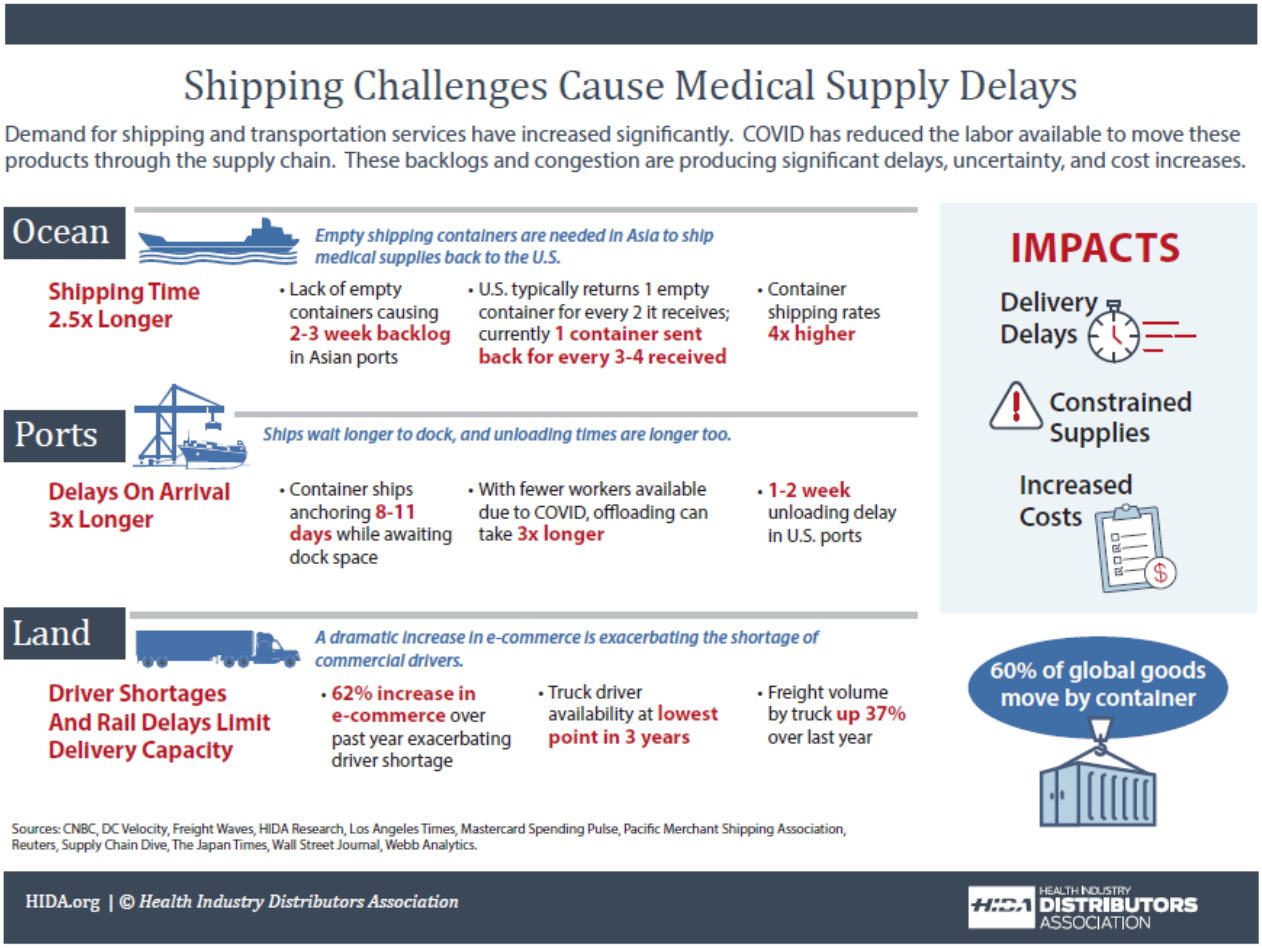
You will note the footer includes “The data does not include product acquisition cost.” Accordingly, various industry stakeholders, including the Health Industry Distributors Association (“HIDA”) and the American Association for Homecare (“AAHomecare”) recently assessed the issue of the PHE and its effects on product acquisition costs and availability.

The HIDA alert of May 6, 2021 included *U.S truckload and partial truckload rates continue to soar, causing a growing number of companies to warn about rapidly rising transportation costs, according to an index that measures industry contract rates. U.S. freight volumes are strong, but carriers say they can’t add much capacity because they are unable to find enough drivers, even as many carriers raise driver pay by as much as 35%.*

And, specific to medical supplies, offered this graphic:



Additionally, a May 6, 2021 *AAHomecare Alert* was titled "Higher Product Costs and Supply Chain Bottlenecks Continue to Challenge HME" and included the following:

"Even as vaccination rates grow and new cases of COVID-19 are slowing nationwide, HME suppliers and manufacturers remain in the grip of another side effect of the pandemic: higher product costs and increased operational expenses.

HME suppliers first began seeing these impacts in early 2020, as demand for personal protective equipment (PPE) surged, with shortages and higher costs quickly following. Additional impacts of the pandemic were confirmed in a May 2020 survey on supply chain disruptions and increased costs for HME providers sponsored by AAHomecare.

Delays and higher costs were most widely felt in obtaining PPE as well as increased costs and supply challenges for oxygen equipment, ventilators, and hospital beds – but a significant number of suppliers reported higher costs for most major HME product categories.

One year later, suppliers are still dealing with significantly higher costs.

"I'm getting notices of 3-4% price increases from manufacturers every few weeks, almost always citing higher raw material costs as the reason," says Craig Rae, President of Penrod's Medical. "We've seen increases for individual parts as high as 30%."

These increased costs and other new operational burdens are especially hard to bear since suppliers can't pass along these costs to many of their patients who are covered by established Medicare and Medicaid fee schedules, or by other payers who peg their rates to Medicare.

"We are also dealing with supply chain problems with parts, which our manufacturers tell us are being caused by their inability to find containers in China to ship to the U.S.," Rae says. "Patients that depend upon their power wheelchair for mobility can't understand how it can take 8-10 weeks to get a part. We also have been assessed shipping surcharges, and it's taking longer and longer to get deliveries due to carriers being overwhelmed."

New operational challenges rising from the pandemic are also increasing costs for suppliers. In our May 2020 survey, 92% of suppliers said they were spending more time cleaning and sanitizing facilities and vehicles, and 83% reported increased delivery times.

Evaluating the sum of the overall industry struggles, it is clear that relief is needed to allow appropriate patient care and access to equipment. VGM will continue its efforts to promote the 75-25 blend to CMS administrators and elected officials.

The increase in demand for certain products, such as ventilators, oxygen concentrators, and hospital beds has resulted in manufacturers incurring higher productions costs in the form of additional parts and raw materials costs, employee overtime to keep up production to meet demand, etc. These changes have caused them to levy surcharges on this equipment, thus shifting the cost structure for the companies that buy product from them. There are also shortages of raw materials that are essential in the production of certain types of personal protective equipment (PPE), especially gloves, which also results in higher product costs. When you couple that with a tremendous spike in demand, you have the perfect storm to throw a DME supplier's cost structure and therefore their profitability completely off track.

Prior to the COVID-19 pandemic, many suppliers expressed that they were not able to provide for Medicare beneficiaries at the rates that were in place. Despite CMS adopting an “any willing provider” mentality over the past 2.5 years, many suppliers were unwilling or unable to begin serving Medicare patients for all product categories, because the artificially low reimbursement rates derived from the previous rounds of competitive bidding were still in place. It wasn’t until the passage of the CARES Act, which introduced the 75-25 blended rates for non-rural/non-CBAs when many suppliers felt they could provide for Medicare beneficiaries again.

The COVID-19 pandemic has disrupted the supply chain for several key medical equipment and supply categories. If rates were already too low prior to the pandemic, when you factor in all of the additional costs brought about by the pandemic (PPE costs, manufacturer surcharges, increased delivery costs, equipment quarantine and sanitizing, and other supply chain cost increases outlined above), none of which will likely disappear immediately once the PHE is declared over, it is clear that reimbursement rates need to be increased on a more permanent basis.

The increases to reimbursement need to be maintained not just through the PHE, but well beyond that. This need for increased reimbursement was further evidenced by the bids submitted by suppliers for Round 2021. Accordingly, and until Congress and CMS can figure out an alternative to the current competitive bidding program, VGM also opines that the “75-25 blend” should be applicable to the former CBAs, which represent approximately half of the Medicare population. The suppliers serving the CBAs are not immune to the increased costs of doing business outlined above and cannot absorb these higher costs without increased reimbursement.

Medicare beneficiaries need to be able to access DMEPOS products and services when and where they need them. These proposed changes would help regain and protect beneficiary access to these necessary, cost-saving products and services.

Questions or comments? Please contact any member of VGM’s government relations staff at 866-512-8465 or submit them via email to Emily.harken@vgm.com.