Paying for Hospice Care

Approximately, 1.2 million people received hospice services in 2005 of which, at least 80 percent were persons aged 65 or older. Medicare, the primary payer of services for hospice users, spent $6.4 billion on hospice care in 2004. From 2004 to 2015, spending on hospice services is projected to increase at an annual rate of 9 percent.

Background

Hospice care is the provision of palliative and supportive services for terminally ill individuals who have been diagnosed as having a life expectancy of six months or less to live. In general, services must be related to increasing the quality of care for hospice users by managing the patient’s terminal illness, controlling pain, or enabling the individual to maintain activities of daily living and basic functional skills in a dignified and peaceful manner.

In the 1970s, hospice care began in the United States as an informal, unregulated industry that mostly relied on volunteers. In 1982, the Medicare hospice benefit was enacted to help subsidize the cost associated with end-of-life care. As of 2002, 47 states licensed hospices. As of 2005, more than 1.2 million people received hospice services and one-third of all deaths in the US occurred under the care of a hospice program.

Individuals can receive hospice services through a home health agency, freestanding agency, hospital-based hospice center or skilled nursing facility. Hospice services typically include: physician services, nursing care, home health aide and homemaker services, medical social services, counseling services, short-term inpatient care, medical appliances and supplies, prescription drugs physical, occupational, and speech therapy. Hospices also employ a multidisciplinary team that includes therapists, physicians, social workers, registered nurses, home health aides, chaplains and volunteers.

Characteristics of Hospice Users

In 2000, the National Home and Hospice Care Survey, estimated over 621,000 people received hospice services in the United States. The survey also indicated the following:

- Older adults (age 65 or older) comprised 80 percent of hospice services;
- Approximately 50 percent of older adults that received hospice care were female;
- The average length of stay in hospice for an older adult was 48 days;
- About 19 percent of older adults received assistance with six activities of daily living (ADLs) of which 71 percent received assistance from an agency with bathing or showering and 60 percent received assistance from an agency with dressing;
- Approximately 35 percent of older adults received assistance with one instrumental activity of daily living (IADLs).

Hospice Expenditures and Financing

The 2000 National Home and Hospice Care Survey provides information on the distribution of primary payment sources to hospices (see Table 1).

Table 1: Distribution of Hospice Primary Payment Sources, 2000

<table>
<thead>
<tr>
<th>Source</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>79%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>5%</td>
</tr>
<tr>
<td>Private Insurance</td>
<td>13%</td>
</tr>
<tr>
<td>Other (grants, private pay)</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: National Center for Health Statistics, 2000 National Home and Hospice Care Survey

Medicare Financing

Medicare is the primary payer for most hospice users, mainly due to the 1982 legislation that created the Medicare hospice benefit. Through
Medicare, a physician-certified terminally ill patient, with a life expectancy of six months or less and entitled to Medicare Part A, can elect hospice care services. The Medicare hospice benefit is divided into two 90-day periods followed by an unlimited number of 60-day periods (assuming patients meet program eligibility requirements). Medicare will not cover any hospice service that is intended to cure a terminal illness or not medically reasonable and necessary.

Medicare spending on hospice services increased from $2.9 billion in 2000 to an estimated $6.7 billion in 2004. The number of Medicare certified hospices increased from 31 in 1984 to 3078 in 2007. Medicare hospice participation has grown at a dramatic rate, particularly after a 1989 Congressional mandate that increased reimbursement rates by 20 percent. There also has been an increase in the number of clients served in Medicare funded hospices. It is estimated that hospice usage among beneficiaries grew from 16 percent in 1998 to 25 percent in 2002.

Outlays for the Medicare hospice benefit increased by about 25 percent from FY2001-FY2005. It is projected that spending on hospice services will increase at an average annual rate of 9 percent from 2004 to 2015. This increase notwithstanding, hospice services represent a small part, about 1.4 percent, of total Medicare Part A payments. Medicare hospice rates are adjusted to account for wage rate differentials among markets and vary according to the level of care furnished to the beneficiary each day. The FY07 published rates are listed in Table 2.

Table 2: Daily Medicare Hospice Rates, FY 2007

<table>
<thead>
<tr>
<th>Source</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Routine Home Care</td>
<td>$ 130.79/day</td>
</tr>
<tr>
<td>Continuous Care (24 hours/day)</td>
<td>$ 763.36/day</td>
</tr>
<tr>
<td></td>
<td>$ 31.81 per hour</td>
</tr>
<tr>
<td>Inpatient Respite Care</td>
<td>$ 135.80/day</td>
</tr>
<tr>
<td>General Inpatient Care</td>
<td>$ 581.82/day</td>
</tr>
</tbody>
</table>


Medicaid Financing
In 1986, states were given the option to include hospice services in their Medicaid programs. As of 2006, forty-seven states and the District of Columbia offer a hospice benefit to all individuals who qualify for Medicaid.

Like Medicare, Medicaid reimbursement for hospice care is made at one of four predetermined rates for each day in which an individual is under the care of the hospice. Payment rates are calculated based on the annual hospice rates established under Medicare, adjusted to reflect geographical differences in wage levels.

Hospice services represent a small part of total Medicaid payments. According to the Center for Medicare and Medicaid Services, Medicaid spending for hospice care totaled $898 million in FY03, less than one-half of one percent of all Medicaid payments for the fiscal year.

Updated by Jean C. Accius, II
AARP Public Policy Institute
Updated October 2007 @ 2000, 2007, AARP.
Reprinting with permission only.
AARP, 601 E Street, NW, Washington, DC 20049
http://www.aarp.org/ppi