GAO

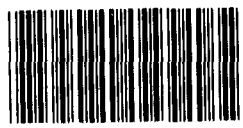
United States General Accounting Office

Report to Congressional Committees

July 1992

MEDICARE

Program and Beneficiary Costs Under Durable Medical Equipment Fee Schedules



146986

GAO/HRD-92-78

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-248643

July 7, 1992

The Honorable Lloyd Bentsen, Chairman
The Honorable Bob Packwood, Ranking Minority Member
Committee on Finance
United States Senate

The Honorable Dan Rostenkowski, Chairman
The Honorable Bill Archer, Ranking Minority Member
Committee on Ways and Means
House of Representatives

The Honorable John D. Dingell, Chairman
The Honorable Norman F. Lent, Ranking Minority Member
Committee on Energy and Commerce
House of Representatives

In the Omnibus Budget Reconciliation Act of 1987 (OBRA 1987, P.L. 100-203, Dec. 22, 1987), the Congress established a fee schedule payment system for durable medical equipment (DME) sold or rented to Medicare beneficiaries. DME includes items, such as wheelchairs and oxygen systems, that beneficiaries may use in their homes. The fee schedules replaced Medicare's reasonable charge reimbursement system,[1] and the Congress intended that they make payment rates more uniform and reduce Medicare program costs.

The original OBRA 1987 fee schedules went into effect during 1989, and the law required us to study the appropriateness of payment levels allowed under the fee schedules. In OBRA 1990 (P.L. 101-508, Nov. 5, 1990), the Congress set national ceilings and floors for these items and modified some rules for payment under the fee schedule system. This report discusses the effect that the OBRA 1987 fee schedules, and the OBRA 1990 modifications to them, had on Medicare program costs and beneficiary

[1]Under this system, Medicare paid 80 percent of the allowed amount, which was the lowest of the actual, customary, or prevailing charge for an item or service. A supplier's customary charge was the amount it usually charged for an item. The prevailing charge for most items was the 75th percentile of customary charges in the local pricing area.

liability.[2] Our review focused on 86 high-volume items in 23 Medicare carrier areas.[3]

Results in Brief

The DME fee schedules established under OBRA 1987 resulted in both Medicare and its beneficiaries paying more than they would have under the former reasonable charge system. For the high-volume items we reviewed, 1989 Medicare costs increased 17 percent.

The revisions to the fee schedule payment system enacted in OBRA 1990, when fully implemented, will return Medicare payments, in 1989 dollars, to those that would have been incurred under the former reasonable charge system. The wide payment variations across geographic areas that existed under both the reasonable charge method and the OBRA 1987 fee schedules will be substantially reduced under OBRA 1990.

Background

DME includes such items as wheelchairs, beds, walkers, canes, crutches, oxygen equipment, orthotic and prosthetic devices, and related supplies. In 1989, total Medicare payments to DME suppliers were about $1.4 billion. The Health Care Financing Administration (HCFA), the agency within the Department of Health and Human Services (HHS) that administers Medicare, was responsible for developing and implementing the DME fee schedules mandated by OBRA 1987 and OBRA 1990. The fee schedule system, which replaced Medicare's reasonable charge reimbursement system, established a separate fee schedule for each of the 57 Medicare carrier areas.

OBRA 1987 grouped all DME items into six categories:

- items that must be uniquely constructed or substantially modified to meet the needs of individual patients,
- inexpensive or routinely purchased items,
- items requiring frequent and substantial servicing,
- orthotic and prosthetic devices,

[2]We testified in 1990 on the early results of our work (see Medicare: Durable Medical Equipment Fee Schedules Have Widely Varying Rates (GAO/T-HRD-90-32, May 22, 1990)) and issued a report in 1991 on the effect the fee schedules had on suppliers (see Medicare: Effect of Durable Medical Equipment Fee Schedules on Six Suppliers' Profits (GAO/HRD-92-22, Nov. 6, 1991)).

[3]Medicare carriers are firms, such as private insurance companies or Blue Shield plans, that contract with Medicare to process and pay claims.

- oxygen and oxygen equipment, and
- other DME items (commonly called capped rental items).[4]

A fee schedule was not required for uniquely constructed or substantially modified items because, by definition, they are one-of-a-kind devices. Carriers must determine the amount to pay for those items on a case-by-case basis.

To calculate the fee schedule rates for the remaining five categories as defined in OBRA 1987, carriers used 1986 and 1987 reasonable charge reimbursement data. As specified in the law, the bases used for calculating the rates covered 6 to 12 months of reasonable charge data.

OBRA 1990 mandated several adjustments to DME payment rates established by OBRA 1987. The more significant changes included:

- Reducing the variability in fee schedule payment rates by creating national ceilings and floors.
- Reducing the monthly rental payments for capped rental items.
- Allowing Medicare beneficiaries to elect, during the 10th month of continuous rental, to purchase capped rental items.

Objective, Scope, and Methodology

As stated in OBRA 1987, our objective was to assess the effect on Medicare costs of the fee schedule payment system for DME. We focused on 86 high-volume DME items in 23 of the 57 Medicare carrier areas. The 86 items accounted for about 57 percent and the 23 carriers for about 70 percent of all Medicare allowed amounts for DME in 1990.

For each carrier area, we estimated the amount Medicare would pay for DME under three payment methods: the reasonable charge system, the fee schedules as established by OBRA 1987, and the fee schedules as modified by OBRA 1990. To remove the influence of inflation, we standardized payment rates at 1989 levels. Volumes of services were obtained from the same 1986-87 periods that were used in calculating the OBRA 1987 fee schedules, and we annualized those volume data when necessary.

Details on our review objective, scope, and methodology are in appendix I. The carriers and items selected are identified in appendixes II and III.

[4]This category includes items of DME (such as standard wheelchairs and beds) that do not fit in any of the other five categories. These are commonly called capped rental items because under the fee schedule system, rental payments are generally limited to 15 months. A service and maintenance payment is allowed every 6 months for continuous use of equipment retained by the same beneficiary for longer than 21 months.

OBRA 1987 Fee Schedules Increased Medicare Program Costs and Beneficiary Liability

Medicare program costs for DME increased substantially under OBRA 1987. We estimate that calendar year program costs under the OBRA 1987 fee schedules increased at the 23 carriers by about 17 percent (over $89 million) compared to what the costs would have been under the reasonable charge system. Beneficiary coinsurance[5] also increased by 17 percent.

Table 1 shows that, for the 86 DME items in our sample, OBRA 1987 caused annual program costs at the 23 carriers to increase in every fee schedule category, when compared to reasonable charge system costs.

Table 1: Estimated Change in Medicare Program Costs Under OBRA 1987 Fee Schedules Compared to the Reasonable Charge System, for 86 Items at 23 Carriers, by DME Category

Dollars in thousands

DME category	Estimated program costs		
	Reasonable charge	OBRA 1987 fee schedules	Percentage change
Inexpensive or routinely purchased	$ 37,724	$ 38,918	3.2
Frequent and substantial servicing	30,407	34,535	13.6
Orthotic and prosthetic devices	32,990	33,828	2.5
Oxygen and oxygen equipment	310,920	336,062	8.1
Subtotal	**412,041**	**443,343**	**7.6**
Capped rental:			
Rental	82,407	93,051	12.9
Reasonable charge purchases, fee schedule rentals[a]	44,931	92,795	106.5
Subtotal	**127,338**	**185,846**	**45.9**
Total	**$539,379**	**$629,189**	**16.7**

[a]Items could be rented or purchased under the reasonable charge method, but had to be rented under the fee schedule method.

The greatest increases in program costs and beneficiary liability were related to capped rental items that were purchased under the reasonable charge system but had to be rented under the fee schedule. For these transactions, increases occurred because OBRA 1987 (1) required carriers to calculate monthly rental payments based on average submitted charges for the purchase of the item rather than allowed amounts and (2) permitted up to 15 monthly rental payments for the continuous use of an item.

[5]Under the fee schedule payment system, Medicare pays 80 percent of the Medicare approved amount (the lesser of the supplier's submitted charge or the fee schedule amount), and the beneficiary is responsible for the remaining 20 percent. The beneficiary is also responsible for (1) the first $100 of part B covered charges in a calendar year and (2) all charges for DME in excess of the Medicare approved amount on claims for which the supplier does not accept Medicare assignment.

OBRA 1987 established the monthly rental rate at 10 percent of the submitted purchase price, which meant that if a beneficiary rented an item for 15 months, total program and beneficiary payments equaled 150 percent of the average submitted purchase price for the item.

The capped rental category included items that were both purchased and rented under the reasonable charge reimbursement system; however, under the fee schedule, these items had to be rented. In comparing Medicare program costs under the reasonable charge and fee schedule systems, we calculated the average length of rental for items that were rented under the reasonable charge system. We assumed the same number of items would be rented, for the same length of time, under the fee schedule system. For items that were purchased under the reasonable charge system, we could not make a direct conversion to fee schedule payments because there is no fee schedule for purchasing capped rental items. For these items, we used a present value analysis for the stream of rental payments under the fee schedule system. This analysis is described in appendix I.

Changes From OBRA 1990 Will Reduce Program Costs to Pre-Fee-Schedule Levels and Reduce the Variation in Rates

By 1993, several changes to the fee schedules in OBRA 1990 will be fully phased in, and we estimate that the fee schedules will then have essentially no effect on annual Medicare program costs and beneficiary liability, when compared to the reasonable charge reimbursement system.[6] OBRA 1990 will also eliminate much of the variation in payment rates among the fee schedules of the various carriers. Thus, the fee schedules, as modified by OBRA 1990, will meet the congressional objective of making payment rates more uniform but will not save the Medicare program money relative to payments under the reasonable charge payment method. Until the OBRA 1990 changes are fully phased in, Medicare program costs and beneficiary liability will be greater under the fee schedules than they would have been under the reasonable charge reimbursement system.

OBRA 1990 Will Reduce Much of the Variation in Payment Rates

Beginning in January 1991, OBRA 1990 began to reduce the variation in the fee schedule payment rates that different carriers pay for the same or similar DME items. In OBRA 1990, the Congress mandated that fee schedule rates for inexpensive or routinely purchased items, items requiring frequent servicing, oxygen and oxygen equipment, and capped rental items be subject to national ceilings and floors.[7] The ceiling for each item is the

[6]For orthotic and prosthetic devices, these changes will be fully phased in by 1994, and our estimate for this category is based on 1994 fees.

[7]Alaska, Hawaii, and Puerto Rico are exempt from the payment ceilings and floors.

weighted average of all carrier fee schedule amounts for the item in calendar year 1990. The floor is 85 percent of an item's ceiling.[8]

In 1993, all fee schedule rates for items in these four categories that exceed the ceiling will be reduced to the ceiling, and all rates that are less than the floor will be raised to the floor. The ceilings and floors are being phased in during 1991 and 1992 through a blending of local rates and the national ceilings and floors. For 1991, the rate for an item within a carrier area was 67 percent of the local rate plus 33 percent of the national ceiling if the local rate exceeded the ceiling or 33 percent of the national floor if the local rate was less than the floor. In 1992, the blended rate is 33 percent of the local rate plus 67 percent of the applicable ceiling or floor. The rate in any carrier area that falls between the ceiling and floor is unchanged.

To illustrate the effect of the ceilings and floors, table 2 compares the ranges of payment rates for 11 items under the OBRA 1987 fee schedules with the ranges that will be allowed in 1993 under the ceilings and floors. OBRA 1990 will significantly reduce the range in fees for these items.

[8]Orthotic and prosthetic devices are subject to regional fees and a different method for establishing national ceilings and floors. For 1994 and later, the ceiling for these items will be 120 percent of the national average allowed amount, and the floor will be 90 percent of the national average allowed amount.

Table 2: Ranges of Allowed Amounts Under OBRA 1987 and OBRA 1990 Fee Schedules at 22 Carriers[a]

	Range of allowed amounts under[b]					
	OBRA 1987 fee schedule			OBRA 1990 fee schedule		
DME category and items	Lowest	Highest	Range (percent)[c]	Lowest	Highest	Range (percent)[c]
Inexpensive and routinely purchased						
Cane (new)	$ 14	$ 24	71.4	$ 16	$ 18	12.5
Home compressor (new)	331	773	133.5	472	555	17.6
Power vehicle[d] (new)	1,344	2,588	92.6	1,463	1,721	17.6
Items requiring frequent servicing						
Volume ventilator	529	1,136	114.7	649	763	17.6
Portable volume ventilator	341	1,124	229.6	488	574	17.6
IPPB[e] machine	36	164	355.6	77	90	16.9
Oxygen and oxygen equipment						
Stationary	223	357	60.1	229	269	17.5
Portable	28	70	150.0	41	48	17.1
Capped rental						
Compressor	18	147	716.7	41	48	17.1
Wheelchair	44	84	90.9	41	49	19.5
Motorized wheelchair	168	515	206.5	266	313	17.7

[a]This table is based on 22 carriers because the carrier in Alaska is not subject to the OBRA 1990 ceilings and floors.

[b]Rounded to the nearest dollar.

[c]Percentages are computed using the lowest rate as the base; thus, percentage ranges for OBRA 1990 fee schedule rates may exceed 15 percent.

[d]Lightweight battery-powered, 3- or 4-wheeled scooter.

[e]Intermittent Positive Pressure Breathing.

OBRA 1990 Will Remove Increases That Resulted Under OBRA 1987

In addition to reducing the variation in fee schedule rates, in OBRA 1990 the Congress directed changes in the treatment of capped rental items that will remove the increases in payments for these items that resulted from the original fee schedules. We estimate that these changes, when combined with the ceilings and floors, will result in payments under OBRA 1990 approximately equal to what they would have been under the reasonable charge reimbursement system.

Under OBRA 1990, HCFA adjusted the fee schedule rates for capped rental items, which had been based on submitted charges, to bring them more in line with reasonable charge allowed amounts. This adjustment was based on the average percentage difference between submitted charges and allowed amounts for capped rental items during the last 9 months of 1988 in each carrier area.

OBRA 1990 also requires that during the 10th month of rental, the supplier offer to sell the item to the beneficiary. If the beneficiary elects to purchase the item, the supplier can receive monthly payments through the 13th month of continuous need, after which the item will belong to the beneficiary. This essentially converts the rental payments into installment payments. The payments for the first 3 months are 10 percent of the average allowed amount for purchases, then payments decline to 7.5 percent for the remaining months. This gives the supplier 105 percent of the average allowed amount for purchases if the beneficiary elects to purchase the item (3 times 10 percent plus 10 times 7.5 percent) and 120 percent of the average allowed amount if the beneficiary rents the item for 15 months (3 times 10 percent plus 12 times 7.5 percent).

Table 3 includes the combined annual effect of the fully phased-in national ceilings and floors of OBRA 1990, plus the effect of the purchase option for capped rental items, on Medicare program costs.[9]

[9]No data exist to predict how many beneficiaries will elect the purchase option. Therefore, we computed our estimates of program costs and beneficiary liability by first assuming that all beneficiaries will continue to rent. Then, we recomputed our estimates assuming that the same proportion of beneficiaries who purchased the items under the reasonable charge system will opt to purchase the equipment.

Table 3: Estimated Change in Medicare Program Costs Under OBRA 1990 Fee Schedules Compared to the Reasonable Charge System, for 86 Items at 23 Carriers, by DME Category

Dollars in thousands

DME category	Estimated program costs: Reasonable charge	OBRA 1990 fee schedules	Percentage change
Inexpensive or routinely purchased	$ 37,724	$ 36,801	-2.4
Frequent and substantial servicing	30,407	32,176	5.8
Orthotic and prosthetic devices	32,990	30,375	-7.9
Oxygen and oxygen equipment	310,920	316,413	1.8
Capped rental:			
Rentals under both payment systems	82,407	68,313	-17.1
Subtotal	**$494,448**	**$484,078**	**-2.1**
A. Assuming beneficiaries elect to rent capped rental items:			
Reasonable charge purchases, fee schedule rentals	44,931	58,480	30.2
Total (subtotal+A)	**$539,379**	**$542,558**	**0.6**
B. Assuming beneficiaries who purchased under reasonable charge elect to purchase capped rental items:			
Reasonable charge purchases, fee schedule purchases	44,931	51,762	15.2
Total (subtotal+B)	**$539,379**	**$535,840**	**-0.7**

Overall, if all beneficiaries elect to continue to rent capped rental items, we estimate that Medicare program costs under the OBRA 1990 fee schedules will be 0.6 percent greater than they would have been if the reasonable charge reimbursement system had remained in effect. If the same number of beneficiaries who purchased capped rental items under the reasonable charge reimbursement system also purchase under the OBRA 1990 purchase option, we estimate that Medicare program costs will decrease about 0.7 percent.

Beneficiary coinsurance would follow a track similar to program costs.

Conclusions

The Congress enacted OBRA 1987 to reduce Medicare program costs and to make payment rates for DME items more uniform; however, these goals were not achieved with the original fee schedules.

OBRA 1990, when fully implemented, will offset the program cost increases that occurred when OBRA 1987 was implemented and substantially reduce the variability in rates among the carriers for the same or similar items. We estimate that overall Medicare program costs will be essentially the

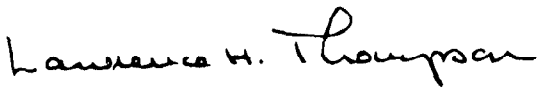
same under OBRA 1990 as they would have been under the reasonable charge system that the fee schedules replaced.

Agency Comments

In commenting on a draft of this report, HHS agreed with our findings and conclusions. HHS noted that when OBRA 1987 was enacted, HCFA's Office of the Actuary estimated that program costs for DME under the fee schedules would increase by $70 million in fiscal year 1990.

HHS's comments and our evaluation are included in appendix IV.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Health and Human Services; interested congressional committees; and other parties. This report was prepared under the direction of Janet Shikles, Director, Health Financing and Policy Issues, who may be reached on (202) 512-7119 if you have any questions. Other major contributors to this report are listed in appendix V.



Lawrence H. Thompson
Assistant Comptroller General

Contents

Abbreviations

DME	durable medical equipment
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
OBRA 1987	Omnibus Budget Reconciliation Act of 1987
OBRA 1990	Omnibus Budget Reconciliation Act of 1990

Objective, Scope, and Methodology

Objective

In the Omnibus Budget Reconciliation Act of 1987 (OBRA 1987, P.L. 100-203, Dec. 22, 1987), the Congress mandated a fee schedule payment system, effective January 1, 1989, as the basis for paying suppliers for durable medical equipment (DME) provided to Medicare beneficiaries under part B of the program. In section 4062(c), OBRA 1987 also required that "(5) The Comptroller General shall conduct a study on the appropriateness of the level of payments allowed for covered [DME] items under the medicare program and shall report to Congress on the results of such study."

We discussed the definition of appropriateness with the staffs of the three congressional committees with primary responsibility for Medicare.[1] It was agreed that, for the purpose of our study, appropriateness meant determining the effect of the DME fee schedules on (1) overall Medicare program costs and beneficiary coinsurance and (2) DME suppliers' revenues and profits. This assignment addressed the first of these two objectives. The second objective was addressed in an earlier report.[2]

In November 1990, Congress enacted the Omnibus Budget Reconciliation Act of 1990 (OBRA 1990, P.L. 101-508, Nov. 5, 1990), which made several changes to the fee schedule payment rates established under OBRA 1987. We included the effects on Medicare program and beneficiary payments under both OBRA 1987 and OBRA 1990 in this report.

Scope

To determine the effect that OBRA 1987 and OBRA 1990 had on the Medicare program and its beneficiaries, we selected 23 of the 57 Medicare carriers. We selected two states from each of the Health Care Financing Administration's (HCFA's) 10 regions, generally selecting the two states with the highest volume (based on total Medicare payments for DME in 1987) from each region. Three of the selected states were served by more than one Medicare carrier, so our review included 23 carriers. (See app. II for a list of the carriers selected and the states they serve.)

Of the approximately 900 DME items covered by the fee schedules, we judgmentally selected 86. These items were selected to include relatively high-volume items from each of the fee schedule categories. The 86 items accounted for about 57 percent and the 23 carriers accounted for about

[1]The Subcommittee on Medicare and Long Term Care, Senate Committee on Finance; the Subcommittee on Health, House Committee on Ways and Means; and the Subcommittee on Health and the Environment, House Committee on Energy and Commerce.

[2]Medicare: Effect of Durable Medical Equipment Fee Schedules on Six Suppliers' Profits (GAO/HRD-92-22, Nov. 6, 1991).

70 percent of all Medicare allowed amounts for DME in 1990. (See app. III for a list of the 86 items.)

Methodology

We used similar methodologies to estimate the effects of OBRA 1987 and OBRA 1990 on program payments and beneficiary coinsurance. We obtained copies of the carriers' records of paid claims that they used to calculate the fee schedules. From these records, we computed the carriers' total allowed charges for the 86 items and extracted sales and rental volumes for the items. When these records were for periods of less than 12 months, we annualized the data. We increased those allowed charges to 1989 levels using the inflation adjustments Medicare used for the intervening time periods. We estimated Medicare payments at 80 percent of the total allowed charges.[3]

To estimate the effect of the fee schedules, we compared the carriers' total payments for the 86 items under the reasonable charge system to our estimate of what the carriers would pay for the same items under the OBRA 1987 and OBRA 1990 fee schedules. To calculate estimated program payments within any carrier area, we multiplied annual sales and rental volumes for the 86 selected items by the carrier's fee schedule rates under both OBRA 1987 and OBRA 1990 to obtain total allowed amounts, then multiplied those amounts by 80 percent.

We estimated beneficiary coinsurance at 25 percent of Medicare payments.[4] Because the assignment rate[5] may have changed over the time covered by our review, we did not attempt to estimate beneficiary liability for charges that exceed the allowed amount on unassigned claims.

To remove the influence of inflation, we standardized payment rates at 1989 levels.

[3]Beneficiaries are liable for an annual deductible ($100 in 1992) for Medicare-covered services, and a deductible was required under the reasonable charge payment system also. We did not try to estimate the portion of total Medicare allowed charges for DME that would be subject to deductible under either the reasonable charge payment system or the fee schedules.

[4]Medicare pays 80 percent of total allowed amounts. Beneficiary coinsurance is 20 percent of total allowed amounts, or 25 percent of Medicare payments.

[5]Assignment is a process whereby the supplier may receive the Medicare portion of the allowed amount directly from the carrier. By accepting assignment, the supplier also agrees to accept the Medicare allowed amount as payment in full. For unassigned claims for DME, Medicare pays 80 percent of the allowed amount, and the beneficiary's portion includes the Medicare coinsurance plus any balance remaining between the supplier's submitted amount and the Medicare allowed amount.

The fee schedule category commonly called the capped rental category includes many high-volume items, such as standard wheelchairs, beds, and trapeze equipment. Under the reasonable charge reimbursement system, these items could be either purchased or rented, but OBRA 1987 required that they be rented and that rental payments be limited to 15 months of continuous medical need, with a service and maintenance fee payable every 6 months, beginning with the 22nd month of continuing need, and continuing for as long as the patient needs the item. Because these items could not be purchased under the OBRA 1987 fee schedule, there was no fee schedule purchase rate available from the carriers to compare with the reasonable charge purchase rates in effect during the periods covered by our review.

For our analysis, we compared the total lump-sum payments when an item was sold under the reasonable charge reimbursement system to the present value of a stream of monthly rental payments over a 15-month period that would be made for the same number of items. The present value factor we used discounted the stream of 15 monthly payments to July 1988, the midpoint of the last year that these items would have been sold under the former reasonable charge system. In this analysis, we used an interest rate of 6.92 percent, the average yield on 6-month U.S. Treasury bills in 1988.

The capped rental provision was modified in OBRA 1990 to provide that, during the 10th month of continuous need, suppliers must offer beneficiaries the option to purchase items. If the beneficiary opts to purchase the item, the supplier must transfer title of the item to the beneficiary after the 13th month of continuous rental, which essentially converts the 13 rental payments into installment payments for purchase of the item.

We had no basis to estimate the number of beneficiaries who would opt to purchase items during the 10th month of rental, so we calculated the effect of this OBRA 1990 provision in two steps. First, we assumed that all beneficiaries would continue to rent this equipment, in which case Medicare rental payments would cease after 15 months. Second, we assumed that the same proportion of beneficiaries who purchased items under the reasonable charge system would opt to purchase the equipment, in which case Medicare rental payments would cease after 13 months. The effect of the fee schedule on Medicare payments under these two assumptions are shown in table 3 (see p. 9).

In our comparisons of payments for capped rental items under the reasonable charge and fee schedule reimbursement systems, we assumed that if an item was purchased under the reasonable charge system, the patient was expected to need it for a long time. When converting the number of purchases into rental months for estimating payments under the fee schedule system, we counted a purchase under the reasonable charge system as a 15-month rental under the fee schedule.

For capped rental items that had been rented under the reasonable charge reimbursement system, we calculated average rental periods from the carriers' claims data. For estimating fee schedule rental payments for those items, we assumed that the same number of items would be rented for the same length of time.

Effective for items furnished on or after January 1, 1991, OBRA 1990 required carriers to adjust the fee schedule amounts to bring them more in line with reasonable charge system allowed charges, and also reduced the payment rate for months 4 through 15 (or 4 through 13 if the beneficiary opts to purchase the item). We incorporated those revised monthly rental rates in our calculation of payments under OBRA 1990 fee schedules.

OBRA 1987 provided an adjustment to the payment rate for oxygen depending upon the flow rate prescribed for the patient. If the physician prescribes less than 1 liter per minute, the fee schedule rate is reduced by 50 percent; for a flow rate in excess of 4 liters per minute, the rate is increased by 50 percent. A study of oxygen services done for HCFA showed that fewer than 1 percent of beneficiaries have less than 1 liter per minute prescribed and only about 1 percent have more than 4 liters per minute prescribed. In comparing payments for oxygen equipment and supplies under the reasonable charge reimbursement system and the fee schedules, we estimated oxygen payments under the fee schedules at the standard monthly payment rate, assuming a flow rate of between 1 and 4 liters per minute.

Rate Validation

Because much of our analysis was predicated on the OBRA 1987 fee schedule rates implemented by the carriers, we replicated those calculations. HCFA also validated the carrier's fee schedule computations for certain items, and we reviewed HCFA's validations. The differences between the fee rates we calculated and the rates implemented by the carriers were, in our opinion, immaterial, and we concluded that the carriers' computations of the fee schedules were reasonable.

We performed our field work between July 1990 and August 1991, and our review was conducted in accordance with generally accepted government auditing standards.

Selected States and Carriers

HCFA region and state	Carrier name
Region 1	
Connecticut	The Travelers Insurance Company
Massachusetts	Blue Cross/Blue Shield of Massachusetts
Region 2	
New York	Blue Shield of Western New York
New York	Empire Blue Cross/Blue Shield
New Jersey	Pennsylvania Blue Shield
Region 3	
Maryland	Blue Cross/Blue Shield of Maryland
Pennsylvania	Pennsylvania Blue Shield
Region 4	
Florida	Blue Cross/Blue Shield of Florida
Tennessee	Equicor
Region 5	
Michigan	Blue Cross/Blue Shield of Michigan
Ohio	Nationwide Mutual Insurance Company
Region 6	
Iowa	Blue Shield of Iowa
Missouri	Blue Cross/Blue Shield of Kansas City
Missouri	General American Life Insurance Company
Region 7	
Arkansas	Arkansas Blue Cross/Blue Shield
Texas	Blue Cross/Blue Shield of Texas
Region 8	
Colorado	Blue Cross/Blue Shield of Colorado
Utah	Blue Cross/Blue Shield of Utah
Region 9	
Arizona	Aetna Life and Casualty Company
California	Blue Shield of California
California	Transamerica Occidental Life Insurance Company
Region 10	
Alaska	Aetna Life and Casualty Company
Washington	Washington Physicians Service

Selected Durable Medical Equipment Items With Description of Each Item, by Category

HCPCS[a] code	Item description
Inexpensive or routinely purchased items (15 items)	
E0100	Adjustable or fixed cane with tip, includes canes of all materials
E0105	Adjustable or fixed, quad or three prong cane with tips, includes canes of all materials
E0110	Pair of adjustable or fixed forearm crutches with tips and handgrips, includes crutches of various materials
E0112	Pair of adjustable or fixed wood underarm crutches with pads, tips, and handgrips
E0130	Adjustable or fixed height rigid (pickup) walker
E0135	Adjustable or fixed height folding (pickup) walker
E0141	Wheeled walker without seat
E0160	Portable Sitz type bath (fits over commode seat)
E0163	Stationary commode chair with fixed arms
E0607	Home blood glucose monitor
E0650	Non-segmental home model pneumatic compressor (Lymphedema Pump)
E0840	Simple cervical traction frame, attached to headboard
E0850	Simple cervical free-standing traction stand
E1230	Power operated vehicle (lightweight battery-powered 3- or 4-wheeled scooter)
E1356	Breathing circuits (also identified as A4618)
Items requiring frequent and substantial servicing (9 items)	
E0450	Volume ventilator
E0451	Portable volume ventilator
E0500	IPPB[b] machines with manual valves, external power source, includes cylinder regulator, built-in nebulization
E0510	IPPB[b] machines with automatic valves, external power source, includes cylinder regulator, built-in nebulization
E0515	IPPB[b] machines with automatic valves, electrically driven with internal compressor, built-in nebulization
E0570	Nebulizer with compressor
E0575	Ultrasonic nebulizer, self-contained
E0600	Portable home model suction pump
E1375	Portable nebulizer with small compressor and limited flow
Orthotic and prosthetic items (5 items)	
E0720	Two-lead TENS[c], with localized stimulation
E0730	Larger four-lead TENS[c], with area/multiple nerve stimulation
L5100	Molded socket below knee, with shin and Sach foot
L5320	Molded socket above knee, with open end, Sach foot, endoskeletal system, single axis knee, including soft cover and finishing

(continued)

HCPCS[a] code	Item description
L8020	Breast prosthesis, mastectomy form
Stationary and portable oxygen equipment items (43 items)	
E0400	Oxygen contents, gaseous, per cubic foot
E0405	Oxygen contents, gaseous, per 100 cubic feet
E0410	Oxygen contents, liquid, per pound
E0415	Oxygen contents, liquid, per 100 pounds
E0416	Oxygen refill for portable gaseous cylinder retained by patient over 30 days
E0425	Stationary compressed gas system, includes use of container, regulator with flow gauge, humidifier nebulizer, cannula or mask and tubing
E0430	Portable gaseous oxygen system, includes regulator with flow gauge, humidifier, cannula or mask and tubing
E0435	Portable liquid oxygen system, includes portable container, supply reservoir, flow humidifier, cannula or masks and tubing, and refill adaptor
E0440	Stationary liquid oxygen system, includes use of reservoir, contents indicator, flowmeter, humidifier, cannula or mask and tubing
E0445	Oxygen concentrator or extractor, includes all oxygen equipment and accessories
E0555	Durable humidifier, glass or autoclavable plastic bottle type, for use with regulator or flowmeter
E0580	Durable nebulizer, glass or autoclavable plastic bottle type, for use with regulator or flowmeter
E1351	Cannula
E1352	Tubing, unspecified length
E1353	Regulator
E1354	Mouth piece
E1371	Face tent
E1374	Variable concentration mask
E1377	Oxygen concentrator, high humidity system equivalent to 244 cubic feet
E1378	Oxygen concentrator, high humidity system equivalent to 488 cubic feet
E1379	Oxygen concentrator, high humidity system equivalent to 732 cubic feet
E1380	Oxygen concentrator, high humidity system equivalent to 976 cubic feet
E1381	Oxygen concentrator, high humidity system equivalent to 1220 cubic feet
E1382	Oxygen concentrator, high humidity system equivalent to 1464 cubic feet

(continued)

HCPCS[a] code	Item description
E1383	Oxygen concentrator, high humidity system equivalent to 1708 cubic feet
E1384	Oxygen concentrator, high humidity system equivalent to 1952 cubic feet
E1385	Oxygen concentrator, high humidity system equivalent to over 1952 cubic feet
E1388	Oxygen concentrator, equivalent to 244 cubic feet
E1389	Oxygen concentrator, equivalent to 488 cubic feet
E1390	Oxygen concentrator, equivalent to 732 cubic feet
E1391	Oxygen concentrator, equivalent to 976 cubic feet
E1392	Oxygen concentrator, equivalent to 1220 cubic feet
E1393	Oxygen concentrator, equivalent to 1464 cubic feet
E1394	Oxygen concentrator, equivalent to 1708 cubic feet
E1395	Oxygen concentrator, equivalent to 1952 cubic feet
E1396	Oxygen concentrator, equivalent to over 1952 cubic feet
E1400	Oxygen concentrator, manufacturer specified maximum flow rate does not exceed 2 liters per minute, at 85 percent or greater concentration
E1401	Oxygen concentrator, manufacturer specified maximum flow rate greater than 2 liters per minute, does not exceed 3 liters per minute, at 85 percent or greater concentration
E1402	Oxygen concentrator, manufacturer specified maximum flow rate greater than 3 liters per minute, does not exceed 4 liters per minute, at 85 percent or greater concentration
E1403	Oxygen concentrator, manufacturer specified maximum flow rate greater than 4 liters per minute, does not exceed 5 liters per minute, at 85 percent or greater concentration
E1404	Oxygen concentrator, manufacturer specified maximum flow rate greater than 5 liters per minute, at 85 percent or greater concentration
E1405	Oxygen and water vapor enriching system with heated delivery
E1406	Oxygen and water vapor enriching system without heated delivery
Other DME items (14 items)	
E0165	Stationary commode chair with detachable arms
E0250	Fixed height hospital bed with side rails and mattress
E0255	Variable height hi-low hospital bed with side rails and mattress
E0260	Semi-electric hospital bed with head and foot adjustment, side rails and mattress
E0265	Total electric hospital bed with head, foot and height adjustments, side rails and mattress
E0565	Compressor, air power source for equipment which is not self-contained or cylinder driven
E0630	Hydraulic patient lift with seat or sling
E0910	Trapeze bars attached to bed with grab bar
E0940	Free-standing trapeze bar with grab bar

(continued)

HCPCS[a] code	Item description
E1130	Standard wheelchair, fixed full length arms, fixed or swing away detachable footrests
E1140	Wheelchair, detachable arms, desk or full length, swing away detachable footrests
E1150	Wheelchair, detachable arms, desk or full length, swing away detachable elevating legrests
E1160	Wheelchair, fixed full length arms, swing away detachable elevating legrests
E1210	Motorized wheelchair with micro-switch control, fixed full length arms, swing away detachable elevating legrests

[a]HCFA Common Procedure Coding System.

[b]Intermittent Positive Pressure Breathing.

[c]Transcutaneous and/or Neuromuscular Electrical Nerve Stimulator.

Comments From the Department of Health and Human Services

DEPARTMENT OF HEALTH & HUMAN SERVICES — Office of Inspector General

Washington, D.C. 20201

APR 27 [illegible]

Ms. Janet L. Shikles
Director, Health Financing
and Policy Issues
United States General
Accounting Office
Washington, D.C. 20548

Dear Ms. Shikles:

Enclosed are the Department's comments on your draft report, "Durable Medical Equipment: Medicare Program and Beneficiary Costs Under OBRA 1987 and OBRA 1990 Fee Schedules." The comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely yours,

[signature]

Richard P. Kusserow
Inspector General

Enclosure

Comments of the Department of Health and Human Services on the General Accounting Office Draft Report, "Durable Medical Equipment: Medicare Program and Beneficiary Costs Under OBRA 1987 and OBRA 1990 Fee Schedules"

We have reviewed GAO's draft report concerning fee schedules for durable medical equipment (DME), prosthetics and orthotics and generally agree with its findings and conclusions. GAO examined 86 items at 23 carriers and found that the changes made by OBRA 87 increased Medicare program costs for these items substantially - by 16 percent or $87 million. These findings are consistent with the Department's estimate at the time that the fee schedules were enacted by OBRA 87. The Office of the Actuary in the Health Care Financing Administration had estimated that program costs would increase by $70 million in FY 1990.

Now on p. 7.

We note that on the chart on page 11, the range of the OBRA 1990 fee schedule amounts shown for wheelchairs under the capped rental category is 19.5 percent. It is unclear how this number could be correct. Even when percentages are computed using the lowest rate as the base, since the maximum variation allowed will be 15 percent in 1993, the maximum percentage change that could exist would be 17.6 percent (.15/.85 = .176).

Now on p. 4.

Now on p. 9.

Finally, the chart on page 7 shows estimated program costs for orthotics and prosthetics to be $32,990,000 under the reasonable charge system and $31,386,000 under the OBRA 89 fee schedules. The chart on page 14 shows the estimated program costs for these items under the OBRA 90 fee schedule to be $28,818,000.

We do not understand why there is a difference between the OBRA 89 and the OBRA 90 program costs for these items. The only change made to prosthetics and orthotics in OBRA 90 was to move this category of items to a new subsection of the law (section 1834(h)) and to eliminate the update in 1991. The national payment limits and floors that were imposed on the other categories of DME were not applied to these items. We recommend that GAO examine these calculations and clarify the cause of this change.

Evaluation of Technical Agency Comments

The Department of Health and Human Services (HHS) raised two technical comments on the data in our report. First, HHS questioned the range in OBRA 1990 fee schedules for wheelchairs shown in table 2. In this table, we list the lowest fee schedule as $41 and the highest as $49, with a range of 19.5 percent. HHS says the range should not exceed 17.6 percent, because the lowest number should be no less than 85 percent of the highest number. The percentage in table 2 results from our use of rounded values. For the wheelchair in the table, the actual lowest fee was $41.30 and the highest was $48.59, for a range of 17.65 percent. Using rounded numbers, the range is 19.5 percent, as shown in table 2. For estimates of the effect of the fee schedules on program costs (as presented in tables 1 and 3), we used actual fee schedule rates and rounded the result to the nearest $1,000.

HHS's second technical point concerned our estimate of a reduction in program costs between the OBRA 1987 and OBRA 1990 fee schedules for the orthotic and prosthetic devices category. In table 1 of the draft reviewed by HHS, we estimated 1989 program costs of $31,386,000 under the OBRA 1987 fee schedules for this category, and in table 3 we estimated program costs of $28,818,000 under the OBRA 1990 fee schedules. HHS questions how this reduction could occur because it says that the only change made to this category in OBRA 1990 was to move the category to a separate section of the law, which exempted this category from the national ceilings and floors and to eliminate an inflation update for 1991.

Our estimates of program costs for orthotic and prosthetic devices (revised somewhat from those in the draft) reflect two other legislated changes to the original fee schedules apparently not considered by HHS's comments:

- two reductions of 15 percent in the fee schedules for transcutaneous and/or neuromuscular electrical nerve stimulators (effective April 1, 1990, and January 1, 1991) and
- regional fees subject to national ceilings and floors.

Our estimates of program costs for orthotic and prosthetic devices are based on five high-volume items from this category (identified in app. III), which included two nerve stimulator units.

Major Contributors to This Report

Human Resources Division, Washington, D.C.	Thomas Dowdal, Assistant Director, (410) 965-8021 Roger Hultgren, Assignment Manager Jerry Baugher, Senior Evaluator
Atlanta Regional Office	Charles Taylor, Regional Coordinator, Health Issues Richard Wade, Evaluator-in-Charge Cynthia Forbes, Site Senior Amanda Cooksey, Evaluator Paul Clift, Computer Specialist

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877

Orders may also be placed by calling (202) 275-6241.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100