



ESRD CONTRACTOR TRAINING GUIDE

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**End Stage Renal Disease (ESRD) Composite Payment
Rate System for Outpatient Maintenance Dialysis Treatments**

PREPARED BY

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Table of Contents

Using This Training Guide	1	Chapter 2	
Acronyms	2	2005 Updates	10
Definitions	5	Objective	10
Chapter 1		January 1, 2005 Changes	11
Overview	7	1.6 Percent Increase	11
Objective	7	8.7 Percent Add-On Adjustment	12
Background	8	2005 Base Composite Rates	12
Key Purpose	8	2005 Payment For the Top 10 Most Frequently Used ESRD Drugs	12
Composite Rate History	8	Separate Payment for Supplies to Administer EPO	13
Overview of Changes	9	2005 Payment for Other Drugs	13
		April 1, 2005 Changes	14
		Patient Characteristic Adjustments	14
		Case-Mix Adjustments	14
		New Value Codes	14
		Continuing Research to Develop a More Fully Bundled Case-Mix System	14
		Age Groupings For the Case-Mix Adjustment	15
		BMI and BSA	16
		BSA	16
		Value Codes Reporting Weight and Height	17
		Case-Mix Adjustment for Pediatric Patients	18
		Budget Neutrality for Case-Mix Adjustment	19
		New Exception Window	19

Chapter 3

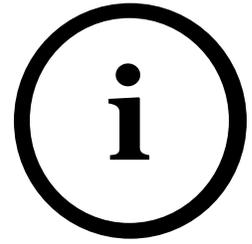
Reimbursement	21
<i>Objective</i>	21
<i>Reimbursement</i>	22
<i>Summary of Final Rule Implementing Changes to the ESRD Composite Payment Rate (Section 623 of MMA)</i>	22
<i>Home Dialysis Training Exceptions</i>	22
<i>Home Dialysis Training Rates</i>	23
<i>Payment Calculation Under the Case-Mix</i>	23
<i>Calculation of Case-Mix Adjusted Payment</i>	24

Chapter 4

Claims Processing	26
<i>Objective</i>	26
<i>Claims Processing</i>	27
<i>Shared Systems Changes for Medicare Part B Drugs for ESRD Independent Dialysis Facilities</i>	27
<i>Fiscal Intermediary Responsibilities</i>	28
<i>Provider File Requirements</i>	28

Chapter 5

Billing	30
<i>Objective</i>	30
<i>Billing</i>	31
<i>Miscellaneous Billing Issues</i>	40
<i>Timeline and Future Changes</i>	40
<i>Resources</i>	40



Using This Training Guide

This training guide is divided into five chapters:

- **Background and Overview**
- **2005 Updates**
- **Reimbursement**
- **Claims Processing**
- **Billing**

Although each chapter builds upon the previous chapter, each is also comprehensive enough to use for focused training if used in conjunction with the Overview chapter. This guide has been designed to assist FIs and providers understand the Medicare End Stage Renal Disease (ESRD) composite payment rate system changes for 2005.

This guide will ease the reader through the ESRD composite payment rate system using headings and icons to organize and highlight key concepts.

ICON KEY

 **Quick Fact**

 **Example**

Throughout the guide you will encounter icons that will assist learners in their pursuit of understanding, as well as aid you in quickly finding reference points in the future.

**INTRODUCTION TO ESRD
COMPOSITE PAYMENT RATE SYSTEM**

Acronyms

Commonly used acronyms in the ESRD Composite Payment Rate System Final Rule and their corresponding terms are outlined below.

AAP	Average Acquisition Price
AAKP	American Association of Kidney Patients
ABN	Advance beneficiary notice
AMA	American Medical Association
ASN	American Society of Nephrology
ASP	Average sales price
AWP	Average wholesale price
BBA	Balanced Budget Act of 1997
BBRA	Balanced Budget Refinement Act of 1999
BIPA	Benefits Improvement and Protection Act of 2000
BMI	Body mass index
BSA	Body surface area
BUN	Blood Urea Nitrogen
CAPD	Continuous ambulatory peritoneal dialysis
CCPD	Continuous cycling peritoneal dialysis
CDC	Centers for Disease Control and Prevention
CFR	Code of Federal Regulations
CMS	Centers for Medicare & Medicaid Services
CPI	Consumer Price Index

**INTRODUCTION TO ESRD
COMPOSITE PAYMENT RATE SYSTEM**

CPT	[Physicians'] Current Procedural Terminology [4 th Edition, 2002, copyrighted by the American Medical Association]
CY	Calendar year
DMERC	Durable Medical Equipment Regional Carrier
EPO	Erythropoietin/Epogen
ESRD	End-stage renal disease
FAX	Facsimile
FI	Fiscal Intermediary
FISS	Fiscal intermediary standard system
FQHC	Federally qualified healthcare center
FL	Form locator on the CMS 1450 claim form
FR	Federal Register
FY	Fiscal year
HCPCS	Healthcare Common Procedure Coding System
HHS	[Department of] Health and Human Services
HIPAA	Health Insurance Portability and Accountability Act of 1996
IOM	Internet Only Manual
IPD	Intermittent peritoneal dialysis
KCP	Kidney Care Partners
KECC	Kidney Epidemiology and Cost Center
LCD	Local coverage determination
LMRP	Local medical review policies
MMA	Medicare Prescription Drug, Improvement, and Modernization Act of 2003

**INTRODUCTION TO ESRD
COMPOSITE PAYMENT RATE SYSTEM**

MPFS	Medicare physician fee schedule
MSA	Metropolitan statistical area
NCD	National coverage determination
NDC	National drug code
NIH	National Institutes of Health
NPI	National Provider Identifier
OIG	Office of Inspector General
OMB	Office of Management and Budget
PD	Peritoneal dialysis
PIN	Provider identification number
PPI	Producer price index
PPS	Prospective payment system
RDF	Renal dialysis facility
RHC	Rural health clinic
RPA	Renal Physicians Association
RUC	[AMA's Specialty Society] Relative [Value] Update Committee
SAF	Standard analytic file
SHIP	State Health Insurance Assistance Program
SMS	[AMA's] Socioeconomic Monitoring System
SNF	Skilled nursing facility
TC	Technical component
UAF	Update adjustment factor
URR	Urea reduction ratios

Definitions

Commonly used terms in the ESRD Final Rule and their corresponding terms have been defined below:

Blood Urea Nitrogen (BUN)	The term BUN refers to the substance urea, which is the major breakdown product of protein metabolism, and is ordinarily removed by the kidneys. During kidney failure, urea accumulates in proportion to the degree of kidney failure and to the amount of protein breakdown. The symptoms of uremia correspond roughly to the amount of urea in the blood stream.
Case-mix	Case-mix is a group of variables that classify patients by selected characteristics. For the basic case-mix systems, the variables used are: age, BSA and BMI. These measures enable the targeting of greater payments to the facilities that treat more resource intensive patients.
Co-morbidity	Co-morbidities are specific patient conditions that are secondary to the patient's primary diagnosis, and they are determined by secondary ICD-9-CM codes.
Composite rate	The composite payment rate is a comprehensive payment for all modes of in-facility and Method I home dialysis. Most items and services related to the treatment of the patient's end-stage renal disease are covered under the composite rate payment.
Drug Spread	The difference between drug payments prior to January 1, 2005 for separately billable drugs (95 percent of average wholesale price) and payments based on the revised drug pricing methodology.
Method I	A method of home dialysis payment selected by the beneficiary. The dialysis facility with which the beneficiary is associated must assume responsibility for providing all home dialysis equipment, supplies, and home support services. For these services, the facility receives the same Medicare dialysis composite rate as it would receive for an in-facility beneficiary under the composite rate system.
Method II	A method of home dialysis payment selected by the beneficiary. The beneficiary will deal directly with a single Medicare supplier to secure the necessary supplies and

**INTRODUCTION TO ESRD
COMPOSITE PAYMENT RATE SYSTEM**

	equipment to dialyze at home. The selected supplier (not a dialysis facility) must accept assignment and bill the Durable Medical Equipment Regional Carrier (DMERC.) The composite payment rate does not apply to Method II beneficiaries.
PRICER	Software modules in Medicare claims processing systems, specific to certain benefits and are used in pricing claims, most often under prospective payment systems.

Background and Overview

Highlights of the ESRD Composite
Payment Rate System for Outpatient
Maintenance Dialysis Services



Objective

This section will introduce the updated Medicare ESRD composite payment rate system to help ESRD facilities and providers gain high-level understanding of the changes before learning the details of the new initiative.

Participants will learn the following information in the course of this chapter:

- Background information on the ESRD composite rate payment system
- Composite rate history
- Overview of changes

Background

Section 623 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), includes major provisions that affect the development of revised ESRD composite payment rates effective for services furnished on or after January 1, 2005. The statute mandates that the composite payment rates in effect December 31, 2004 be increased by 1.6 percent for dialysis treatments furnished on or after January 1, 2005. The statute further mandates that the composite payment rates must also include a drug add-on adjustment for the difference between the payment amounts for separately billable drugs and biologicals and their acquisition costs, as determined by Inspector General reports.

Effective April 1, 2005, each ESRD facility's rate will be case-mix adjusted. Section 623(d) of the MMA requires a basic case-mix adjusted composite rate for ESRD facility services. The case-mix adjusted system will be for a limited number of patient characteristics. Section 623(d) also requires a budget neutrality adjustment that will also be implemented on April 1, 2005.

Key Purpose

A key purpose of section 623 of the MMA is to eliminate the cross-subsidization of composite rate payments by drug payments. The MMA revisions lead to more accurate payment for both drugs and the composite rate. Medicare will spend the same amount of money as would have been spent under the prior system, but the cross-subsidy will be eliminated.

Composite Rate History

Prior to January 1, 2005 the composite rate was a single payment amount that did not vary according to the characteristics of the beneficiary being treated. The composite payment rate is the Medicare fixed payment amount for outpatient maintenance dialysis services. In addition to the composite rate, payments are made for non-routine drugs, other drugs (such as antibiotics, muscle relaxants, and analgesics), and separately billable lab services. The composite rate system is used for dialysis provided in a facility setting and for beneficiaries who choose Method I reimbursement for home dialysis. The composite rate is also adjusted by the wage index to represent geographic differences. The composite payment rate is not paid for beneficiaries who choose Method II payment for their home dialysis services, and, therefore, the changes described in this guide do not apply to Method II dialysis beneficiaries. Supplies and equipment provided to Method II dialysis beneficiaries are acquired directly by a Durable Medical Equipment (DME) supplier instead of going through the ESRD facility.

**BACKGROUND AND OVERVIEW
COMPOSITE PAYMENT RATE SYSTEM**

The initial composite rate was effective August 1, 1983 and the changes to the rate since that time have been:

- In 1986 there was a \$2.00 reduction to the composite rate
- In 1991 there was a \$1.00 increase
- In 2001 the rate was increased 1.2 percent
- In 2002 it was increased 2.4 percent

Overview of Changes

Section 623 of the MMA changed the way Medicare pays facilities for outpatient maintenance dialysis treatments and separately billable drugs. The statute requires:

- An increase of 1.6% to the composite payment rates prior to January 1, 2005
- An add-on for the difference between payments for separately billable drugs and payments based on a revised drug pricing methodology using acquisition costs
- Reinstatement of the ESRD exceptions process to pediatric facilities, effective October 1, 2002
- A case-mix adjustment to a provider's otherwise applicable composite payment rate based on a limited number of patient characteristics
- That aggregate payments under the revised case-mix adjusted system be budget neutral

Changes Effective January 1, 2005

- Increase to composite rate 1.6%
- Drug add-on adjustment to composite rate of 8.7%
- Payment for separately billable drugs based on new drug payment methodology using acquisition costs

Changes Effective April 1, 2005

- ESRD services included in the composite rate will be case-mix adjusted
- Budget neutrality
- Exception window for pediatric facilities