July
2024

75/25 IMPACT REPORT

July 2024 Nationwide Survey of Durable Medical Equipment Suppliers Assessing the Impact of the Medicare FFS 75/25 Rate Cuts for Non-Bid, Non-Rural Areas

AAHOMECARE
American Association for Homecare

ISSUE

Durable Medical Equipment Prosthetics, Orthotics and Supplies (DMEPOS – also commonly referred to as Home Medical Equipment) suppliers are struggling under Medicare fee-for-service (FFS) reimbursement rates derived from the DMEPOS Competitive Bidding Program (CBP) that fail to factor the current market costs of providing care. This has resulted in an unsustainable reimbursement environment, jeopardizing patient access to care and threatening the financial viability of the DMEPOS Industry in meeting our communities' needs. Since 2013, an estimated 38% of traditional suppliers have closed their doors or stopped serving Medicare beneficiaries.

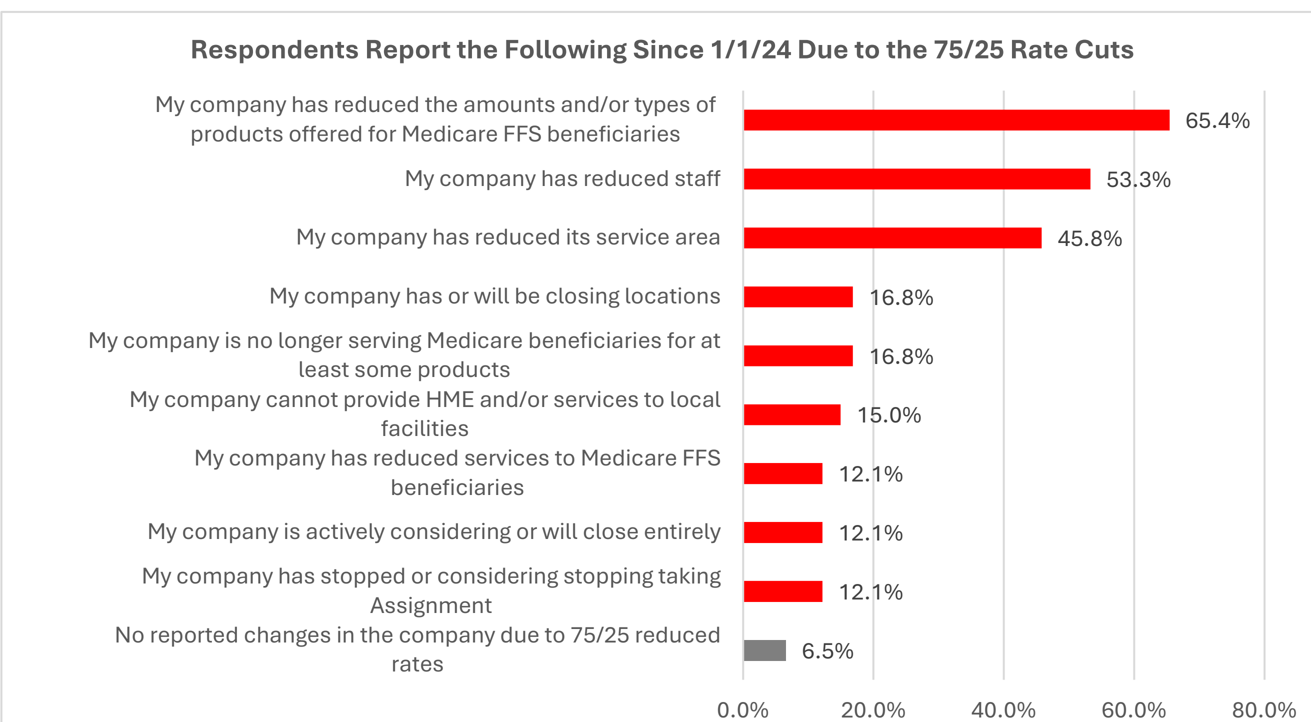
Due to mounting concerns about the impacts of Medicare's cost-cuts on access to care, Congress and Centers for Medicare and Medicaid Services (CMS) have intervened numerous times through the years to provide additional relief, most recently providing a 75/25 blended rate for non-bid, non-rural areas through 2023 (75% Competitive Bid rate/25% unadjusted Medicare fee schedule rates). The expiration of the 75/25 blended rate on January 1, 2024 led to a 20% reduction across the top 25 HCPCS codes,[1] dealing a crushing blow to the Industry and threatening to decimate the HME infrastructure that enables people to manage their medical needs at home.

SURVEY

In July 2024, the American Association for Homecare (AAHomecare) launched a nationwide survey on the impact of the expired Medicare FFS 75/25 blended rate for non-bid/non-rural areas on the HME community. Over 100 HME suppliers serving non-bid non-rural areas participated, sharing harsh realities they face under the new rates and their ability to serve patients and communities.

KEY FINDINGS

The decrease in reimbursement across non-bid, non-rural areas has made a dramatic impact on the HME community. An overwhelming 93.5% of survey respondents reported having to make difficult operational changes in response to the 75/25 rate reduction as they try to keep their doors open.



<u>Business Closures and Contractions</u>

46% have reduced their service area, and 17% have or will be closing locations. Over 1 in 10 report that they will or are actively considering closing entirely due to the cost pressures.

Many companies are at the point where they must make drastic decisions. Over the last 11 years, the HME Industry has experienced a 38% consolidation of supplier locations; non-bid non-rural areas are faring even worse at 42%. The added financial pressure of the 75/25 rate expiration may cause irreversible harm to areas of the country as companies and locations shutter and HME deserts emerge. Over a third of non-bid, non-rural Zip codes that had supplier locations in 2013 have no suppliers left (36%).

> *"I have been in business 31 years, and we love our community and to serve our Medicare population, but sadly it has come to a breaking point."*
>
> *"We are to the point if reimbursement doesn't increase soon, we will be shutting our doors and leaving 15,000 patients without a provider."*
>
> *"There is not a pathway to even break-even at this point."*

<u>Workforce Reduction</u>

53% of survey respondents report staff reductions and/or layoffs.

The HME Industry has service-intensive product categories and requires extensive back-end operations to maintain compliance with Medicare and other payers. A reduced workforce to handle the high demand activities creates further strain on companies and on their ability to provide timely care for their communities.

> *"Cut close to 50 staff to date with more coming, reducing a couple of locations, outsourcing work for the first time overseas, going deep into the credit line and owner financing. We are not sure what the other side looks like as we still have a ways to go to right side the business."*
>
> *"Our staff is depleted, and we have had to cut in several areas that have impacted customers."*

<u>Restricted Access</u>

Over 1 in 4 respondents noted changes to if/how they will provide HME and services to a Medicare beneficiary.

While CMS has long looked at the Medicare assignment rate as a barometer for healthy Medicare FFS reimbursement rates, the survey provides a different outlook on assignment as an indicator of patient access to care. 12% of respondents reported that they have stopped or are considering stopping taking assignment, but an even greater number reported that they are no longer serving *any* Medicare beneficiaries for at least some product categories (14%). The Medicare assignment rates fail to capture those who exit the market for certain product categories, which could hinder beneficiaries' ability to obtain HME under their Medicare benefit.

Additionally, as companies stop taking assignment due to inadequate reimbursement, an increasing number of beneficiaries must shoulder the expenses up front themselves. This creates a two-tier system for beneficiaries: those who can afford to personally gap-fill to compensate for the severe underfunding of Medicare for essential HME, supplies, and services, and those who go without.

> *"We have had to turn people away for the fact that equipment/supplies their doctor orders cost our company more than our reimbursements."*
>
> *"We will likely be exiting the market for all mobility DME because of this within the next 6 months... Our hesitation for exiting the market is because there is no one to fill the void. Patients will simply go without."*

Product and Service Limitations

Over 65% of respondents have reduced the amounts and/or types of products offered for Medicare FFS beneficiaries. Additionally, 12% reported having to cut patient services to reduce their overhead expenses.

Reduced rates and narrow (or non-existent) profit margins can cause suppliers to limit their offerings within product categories—or to stop providing products or services in certain categories altogether. As a result, patients may lose access to the most appropriate products for their healthcare needs and personal comfort.

> *"The cost of delivery has increased tremendously as well; we are not able to provide the services to patients which creates another hardship especially on the elderly."*
>
> *"Due to the rate cuts, we have had to make significant reductions in volume of services and staff, with the fear of possibly having to shutter our doors completely if the rates are not restored. We have been and are on track to lose large amounts of money each week because of the volume of customers we have on FFS Medicare whose payments have been impacted by the reduction... we serve a large amount of the local population, and without us, many residents would completely lose access to care."*

Financial Strain

Over 1 in 3 companies are now being self-funded with personal savings from company owners to maintain business operations.

Companies are at risk of insolvency, with 35% of respondents reporting that members of their company are having to infuse their personal savings to keep the business going. Others reported dipping deep into lines of credit or not being able to access a bank loan due to the reimbursement pressures they face when providing HME, services, and supplies to their community.

> *"As the owner, I have taken out personal loans to keep things going. Currently the business has borrowed $30,000 from me, and I see no immediate way to pay myself back. I have also cut my salary to mitigate the losses. I will have to consider closing. I am only one of two DME companies in our entire county. This area would be devastated."*

"I have had to take out loans just to stay in business long enough to hope for change. The loan money is also used to be able to take care of our patients. I have had to let staff go and eliminate all benefits. I have had to sell assets just to stay in business."

"Devastating. My costs have escalated, and reimbursement decreased. This is not sustainable… It is becoming impossible to stay in business. Margins are not there."

"I as an owner have had to put in $500,000 to keep the business running and meet payroll obligations… Now we are having to look daily at what cuts are possible so we don't have to shut the entire business down."

Ripple Effect on Other Payers

86% of respondents report that the expiration of the 75/25 blended rate has triggered rate reductions in their other payers' reimbursement rates.

The compounded impact of the rate reductions cannot be overstated. 86% of respondents report that the expiration of the 75/25 blended rate has triggered rate reductions in their other payers' reimbursement rates. Respondents reported the rate reduction impacting Medicare Advantage (79%), Medicaid (34%), and commercial plans (51%).

In many areas across the country, the HME infrastructure is nearing a breaking point, leading to widespread access issues not only for Medicare beneficiaries but for all Americans who rely on HME to manage their medical needs in a home-based setting, regardless of payer.

"Reduced staff, reduced coverage area, reduced revenue. We have been in business for over 23 years, and it seems like the durable medical equipment business cannot get a win. Medicare Advantage plans and commercial plans go by the Medicare allowable, so when they reduce rates, everyone reduces rates. We cannot sustain at the current rates."

"The rates have cost our company an average of $55,000 per month and going up as more and more payors are using the new rates, both rural and non-rural patients. This is putting us into the red instead of being slightly profitable."

"Reimbursements are so low now that it is hard to keep up with expenses and payroll. We may have to close. Medicare Advantage plan reimbursements are based on the extremely decreased traditional Medicare rates. We have been in business for 24 years and have never had this type of terrible treatment."

SURVEY CONCLUSION

The 75/25 blended rate increase served as a lifeline for many HME companies. Since that relief was not extended in January 2024, HME suppliers have been under immense financial strain, forced to make daily decisions on whether and how they can stay afloat amidst unsustainable reimbursement pressures. These adjustments will cause irrevocable harm for communities across America as businesses and locations shutter, jobs are lost, and access to essential products and services is reduced. Immediate intervention is needed to preserve the HME infrastructure that enables individuals to manage their medical needs in a home-based environment.

1. https://mailchi.mp/aahomecare/2024-rate-analysis