



THE KIDNEY CARE COUNCIL

# **Ensuring Payment Adequacy Amid Rising Labor Costs in the End Stage Renal Disease Prospective Payment System**

**Meeting with the Office of Management and Budget**

**May 22, 2023**

# The Kidney Care Council (KCC)

- KCC Members Deliver 95% of Dialysis in America

## • Overview

- Small, medium, and large providers
- Serve home dialysis and in-center patients in rural and urban areas
- Deliver life-saving care in more than 6,000 facilities

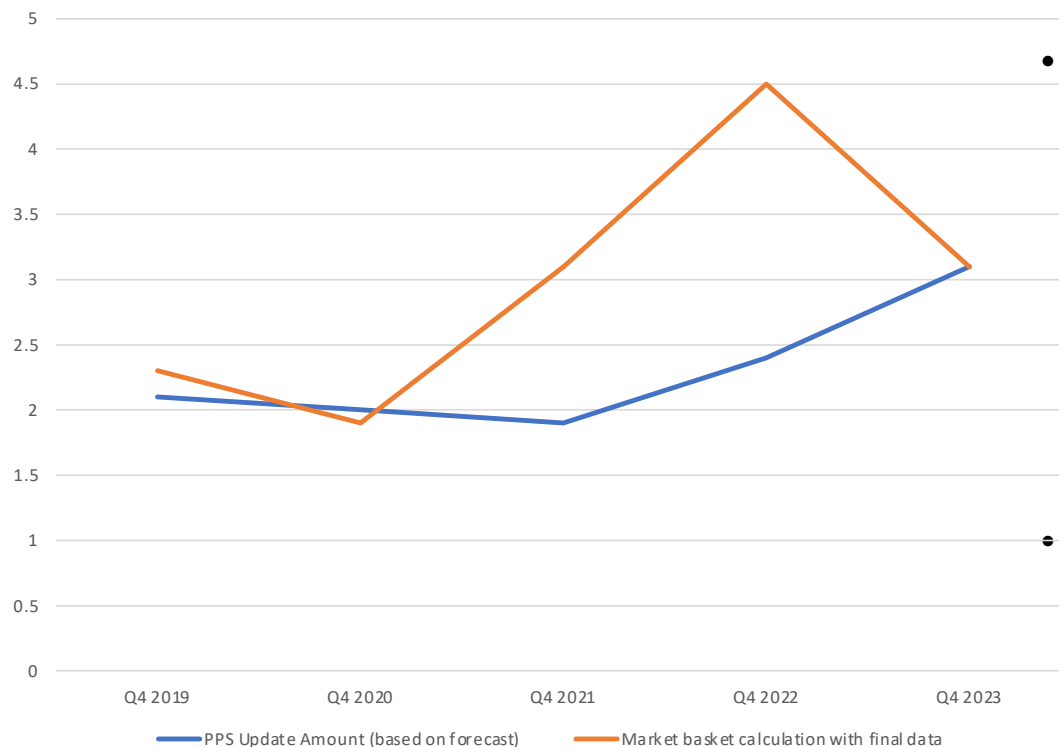
## • KCC Members

- American Renal Associates
- Atlantic Dialysis Management Services
- Centers for Dialysis Care
- DaVita, Inc.
- Dialysis Clinic
- Fresenius Medical Care
- Northwest Kidney Centers
- The Rogosin Institute
- Satellite Healthcare
- U.S. Renal Care



# ESRD PPS Forecasts Are Not Accurately Capturing Rise in Costs of Labor

Update Factor Variability by Quarter 2019-2023



- The forecast methodology used to establish the base rate each calendar year did not accurately capture unprecedented inflation in CY 2021 and CY 2022
- The PHE, labor shortages, and supply shortages are contributing to higher-than-normal inflation
  - This is reflected in IGH Global data prepared for CMS
  - This is also reflected in the BLS data showing significantly higher than forecasted labor cost increases
    - The ESRD PPS market basket has forecasted updates in the two to three percent range in since 2019, while the increase in labor costs since 2019 shown in the BLS data is significantly larger.
- The market basket must "reflect changes over time in the prices of an appropriate mix of goods and services included in renal dialysis services." 42 USC § 1395rr(b)(14).

# What's Driving Inflation: Labor and Supply costs

## McKinsey Analysis

### Supply costs:

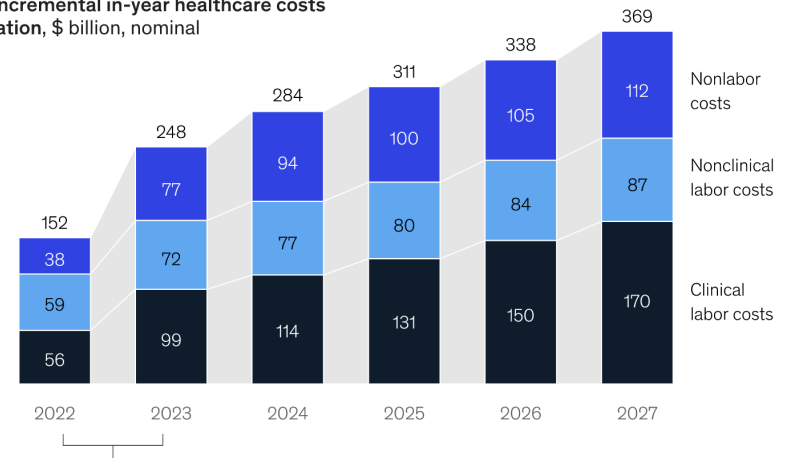
- Supply, particularly PPE, costs were driven up early in the PHE
- Ongoing supply chain issues
- “We expect that continued supply chain issues will push nonlabor costs above the trend we would have projected in 2019”

### Labor Costs:

- By 2025, anticipated gap of 200,000 to 450,000 registered nurses and 50,000 to 80,000 doctors (10 to 20 percent and 6 to 10 percent of the workforce, respectively)
- Higher than normal attrition—7 percent per year in 2021 and 2022
- Base-pay increases will likely become the baseline
- Labor shortages could lead to access risks from site-of-care closures and increased wait times
- **When access to care contracts, disadvantaged communities are often disproportionately impacted, a blow to health equity efforts**

The largest portion of potential extra healthcare costs are introduced to the system in 2022–23.

Potential incremental in-year healthcare costs due to inflation, \$ billion, nominal



*Inflation and clinical labor wage growth are significantly above baseline trends in 2022 and 2023 before returning to a lower rate of growth on this elevated baseline*

Source: McKinsey analysis in partnership with Oxford Economics; expert input

McKinsey  
& Company

The gathering storm: The transformative impact of inflation on the healthcare sector, Sept. 19, 2022  
<https://www.mckinsey.com/industries/healthcare/our-insights/the-gathering-storm-the-transformative-impact-of-inflation-on-the-healthcare-sector>

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## **CMS Data Show that Missed Forecasts Results in Lower than Actual Updates for 2021 and 2022**

- For CY 2022
  - Gross Market Basket Forecast was 2.4%
  - Current forecast is 5.0% (based on 3 quarters of actual 2022 data)
- For CY 2021
  - Gross Market Basket Forecast was 1.9%
  - Market basket calculation with final data would have resulted in an increase of 3.0%
- Differences between projected and actual increases in these two years creates a more than \$7.00 gap in funding available for dialysis treatments to the CY 2023 base rate

# **Adopt a Policy to Modify the Base Rate When the Forecasted Update Misses the Actual Change in Costs**

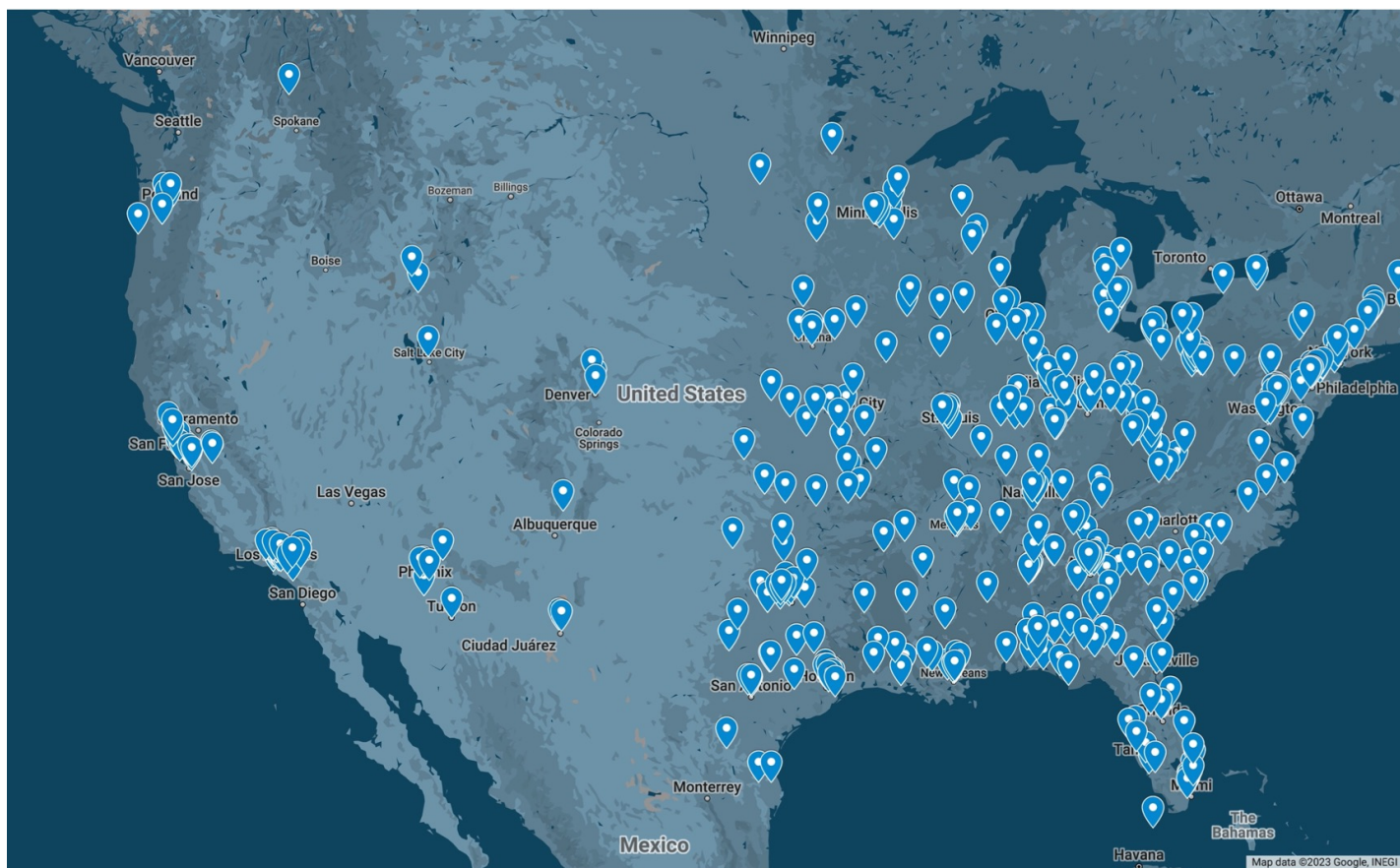
- Calculating the amount
  - For CY 2024
    - Compute an adjustment to the annual update
    - Take into account the cumulative forecast error between calendar years 2021 and 2022
  - Subsequent years
    - Adjustments in succeeding calendar years will take into account the forecast error from the most recently available calendar year for which there is final data
- When applies
  - Apply whenever the difference between the forecasted and actual percentage change in the ESRD market basket index by +/- 0.5%
- Rationale
  - Allows CMS to right-size the adjustment when wages/benefits increase or decrease in a manner that the forecast was unable to address

# Patient Access to Home and In-Center Dialysis At-Risk Due to Workforce Crisis

- KCC Member Survey Demonstrates Negative Impact on Patients

- More than 60% report that the staffing/workforce situation is somewhat or much worse in 2022 than it was in 2021
- Nearly 40% indicate that it is “very difficult” to meet their staffing requirements
- Nearly 63% report having to reduce the number of shifts or chairs available for patients
- 50% report closing one or more dialysis centers
- Nearly 40% stated that they have had to turn patients away to limit admissions because they could not provide them with the care needed because of the staffing shortage
- 70% of the survey respondents are “very concerned” that they will have to further reduce treatment shifts or close more facilities in 2023

# 50 Percent of KCC Members Report Closing One or More Dialysis Facilities





# Labor Costs Increasing Beyond the Medicare Market Basket Adjustments

- Staffing shortages

- ~40% indicate that it is “very difficult” to meet staffing requirements
- >80% state that they have to rely on contract nurses to meet staffing requirements
- >60% report dietician staffing shortages
- >88% report dialysis technician and social workers

- Cost of contract nurses 41% to more than 80% greater than employing a full-time nurse
- All members report non-labor costs also exceeding Medicare annual update
- Market basket update for CY23 was only 3.1 %, while BLS showed increase in labor costs of more than 8% between 2020 and 2022

# Conclusion

- Immediately address workforce pressures in the CY 2024 rulemaking cycle by adopting a SNF-like annual forecast error adjustment
  - For CY 2024 and subsequent years
  - In first year, include adjustment for misses in 2021 and 2022
  - Recognize could result in increases or decreases over time
- Long-term, the KCC is committed to working with the Administration to address the more systematic issues about capturing cost changes in a more-timely manner.