OPTUM®

Shining a light on hidden fees:

How Medicare Advantage plans can control transplant risks and costs

In the world of Medicare organ transplants, things aren't always what they seem. That's because Medicare Advantage plan contracts typically do not account for the cost of acquiring the organ.

Consider this typical scenario: An organ procurement organization bills a transplant center $40,000 for the cost of a kidney. The center, however, assigns a charge of $100,000 to the organ acquisition, which is then paid by the Medicare Advantage plan.

Why payers are surprised

Centers for Medicare & Medicaid (CMS) rules allow substantial markups for a wide range of expenses related to organ acquisition. These include transplant physician and staff salaries, building depreciation and the cost of maintaining an organ waiting list, to name just a few.

Yet Medicare Advantage plans are often unaware of these charges, which, particularly with the ongoing growth in transplant volumes, can impose a significant financial burden. As a result, Medicare Advantage plans may not fully understand their exposure for transplant procedures. They may be under the impression that their terms are very favorable because they have contracted with the provider at the Medicare diagnosis-related group (DRG) codes rate. And they may assume that the cost of the organ acquisition is included in the DRG.

The transplant charge, however, often includes both costs: the DRG plus organ acquisition. Payers may pay a reasonable DRG charge and also receive an invoice for the organ acquisition, which may be higher than expected. Additionally, hospitals have become very savvy in using the organ acquisition report to recover their costs. As a result, organ acquisition costs have increased significantly in recent years. To avoid overpaying, Medicare Advantage payers need to pay closer attention to their contracts and develop cost-control strategies.

Concealed costs

Organ acquisition stands as one of the last remaining services reimbursed on a cost-plus basis — a scenario not inclined to contain costs.

The risks of higher costs and utilization

While overall transplant volume is relatively low compared to some other medical procedures, the trend is on the rise. In 2017, 34,769 organ transplants were performed in the United States, a 20 percent increase over five years.[1] For purposes the of this paper, we will focus primarily on solid organ transplants such as kidney, liver and heart.

Medicare Advantage plans should be prepared for more transplant volume. Several factors are driving this uptick in transplants among Medicare members, including an aging and sicker population, and advances in medical technology. According to government data, 6,748 solid organ transplants were performed for recipients age 65 and older in 2017, a 33 percent increase from 4,269 performed in 2010.[1]

Organ acquisition: the wild card

Through diagnosis-related group (DRG) codes, CMS regulates what hospitals can charge for services. But there is a big exception that looms large: organ acquisition. CMS allows hospitals substantial leeway on how much they charge Medicare payers for the cost of acquiring an organ for transplant. This is known as a "cost-plus" reimbursement arrangement.

There is no fixed ceiling on organ acquisition costs, and they can fluctuate from year to year. Hospitals may use this flexibility to recoup other expenses not reimbursed with CMS DRG payments. They have become adept at pushing as many expenses as allowed into the organ acquisition charge.

In calculating their organ acquisition fee, hospitals are allowed to include a wide array of administrative and other expenses in the "cost" of the organ itself. Allowable transplant center organ acquisition costs include a portion of:

- Transplant physician and staff salaries
- Rent associated with acquisition activities
- Office equipment and computer costs
- Procurement-related costs (such as transportation)
- Evaluation testing — facilities fees and professional fees
- Donor procurement
- Lab tests
- Maintaining and managing donor waiting lists
- Costs associated with patient and professional education (such as attending conferences)

Many Medicare Advantage plans are unaware that hospitals build these overhead expenses into the organ acquisition fee. Thus, for example, a hospital paying $40,000 to purchase a kidney, liver or heart might then bill out the acquisition cost at three times that amount, or even higher.

Because organ acquisition payment is not fixed by CMS, the charges vary greatly by facility, thereby making it very difficult for Medicare Advantage plans to predict future expenses. For example, organ acquisition billed charges for kidney transplant cases repriced by Optum® in 2013 ranged from $40,000 to $200,000 (see Figure A).[3] Optum heart transplant organ acquisition billed charges in 2013 ranged between $60,000 and $200,000.[3]

Let's consider a hypothetical scenario. Suppose a transplant center performs 50 transplant procedures over the course of a year. It costs the center $40,000 to purchase each organ, or $2 million total. The center then adds in all the costs needed to maintain its transplant program — staff and facility costs, donor and recipient evaluations, overhead and so forth — which totals $5 million. The center then calculates total organ acquisition charges at $7 million and submits its annual Medicare cost report to CMS for review and audit (see Figure B). So, the average total organ acquisition fee per transplant would equal $140,000, versus the actual acquisition cost of $40,000 per transplant.

Average transplant risk in populations 65+

200–210
transplants per year per 1M members

622K
Average billed per transplant

$128M
Annual risk per 1M members

~50%
An estimated half of the transplants are solid organ

Milliman estimates 2017[2]

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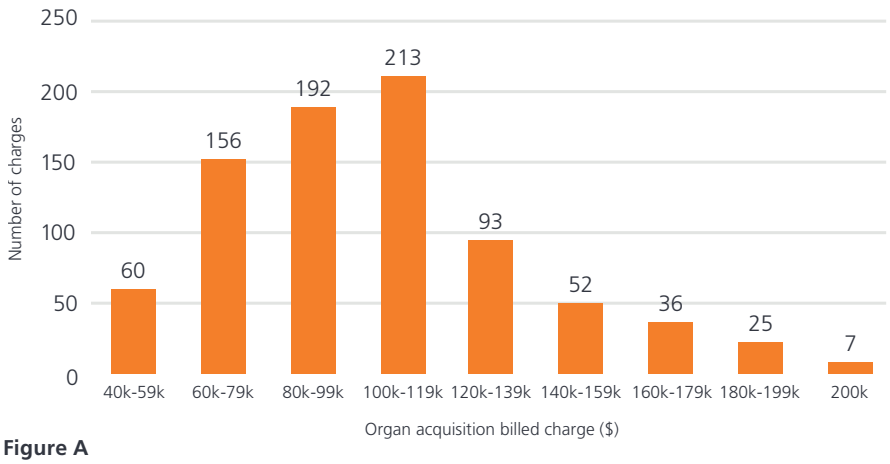

Figure A

Approximately one half of Medicare Advantage kidney transplant recipients visit the emergency room during the 90 days post-transplant.[4]

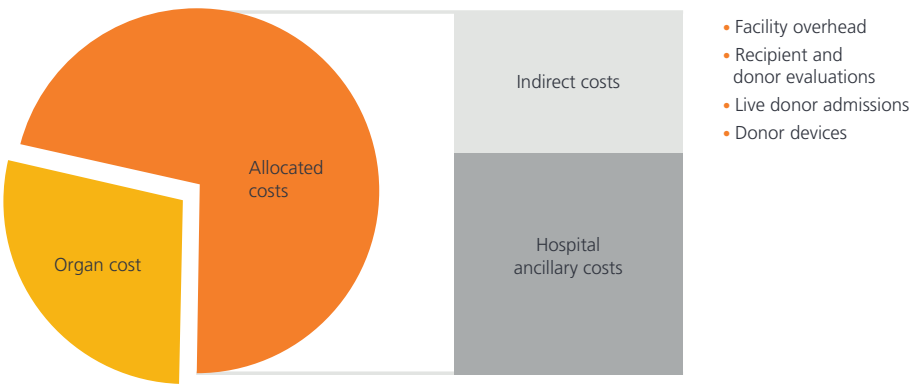

Figure B

How Optum reduces transplant risk and costs

Optum uses episodic case rate contracting methodology — a type of bundled payment — that offers its clients cost protection. In short, it avoids the hidden costs of the organ acquisition described above, helps Medicare Advantage plans lower their overall transplant program costs, and reduces uncertainty.

The episodic case rate includes the following: hospital services, physician services, organ/cell acquisition charges, donor services and outpatient follow-up. All told, the costs incurred during the case rate period account for three-fourths of the total costs of a transplant. The Medicare DRG, on the other hand, only covers hospital services from admission to discharge.

The case rate provides Medicare Advantage plans with cost protection and predictability because it includes the cost of the organ acquisition as well as the first 90 days following the procedure, when costly complications and readmissions are most likely to occur.

Here's an example of how case rate contract methodology delivers value to Medicare Advantage plans. A hospital performed a kidney transplant under an Optum contract with a case rate of $69,500. If the Medicare Advantage plan had agreed to pay 100 percent of Medicare, the hospital's billed charges would have totaled nearly $200,000 (see Figure C).

Using the Optum case rate has helped drive substantial savings for payers. In 2016, for example, Optum contracts saved health plans 56 percent of billed charges on average.[6] Optum has managed the paid unit cost trend to 3.3 percent compound annual growth rate (CAGR) from 2011 to 2016, which is significantly lower than the national benchmark of 7.5 percent billed charges CAGR.[7,8]

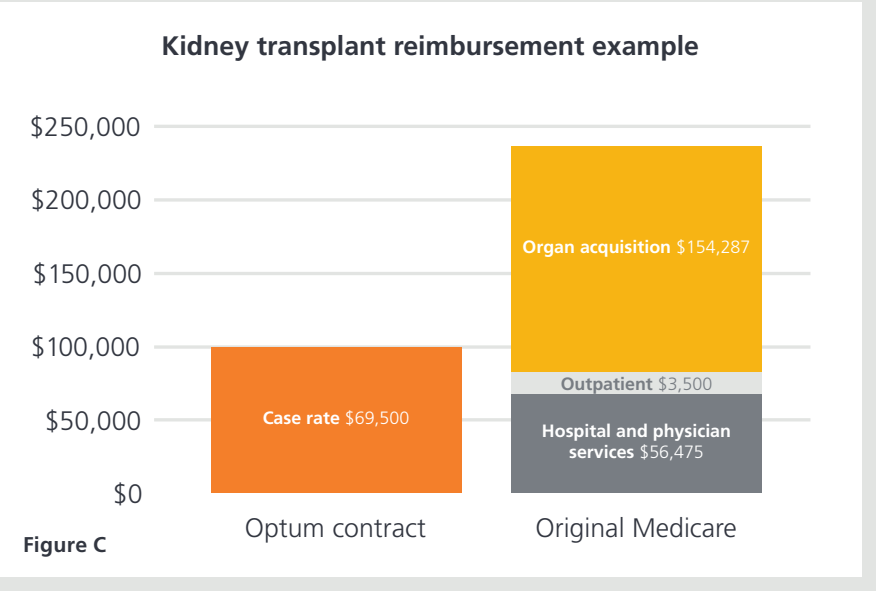

Figure C

During the inpatient admission through 90 days post-discharge, the episodic case rates includes:

- Hospital services
- Physician services
- Organ acquisition charges
- Donor services
- Outpatient follow-up care

High-quality outcomes and cost protection

Caring for members requiring a kidney or liver transplant is complex and costly. Yet, few Medicare Advantage plans have the resources to identify and assess top-performing transplant programs needed for these kinds of patients.

As the largest private-sector transplant management organization, Optum Transplant Solutions insures and/or manages approximately 18 percent of all U.S. transplants.[9] It is the only transplant solution combining commercial insurance experience and Centers of Excellence (COE) network resources with a separate Medicare Advantage program tailored specifically for the unique needs of the Medicare population. Our annual transplant referral volume — more than 18,300 cases — far outpaces our competitors'.[10] In addition to its competitive commercial rates, Optum has even negotiated additional discounts for Medicare Advantage clients at many of its COEs.

Conclusion

With the incidence of high-cost transplant procedures on the rise, Medicare Advantage plans face increased financial pressure to better manage transplant cases. Yet, the lack of contract transparency makes this a difficult challenge. The cost of organ acquisition charges in particular are a potential trap for the unwary. The Optum case rate methodology, combined with its COE network and medical management of transplant cases, can help Medicare Advantage plans understand exactly what they are paying for, control costs and improve outcomes.

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