

Rediscovering Method II as a Reimbursement Option

Larry M. Day

Recent discussions within the renal community confirm the following: we are in an evolving health care environment that obliges us to review reimbursement opportunities that promote patient care, contain costs, and maximize revenues. This article will look at a sometimes overlooked option – Method II reimbursement for home dialysis patients – as a way for dialysis facilities to work within the established rules to both benefit patients and the overall dialysis program.

The Dialysis Outcomes Quality Initiative (DOQI) guidelines pose a challenge for dialysis facilities: meet new goals for patient care within the current reimbursement structure. For patients who have chosen continuous ambulatory peritoneal dialysis (CAPD) as their modality choice, adequacy is an ongoing problem and is a leading reason why nephrologists eventually encourage patients to switch to hemodialysis.

For patients who want to remain on PD, there are other options: continuous cycling peritoneal dialysis (CCPD) and automated peritoneal dialysis (APD). Data from the U.S. and worldwide shows that both techniques are gradually replacing CAPD. Both methods can produce better clearances and help facilities obtain a target 2.0 Kt/V for patients, but the techniques are more costly. How can facilities offer CCPD or APD within current reimbursement guidelines or supply costs per patient per year? Facility owners, administrators, and nurses may have forgotten that Method II reimbursement is a patient's option that can help reach desirable outcomes with CAPD alternatives under a reimbursement methodology different than the composite rate.

Background

In 1983, when composite rate reimbursement was initiated, patients who dialyzed at home were given a choice of reimbursement options, i.e., Method I or Method II. Method I applies when a facility or provider receives a predetermined, capped fee-for-service based on the area's wage index (similar to a composite rate). This fee includes all components of dialysis treatment. If a patient chooses Method II, he/she contracts with a home dialysis supplier for both equipment (hemodialysis machine/R.O. water treatment system or a continuous cycling peritoneal dialysis machine) and supplies. Historically, reimbursement to the supplier was based on a "reasonable charge." Additionally, a dialy-

sis facility that agrees to serve as a back-up unit is reimbursed for clinical care items referred to as "support services" at a monthly capitated payment rate.

Method II had a rocky and politically sensitive start in the mid-to late 1980s. Several supply companies abused the program by maximizing reimbursement. Health Care Financing Administration (HCFA) intermediaries, Congress, and the renal community worked to eliminate the abuses, and Method II is now a fairly straightforward option for patients and providers.

Suppliers Abound

The process of delivering supplies and equipment to home dialysis patients has been stream-



Mr. Day is president of Dialysis Management Inc. Golden, Colo. He has provided business management consulting services to the renal care community since 1980. He is also an NN&I Editorial Advisory Board member.

FIGURE I: METHOD II SUPPLIER STANDARDS

- A supplier must fill orders from its own inventory or inventory of other companies with which it has contracted to fill such orders.
- A supplier is responsible for delivery of Medicare covered items to beneficiaries.
- A supplier honors all warranties, express and implied, under applicable state law.
- A supplier answers any questions or complaints a beneficiary has about an item or use of an item that is sold or rented to her/him and refers beneficiaries with Medicare questions to the appropriate DMERC.
- A supplier maintains and repairs directly, or through a service contract with another company, items it rents to beneficiaries.
- A supplier discloses consumer information to each beneficiary with whom it does business, which consists of a copy of the above supplier standards to which it must conform.

lined because most of the top 10 dialysis chains (see 7/98, *NN&I*) have created their own Method II supply companies. These companies are separate entities as required by law (see Figure 1) but work in conjunction with the chain dialysis facilities to provide home-based equipment and supplies.

Likewise, the leading suppliers of peritoneal dialysis equipment and supplies, i.e., Baxter Renal Care and Fresenius USA, have their own Method II supply companies. Also, product and equipment suppliers, hospitals (on their own or in joint ventures with physicians in some cases), and several of the remaining independent dialysis chains have created their own supply companies as well.

in Method II once a year).

While Method II can provide both patient freedom and give dialysis facilities an attractive reimbursement option to try and meet DOQI guidelines, it still remains unknown among some providers. It is important for staff to become knowledgeable about the advantages of Method II and communicate the reimbursement options to patients. The medical equipment and supply sales representatives need to be reminded that the Method II option is available. Lastly, if prescribing nephrologists comprehend the differences in reimbursement, they can fulfill a patient's treatment choice, like CCPD, without associated cost constraints. Several Method II

HOW METHOD II IS REIMBURSED

The DMERC (selected Part B carriers) processes claims for beneficiaries who have chosen to receive their supplies and equipment from an independent supplier (Method II). Suppliers' claims will be covered only if all of the following conditions are met:

1. The beneficiary has elected to receive home dialysis equipment and supplies from an independent supplier.
2. The supplier is not a Medicare approved dialysis facility.
3. The supplier agrees to receive Medicare payment only on an assignment-related basis.
4. The supplier agrees to be the beneficiary's sole supplier for all home dialysis equipment and supplies.
5. Supplier agrees to bill on a monthly basis for the quantity of supplies appropriate for that period. (There is one exception to this rule. Beneficiaries are permitted to have one month's supplies in reserve in case of emergency.)
6. The supplier reports to the back-up facility within 30 days with all items and services that it furnishes to the patient so that the facility can record this information in the patient's medical record.
7. The supplies and equipment are reasonable and necessary for that patient (see CCPD reasonableness below).
 - a. Frequent episodes of peritonitis; or
 - b. A patient who is incapable of performing peritoneal dialysis without assistance, or
 - c. A patient who, in the physician's determination, cannot be adequately dialyzed with continuous ambulatory peritoneal dialysis (CAPD).

Research from within the renal community – both from medical supply companies and providers – indicates that about 50% of CCPD patients utilize Method II. Also, at any time during the year, as many as 20% of the CAPD patients could apply for Method II (patients can make a choice to enroll

suppliers and industry consultants provide expert in-depth analysis of a facility's patient population at no cost. Within the analysis, high risk (i.e, those who need improved clearances) and high cost patients are identified and then recommended as Method II candidates.

Choices for Hospital-Based Facilities

Industry sources indicate that about 30% of dialysis facilities are hospital-based. These facilities can also choose method II for its home dialysis patients. This group has two options: 1) contract with independent Durable Medical Equipment (DME) companies, or 2) create a limited liability company with some outside help (lawyer, consultant, independent supplier, etc.).

All home patients have an opportunity to change their reimbursement option. Method selection changes must be made prior to December 31 of each year. The change becomes effective on January 1 of the following year.

Both facilities and home patients will benefit from analyzing reimbursement options. Facilities can quickly develop the action steps to create the necessary entities, policies, and procedures. Additional regulations must also be considered,

CODING GUIDELINES

The allowance per month under Method II for home dialysis supplies and equipment (A4650-A4927, E1510 - E1699) is the lesser of:

- (a) the reasonable charge allowance for all medically necessary equipment and supplies used or
- (b) \$1,490.85 for all forms of dialysis except continuous cycling peritoneal dialysis (CCPD). For CCPD, the allowance is the lesser of the reasonable charge allowance or \$1,974.45.

(An EM modifier should be added to a dialysis supply code when it represents emergency reserve supplies over and above the typical monthly amount.)

□ DOCUMENTATION

The supplier must have on file a copy of the ESRD Beneficiary Selection form (HCFA Form 382) and the original written agreement to provide supplies to a Medicare approved dialysis facility. The agreement must specify that it will provide at least the following services:

1. Surveillance of the patient's home adaptation, including provisions for visits to the home of the facility;
2. Consultation for the patient with a qualified social worker and a qualified dietitian;
3. Maintain a record keeping system, which assures continuity of care and includes a record of supplies and equipment provided by the Method II supplier;
4. Maintaining and submitting all required documentation to the ESRD Network;
5. Assuring that the water supply is of the appropriate quality if hemodialysis is the dialysis method;
6. Assuring that the appropriate supplies are ordered on an ongoing basis;
7. Arranging for the provision of all ESRD related laboratory tests and billing for the laboratory tests that are included in the composite rate;
8. Furnishing institutional dialysis services and supplies, and
9. Furnishing dialysis-related emergency services.

including Stark II finalization, state-by-state physician referral laws, and Medicare Fraud & Abuse regulations regarding anti-kickbacks. Remember that Method II supply companies are required to operate as an independent entity known as a DME supplier. A "shell" company cannot be established to take advantage of the reimbursement system.

Working within the established regulations and with a complete understanding of reimbursement under Methods I and II, along with open communication between staff and patients, facilities can work effectively with a Method II company to ensure quality patient care while limiting costs and maximizing revenues. **NN&I**

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