



OIG NEWS

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For Immediate Release
September 13, 2004

LOWERING RATES AND ADOPTING ALTERNATIVE METHODS COULD SAVE MEDICARE MILLIONS FOR HOME OXYGEN EQUIPMENT

Medicare expenditures for home oxygen equipment could be reduced by hundreds of millions yearly if reimbursement rules are changed to establish payment rates similar to Federal Employee Health Benefit (FEHB) plans according to a report, issued today, by the HHS Office of Inspector General (OIG).

Specifically, Medicare could have saved \$499 million if payments had been based on the lowest FEHB rates. The Medicare Prescription Drug, Improvement and Modernization Act (MMA) of 2003 requires reductions in payments for oxygen and oxygen equipment beginning in 2005 based on data provided by OIG. Specifically, the MMA requires the Centers for Medicare & Medicaid Services (CMS) to reduce prices to the median FEHB prices obtained by OIG.

OIG surveyed all 198 FEHB plans and compared payments made by these entities with those paid by Medicare Part B for home oxygen equipment. OIG collected information concerning their payment rates for five items that accounted for 99.9 percent, or \$2.2 billion of Medicare spending for home oxygen equipment in 2002. These items correspond to five oxygen codes: oxygen concentrators (E1390), portable gaseous oxygen systems (E0341), stationary liquid oxygen systems (E0439), portable liquid oxygen systems (E0434), and stationary gaseous systems (E0424).

Based on our analysis, we determined that median FEHB rates are approximately 10 to 20 percent lower than median Medicare allowances for the five oxygen codes. FEHB rates are lower than Medicare allowances for stationary and portable oxygen equipment. We also determined that Medicare allowances are approximately 15 percent higher for stationary systems and approximately 11 percent higher for portable systems.

In addition to the information mandated by the MMA, OIG analyzed 2002 payment rates for home oxygen equipment provided by Medicare+Choice plans, which serve exclusively Medicare

beneficiaries. OIG surveyed 146 Medicare+Choice plans concerning payments for oxygen concentrators, portable gaseous oxygen systems, stationary liquid oxygen and portable liquid oxygen systems and determined that median Medicare+Choice rates are also approximately 10 to 20 percent lower than median Medicare allowances for home oxygen equipment. OIG found Medicare savings could have been \$236 million if payments had been based on the lowest Medicare+Choice rates. Medicare+Choice rates are lower than Medicare fee-for-service allowances for both stationary and portable oxygen equipment, OIG found.

OIG also analyzed actual payment rates to take into account differences in plans' coverage areas and the number of Medicare claims in those areas. Based on a claim-by-claim analysis, FEHB and Medicare+Choice plans' actual payment rates are approximately 10 to 23 percent lower than actual Medicare fee schedule allowances for home oxygen equipment.

OIG also learned that plans use a variety of methods to determine payment rates. Unlike Medicare, which bases payment for home oxygen equipment on fee schedules alone, FEHB and Medicare+Choice plans use competitive bidding, capped rental, discounted fee schedules, or contracts with local or national suppliers to lower their costs.

Medicare provides health benefits for about 41 million elderly and disabled Americans at an annual cost of more than \$300 billion. Home oxygen equipment accounted for 24 percent of Medicare spending for all durable medical equipment, prosthetics, orthotics, and supplies in calendar year 2002 (\$2.2 billion of \$9.2 billion). One item alone, oxygen concentrators, accounted for approximately 83 percent or \$1.8 billion of total spending for oxygen equipment and supplies.

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Today's report can be found at: <http://oig.hhs.gov/oei/reports/oei-09-03-00160.pdf>