



Blood Centers  
*of the Pacific*

# Update

Newsletter for Hospitals  
May 2002

## INPATIENT REIMBURSEMENT MAY IMPROVE FOR BLOOD & BLOOD COMPONENTS FOR TRANSFUSION

Although blood represents less than two percent of a hospital's budget, more than 30 percent of all hospital admissions require blood transfusion support, according to a recent examination of hospital billing tapes by America's Blood Centers.

While blood safety has dramatically improved over the last two decades, Medicare and Medicaid inpatient reimbursement, which accounts for more than half of all transfusions, has not kept pace with these improvements, especially those of the last five years. This situation may improve if the Centers for Medicare and Medicaid Services or CMS (formerly known as HCFA) and Congress follow recommendations made in December 2001 by the Medicare Payment Advisory Committee (MedPAC), an independent government advisor to both Congress and CMS. However, more changes may be needed to make sure the cost of blood is reimbursed on a timelier basis under the current inpatient prospective payment system (PPS), also known as the DRGs or disease related group reimbursement system.

Measures to ensure and improve blood safety have become a focus of blood banking since the HIV crisis in the early 1980s. New technologies, tests and donor deferrals have been implemented, mostly at the recommendation of the U.S. Food and Drug Administration. Many new technologies (such as pathogen inactivation) and tests (such as single donor nucleic acid testing) to further improve blood safety are under development. However, many of these new safety measures are costly and their reimbursement is significantly delayed under the DRGs.

In 2000, with implementation of the outpatient prospective payment system called the "APCs," CMS

set realistic reimbursement rates for blood products and services with a mechanism for at least annual updates. However, an estimated 95 percent or more of transfusions are given to inpatients under the DRG system. The result is a safe blood supply that has largely not been funded.

Under the Medicare, Medicaid and State Children's Health Insurance Program Benefits Improvement and Protection Act of 2000 (aka "BIPA"), Congress directed CMS to make improvements to inpatient reimbursement for blood and blood products. BIPA also required MedPAC to determine whether the increase in hospitals' blood costs since 1984 could be attributed to compliance with new safety technologies. MedPAC was further instructed to determine whether the inpatient prospective payment system had adequately captured these costs; to estimate future cost increases in response to new blood safety technologies; and to consider changes in the inpatient PPS.

### COST AND REIMBURSEMENT OF BLOOD IN INPATIENT SETTING

In theory, annual cost increases to blood and blood products are captured by the Bureau of Labor Statistics (BLS) through its producer price index (PPI). The PPI is a family of indexes that measure changes in wholesale prices for more than 10,000 specific products or groups of products. Pricing data is provided to BLS by a sample of establishments that agree to report information regularly.

Price data for blood and blood products are collected under the "chemicals and blood products"



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PPI subcategory of biological products. However, the information on blood is captured from surrogate entities that produce serums, plasmas and other blood derivatives as well as products including vaccines, toxoids and allergenic extracts. If the cost of producing blood components for transfusion parallels those for blood derivatives, then the current PPI adequately captures increases in blood costs. However, in its December 2001 report to Congress, MedPAC agreed that the recent increases in blood costs likely have not been captured in the PPI. MedPAC recommended that CMS update the way those costs are captured. Ironically, prior to 1997 and the spate of recent increases in blood costs, BLS used a different PPI category, which more accurately calculated blood costs for yearly updates made to inpatient reimbursement.

Although the DRGs are rebased only every few years, CMS uses the PPI to capture cost increases. CMS also monitors reimbursement through its yearly market basket updates and technology adjustments. The hospital market basket index is one component Medicare relies upon to set payment levels for various hospital services. The market basket reflects the broad array of operating and capital costs, categorized for measurement purposes, which hospitals incur in order to provide medical care. The market basket index has been periodically reviewed and the relative cost measures, or "weights," recalibrated so that changes in costs are appropriately reflected in Medicare payment adjustments. To better capture blood cost increases, MedPAC also recommended that blood be included in the market basket.

## **CURRENT SYSTEM PROBLEMS**

This system is inadequate for capturing blood costs for a number of reasons. First, the current system does not account for the rapidly changing costs associated with blood safety. Since 1994, new, costly safety technologies, such as leukoreduction and Nucleic Acid Testing have added an estimated \$1 billion to the nation's blood bill. Yet any increases over the rate of average healthcare

costs have not been accounted for in the relatively modest DRG payment increases over the last five years.

Following the release of the recent MedPAC report, representatives from the national blood, medical device and hospital organizations met with CMS to discuss the next steps. CMS representatives said a decision had not been reached about whether to adopt the MedPAC recommendation and suggested that any change in methodology for calculating the PPI be administered through BLS.

According to the May 10 Federal Register notice, CMS has proposed measures that may improve reimbursement for blood and blood products. First, CMS recommends including the cost of blood and blood products into the annual market basket update. The market basket reflects the broad array of operating and capital costs, categorized for measurement purposes, which hospitals incur in order to provide medical care. The market basket index has been periodically reviewed and the relative cost measures, or "weights," recalibrated so that changes in costs are appropriately reflected in Medicare payment adjustments.

Next, to account for costs, CMS has proposed using data on prices for blood and blood products collected by the Bureau of Labor Statistics' producer price index (PPI). Price data for blood and blood products are currently collected under the "chemicals and blood products" PPI subcategory of biological products. However, the information on blood is captured from surrogate entities that produce serums, plasmas and other blood derivatives as well as products including vaccines, toxoids and allergenic extracts.

If the proposed rule is adopted, the reimbursement for blood costs will not lag behind any other major increased cost to hospitals. Until now, blood costs were updated only when the DRGs were "rebased." The last time the DRGs were rebased was 1996, so all increases to blood (over the CPI) since then have not been included in annual DRG updates.

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## **Technical Advisory Committee Meetings 2002**

**Mark your Calendars!**

**Fairfield:** June 11, 2002, September 10, 2002, December 10, 2002 @ 2:00pm

**San Francisco:** June 12, 2002, September 11, 2002, December 11, 2002 @ 8:30am

## **AABB Teleconferences 2002**

**All teleconferences are from 11:00am to 12:30pm.**

June 12, 2002, July 10, 2002  
August 7, 2002, September 11, 2002  
September 25, 2002

## **Medical Advisory and Scientific Committees Meetings (MSAC)**

June 11th, 2002, September 3rd, 2002,  
December 3rd, 2002 @ 5:00pm