

## Wall St. Journal Article Focuses On Capped Rental Issue

### "Ownership" for Elderly's Oxygen Equipment"

By DAVID ROGERS February 28, 2006; Page A6 WSJ:

WASHINGTON -- President Bush's "ownership society" is coming to one corner of Medicare: Live long enough, and a patient could have his or her own oxygen equipment and hospital-style bed at home.

Congress paved the way this month with a budget bill mandating a "rent-to-own" rule requiring that Medicare home-care beneficiaries take title to their rented beds after 13 months. Now, Mr. Bush wants to apply the same standard to oxygen equipment in hopes of saving billions of dollars and empowering the elderly to bargain for cheaper respiratory-therapy services.

The administration contends that the rental payments now are a waste of scarce government funds, and that the situation has reached a point where relationships must be altered. Instead of renting, Medicare would in effect buy the equipment for a beneficiary, who then could bargain for services -- oxygen supplies and maintenance -- separately on the basis of service and price.



**William M. Thomas**

Patients will now "own the means of delivery," says House Ways and Means Committee Chairman Bill Thomas, and the industry will have to compete more to serve them. "Remember Marx -- own the means of production," the California Republican adds with a grin.

The change has angered Republican-friendly medical-equipment and home-care suppliers that rent equipment to Medicare but never surrender title. Malachi Mixon, a Bush supporter whose medical-equipment firm Invacare Corp. has grown with Medicare home care, calls the proposed changes "absolutely crazy" and says they ignore the services provided by suppliers, financed through the rentals. "They think you drop it off like a stork," he says. "It's really a medical protocol."

Critics contend the administration is captive to a free-market ideology that ignores the frailty of the elderly, many of whom are in ill health and already bedeviled by another competition model: the Medicare prescription-drug benefit.

"Republican delusions that health care can work like any other market apparently know no bounds," says Robert Berenson, a senior fellow at the Urban Institute and a top Medicare administrator under President Clinton. "They now even extend their notions of an ownership society to people in their last months of life."

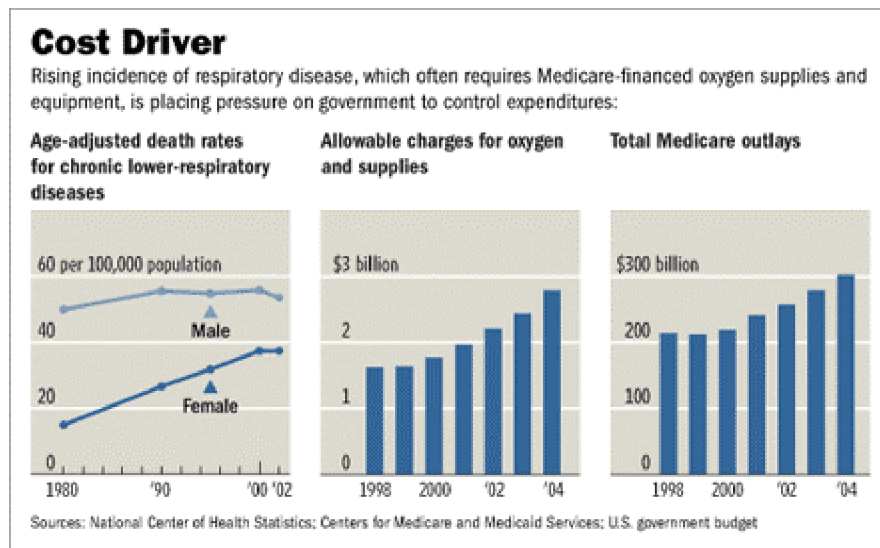
Mr. Mixon says one unintended consequence is the economic pressure to build cheaper, less durable products given the 13-month cap imposed on bed rentals. And Lawrence Higby, chief executive of Apria Healthcare Group Inc., says owning oxygen equipment is likely to be a burden rather than a boon for the elderly, many of whom are too weak to negotiate the savings on supply envisioned by Republicans.

"The cornerstone of the misunderstanding is that all we are doing is providing equipment," he says. "Medicare's attitude is you only pay the police and fire departments when they come to the house. We maintain a 24-hour hotline. We have drivers named in wills."

The oxygen debate is a modern tale of the most basic of all health-care goods. And given the rising death rates for respiratory ailments, it is likely to play an increasing role in Medicare's financial squeeze.

Chronic obstructive pulmonary disease -- which includes bronchitis, emphysema and asthma - - is predicted to become the third largest cause of death for the nation by 2020. And among women the death rate has soared given the greater incidence of smoking.

"It's a real health problem now," says William Bailey of the University of Alabama. Adds Sen. Mike Crapo (R., Idaho), chairman of a fledgling caucus for the disease grouping in Congress: "Most Americans don't understand it because we haven't talked a lot about it in our society. ... Yet it is the one where we haven't turned the corner."



For Medicare, close to a million patients now receive oxygen therapy. Although monthly rental payments already have been cut, allowed charges rose to \$2.78 billion by 2004, a 71% increase since 1998 that reflects the growing demand. The revenue feeds the home-health and medical-equipment industries, whose own evolution is closely tied with Medicare's efforts since the 1980s to ratchet down hospital costs.

Hospitals began discharging the elderly faster after Medicare instituted a new fixed-payment system in 1985. Court rulings quickly followed that greatly expanded the ability of patients to qualify for continuing care at home, and today, annual public spending for home care and medical equipment exceeds \$38 billion.

The biggest publicly traded companies -- whose stocks have seen rough sledding recently -- are conspicuous for their politically active Republican CEOs. Invacare's Mr. Mixon, a blunt Marine veteran with a quail-hunting ranch in Texas, is a major fund-raiser for Mr. Bush. Mr. Higby is a former Nixon White House aide still active in Republican politics.

By mobilizing Ohio Republicans, Invacare was able to beat back Rep. Thomas's late-night effort to impose an 18-month cap as part of December budget talks. But the final law -- requiring a transfer of ownership after 36 months -- still worries the industry, and the administration would shorten that by almost two years.

The industry paid a price for its marriage of convenience with government when oxygen was first covered by Medicare in the 1960s. As a prescribed, outpatient drug therapy, oxygen didn't fit into Medicare's focus on hospital care. To qualify, the government agreed to payments keyed more to the equipment, not the service itself.

This has led to distortions. Oxygen concentrators, which separate the oxygen out of the air and store it for the patient's use, cost \$1,000 to \$2,000. But with an unlimited stream of Medicare-rental payments, companies can recoup their capital investment many times over -- without ever surrendering title.

Almost a decade ago, auditors estimated Medicare would have saved \$500 million in 1996 if it had operated more like government-run veterans' oxygen programs. Medicare-oxygen payments have since been cut by almost 46% -- after factoring in inflation. But the administration says the compensation remains excessive.

"How many times do we have to pay for this equipment?" says Herb Kuhn, director of the Center for Medicare management within the agency that runs Medicare. Once title is transferred to the patient after 13 months, he says, Medicare will share the costs of continuing oxygen services, including maintenance. "I see it as a very seamless transparent web," Mr. Kuhn said. "The benefit is still there."

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