



## ENSURE ADEQUATE AND APPROPRIATE PAYMENT FOR MEDICARE HOME HEALTH SERVICES TO PROTECT ACCESS TO CARE

**ISSUE:** Under the Balanced Budget Act of 1997, Congress mandated the creation of a Medicare home health prospective payment system (PPS). This Act authorized the Centers for Medicare and Medicaid Services (CMS) to annually adjust payment rates through the use of a market basket index, which is intended to reflect cost inflation, and include a case-mix adjustment component to PPS to set payment rates in a manner which reflects the varying use of clinical resources among the population of patients receiving Medicare home health services.

CMS was later authorized to make adjustments in the standard prospective payment amount if it is determined that the changes in the overall case mix result in a change in aggregate payments, whether the result of “upcoding” or classification in different units of service that do not reflect real changes in case-mix. Under this authority, CMS has instituted a series of reductions in home health payment rates, the most recent of which was a 3.79 percent cut in 2011, and is proposing another 5.06 percent cut in 2012. Under the Patient Protection and Affordable Care Act of 2010 (PPACA), Congress reduced the home health market basket index by one percentage point for 2011, 2012, and 2013, mandated rebasing of home health payment rates beginning in 2014 with a 4-year phase-in, and imposed a productivity adjustment in the inflation update in 2015 that would reduce the inflation update by an estimated 1 percentage point. The 2011 MedPAC recommendations would accelerate these reductions by eliminating the market basket index update in 2012 and moving rebasing up to 2013 with no more than a 2-year phase-in. The Administration has submitted a deficit reduction proposal that would reduce the home health inflation update by 1.1 percentage point each year from 2014 through 2021.

The payment rate adjustment authority weakens the financial security of the home health benefit since the stability of the payment rates is uncertain and subject to vague or ambiguous standards left to the discretion of CMS. In addition, PPACA provides limited guidance as to the standards that should be applied by CMS in the rate rebasing. The MedPAC recommendations would disturb the carefully crafted schedule of payment rate changes enacted through PPACA. Crude measures such as across the board reductions or freezes will only exacerbate inequities in the system, and contribute further to access concerns.

**RECOMMENDATION:** Congress should 1) restrict the ability of CMS to modify payment rates and apply the procedural standards set out in the Home Health Care Access Protection Act to case mix weight adjustments, 2) reject any proposals to reduce the market basket inflation update or impose additional rate reductions for home health agencies, and 3) provide for rebasing standards that address all costs for home health services, including the costs of implementing a new series of regulatory changes, and ensure a reasonable operating margin for home health agencies.

**RATIONALE:** Reimbursement levels fail to adequately cover the rising costs of providing care and home health agencies perpetually suffer from payment rate instability. Over 40 percent of home health agencies are paid less by Medicare than their costs in 2011, a number expected to rise to 53 percent in 2012 if case mix cuts CMS is considering are implemented. PPS should operate with at least a modicum of stability of payment rates. CMS should not be allowed to arbitrarily adjust payment rates through the application of vague and ambiguous standards.