HOMECARE & HOSPICE
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ENSURE ADEQUATE AND APPROPRIATE PAYMENT FOR MEDICARE HOME HEALTH SERVICES

ISSUE: The President's budget would take $11.03 billion out of Medicare home health spending by freezing payments over five years (fiscal year (FY) 2009-2013) and instituting a permanent cut in the inflation update of 0.65 percent thereafter. Earlier this year, the Medicare Payment Advisory Commission (MedPAC) recommended a one year home health payment freeze for 2009, which would cut home health spending by about $2.6 billion over five years. The President's budget makes no provision for reinstating the 5 percent add-on payment for home health services in rural areas, which expired January 1, 2007.

The Centers for Medicare & Medicaid Services (CMS) administratively has promulgated a 2.75 percent across-the-board rate reduction for home health services for 2008, 2009, and 2010, as well as a 2.71 percent cut for 2011. The 2.75 percent cut scheduled for 2008 has been implemented. Over the next five years (2009-2013) these cuts will reduce outlays for home health by $7.59 billion unless Congress blocks them. These reductions are based on an unfounded allegation by CMS that case mix weights have increased without attendant changes in patient characteristics, referred to by CMS as "case mix creep" or "upcoding." Senators Susan Collins (R-ME) and Robert Casey (D-PA) and Representatives Jim McGovern (D-MA) and Walter Jones (R-NC) have introduced the "Home Health Care Access Protection Act" (S. 2181/H.R. 3865) to block implementation of these regulatory cuts and require a transparent new process and criteria for evaluating case mix changes.

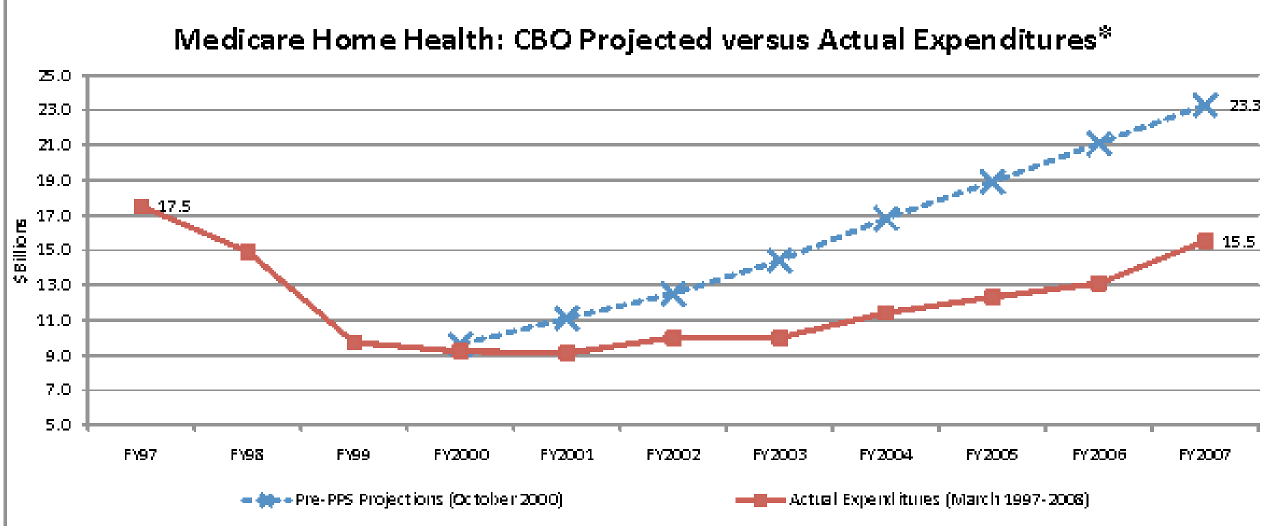
RECOMMENDATION: Congress should: 1) Reject any cuts in the home health market basket inflation update; 2) Reinstate the 5 percent add-on payment for home health services in rural areas; and 3) Enact the Home Health Care Access Protection Act (S.2181/H.R.3865).

RATIONALE:

- The President's proposed five year freeze in home health payments coupled with the CMS regulatory payment reductions would result in cuts of $18.62 billion over five years. A one year freeze combined with the CMS regulatory payment reductions would cut $10.19 billion from home health spending over five years. These cuts would come from a benefit that is about $15.5 billion per year ($2 billion less than in 1997) and under control in terms of expenditure growth (see chart below).
- The Medicare Payment Advisory Commission has recommended a one year payment freeze for home health services, justified by claims that home health agencies are making excessive profit margins on Medicare services. MedPACs financial analysis of Medicare home health agencies (HHA), projecting an 11 percent margin for 2008, is unreliable. First, it does not include any consideration of the 1,723 agencies (21 percent) that are part of a hospital or skilled nursing facility. In some states, hospital-based HHAs make up the majority of the providers (MT 63.2 percent; ND 65.4 percent; SD 60.5 percent; OR 58.3 percent). Facility-based HHAs have an average Medicare profit margin of negative 5.3 percent. Second, the MedPAC analysis uses a weighted average, combining all HHAs into a single unit, rather than recognizing the individual existence and local nature of each provider. Third, MedPAC margin data fails to recognize many agency costs, including the cost of telehealth equipment, increasing costs for labor, emergency and bioterrorism preparedness, and system changes to adapt to the new home health payment changes. When all agencies' margins are included and given equal weight, the true margin would be closer to 2 percent. MedPAC fails to evaluate the impact on

care access that occurs with the current wide ranging financial outcomes of HHAs. Instead, it sees a single national profit margin as representative of over 9,000 very diverse HHAs.

- Home health agencies are already in financial jeopardy as a result of Medicaid cuts and inadequate Medicare Advantage and private pay rates. Ongoing study of home health cost reports by the National Association for Home Care & Hospice indicates that the overall financial strength of Medicare home health agencies is weak, and expected to diminish further. In 2002, the average all- payor profit margin for freestanding HHAs was 2.53 percent. A more recent cost report data analysis indicates that the average all-payor profit margin for 2004 dropped to 1.55 percent.
- The loss of the 5 percent rural add-on payment for home health services in rural areas has resulted in reductions in service areas and reports that some agencies had to turn away high resource use patients who are more expensive for agencies to serve. In many rural areas home health agencies can be the primary caregivers for homebound beneficiaries with limited access to transportation.
- The “case mix creep” adjustment ignores increases in patient acuity, particularly a significant increase in orthopedic and neurologically impaired patients requiring restorative therapy. These changes in patient characteristics are documented in a report from the Lewin Group and directly correlate with changes in case mix weights.
- The National Association for Home Care & Hospice has calculated that by 2013, 71 percent of Medicare home health agencies will have negative Medicare profit margins if the President’s FY 2009 proposed budget and the CMS regulatory cuts are implemented. A one year freeze combined with the regulatory cuts would leave 51.7 percent of home health agencies with negative margins.
- CMS alleges that the entire change in the average case mix weights between 1999 and 2005 is the result of provider upcoding or factors unrelated to changes in patient characteristics. If this had occurred one would expect to see a big increase in Medicare home health expenditures. In fact, as the chart below indicates, Medicare home health expenditures are far lower than the Congressional Budget Office (CBO) had expected under the new Home Health Prospective Payment System.



*Source: Projections were made just prior to the implementation of the Prospective Payment System in October 2000, as anticipated expenditures for home health care under the new payment system. Actual expenditures from the CBO Baselines, March 1997-2008.

For more information, please contact the National Association for Home Care & Hospice government affairs department, 202-547-7424 (04/01/08).