

ENSURE THE FULL MARKET BASKET UPDATE FOR HOME HEALTH PAYMENTS

ISSUE: The Medicare home health benefit has undergone a series of cuts since legislation was enacted to move it toward a prospective payment system (PPS). Under the fiscal year (FY) 1999 omnibus appropriations legislation, the Medicare home health market basket index – used to adjust payments for inflation – was reduced 1.1 percentage points from the projected 3 percent update in each of (FY) 2000-2003. During 2000, Congress restored the full market basket update for FY 2001. In October 2002, a major cut to home health payments of more than 7 percent that was enacted as part of the Balanced Budget Act of 1997 (BBA) was allowed to go forward.

As part of H.R.1, The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Congress enacted reductions of 0.8 percent off the market basket update from April 2004 through December 31, 2006. In early 2006, Congress approved legislation (S. 1932) that eliminated a scheduled 2.8 percent market basket inflation update for 2006.

In 2007 and 2008, the Bush Administration proposed deep cuts to the home health program as part of its budget, including recommendations that home health rates be frozen for five consecutive years. During 2007 the Bush Administration enacted regulatory cuts of 2.75 percent in each of 2008, 2009, and 2010, and announced a tentative plan to impose a further regulatory cut of 2.71 percent in 2011.

Congress' legislative action to reduce market basket inflation updates in recent years was taken, in large part, as the result of recommendations by the Medicare Payment Advisory Commission (MedPAC). During 2003 MedPAC recommended that Congress freeze home health payment rates at the FY 2003 level for FY 2004. MedPAC renewed its market basket freeze recommendation for 2005, 2006, 2007, and 2008.

In March 2009, MedPAC recommended elimination of the home health market basket update for 2010. MedPAC also recommended advancing a scheduled regulatory “case-mix creep” cut from 2011 to 2010. The combined impact of the MedPAC proposals, on top of an already-scheduled 2010 case mix cut, would result in payment rates during 2010 that are a full 5.5 percent below payments being made in 2009. MedPAC also recommended that Congress direct the Centers for Medicare & Medicare Services (CMS) to rebase home health payments in 2011, using 2007 costs as the base.

MedPAC's recommendations are predicated on findings of “excessive” Medicare profit margins for freestanding agencies. More comprehensive study of agency margins performed by the National Association for Home Care & Hospice has found significantly lower Medicare profit margins that virtually disappear when all payers are taken into account. Further, when agency profit margins are considered on an individual basis, they reflect dramatic ranges.

In February 2009, the Obama Administration included MedPAC's 2009 recommendations for deep cuts to home health as part of its proposed FY 2010 budget. Over five years these harmful cuts would take more than \$13 billion from the Medicare

home health program.

RECOMMENDATION: Congress should reject any proposals to reduce the market basket inflation update or impose additional rate reductions for home health agencies.

RATIONALE: Since legislative changes instituted in 1997 and subsequent imposition of a PPS for home health, reimbursement levels have failed to adequately cover the rising costs of providing care, including increased labor costs for home health agencies. Thousands of home health agencies closed following implementation of the 1997 Balanced Budget Act (BBA). In calendar year 2000, one million fewer beneficiaries received home health services than in calendar year (CY) 1997 and, in the first year of PPS (CY 2001), an additional 300,000 fewer beneficiaries received home health services than in CY 2000. In CY 2001, 5.5 percent of Medicare beneficiaries received home health services, compared to 6.5 percent in 1991. Recent study by MedPAC and CMS indicate that a major problem with the PPS is that the case mix adjustor in most cases does not accurately predict the costs of providing care.

Under PPS refinement regulations promulgated during 2007, CMS included four years of reductions to the home health base payment rate – 2.75 percent in each of 2008, 2009, and 2010, and 2.71 percent in 2011, for a total of over \$6 billion in cuts. These cuts could well send the home health network into severe financial difficulties similar to those experienced after passage of the BBA. This would ill serve beneficiaries, agencies, and the Medicare program.

The MedPAC 2009 recommendations, as included in the White House's proposed FY 2010 budget, would reduce the home health program by more than \$13 billion over five years, and \$37 billion over 10 years. Preliminary projections indicate that nearly two-thirds of all home health agencies' Medicare financial margins would drop below zero, and that as many as 1 million beneficiaries would lose service as the result of these proposals.

Crude measures such as across-the-board reductions or freezes will only exacerbate inequities in the system, and contribute further to access concerns. Access to care continues to be a serious problem in home health, and it is anticipated that these concerns will only increase with further cuts to home health payments. Home health care is efficient and effective in providing vital services to patients in the comfort of their homes. Use and provision of these services should be encouraged, not discouraged.