

# Assessing payment adequacy and updating payments: Home health care services

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# Overview

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- Summary of benefit
- Review of current issues
- Payment adequacy analysis
- Chairman's draft review

# Home health care summary 2017

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- \$17.7 billion total Medicare expenditures (FFS)
- Over 11,800 agencies
- 6.3 million episodes for 3.4 million FFS Medicare beneficiaries
- About 3 percent of aggregate Medicare spending

Data are preliminary and subject to revision

# Persistent issues in Medicare home health prospective payment system

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- Medicare payments too high: margins have exceeded 10 percent since 2001
- System includes number of therapy visits provided in an episode as a factor in payment
  - Providing more therapy visits increases payments significantly
  - Episodes receiving additional payments for therapy account for increasing share of total episodes
- MedPAC recommended removal of therapy as a factor in payment in 2011

# Major revisions to the payment system in 2020

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- Bipartisan Budget Act of 2018:
  - Eliminates therapy as a payment factor in 2020
  - Implements a 30-day unit of payment
- CMS also plans to implement a new case-mix system
- CMS estimates that changes will raise payments for non-profit, hospital-based, and rural agencies; lower payments for for-profit, free-standing, and urban agencies

# Framework for assessing payment adequacy

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- Access
  - Supply of providers
  - Volume of episodes
  - Marginal profit
- Quality
- Access to capital
- Medicare costs and payments

# Supply remains high and beneficiaries have good access to care

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- 84 percent of beneficiaries live in an area served by 5 or more HHAs; 97 percent of beneficiaries live in an area served by at least one HHA
- Number of HHAs declined slightly to 11,844 in 2017
- Decline in supply concentrated in areas with rapid growth and targeted by recent counter-fraud efforts

Volume decreased slightly in 2017, but over long-term home health use has increased substantially

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- Volume of episodes and number of users declined slightly in 2017
  - Episodes declined by 3.1 percent
  - Home health users declined 1.7 percent
- Since 2002, episodes have increased 58 percent and spending is up 89 percent
- Marginal profit in 2017 was 17.5 percent

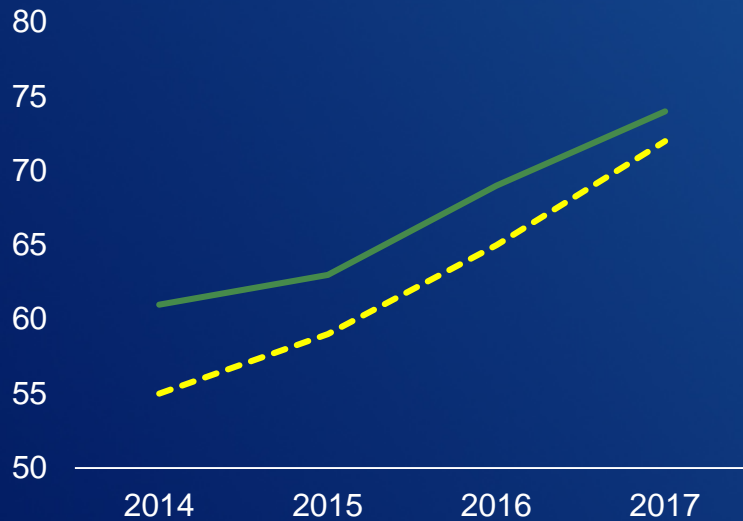
Source: Home health SAF 2002-2017  
Note: Data are preliminary and subject to revision.



# Quality measures for 2017 continue pattern of divergent trends for provider-reported and claims-based measures

## Provider-reported measures of patient function

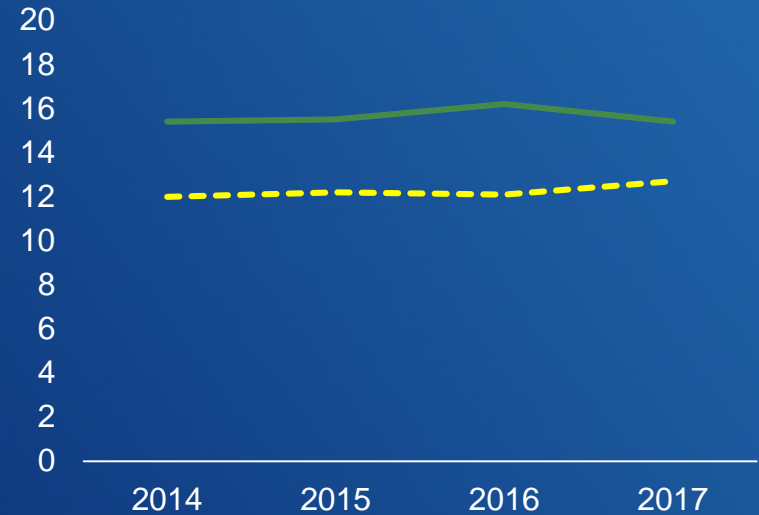
Percent



--- Improvement in transferring  
— Improvement in walking

## Claims-based measures of hospitalization and emergency department use

Percent



--- Hospitalization  
— Emergency department use

# Access to capital is adequate

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- Less capital-intensive than other sectors
- Financial analysts conclude that large publicly-traded for-profit HHAs have access to capital markets
- All-payer margins for HHAs equaled 4.5 percent in 2017

# Financial performance of freestanding HHAs in 2017

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	<u>Medicare Margin</u>
All	15.2 %
25 <sup>th</sup>	0.7
75 <sup>th</sup>	24.1
For-profit	16.4
Non-profit	12.0
Majority urban	15.8
Majority rural	13.4

Source: Home health cost reports  
Note: Data are preliminary and subject to revision.

# Medicare margins remain high despite payment reductions

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Medicare margin	10.8%	15.6%	15.5%	15.2%

- Patient Protection and Affordable Care Act (PPACA) mandated payment reductions in 2014 through 2017, but offset these reductions with annual payment updates.
- Average payment per episode in 2017 (last year of rebasing) was five percent higher than 2013 (year prior to rebasing).

Data are preliminary and subject to revision

# Relatively efficient home health agencies in 2016

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- 318 HHAs (7%) met cost and quality criteria
- Efficient HHAs compared to other HHAs:
  - Median hospitalization rate: 12% lower
  - Higher annual volume (median of 653 episodes versus 494.5)
  - Standardized cost per episode: 15% lower
  - Medicare payment per episode: 5% higher
- High Medicare margin (25.8%) indicates the level of Medicare payments is too high

Data are preliminary and subject to revision

## Maintaining budget neutrality in 2020 with implementation of new payment policies

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- Statute requires that policy changes in 2020 must be budget neutral
- CMS has projected that payments will rise by 6.42 percent in 2020 due to these changes, and has planned an offsetting reduction
- Reduction in 2020 is intended to preserve budget neutrality; not intended to address high levels of payment

# Payment adequacy indicators are positive, similar to results from prior years

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- Most beneficiaries live in an area served by multiple providers
  - Number of users and volume of episodes decreased slightly
  - Marginal Medicare profit for 2017: 17.5 percent
- Adverse event measures did not change significantly; functional quality measurements show improvement
- Access to capital is adequate
  - All-payer margin is 4.5 percent
- Medicare margin for 2017: 15.2 percent