Advising the Congress on Medicare issues

Home health: assessment of payment adequacy

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Access and agency supply

- 99 percent of beneficiaries live in an area served by home health
- Number of HHAs is over 9,700 in 2008
  - Number of agencies has increased 32 percent since 2003
  - Most new agencies are for-profit
  - Concentrated in certain states
- Concerns about fraud and abuse in some areas

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Volume of services and rate of use have increased

	2002	2007	Change (percent)
Users (millions)	2.5	3.1	24
Share of FFS beneficiaries (percent)	7.3	8.9	21
Episodes (millions)	4.1	5.8	41
Episodes per user	1.6	1.9	15
Episodes per FFS beneficiary	0.12	0.17	41

- Episodes and users have increased by more than 20 percent
- Beneficiaries are receiving more episodes
- Mix of services shifting towards higher-paying episodes

Access to capital

- Credit is a small share of overall agency costs
- Smaller firms borrow using receivables as capital
- Turmoil in credit markets has not significantly affected large publicly-traded agencies
- Entry of new providers suggests adequate access to capital for expansion

	2003	2004	2005	2006	2007
Increase in agencies from prior year	283	462	508	644	455

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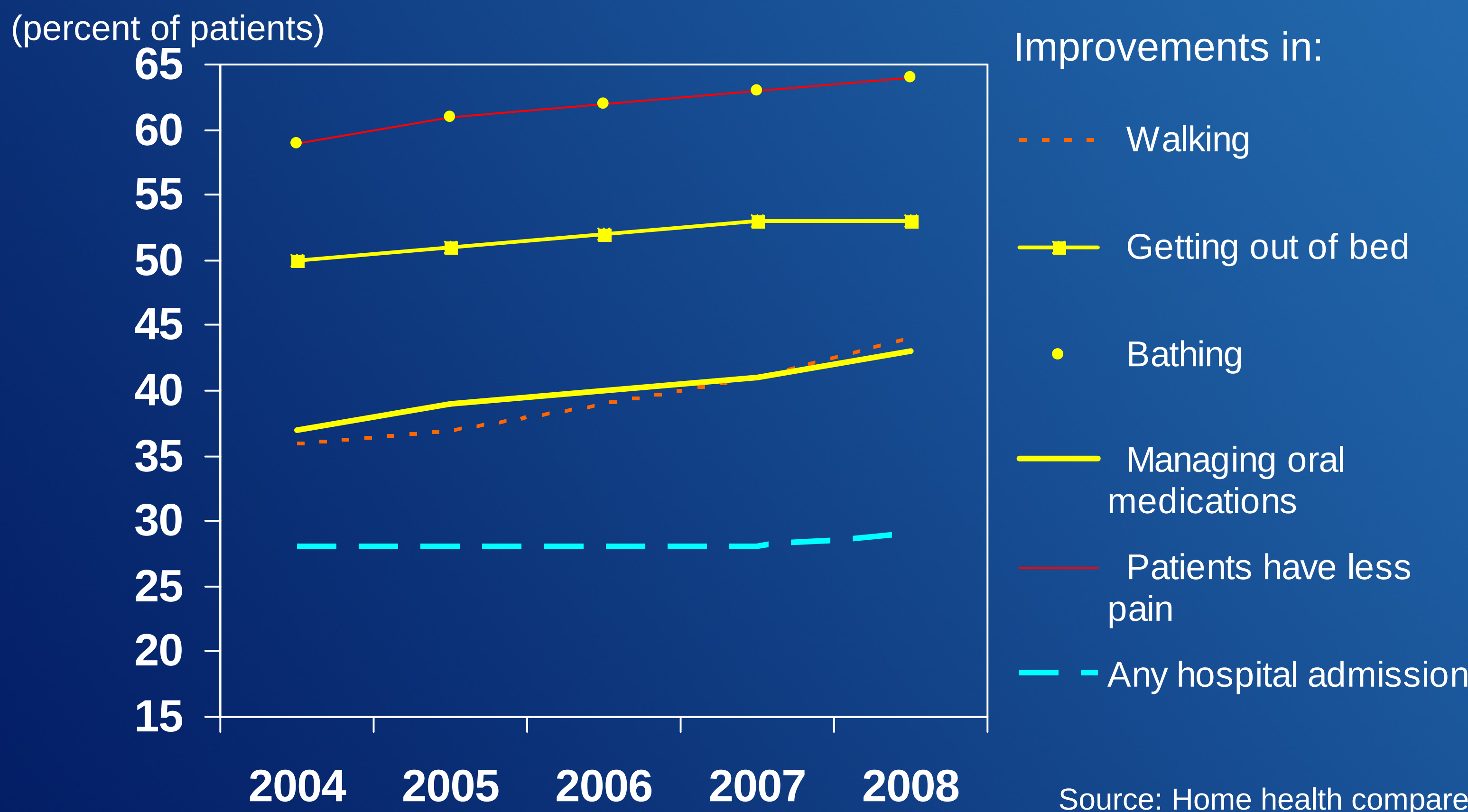
Quality of care



Source: Home health compare

Note: Improvements in bathing and pain management measures have identical values; the trend lines for these measures overlap on the table above.

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Financial performance of freestanding HHAs in 2007

	Percent of HHAs	Margin
All	100%	16.6
25th		3.1
75th		26.3
Geography		
Urban	67	16.4
Mixed	17	18.7
Rural	16	14.0
Type of control		
For-Profit	80	18.6
Non-Profit	14	11.9
Government	NA	NA

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Projecting payments for 2009

- Coding changes in early period of PPS increased payment
  - Payment reductions of 2.75 percent per year for 2008-2011 to lower payments
- PPS refinements implemented in 2008
  - Future coding changes will increase payments by 1.6 percent in 2008 and 2009

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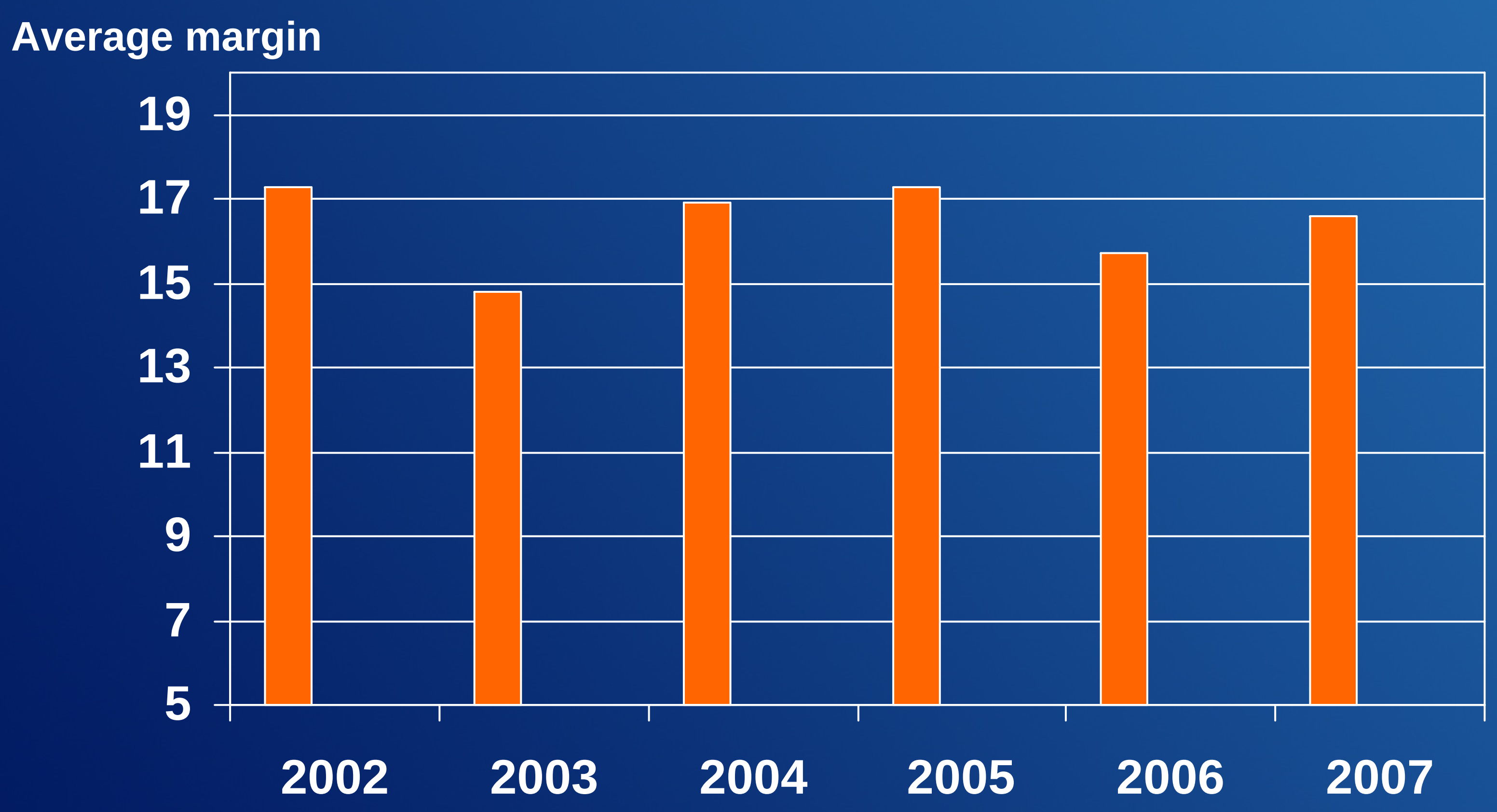
Payments and costs for 2009

- Market basket increase in 2008 offset by adjustment for changes in coding practice
- 2009 base rate increase: 0.1 percent
  - Market basket: 2.9 percent
  - Retrospective adjustment for change in coding practices: -2.75 percent
- 12.2 percent margin for 2009 for free-standing providers

Adequacy indicators for home health are positive

- Almost all beneficiaries live in an area served by home health
- Number of HHAs continues to grow
- Share of users and volume of episodes continues to increase
- Most quality measurements indicate small improvement
- Margin for 2009: 12.2 percent

Home health payments have consistently exceeded cost



Beneficiaries receive fewer visits but more skilled visits per episode

- Payments set using visit count and mix from 1998
- Actual care is lower than assumed
  - Reviews by MedPAC and others indicate quality of care remained steady despite decline in visits

	1998	2007	Change
Physical Therapy	3.1	4.5	49%
Occupational Therapy	0.5	0.9	63%
Speech Language Pathology	0.2	0.1	-21%
Skilled Nursing	14.1	11.8	-16%
Medical Social Work	0.3	0.1	-55%
Home Health Aide	13.4	4.5	-66%
Total	31.6	22.0	-30%