



Advising the Congress on Medicare issues

Current issues in home health payments

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Overview

- Variation in financial performance of high and low margin home health agencies
- Payment accuracy and integrity issues in outlier payments

Studying causes of variation can guide policy

- Useful for identifying possible areas for further refinement
- Significant difference in margins of high and low margin agencies:
 - 25th: 3.7 percent
 - 75th: 26.7 percent
- Variation present in other systems

High and low margin providers have similar quality and rural/urban service areas

Medicare margin quintile	1 (low)	5 (high)	All
Medicare margin	-9%	37%	16.9%
Quality composite score	0.966	0.957	0.965
Share of episodes in:			
Urban counties	83%	85%	85%
Rural counties	17%	15%	15%

Source: 20 percent sample of claims from home health datalink file, OASIS data

Agencies with better financial performance have lower costs

	1 (low)	5 (high)	5 th compared to 1st
Medicare margin quintile			
Medicare margin	-9%	37%	NA
Non-profit share of group	18%	7%	NA
Total annual visits per provider	22,437	28,039	25%
Cost per episode**	\$2,256	\$1,349	-40%
Cost per visit*	136	89	-34%
Average visits per episode	21.7	19.4	-10%
Payment per episode	\$2,674	\$2,785	4.2%

Source: 2007 cost reports, 20 percent sample of claims from home health datalink file

*wage index adjusted, ** case-mix and wage-index adjusted

Mixed results for patient severity

Medicare margin quintile	1 (low)	5 (high)	All
Home health case-mix	1.23	1.32	1.27
Therapy episodes*	25%	30%	27%
High clinical severity episodes*	56%	66%	61%
CMS-HCC score	2.02	2.22	2.17
Chronic conditions per episode	7	7	7
Number of ADLs with at least some reported difficulty	5.0	5.1	5.0

Source: MedPAC analysis of 20 percent sample from home health datalink claims, Chronic Condition Warehouse, and CMS-HCC Model Output File

Note: HCC scores are for non-ESRD beneficiaries who qualified for full episode payment. ADL=Activities of daily living

*As a share of total home health episodes provided

Summary of current findings

- Higher margin agencies have lower costs (per episode and visit)
- No difference in urban/rural service
- No difference in quality
- Comparison with other severity measures indicates weak home health case-mix
- 2007 case-mix overvalues high case-mix episodes and under-values low case-mix episodes

Areas for further analysis

- Impact of 2008 refinements
- Other clinical, facility and beneficiary characteristics

Outlier payments may not accurately reflect providers' costs

- Outlier episode payments based on standardized factors from 1997 cost reports
- Low cost agencies may benefit from outlier payments
- Experience of Miami-Dade in 2007 indicates that outlier payments may be susceptible to fraud or abuse:
 - 60 percent of all outlier payments
 - Visits per episode double the rest of the country (157 compared to 81)

Example of a low-cost agency under current policy

Number of visits:	157
Medicare assumed costs:	\$12,736
Medicare payment for episode:	\$9,496
Assumed loss:	-\$3,240
Example of low-cost provider:	
Medicare assumed costs:	\$12,736
Medicare payment for episode:	\$9,496
Provider actual costs:	\$8,915
Profit:	+\$581

Alternative approach could reduce vulnerability and improve payment accuracy

- All other Medicare PPSs with outlier payments use actual costs
- Using actual cost would result in payments that better reflect providers costs
- CMS's proposed refinements do not address core vulnerability of outlier policy
- Possible option: Change outlier policy to use actual provider costs