Assessing payment adequacy and updating payments: Home health care services

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MEDPAC

Overview

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

Home health care summary 2018

- $17.9 billion total Medicare expenditures (FFS)
- Over 11,500 agencies
- 6.3 million episodes for 3.4 million FFS Medicare beneficiaries
- About 2.6 percent of aggregate Medicare spending

Persistent issues in Medicare home health prospective payment system

- Medicare payments too high: Margins have averaged 16.3 percent since 2001
  - MedPAC has consistently recommended payment reductions for home health
- 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

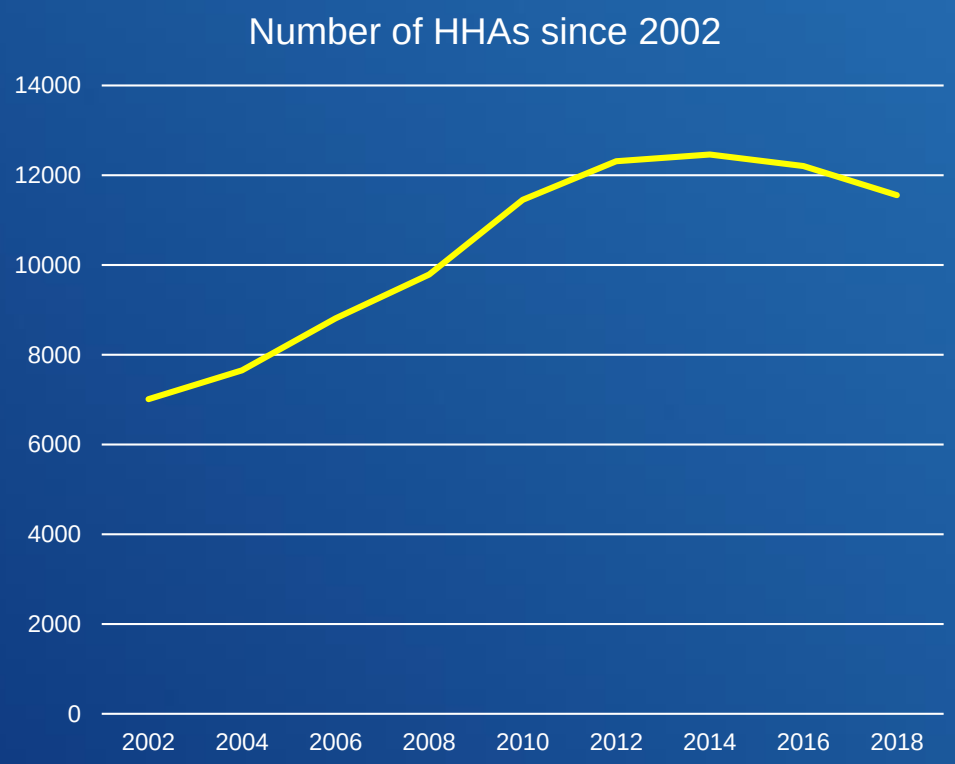
- Bipartisan Budget Act of 2018:
  - Eliminates therapy as a payment factor in 2020
  - Requires a 30-day unit of payment
- CMS also plans to implement a new case-mix system (Patient-Driven Groupings Model; PDGM)
- CMS estimates that new case-mix system will:
  - raise payments for non-profit, hospital-based,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

Payment adequacy framework

- Access
  - Supply of providers
  - Volume of services
  - Marginal profit
- Quality
- Access to capital
- Payments and costs

Supply remains high and beneficiaries have good access to care

- 83 percent of beneficiaries live in a zip code area served by 5 or more HHAs; 98 percent in zip code with at least one HHA
- Number of HHAs declined 1.2 percent to 11,556 in 2018
  - Supply increased by over 80 percent in 2002 to 2013; decline since 2013
- Decline in supply concentrated in areas with rapid growth and targeted by recent counter-fraud efforts



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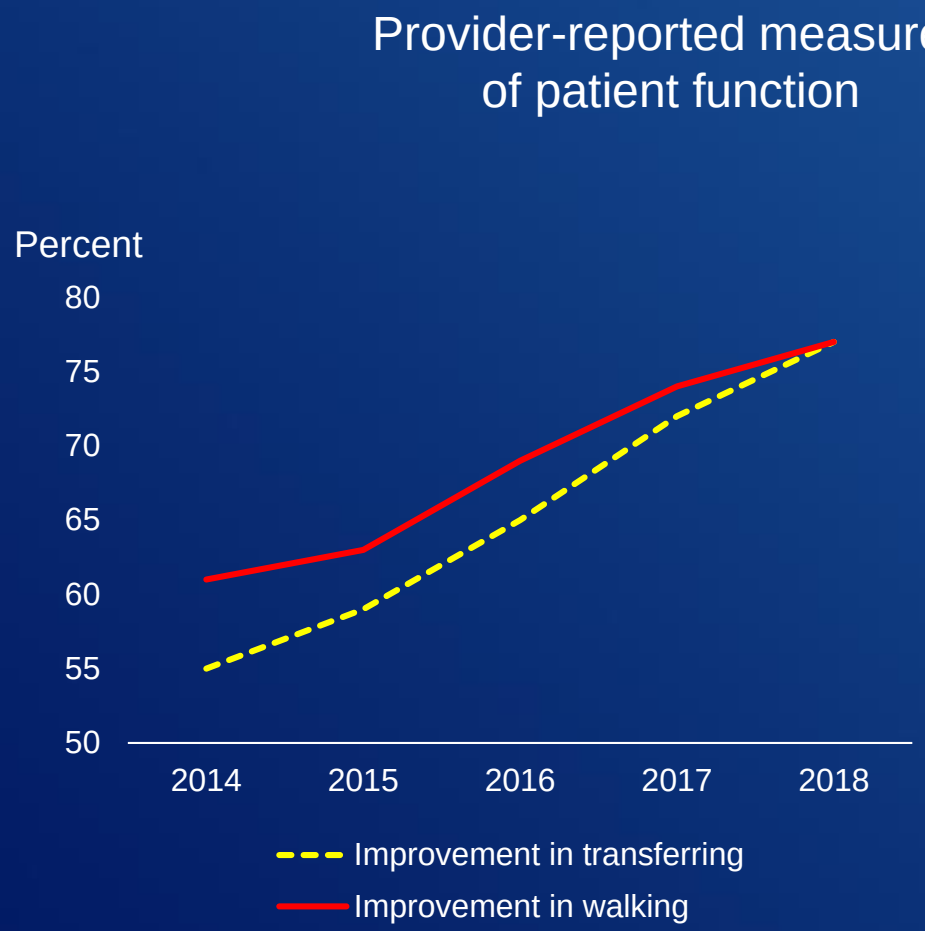
Source: Medicare Provider of Service file; Data are preliminary and subject to revision.

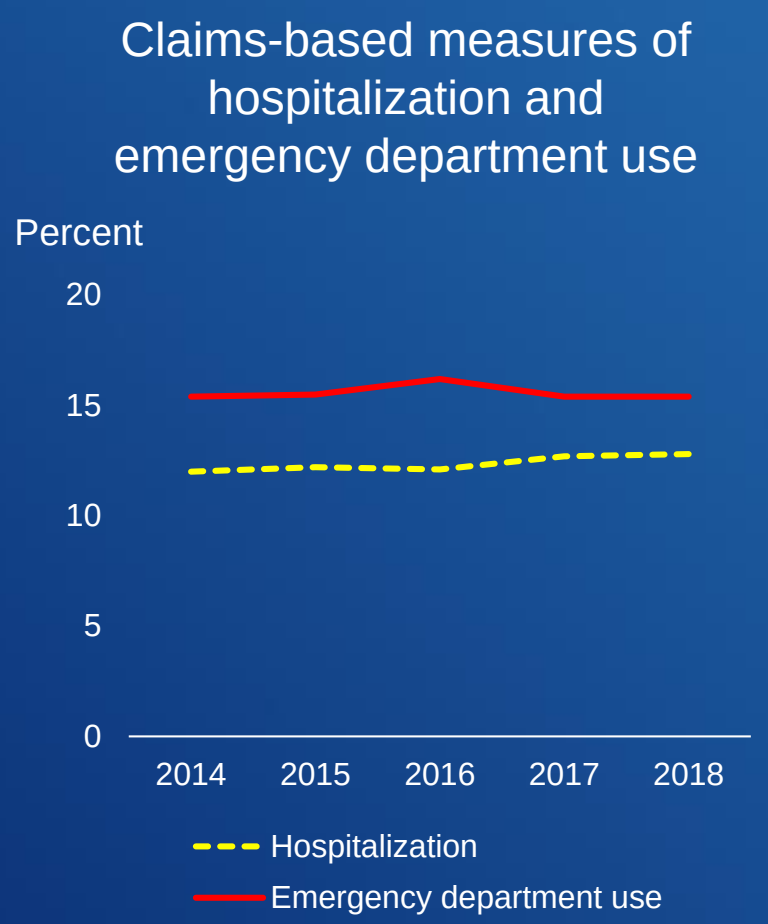
Volume decreased slightly in 2018

- Volume decreased by 1.2 percent in 2018 to 6.3 million episodes
- Number of episodes has declined by 8.3 since 2011, but between 2002 and 2011 it increased by 67 percent;
  - Per capita utilization has increased 39 percent from 11.3 episodes per 100 FFS beneficiaries in 2002 to 16.3 episodes per 100 FFS beneficiaries in 2018
- Decline in volume since 2011 has been concentrated in states that experienced higher-than-average growth in prior period
- Marginal profit in 2018 was 18 percent

Source: Home Health Standard Analytic File; Data are preliminary and subject to revision.

Quality measures for 2018 continue pattern of divergent trends for provider-reported and claims-based measures





Source: University of Colorado; Data are preliminary and subject to revision.

Access to capital is adequate

- Less capital-intensive than other sectors
- Financial analysts conclude that large publicly traded for-profit HHAs have access to capital markets
  - Large for-profit agencies continue to acquire new businesses and expand HHA operations
- All-payer margins for HHAs equaled 4.3 percent in 2018

Financial performance of freestanding HHAs in 2018

	Medicare Margin
All	15.3%
25th percentile	1.2
75th percentile	24.0
For-profit	16.8
Non-profit	9.9
Majority urban	15.6
Majority rural	13.8

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

Medicare margins remain high despite payment reductions

- Affordable Care Act (ACA) mandated payment reductions through rebasing in 2014 through 2017, but offset with annual payment updates
- Average payment per episode in 2018 (year after rebasing) was 7 percent higher than in 2013 (year prior to rebasing)
- Margins exceeded 10 percent annually from 2014 to 2017
- Medicare margins in 2018 were higher than in 2013 (15.3 percent v. 12.7 percent)

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

Relatively efficient home health agencies in 2017

- 295 HHAs (7 percent) met cost and quality criteria
- Efficient HHAs compared to other HHAs:
  - Median hospitalization rate: 8 percent lower
  - Higher annual volume (median of 712 episodes versus 511)
  - Standardized cost per episode: 14 percent lower
  - Average payment about 7 percent higher
- High Medicare margin (23.1 percent) 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

- Statute requires that policy changes in 2020 must be budget neutral
- CMS has projected that payments will rise by 4.36 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

Summary: Home health payment adequacy indicators are positive

Beneficiaries' access to care	Quality of care	Access to capital	Medicare payments and HHA costs
• 98 percent live in a zip code with at least one HHA available • Episode volume slightly decreased • Positive marginal profits	• Functional quality measures improved • Adverse event rates no significant change	• Positive all-payer profit margins • Large for-profits continue to expand and acquire new businesses	• 15.3 percent Medicare margin in 2018 (efficient provider over 23 percent)
Positive	Positive	Positive	Positive