

# Assessing payment adequacy: home health services

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# Commission's 2011 recommendations for home health

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- Eliminate financial incentives that encourage providers to provide more therapy
- Address high overpayments by lowering rates to equal costs (re-basing)
- Add a copay to encourage appropriate use of benefit
- Expand program integrity efforts to address fraud and abuse

# Home health summary 2010

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- \$19 billion total expenditures
- Over 11,600 agencies
- 6.8 million episodes for 3.4 million beneficiaries

# Framework

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- Access to care
- Quality of care
- Access to capital
- Payment and costs

# Supply continues to grow and access to care is generally adequate

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- 99 percent of beneficiaries live in an area served by home health
- Number of HHAs is over 11,600 in 2010
  - Number of agencies has increased almost 50 percent since 2002
  - Net increase of 650 new agencies in 2010
  - Growth concentrated in relatively few areas

# Rural and urban counties receive about the same level of services, but composition differs

|                                |       | Rural |              |                |                       |
|--------------------------------|-------|-------|--------------|----------------|-----------------------|
|                                | Urban | All   | Micropolitan | Urban adjacent | Non-adjacent to urban |
| Episodes per 100 beneficiaries | 15.8  | 14.8  | 14.4         | 15.8           | 14.8                  |
| Share of episodes that are:    |       |       |              |                |                       |
| Non-therapy                    | 63%   | 70%   | 69%          | 71%            | 84%                   |
| Therapy                        | 37%   | 30%   | 31%          | 29%            | 26%                   |

Source: Home health SAF 2010

Note: Data are preliminary and subject to revision.

- Higher rate of therapy use in urban areas may reflect payment system incentives that encourage this service
- Rural frontier counties average about 9.4 episodes per 100 beneficiaries

## Rural areas have similar variation in total utilization relative to urban, but different mix of services

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- Home health utilization tends to vary between geographic areas (e.g., states) more than between neighboring urban and rural areas
- Rural areas are the highest use areas in some regions
  - 21 of the top 25 counties in home health utilization are rural
  - 3 percent rural payment add-on in 2010-2015
- Rural areas have a different mix of services; more non-therapy, less therapy

# Users and episodes continue to increase in 2010

|                                      | 2002 | 2009 | 2010 | Annual Change (percent) |           |
|--------------------------------------|------|------|------|-------------------------|-----------|
|                                      |      |      |      | 2002-2010               | 2009-2010 |
| Users (millions)                     | 2.5  | 3.3  | 3.4  | 3.9%                    | 4.1%      |
| Share of FFS beneficiaries (percent) | 7.2  | 9.3  | 9.6  | 3.6%                    | 3.2%      |
| Episodes (millions)                  | 4.1  | 6.6  | 6.8  | 6.6%                    | 3.7%      |
| Episodes per user                    | 1.6  | 2.0  | 2.0  | 2.6%                    | -0.4%     |

Source: Home health SAF 2010

Note: Data are preliminary and subject to revision.



# Therapy utilization trends indicate need for PPS revisions

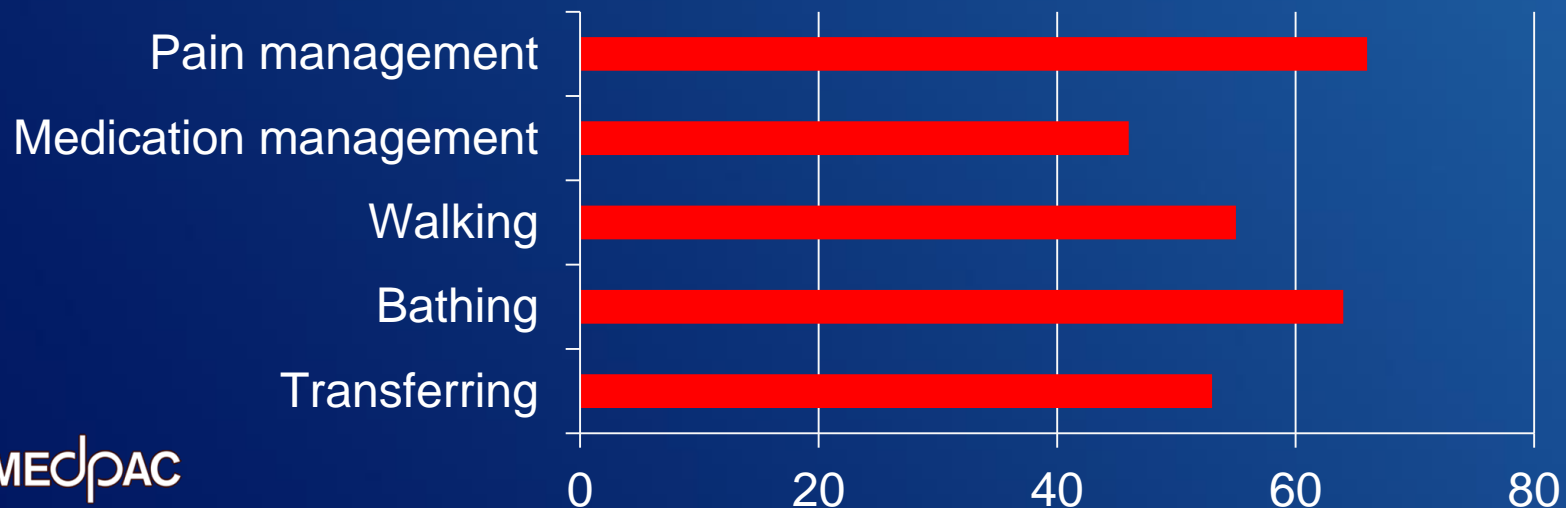
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- The home health PPS uses amount of therapy provided as a payment factor
- The shifts in therapy utilization have generally coincided with the per visit payment thresholds Medicare has implemented
- Commission recommended eliminating the thresholds and using patient characteristics to set payment for therapy
  - Raise payments for non-profits, hospital-based, and rural agencies

# Hospitalizations have fallen, majority of beneficiaries improve in function

- New measure of hospitalization (claims based) shows improvement:
  - 2006: 27 percent hospitalized at discharge+30 days
  - 2008: 25 percent

## Percent of non-hospitalized patients with improvement in function at discharge - 2011



# Access to capital is adequate

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- Less capital intensive than other sectors
- Wall Street analysts conclude that large publicly-traded for-profit HHAs have access to capital markets, though on less favorable terms than prior years
- Continuing entry of new providers suggests adequate access to capital for expansion

# Financial performance of freestanding HHAs in 2010

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|                  | <u>Percent<br/>of HHAs</u> | <u>Margin</u> |
|------------------|----------------------------|---------------|
| All              | 100%                       | 19.4%         |
| 25 <sup>th</sup> |                            | 3%            |
| 75 <sup>th</sup> |                            | 27%           |
| Majority Urban   | 91%                        | 19.4%         |
| Majority Rural   | 9%                         | 19.7%         |
| For-Profit       | 87%                        | 20.7%         |
| Non-Profit       | 13%                        | 15.3%         |

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

# Subcategories of rural providers have margins comparable or higher than urban providers in 2010

| Type                | Urban   | Rural   |              |                   |                       |
|---------------------|---------|---------|--------------|-------------------|-----------------------|
|                     |         | All     | Micropolitan | Adjacent to urban | Not adjacent to urban |
| Medicare margin     | 19.4%   | 19.7%   | 18.7%        | 19.9%             | 20.9%                 |
| Cost per episode    | \$2,560 | \$2,097 | \$2,220      | \$2,051           | \$2,021               |
| Payment per episode | \$3,179 | \$2,165 | \$2,731      | \$2,560           | \$2,555               |

Source: Home health cost reports 2010

Note: Data are preliminary and subject to revision.