

*Advising the Congress on Medicare issues*

# Mandated report: Impact of home health payment rebasing on beneficiary access to and quality of care

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# Mandated report on effects of home health rebasing

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- Patient Protection and Affordable Care Act (PPACA) requires Commission to assess impact of home health payment rebasing:
  - Access, supply of agencies and quality
  - For-profit, nonprofit, urban and rural agencies
- Due January 2015

# Overview

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- Review rebasing policy for home health payments
- Analysis of impact of past payment changes to access and quality
- Estimated impact of PPACA rebasing

# Issues for Medicare home health care

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- Effective service when appropriately targeted
- Broadly defined benefit coverage
- History of fraud, waste and abuse
- Provider behavior sensitive to Medicare financial incentives

# Home health summary 2012

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- \$18 billion total expenditures
- Over 12,300 agencies
- 6.7 million episodes for 3.4 million beneficiaries

# Rebasing is necessary to ensure efficient home health payments

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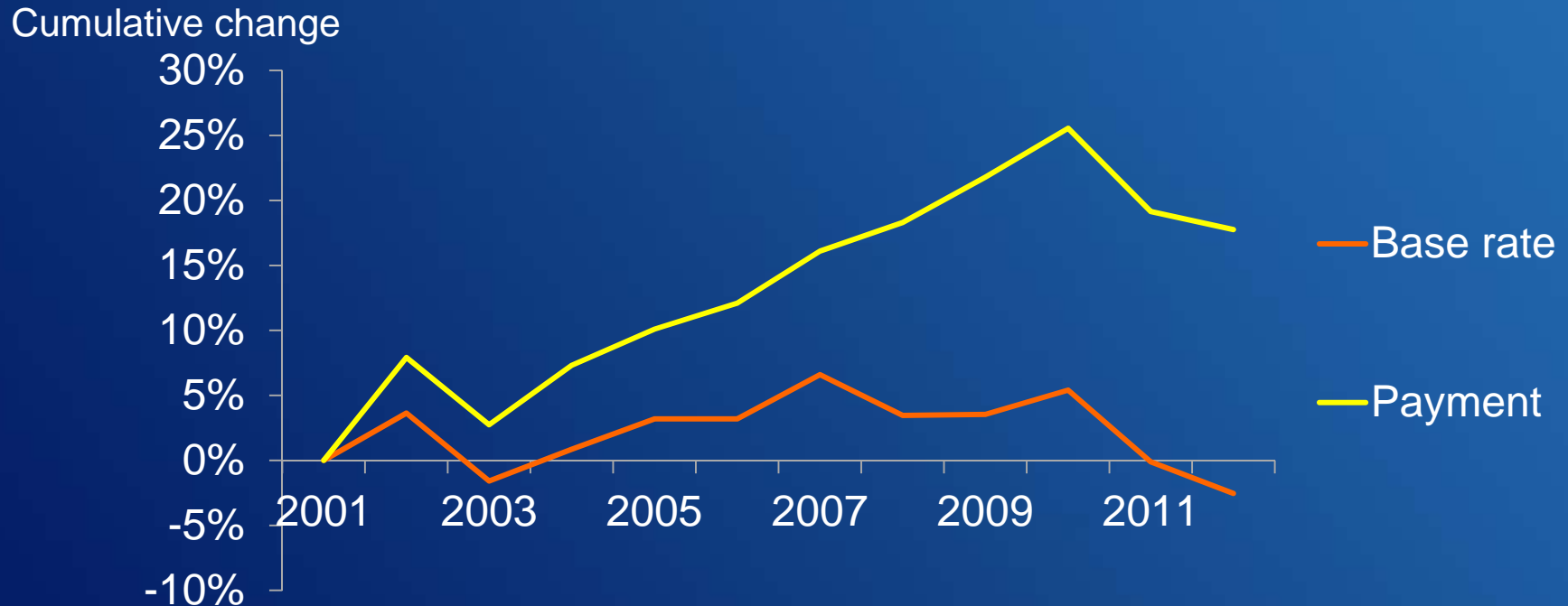
- Commission recommended rebasing in 2010
- Average Medicare margins have equaled 17.2 percent since 2001
  - Recent audit found that costs were overstated by 8 percent and Medicare margin could be higher
- Rapid growth in volume and number of agencies
- Smaller payment adjustments have not significantly affected margins

Past reductions to the base rate have been offset by increases in reported case-mix

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- In 11 out of the 12 last years Medicare has implemented reductions to the payment update
- Increases in reported case-mix have offset these reductions
- Patient severity did not increase in this period, suggesting that higher reported case-mix was due to changes in agency diagnostic coding practices

# Base rate cuts do not always result in lower payments



Source: Home health compare

- Medicare margins have exceeded 14 percent in every year between 2001 through 2012

Draft – Subject to revision



# Overview of PPACA rebasing provision

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- PPACA rebasing will be phased in over 4-year period
- Reduction limited to \$81 a year
- Payment update to offset reduction (+\$70 a year)
- Net effect: base rate in 2017 will be 1.6 percent lower than 2013 (-\$11 a year; -\$44 cumulative)
- Sequester would increase cumulative reduction to 3.6 percent in 2017 (if still in effect)

# Review historical trends to assess the impact of rebasing

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- Report is due before data from first year of rebasing is available
- Examine past changes in episode payment, agency supply, utilization and quality
- How sensitive have supply, access, and quality been to prior changes in average annual payment per episode?

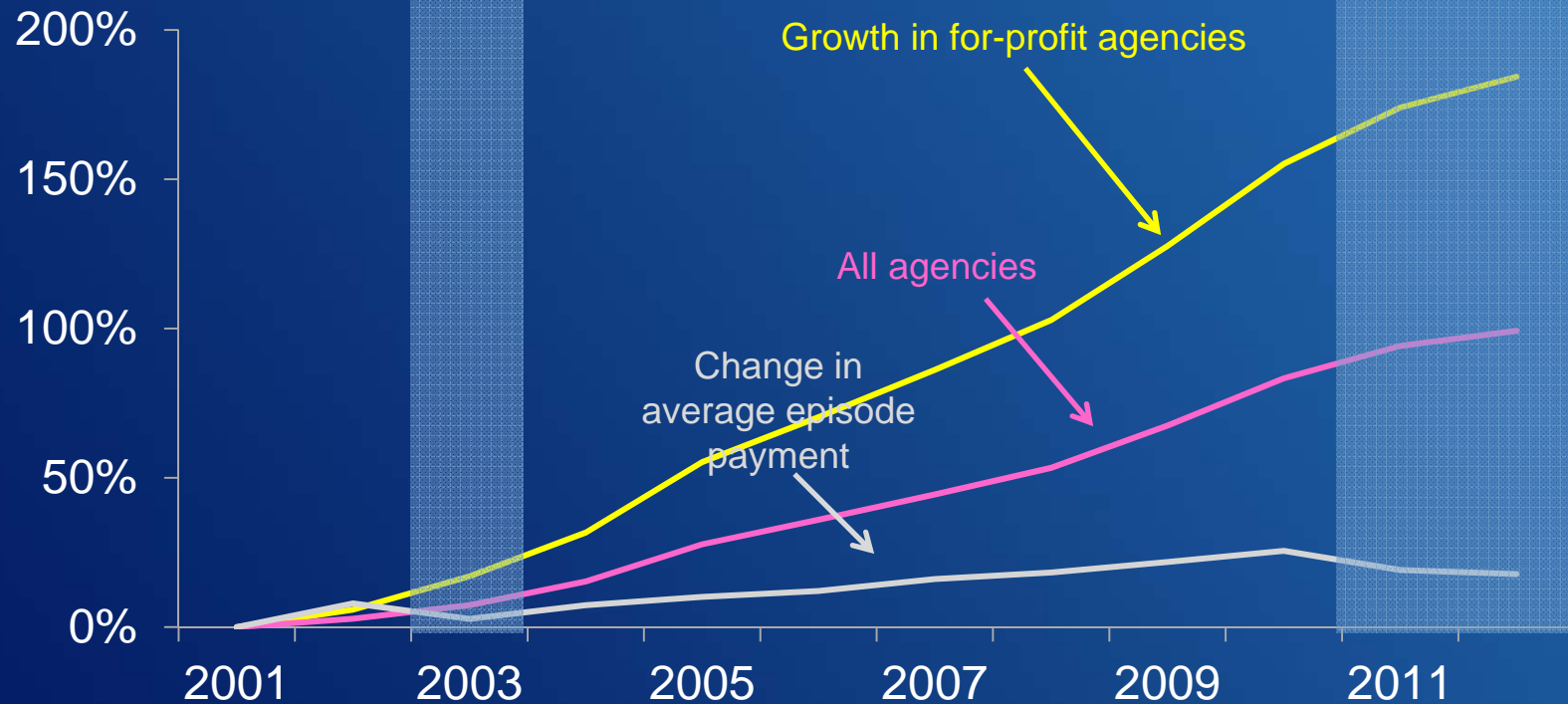
# Medicare payments have increased in most years

	Annual change in average episode payment	Medicare margins for free-standing agencies
2001	NA	23.1%
2002	7.9%	17.4
2003	-4.8	15.0
2004	4.5	17.1
2005	2.6	17.8
2006	1.8	16.1
2007	3.6	16.7
2008	1.9	17.2
2009	3.0	17.7
2010	3.1	19.2
2011	-5.1	14.9
2012	-1.2	14.4

Source: Home health Standard analytic file; home health cost reports

# Overall agency supply has increased regardless of changes in average episode payment

Cumulative change



Source: Home health Standard analytic file; provider of service file

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# Trends in agency supply were consistent from 2001 to 2012

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- Supply of non-profit agencies declined
- Urban agencies increased in all years; rural agencies declined
- Access did not change significantly
  - 99 percent of beneficiaries have lived in a zip code served by home health since 2004
  - Urban and rural areas have experienced comparable levels of utilization and growth in utilization

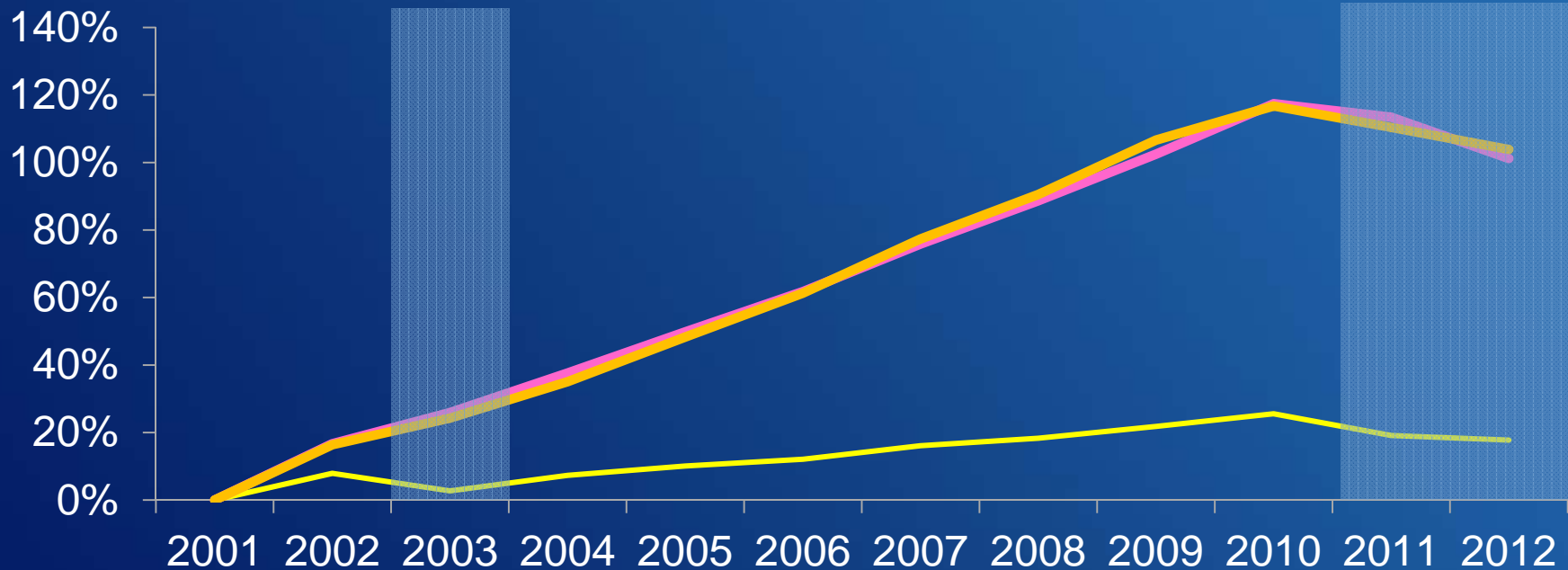
# Aggregate utilization of FFS home health care has risen rapidly

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- Total episodes more than doubled overall
- Share of beneficiaries using home health increased from 6.2 percent of FFS beneficiaries to 9.6 percent (+54 percent)
- Episodes per home health user increased from 1.4 to 1.8 (+30 percent)
- Episodes per 100 beneficiaries have increased at comparable rates for urban and rural areas

# Per-beneficiary utilization of home health care doubled 2001-2012

Cumulative change



Source: Home health Standard analytic file; provider of service file

- Change in average payment per episode
- Change in episodes per 100 beneficiaries for urban areas
- Change in episodes per 100 beneficiaries for rural areas

## Small per-beneficiary utilization declines in 2011 and 2012 likely reflect factors other than payment policy

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- Per-beneficiary utilization decline is less than 5 percent – concentrated in 5 states
- Economy-wide (public and private) slowdown in rate of health care spending growth in recent years
- Medicare inpatient hospital discharges have declined since 2009
- In 2011 Medicare established a requirement for a physician to conduct a face-to-face examination of beneficiaries when ordering home health care
- Expanded efforts to combat fraud, waste and abuse



# Impact of rebasing reductions on access likely to be limited

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- Small size of rebasing reductions (half-percent or less a year)
- Rebasing reductions not likely to significantly reduce access
- Utilization near record peak
- Decline in recent years followed rapid growth and likely influenced by factors other than payment policy

# Hospitalization rates have not changed significantly, 2003-2010

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Type of agency	2003	2010
For-profit	27.9%	29.6%
Nonprofit	27.3	26.6
Urban	27.5	28.6
Rural	30.5	30.6
All	28.1	28.9

Source: Home health compare

- Average payment per episode increased 22 percent

# Share of patients with improvement in function increased in most years

Cumulative change in improvement



Source: Home health compare

- Transferring declined slightly in 2009 (average payments per episode increased 3 percent)

## Small changes in payment under PPACA rebasing unlikely to significantly affect quality

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- Rebasing cut is small, 1.6 percent over 4 years (3.6 percent with sequester)
  - Agencies still receive annual payment update
- Higher case-mix has offset past attempts to lower base rate
- Margins have remained high despite past reductions to base payments
- Past payment reductions have not had a negative impact on access and quality

# Industry concerns about rebasing

Industry concern	Analysis
Forty-three percent of agencies will have negative Medicare margins by 2017	Currently about 30 percent of agencies; higher estimate assumes agencies do not adjust costs to reflect changes in payment; assumes new agencies do not enter the market
Publicly traded agencies report lower margins	Reported margins likely include non-Medicare covered costs; overall Medicare margins in 2012 equaled 14.4%
PPACA productivity and outlier payment cuts will also reduce margins significantly	MedPAC's estimates of margins and the rebasing include the impact of all policies; including these policies margins are estimated to equaled 11.4 percent in 2014 (first year of rebasing)
Episode cost growth will reduce agency margins	Annual increase in cost per episode averaged ~1 percent a year in 2001 through 2012; increases in payment due to higher reported case-mix may offset cost growth