



601 New Jersey Avenue, N.W. • Suite 9000
Washington, DC 20001
202-220-3700 • Fax: 202-220-3759
www.medpac.gov

Glenn M. Hackbarth, J.D., Chairman
Robert D. Reischauer, Ph.D., Vice Chairman
Mark E. Miller, Ph.D., Executive Director

September 6, 2005

Mark McClellan, Administrator
Centers for Medicare & Medicaid Services
Department of Health & Human Services
Hubert H. Humphrey Building
Room 445-G
200 Independence Avenue, SW
Washington, D.C. 20201

Re: File Code CMS-1301-P

Dear Dr. McClellan:

The Medicare Payment Advisory Commission (MedPAC) is pleased to submit these comments on CMS's proposed rule entitled *Medicare Program; Home Health Prospective Payment Rate Update for Calendar Year 2006* Federal Register/Vol. 70, No. 134 (July 14, 2005) which updates prospective payment system (PPS) rates for home health agencies (HHAs) and implements the revised area labor market designations. We appreciate your staff's ongoing efforts to administer and improve the payment system for home health services, particularly considering the agency's competing demands. After a general overview, a specific comment on the revised market areas follows under the caption that corresponds to the referenced section of the proposed rule.

General overview

While we appreciate the competing demands for CMS's finite resources, the home health PPS is due for more attention. Over the past several years, MedPAC has found that the case mix classification system, the outlier policy, and the definition of the benefit need further analysis. As MedPAC continues its work in this area, we will keep CMS informed of our findings. We would urge CMS to consider these issues as well.

Provisions of the proposed regulations

CMS is proposing to define urban areas as metropolitan statistical areas or metropolitan divisions; micropolitan areas and counties outside Core-Based Statistical Areas (CBSAs) would be considered rural. This proposal is consistent with the labor market areas that were adopted under the inpatient PPS final rule on October 1, 2004 and the skilled nursing facility PPS final rule on August 4, 2005. However, unlike inpatient hospitals or skilled nursing facilities, HHAs that will have a lower wage index under the new geographic definitions will not be afforded a transition period in which their wage index would be a blend of old and new.

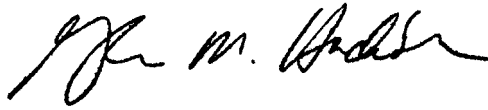
Mark McClellan
Administrator
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The proposed rule notes that some HHAs are subject to multiple wage indices because they are paid according to the location of the beneficiary rather than the location of the HHA; thus, the impact of a decrease in one wage rate could be mitigated by an increase in another. However, we find that many agencies have only one applicable wage rate. Furthermore, agencies with two or three wage indices will not necessarily find that gains offset losses.

CMS is proposing to adopt new labor market designations effective January 1, 2006. As we commented on the inpatient PPS and the skilled nursing facility PPS proposed rules, facilities should be treated equitably, and large payment changes should be phased-in over time in a budget-neutral manner. We recommend that the payment effects of the new labor market designations be phased-in in the same manner as they were for inpatient hospitals or skilled nursing facilities.

MedPAC appreciates this opportunity to comment on these proposed regulations. The Commission values the willingness of CMS staff to consult with us concerning technical policy issues. If you have any questions, or require clarification of our comments, please feel free to contact Mark Miller, MedPAC's Executive Director at (202) 220-3700.

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn M. Hackbarth". The signature is fluid and cursive, with a large initial "G" and "H".

Glenn M. Hackbarth
Chairman