

Assessing payment adequacy and updating payments: home health care services

Evan Christman
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Overview

- Summary of benefit
- Review of current issues
- Payment adequacy

Home health care summary 2015

- \$18.1 billion total expenditures
- Over 12,300 agencies
- 6.6 million episodes for 3.5 million beneficiaries
- About 5 percent of FFS spending

Issues in Medicare home health care

- Effective service when appropriately targeted
- Poorly defined benefit
- Program integrity issues
- Significant geographic variation in utilization

Issues in Medicare home health prospective payment system

- System includes number of therapy visits provided in an episode as a payment factor
 - Providing more visits increases payments significantly
 - Episodes receiving additional payments for therapy account for increasing share of total episodes
- Payments too high; do not reflect cost of typical episode

Payment reductions from rebasing in 2014 through 2017 will be modest

	2014	2015	2016	2017	Cumulative change
Annual base rate reduction net of rebasing reduction and annual payment increase	-0.6%	-0.7%	-0.8%	-0.9%	-3%

- Cumulative change is 3 percent because reductions for rebasing (-2.8 percent a year) are offset by annual payment update (+1.9 to +2.3 percent a year)

Overview

- Payment adequacy
 - Access
 - Supply
 - Volume
 - Quality
 - Access to capital
 - Medicare costs and payments

Supply continues to grow and access to care is generally adequate

- 99 percent of beneficiaries live in an area served by home health
- Number of HHAs is 12,346 in 2015
 - Small net decrease of 115 agencies in 2015 (-0.9 percent)
 - Decline concentrated in areas with rapid growth and targeted by recent counter-fraud efforts
- Number of agencies has increased 63 percent since 2004

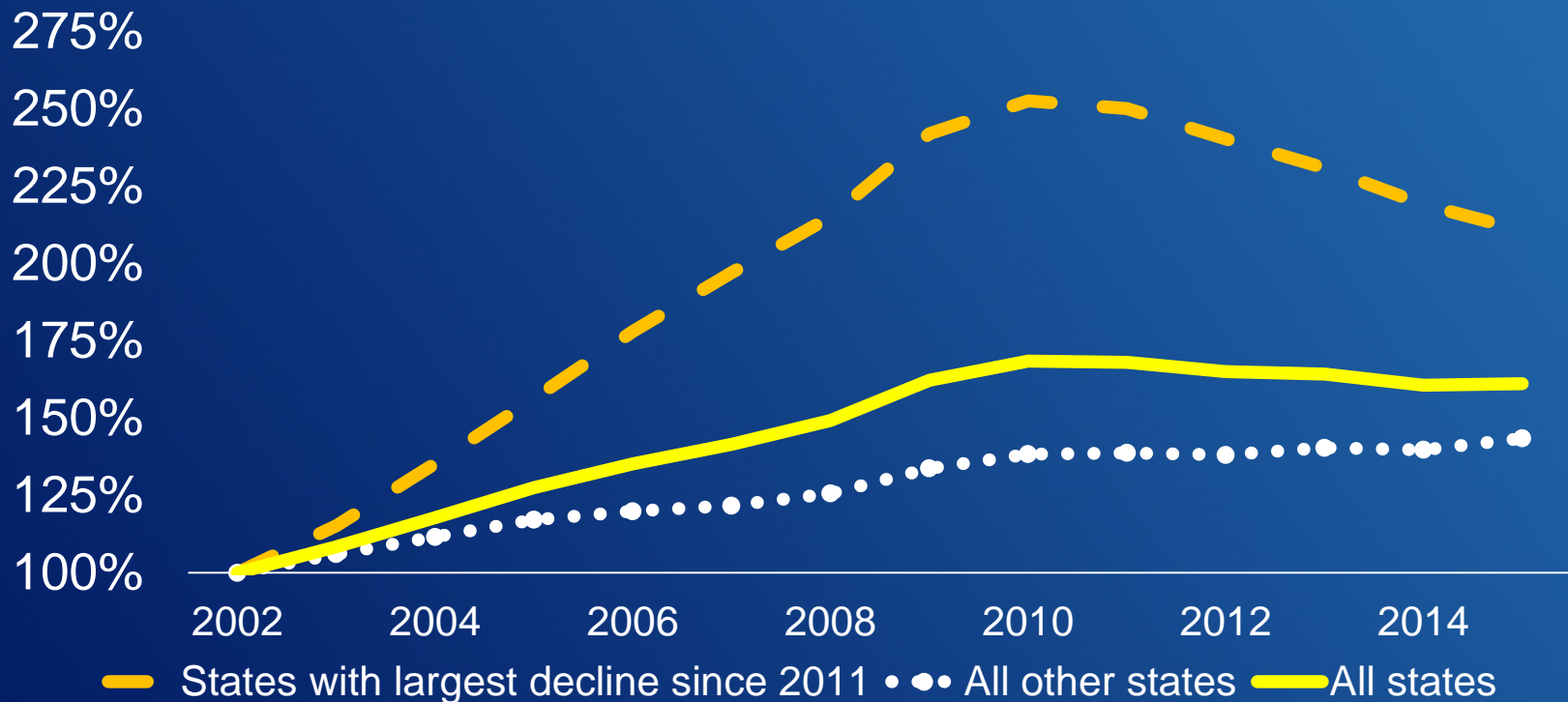
Volume and spending increased slightly in 2015

	Percent change				
	2002	2014	2015	2002-2014	2014-2015
Episodes (millions)	4.1	6.6	6.6	61%	0.3%
Users (millions)	2.5	3.4	3.5	37	0.9
Episodes per user	1.6	1.9	1.9	17	-0.6
Share of FFS beneficiaries (percent)	7.2	9.1	9.1	27	1.1
Medicare expenditures for home health (\$ billions)	9.6	17.7	18.1	61	2.3

Source: Home health SAF 2002-2015

Note: Data are preliminary and subject to revision.

Volume decline concentrated in five states



Note: States with largest decline since 2011 (dashed line) include Texas, Louisiana, Illinois, Tennessee, and Florida.

Source: Home health SAF 2002-2015
Note: Data are preliminary and subject to revision.

Quality measures showed improvement in 2015

Percent of non-hospitalized patients with improvement at home health discharge:	2004	2014	2015
Transferring	51.0%	58.9%	63.3%
Walking	37.2%	63.6%	66.9%
Hospitalization at end of episode	27.7%	27.8%	25.4%

Source: Home Health Compare
Data are preliminary and subject to revision.

Access to capital is adequate

- Less capital-intensive than other sectors
- Wall Street analysts conclude that large publicly-traded for-profit HHAs have access to capital markets
- Many acquisitions in the last year as many PAC firms seek to expand home health presence
- Continuing entry of new providers suggests adequate access to capital for expansion

Trends in payment and costs in 2015

- Average payment per episode is 1.8 percent higher in 2015:
 - Growth in episodes with therapy contributed to this increase
- Average cost per episode trends have varied in recent years, but 5 year trend in cost growth averages flat – or about zero percent

Financial performance of freestanding HHAs in 2015

	<u>Medicare Margin</u>
All	15.6 %
25 th	0.5
75 th	24.5
Majority Urban	16.0
Majority Rural	13.2
For-Profit	16.7
Non-Profit	12.1
Marginal Profit	18.1

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

Financial impact of first two years of rebasing has been limited

	2013	2014	2015
Medicare margin	12.7%	10.8%	15.6%

- High margins contrast with industry projections of more severe impact of rebasing
 - One estimate called for 5 percent margin in 2014, 1 percent margin in 2015, and -3 percent margin in 2016
- Experience to date suggests that PPACA rebasing will not be sufficient to align payments with costs

Relatively efficient HHAs outperform other agencies in cost and quality

- Relatively efficient agencies compared to other HHAs :
 - Median costs per visit that were 12 percent lower and median Medicare margins that were 11.8 percentage points higher
 - Higher episode volume (larger in size)
 - Rate of hospitalization was 7 percentage points lower
 - Provided similar services and served similar patients in most cases

Note: Data are preliminary and subject to revision.

Payment adequacy indicators are positive, similar to results from prior years

- Access generally adequate
 - Slight decline in number of providers
 - Number of users and volume of episodes increase slightly
- Quality measurements show improvement
- Access to capital is adequate
- Margin for 2015: 15.6 percent
- Marginal profit for 2015: 18.1 percent