

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

- 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

- 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

- 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

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

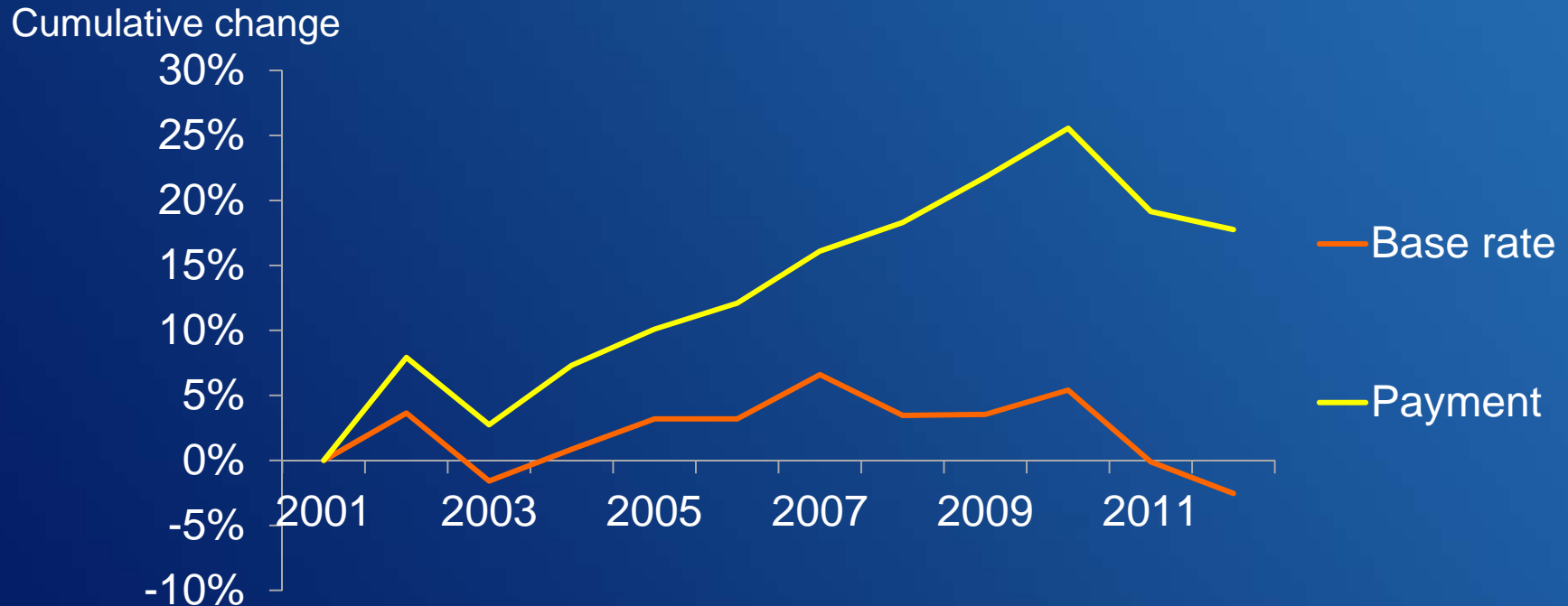
Rebasing is necessary to ensure efficient home health payments

- 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

- 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

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Overview of PPACA rebasing provision

- 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

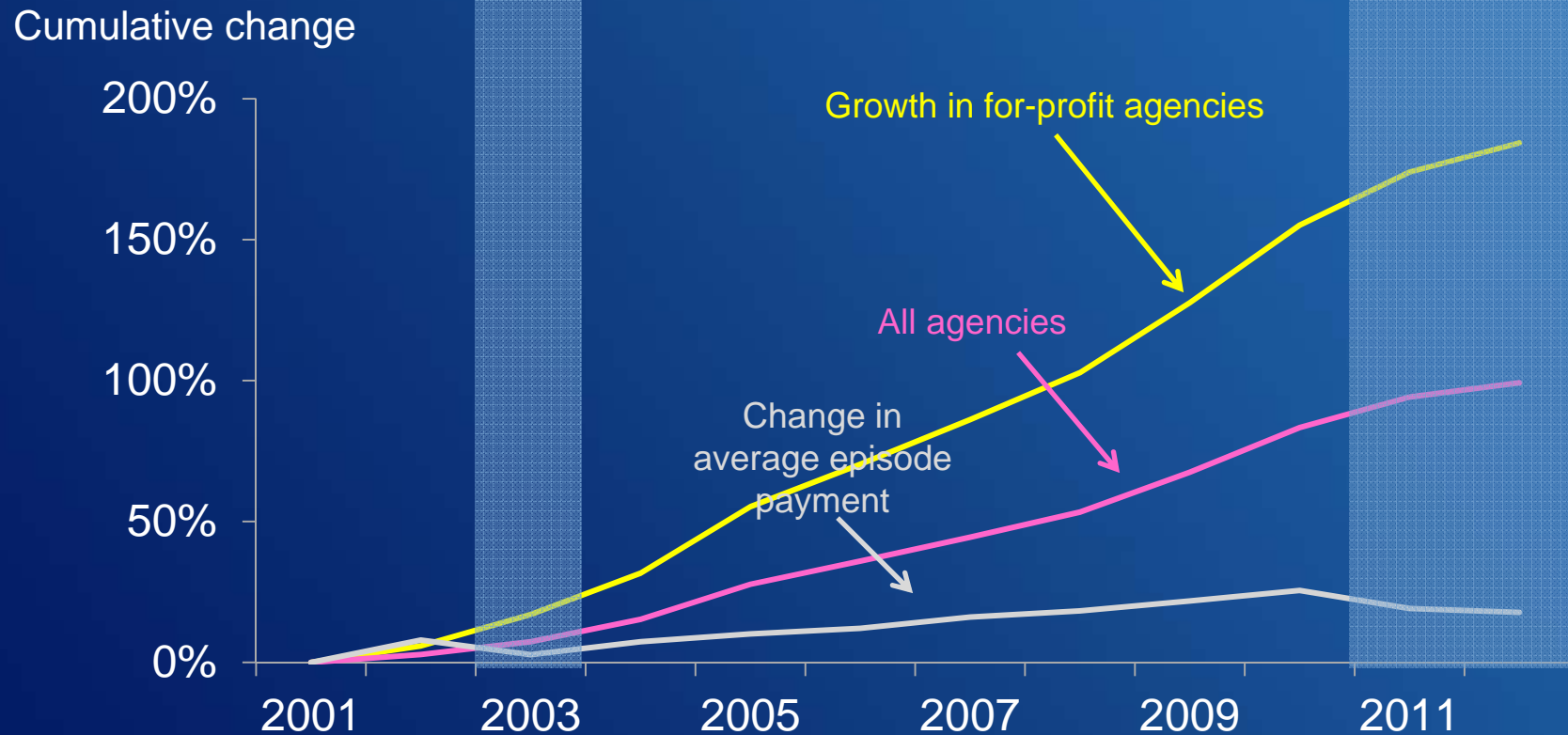
- Report is due before data from first year of rebasing is available
- Examine past changes in episode payment, agency supply, utilization and quality
- How sensitive have supply, access, and quality been to prior changes in average annual payment per episode?

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



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

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Trends in agency supply were consistent from 2001 to 2012

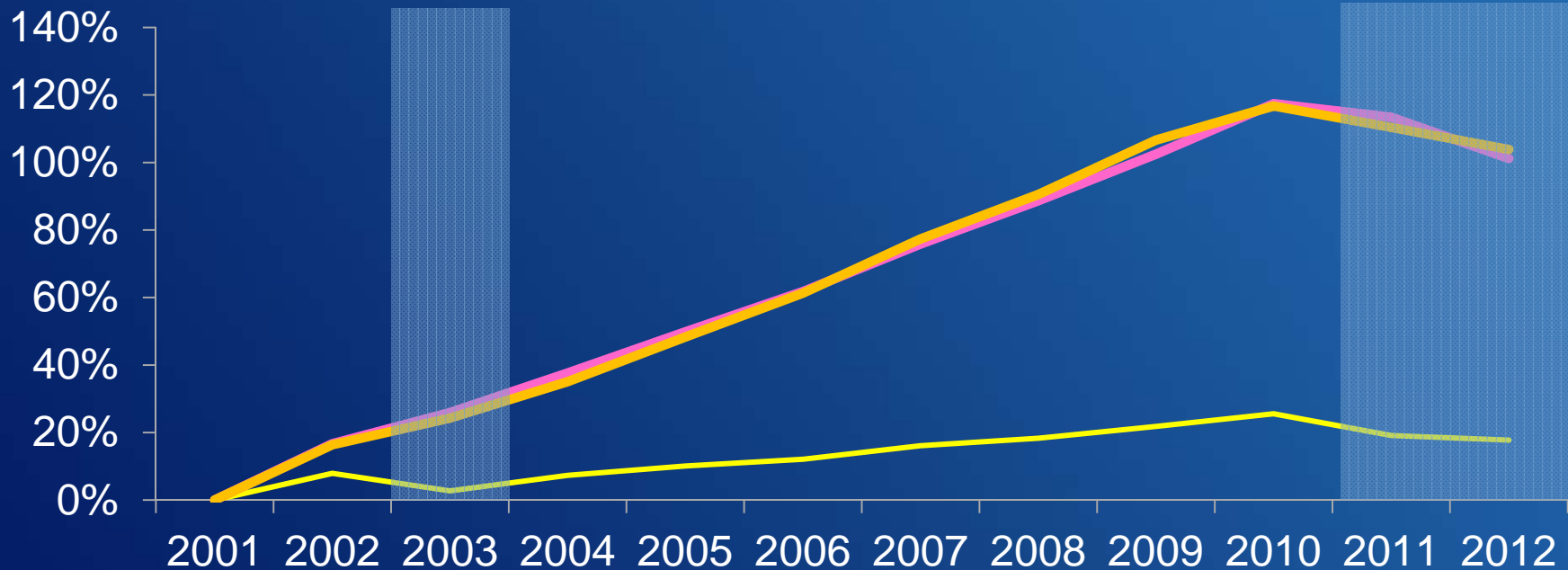
- Supply of non-profit agencies declined
- Urban agencies increased in all years; rural agencies declined
- Access did not change significantly
 - 99 percent of beneficiaries have lived in a zip code served by home health since 2004
 - Urban and rural areas have experienced comparable levels of utilization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

Aggregate utilization of FFS home health care has risen rapidly

- 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

- 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

- 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

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

- 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