

# Assessing payment adequacy and updating payments: home health care services

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# Overview

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

# Home health care summary 2015

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- \$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

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

# Issues in Medicare home health prospective payment system

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- 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
<b>Annual base rate reduction net of rebasing reduction and annual payment increase</b>	-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

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



# 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 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



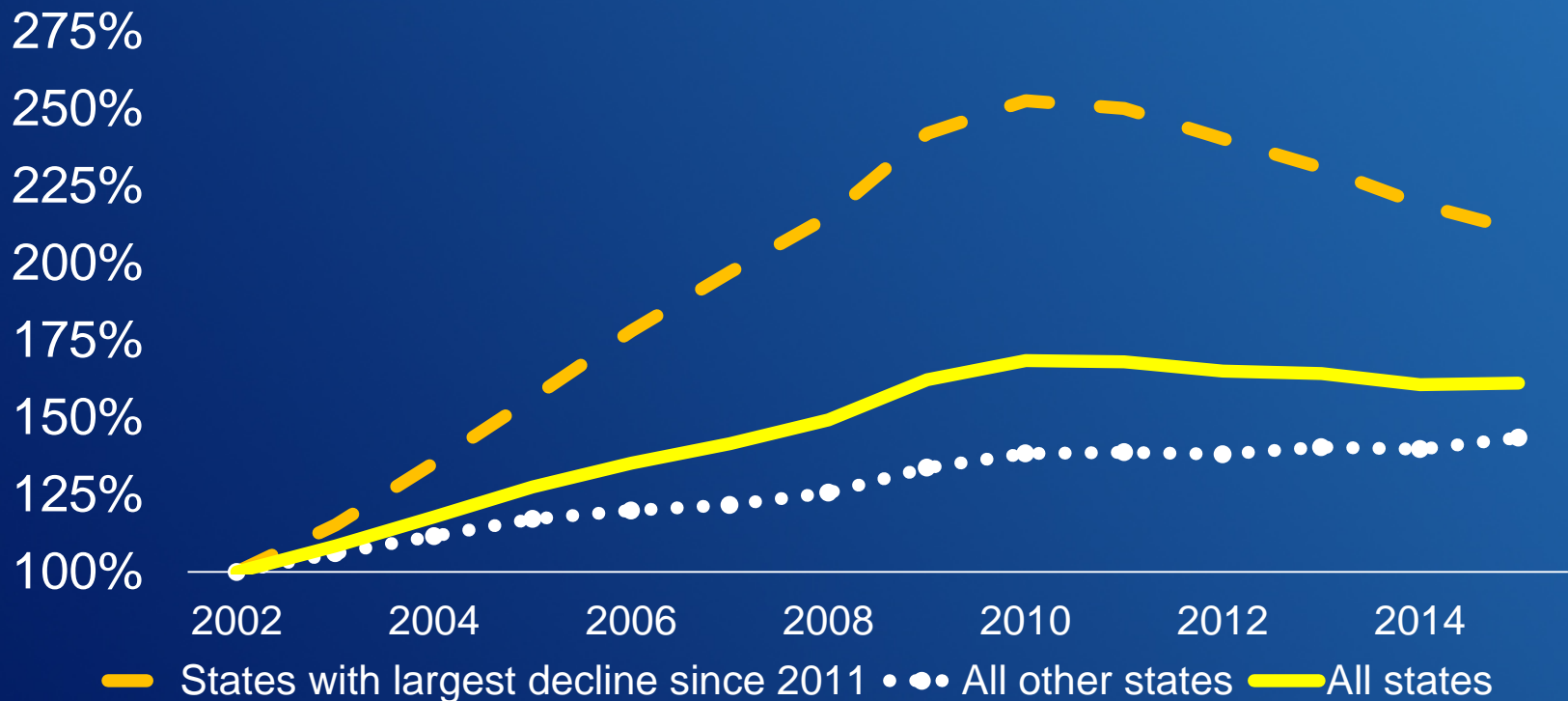
# Volume and spending increased slightly in 2015

	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

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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
- 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

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- 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

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	<u>Medicare Margin</u>
All	15.6 %
25 <sup>th</sup>	0.5
75 <sup>th</sup>	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

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	<b>2013</b>	<b>2014</b>	<b>2015</b>
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

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- 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

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- 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