

BACKGROUND INFORMATION ON 2003 HOME HEALTH ISSUES AND CALL TO ACTION

EXECUTIVE SUMMARY

Members of Congress have been advised by the Medicare Payment Advisory Commission (MedPAC) and others to further reduce expenditures on the Medicare home health benefit. In its March 2003 Report to Congress, MedPAC used average profit margins for home health agencies that it had computed from somewhat limited data to justify proposals for major additional cuts in home health payments.

Several problems regarding MedPAC's home health margin calculations have come to light, including: 1) MedPAC's use of averaging of margins fails to address the wide variation in margins, an indication of a high risk of access risks in certain geographic areas; 2) MedPAC's use of averages weighted by the size of the home health agency fails to recognize that the vast majority of the home health agencies are small businesses, with the large home health agencies located only in limited metropolitan areas and unable to extend services to outlying regions; 3) the data used to calculate home health margins does not include pending retroactive adjustments that will significantly reduce profit margins; 4) MedPAC fails to consider foreseeable increased home health costs in estimating profit margins and projecting future costs; and 5), MedPAC did not evaluate the overall financial status of home health agencies.

MedPAC suggests that home health agencies can further reduce services to patients as the means of addressing rising costs and the lower payment rates it recommends. Since 1997, however, the average visits provided over a 60-day episode has already dropped from 36 to 20. 1.3 million fewer Medicare beneficiaries found access to home health services in 2002 than in 1997.

With passage of the Balanced Budget Act of 1997, Congress intended to reduce outlays on home health care in FY2002 from a projected \$29.9 billion to \$25.2 billion. CMS now says that home health outlays for FY2002 dropped to \$10 billion.

The budget option put forth by the Congressional Budget Office (CBO) to impose home health copays and deductibles would restrict access to home care, result in worse health outcomes, increase institutionalization in hospitals and nursing homes, and prove costlier for the Medicare program.

The Centers for Medicare and Medicaid Services (CMS) is already working on reforms to the Medicare home health PPS. The reforms cannot be appropriately targeted and implemented if the home health benefit is further destabilized by more cuts in home health payments and access to care.

INTRODUCTION

We believe the Senate Finance, House Ways and Means, and House Energy and Commerce Committees should provide much-needed stability in the Medicare home health benefit by rejecting proposals to increase home health beneficiary cost sharing and rejecting further cuts in payments and access to care. Further, serious consideration should be given to restoring home health care funding and extending the 10% rural add-on which expires April 1 of this year.

Members of Congress have been advised by the Medicare Payment Advisory Commission (MedPAC) and others to further reduce expenditures on the Medicare home health benefit. These proposals come at a time when home health care spending has already been cut in half since 1997, and the number of Medicare beneficiaries receiving home health care reduced by 1.3 million, or more than one-third.

MedPAC-REPORTED HOME HEALTH MARGINS

In its March 2003 Report to Congress, MedPAC used average profit margins for home health agencies that it had computed to justify proposals for major additional cuts in home health payments. Several problems regarding MedPAC's home health margin calculations have come to light, including:

- First, while MedPAC calculated average profit margins (from somewhat limited data), it does not discuss actual ranges in margins, which would indicate a wide array of varying financial experiences by home health agencies, including agencies that were losing money, experiencing healthy profits, and breaking even -- even before the October 1, 2002, cut in payments of, on average, 5 percent. A full display of ranges by geographic location is necessary to understand the impact of MedPAC's recommendations. Areas where there are predominantly low margin providers are likely to experience further access to care problems.**
- Second, MedPAC estimated average profit margins by weighting more heavily high volume Medicare providers. This weighting provides a misleading picture of individual profit margins from agency to agency and, given the direct relationship between volume and estimated profits that MedPAC shows in its report (page 107), it is clear that this weighting skews the profit averages toward the higher volume/higher profit agencies, thereby artificially inflating the average margin figures.**
- Third, the data used to calculate home health margins does not include pending retroactive adjustments due to the Centers for Medicare & Medicaid Services' (CMS) payment system implementation problems that have led to higher than appropriate payments in the first year of PPS. These adjustments will significantly reduce profit margins.**

- **Fourth, MedPAC fails to consider foreseeable increased home health costs in estimating profit margins and projecting future costs. Costs related to staff shortages, workers' compensation and health insurance increases, purchases of new technologies, HIPAA compliance, bioterrorism and emergency preparedness, and the installation of new information systems to accommodate PPS have not been considered. Further, MedPAC fails to consider increases in per visit costs triggered by the allocation of fixed operational costs to a lower visit volume.**
- **Finally, MedPAC did not evaluate the overall financial status of home health agencies. In its review of hospital services, MedPAC properly analyzed the total financial bottom line because it is necessary to understand the potential impact of Medicare payment changes on the whole delivery system to ensure access to care. Home health agencies are in financial jeopardy as a result of Medicaid cuts, low private payment rates, and Medicare IPS overpayments.**

ACCESS TO AND QUALITY OF CARE AT RISK

- **MedPAC suggests that home health agencies can further reduce services to patients as the means of addressing rising costs and the lower payment rates it recommends. Since 1997, the average visits provided over a 60-day episode has dropped from 36 to 20. With the MedPAC analysis, the average episode would drop an additional 2 to 3 visits. MedPAC has offered no support for its assumption that there would be no adverse consequence to patients' clinical outcomes.**
- **In the first full year of PPS, 300,000 fewer Medicare beneficiaries found access to home health services. This represents a 12 percent decline in the number of Medicare home health users in just one year. This decline is on top of the 1 million-user decrease from 1997 to 2000. The reduction in the number of Medicare users precedes the payment rate cut of October 1, 2002, the pending loss of the 10 percent rural add-on, and any adjustment to the FY2004 rates that would be imposed in October 2003.**
- **In 2002, a smaller percentage of Medicare beneficiaries received home health services than did in 1991 (5.5 percent v. 6.5 percent).**

CMS HOME HEALTH OUTLAY PROJECTIONS DRAMATICALLY REDUCED

- **Last year CMS widely publicized data that projected significant growth in home health outlays, beginning in FY2002, which never materialized. CMS recently made available data that indicates dramatic reductions over last year in outlay projections for home health. Projected spending for FY2002**

has dropped from \$13.3 billion to \$10 billion. Over the next 10 years, reductions in projected spending are even more dramatic.

- With passage of the Balanced Budget Act of 1997, Congress intended to reduce outlays on home health care in FY2002 from a projected \$29.9 billion to \$25.2 billion. CMS's most recent projection of \$10 billion for FY2002 indicates that the cuts in the home health benefit have been severe and unprecedented.

CBO'S PROPOSAL TO IMPOSE COPAYS ON THE HOME HEALTH CARE BENEFIT WOULD INCREASE COSTS AND FURTHER ERODE ACCESS TO CARE

- The imposition of copays and other new cost sharing on the home health care benefit is one of a series of options put forth by the Congressional Budget Office (CBO)(Budget Options 2003) for further cuts in Medicare. Congress chose to eliminate home health copays in 1972 and a home health care deductible in 1980. We believe these were important far-sighted modernizations in the Medicare program. It was a recognition that home care copays and deductibles restrict access to home care, result in worse health outcomes, increase institutionalization in hospitals and nursing homes, and prove costlier for the Medicare program.
- The goal of any increased cost-sharing requirements is usually aimed at reducing utilization. Given the dramatic drop in beneficiaries receiving home health care, home health copays would be regressive and, in effect, a tax on seriously ill and disabled home health beneficiaries who are predominately women 75 years and older. Copays would place an additional federal administrative burden on providers further diverting scarce resources away from patient care. Surveys have shown that recipients of the Medicare home health benefit are already paying out of pocket for a large percentage of the home care they need, since the home health benefit does not meet all of their home care needs.

CONCLUSION AND ACTION NEEDED

- CMS is already working on reforms to the Medicare home health PPS. The reforms cannot be appropriately targeted and implemented if there is no stability in these early stages of PPS. Both Congress and CMS recognized that the implementation of an untested PPS posed some risks for patients, providers and Medicare. It was anticipated that CMS would make any necessary adjustments when the impact of PPS could be properly analyzed. As such, it is premature for Congress to accept the MedPAC recommendation and institute across-the-board cuts and rate freezes before CMS has had the opportunity to finish its plan of action on PPS fine tuning.

- **The home care community recommends that Congress reject recommendations by MedPAC and CBO in order to stem further losses of access to home health services. While maintaining the status quo through restoration of the 15 percent cut, continuation of the 10 percent rural add-on, and application of a full inflation update will not guarantee the restoration of access to hundreds of thousands of individuals who have lost home health services recently, it should prevent further erosion in access. Congress should also undertake an immediate effort to institute corrective action to provide an opportunity for the full scope of the Medicare home health benefit to be honored and access restored.**