REGULATORY IMPACT ANALYSIS FOR HOME HEALTH PPS PROPOSED RULE: REQUIREMENTS UNDER EXECUTIVE ORDER 12866

Status

The Home Health Prospective Payment System Proposed Rule for CY 2014 (CMS-1450-P) was received at OIRA on May 30, 2013 and is listed as "economically significant," which is defined as a regulation that may *"have an annual effect on the economy of $100 million or more or adversely affect in a material way ... State, local, or tribal governments or communities."*

ACA Section 3131 [Section 1895(b)(3)(A)(iii) of the Social Security Act]

- Section 1895(b)(3)(A)(iii)(I) requires the standard prospective payment amount for the home health PPS *"be adjusted by a percentage determined appropriate by the Secretary."*
- Section 1895(b)(3)(A)(iii)(II) requires the Secretary to *"provide for a 4-year phase-in (in equal increments) of the adjustment ... with such adjustment being fully implemented for 2017."*

Requirements Under Executive Order 12866

- *"[A]n assessment, including the underlying analysis, of costs anticipated from the regulatory action (such as, but not limited to ... any adverse effects on the efficient functioning of the economy ...) ... together with, to the extent feasible, a quantification of those costs."*
- *"[A]n assessment, including the underlying analysis, of costs and benefits of potentially effective and reasonably feasible alternatives to the planned regulation ... and an explanation why the planned regulatory action is preferable to the identified potential alternatives."*
- *Agencies must take into account "the costs of cumulative regulations."*

Analysis

Due to the economic significance of this proposed rule, detailed State-level data analyses appear to be necessary. For example, previous Home Health PPS rules have analyzed the hardest hit States under the rule and included related margins analyses. Due to Executive Order 12866 and the statute's directive that any rebasing adjustment be implemented in equal increments over 4 years (2014-2017), it also appears necessary to focus such analyses on each of the four years in question as well as on the cumulative effects.

For example, the annual and cumulative impact under a 0.5% rebasing reduction of the standard home health prospective payment amount under Section 1895(b)(3)(A)(iii) would be reflected as follows:

Illustration: 0.5% Rebasing Adjustment	**2014**	**2015**	**2016**	**2017**
Annual Phase-in of 0.5% Rebasing Reduction	0.5%	0.5%	0.5%	0.5%
Cumulative Rebasing Reduction (percent)	0.5%	1.00%	1.50%	2.00%
Cumulative Rebasing Reduction (dollar)	$11.33	$22.66	$33.99	$45.32

The Partnership has endeavored to undertake rebasing scenario analyses as well as related State-level margin analyses and respectfully offers these analyses for consideration. In light of its findings, the statute, and the above Executive Order, the Partnership respectfully requests that complete analysis of the cumulative impact of current law payment reductions plus the proposed regulation be conducted for all States over 2014-2017 and that a zero percent rebasing adjustment be included in the NPRM, as well, as an alternative for comment.

Medicare Home Health Rebasing Analyses: Methodology

This document provides the step-by-step methodology used to project home health overall industry margins under alternative rebasing scenarios. Key data sources utilized to assess home health payments, utilization, and costs include: the February 2013 Congressional Budget Office (CBO) baseline for Home Health, MedPAC-published estimates of margins, and legislative rebasing language.

Deconstruct CBO Baseline Spending into Number of Episodes and Payment per Episode (2013-2023)

- **Dobson | DaVanzo**

1. Input: February 2013 CBO Baseline for Home Health Spending
2. Project the Standardized 60-day Payment Rate for 2014 through 2023
    a. Starting in 2014, take prior year's standardized payment rate ($2137.73 in 2013) and subtract the assumed rebasing amount applied to 2014-2017
        i. For purpose of modeling, we assume that the rebasing included in CBO's baseline reduced home health margins for all agencies (freestanding and hospital-based) to 5.0 percent prior to sequestration in 2017 using a "goal seek" methodology based on imputed margins produced in Step 6
            1. We estimate that a 5.0 percent margin in 2017 could be reached with a four-year annual reduction per-episode of $9.33 (2014 through 2017)
    b. Adjust the standardized payment rate by the home health market basket index, as projected quarterly by IHS Global Insight. The annual market basket index is calculated using the estimates for the four quarters of each calendar year
    c. Adjust the resulting standardized payment rate by the productivity adjustment
        i. The productivity adjustment is estimated at 1.0 percent for 2015 through 2023
3. Calculate Non-Routine Supplies (NRS) Payment for 2014 through 2023
    a. Starting in 2014, take prior year's NRS payment amount ($53.97 in 2013) and inflate it by the projected market basket
4. Calculate Average Home Health Episode Payment
    a. Divide projected standardized 60-day payment rate by a Dobson | DaVanzo-calculated national payment percentage that inflates the standardized payment rate to the average home health payment per episode after considering the impact of LUPAs, outliers, and case-mix (77.3 percent)
        i. Dobson | DaVanzo calculation uses the distribution of regular home health episodes, LUPAs, and outliers, and a derived case-mix from the home health claims to determine the assumed national payment percentage

   b. Add projected NRS payment amount to average home health episode payment to equal total average home health episode payment (including NRS) for each year, with maximum of rebasing reductions
5. Impute Number of Home Health Episodes
   a. Divide CBO baseline home health spending by modeled average home health episode payment rate (Step 4) for each year to impute the number of home health episodes per year
6. Estimate Industry-wide Margin
   a. Impute provider costs
      i. Obtain MedPAC's estimate of home health margins for freestanding agencies in 2013 (11.8 percent)
      ii. Reduce 2013 margin by 2.5 percentage points to reflect impact of hospital-based agencies on total margins (estimated overall margin of 9.8 percent)
         1. Source: Industry projection of hospital-based margins
      iii. Multiply CBO baseline spending in 2013 by 1 minus margin (90.2 percent) to calculate total provider costs in 2013
      iv. Divide total provider costs in 2013 by number of imputed episodes to calculate a cost per episode for 2013
      v. Inflate cost per episode by annual market basket index to estimate provider costs per episode in subsequent years
      vi. Note: This calculation is used to impute the number of episodes projected by CBO in future years – this analysis does not factor provider cost containment activities into the margin analysis, so results show pressure on home health agencies to reduce costs to maintain margins
   b. Calculate margin in subsequent years
      i. Calculate margins using the projected average episode payment and imputed cost per episode (payments minus cost divided by payments)

Model Impact of Alternative Rebasing Reductions on Home Health Margins

- **Dobson | DaVanzo**

1. Calculate Average Home Health Payment per Episode Assuming No Rebasing in 2014-2017
   a. Starting in 2014, take the previous year's projected standardized 60-day payment rate and apply the projected market basket index then productivity adjustment
      i. Unlike Step 2.a., no rebasing amount was removed from the standardized payment rate for 2014-2017
   b. Divide projected standardized 60-day payment rate by a Dobson | DaVanzo-calculated national payment percentage that inflates the standardized payment rate to the average home health payment per episode after considering the impact of LUPAs, outliers, and case-mix (77.3 percent)

   c. Starting in 2014, take prior year's NRS payment amount ($53.97 in 2013) and inflate it by the projected market basket
   d. Add projected NRS payment amount to average home health episode payment to equal total average home health episode payment (including NRS) for each year, absent of rebasing reductions
   e. Multiply total projected home health episode payment (including NRS) by imputed number of episodes to calculate total home health spending without rebasing
2. Alternative: Calculate Average Home Health Payment per Episode Assuming Maximum Rebasing in 2014-2017
   a. Determine maximum rebasing amount
      i. Determine standardized 60-day payment rate in 2010 ($2,312.94)
      ii. Calculate 3.5 percent of standardized 60-day payment rate
         1. This produces the maximum rebasing reduction (in dollars) able to be applied between 2014 and 2017 ($2,312.94 * 3.5% = $80.95)
   b. Apply maximum rebasing percent to standardized 60-day payment rate to determine impact on margins
      i. Starting with projected 2014 standardized 60-day payment rate, remove $80.95
      ii. Apply market basket adjustment and then productivity adjustment to produce rebased standardized 60-day payment rate
      iii. Inflate previous year's adjusted standardized payment rate by market basket and productivity adjustments for all subsequent years
         1. Rebasing reduction only applies for 2014-2017; starting in 2018, no rebasing reduction is applied
      iv. Divide projected standardized 60-day payment rate by a Dobson | DaVanzo-calculated national payment percentage that inflates the standardized payment rate to the average home health payment per episode after considering the impact of LUPAs, outliers, and case-mix (77.3 percent)
      v. Starting in 2014, take prior year's NRS payment amount and inflate it by the projected market basket ($53.97 in 2013)
      vi. Add projected NRS payment amount to average home health episode payment to equal total average home health episode payment (including NRS) for each year, with maximum of rebasing reductions
      vii. Multiply total projected home health episode payment (including NRS) by imputed number of episodes to calculate total home health spending without rebasing
3. Estimate Provider Costs
   a. Starting in 2014, inflate imputed provider cost per episode from previous year (starting with 2013 - Step 6.a.iv) by the projected IHS Global Insight's market basket index
      i. This cost assumption is consistent with MedPAC's finding that home health provider's costs have grown at a rate lower than market basket over the last several years

4. Recalculate Industry Margins
    a. Calculate margins using the projected average episode payment (with or without rebasing) and imputed cost per episode (payments minus cost divided by payments)

Apply Impact of Sequestration

- **Dobson | DaVanzo**

1. Sequestration reduces average home health payments per episode by 2 percent each year
    a. For 2013, sequestration is estimated to reduce payments by 1.5 percent per episode since it was implemented in the second quarter of 2013
    b. We assume that sequestration does not incent providers to control costs; therefore, the reduction in payment is not met with a reduction in costs to maintain margin
2. Sequestration reduction is applied to the total home health payment in each year by multiplying total home health payments by 98 percent. This reduction is not carried through to the subsequent year, therefore the reduction is not cumulative over time

Estimate Margins for States and Other Home Health Sector Subgroups

- **Avalere Health**

1. Avalere calculated actual 2011 margins for all freestanding home health agencies and for the different subgroups (of freestanding agencies) from the most recent Medicare home health cost report data made available by CMS.
2. For the majority-minority, majority-majority and high-poverty subgroups, we used zip codes as the unit of analysis.
    a. We classified home health agencies according to whether they were in a majority-minority, majority-majority or high-poverty zip code, then calculated the aggregate margins for all of the agencies located in each type of zip code.
    b. We defined majority-minority, per the relevant brief from the Bureau of the Census, as zip codes in which at least half of the population reports their race and ethnicity as something other than non-Hispanic white.
3. To project the margins for the home health sector subgroups (i.e., for 2014 through 2017), we maintained the same arithmetic relationship between the sector-wide margin estimated by Dobson DaVanzo and the subgroup margin in that year (e.g., 2017) as in 2011.
    a. If the actual margin for a state in 2011 was 2 percentage points lower than the actual sector-wide margin for that year, then the projected state margin for 2017 is also 2 percentage points lower than the projected sector-wide margin for that year.

Impact of Rebasing on Home Health Agency Subgroups/Market Segments

Partnership for Quality Home Healthcare/Dobson DaVanzo & Associates 6/12/2013

Market Segment/Subgroup	2014 Medicare Margin with .49% Rebasing and Sequestration	2015 Medicare Margin with .49% Rebasing and Sequestration	2016 Medicare Margin with .49% Rebasing and Sequestration	2017 Medicare Margin with .49% Rebasing and Sequestration
All	7.0%	5.6%	4.1%	2.7%
Urban/Rural				
Rural	5.2%	3.8%	2.3%	0.9%
Suburban	4.6%	3.2%	1.7%	0.3%
Urban	8.8%	7.4%	5.9%	4.5%
Margin Distribution Deciles				
Bottom 10%	-32.2%	-33.6%	-35.1%	-36.5%
Top 10%	28.8%	27.4%	25.9%	24.5%
State				
AK	-7.9%	-9.3%	-10.8%	-12.2%
AL	12.1%	10.7%	9.2%	7.8%
AR	4.0%	2.6%	1.1%	-0.3%
AZ	9.2%	7.8%	6.3%	4.9%
CA	3.0%	1.6%	0.1%	-1.3%
CO	12.7%	11.3%	9.8%	8.4%
CT	13.6%	12.2%	10.7%	9.3%
DC	10.2%	8.8%	7.3%	5.9%
DE	9.3%	7.9%	6.4%	5.0%
FL	6.1%	4.7%	3.2%	1.8%
GA	12.8%	11.4%	9.9%	8.5%
HI	-10.8%	-12.2%	-13.7%	-15.1%
IA	7.6%	6.2%	4.7%	3.3%
ID	-0.8%	-2.2%	-3.7%	-5.1%
IL	3.9%	2.5%	1.0%	-0.4%
IN	1.6%	0.2%	-1.3%	-2.7%
KS	12.6%	11.2%	9.7%	8.3%
KY	12.0%	10.6%	9.1%	7.7%
LA	11.7%	10.3%	8.8%	7.4%
MA	8.1%	6.7%	5.2%	3.8%
MD	6.0%	4.6%	3.1%	1.7%
ME	2.9%	1.5%	0.0%	-1.4%
MI	3.4%	2.0%	0.5%	-0.9%
MN	8.2%	6.8%	5.3%	3.9%
MO	7.2%	5.8%	4.3%	2.9%
MS	10.7%	9.3%	7.8%	6.4%
MT	-0.6%	-2.0%	-3.5%	-4.9%
NC	14.2%	12.8%	11.3%	9.9%
ND	10.3%	8.9%	7.4%	6.0%
NE	13.7%	12.3%	10.8%	9.4%
NH	8.7%	7.3%	5.8%	4.4%
NJ	8.2%	6.8%	5.3%	3.9%
NM	3.2%	1.8%	0.3%	-1.1%
NV	-0.1%	-1.5%	-3.0%	-4.4%
NY	-5.1%	-6.5%	-8.0%	-9.4%
OH	14.5%	13.1%	11.6%	10.2%
OK	6.4%	5.0%	3.5%	2.1%
OR	-7.9%	-9.3%	-10.8%	-12.2%
PA	13.8%	12.4%	10.9%	9.5%
RI	13.2%	11.8%	10.3%	8.9%
SC	12.9%	11.5%	10.0%	8.6%
SD	-11.8%	-13.2%	-14.7%	-16.1%
TN	12.6%	11.2%	9.7%	8.3%
TX	3.9%	2.5%	1.0%	-0.4%
UT	7.6%	6.2%	4.7%	3.3%
VA	10.6%	9.2%	7.7%	6.3%
VT	5.5%	4.1%	2.6%	1.2%
WA	6.6%	5.2%	3.7%	2.3%
WI	-1.7%	-3.1%	-4.6%	-6.0%
WV	13.3%	11.9%	10.4%	9.0%
WY	-7.7%	-9.1%	-10.6%	-12.0%

High-poverty/Low-poverty				
20%+	7.1%	5.7%	4.2%	2.8%

Race				
Majority-majority area	8.4%	7.0%	5.5%	4.1%
Majority-minority area	3.7%	2.3%	0.8%	-0.6%

Ownership Type				
For-profit	7.7%	6.3%	4.8%	3.4%
Governmental	-3.3%	-4.7%	-6.2%	-7.6%
Non-profit	4.7%	3.3%	1.8%	0.4%

Note: .49% rebasing would reduce the standardized payment rate by .49% each year from 2014 to 2017

Reduction in Medicare Home Health Payments by State, 2011-2020

State	Reduction in Medicare Home Health Payments, 2011-2020
AK	$11,000,000
AL	$952,000,000
AR	$280,000,000
AZ	$543,000,000
CA	$5,633,000,000
CO	$556,000,000
CT	$1,013,000,000
DC	$70,000,000
DE	$163,000,000
FL	$9,208,000,000
GA	$934,000,000
HI	$28,000,000
IA	$222,000,000
ID	$113,000,000
IL	$4,658,000,000
IN	$952,000,000
KS	$306,000,000
KY	$626,000,000
LA	$8,755,000,000
MA	$2,218,000,000
MD	$878,000,000
ME	$308,000,000
MI	$2,866,000,000
MN	$356,000,000
MO	$741,000,000
MS	$1,226,000,000
MT	$61,000,000
NC	$1,741,000,000
ND	$14,000,000
NE	$173,000,000
NH	$347,000,000
NJ	$1,445,000,000
NM	$286,000,000
NV	$537,000,000
NY	$1,603,000,000
OH	$1,742,000,000
OK	$1,675,000,000

Reduction in Medicare Home Health Payments by State, 2011-2020

State	Reduction in Medicare Home Health Payments, 2011-2020
OR	$177,000,000
PA	$2,135,000,000
RI	$213,000,000
SC	$561,000,000
SD	$12,000,000
TN	$1,312,000,000
TX	$11,669,000,000
UT	$436,000,000
VA	$1,251,000,000
VT	$142,000,000
WA	$584,000,000
WI	$485,000,000
WV	$159,000,000
WY	$27,000,000
Total	**$72,400,000,000**

Note on Methods:
Total cuts are allocated according to each state's share of total HH payments in 2011. Accordingly, these estimates should be considered rough approximations.

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Medicare Home Healthcare:

Impact of Rebasing on Home Health Under Current Law

Under the Affordable Care Act (ACA), the Centers for Medicare and Medicaid Services (CMS) is authorized to rebase home health payments between 2014 and 2017. Rebasing is a process intended to align Medicare payment with costs. However, new data analyses find that current law Medicare home health cuts have caused the change intended by rebasing. Moreover, the analyses reveal that this current law trajectory is on track to produce negative margins in a number of states by 2017 – even if CMS does not rebase home health payments.

Market Segment/ Subgroup	2017 Medicare Margin: *Current Law* with 0% Rebasing	2017 Medicare Margin: *Current Law* with 0.5% Rebasing	2017 Medicare Margin: *Current Law* with 1.2% Rebasing[1]	2017 Medicare Margin: *Current Law* with 3.5% Rebasing[2]
ALL	4.7%	2.7%	0.0%	-11.4%
URBAN/RURAL				
Rural	4.3%	0.9%	-0.4%	-11.8%
Suburban	3.7%	0.3%	-1.0%	-12.4%
Urban	7.9%	4.5%	3.2%	-8.2%
RACE				
Majority-minority	2.8%	-0.6%	-1.9%	-13.3%
STATE				
AK	-8.8%	-12.2%	-13.5%	-24.9%
AL	11.2%	7.8%	6.5%	-4.9%
AR	3.1%	-0.3%	-1.6%	-13.0%
AZ	8.3%	4.9%	3.6%	-7.8%
CA	2.1%	-1.3%	-2.6%	-14.0%
CO	11.8%	8.4%	7.1%	-4.3%
CT	12.7%	9.3%	8.0%	-3.4%
DC	9.3%	5.9%	4.6%	-6.8%
DE	8.4%	5.0%	3.7%	-7.7%
FL	5.2%	1.8%	0.5%	-10.9%
GA	11.9%	8.5%	7.2%	-4.2%
HI	-11.7%	-15.1%	-16.4%	-27.8%
IA	6.7%	3.3%	2.0%	-9.4%
ID	-1.7%	-5.1%	-6.4%	-17.8%
IL	3.0%	-0.4%	-1.7%	-13.1%
IN	0.7%	-2.7%	-4.0%	-15.4%
KS	11.7%	8.3%	7.0%	-4.4%
KY	11.1%	7.7%	6.4%	-5.0%
LA	10.8%	7.4%	6.1%	-5.3%
MA	7.2%	3.8%	2.5%	-8.9%
MD	5.1%	1.7%	0.4%	-11.0%

Market Segment/ Subgroup	2017 Medicare Margin: *Current Law* with 0% Rebasing	2017 Medicare Margin: *Current Law* with 0.5% Rebasing	2017 Medicare Margin: *Current Law* with 1.2% Rebasing[1]	2017 Medicare Margin: *Current Law* with 3.5% Rebasing[2]
ME	2.0%	-1.4%	-2.7%	-14.1%
MI	2.5%	-0.9%	-2.2%	-13.6%
MN	7.3%	3.9%	2.6%	-8.8%
MO	6.3%	2.9%	1.6%	-9.8%
MS	9.8%	6.4%	5.1%	-6.3%
MT	-1.5%	-4.9%	-6.2%	-17.6%
NC	13.3%	9.9%	8.6%	-2.8%
ND	9.4%	6.0%	4.7%	-6.7%
NE	12.8%	9.4%	8.1%	-3.3%
NH	7.8%	4.4%	3.1%	-8.3%
NJ	7.3%	3.9%	2.6%	-8.8%
NM	2.3%	-1.1%	-2.4%	-13.8%
NV	-1.0%	-4.4%	-5.7%	-17.1%
NY	-6.0%	-9.4%	-10.7%	-22.1%
OH	13.6%	10.2%	8.9%	-2.5%
OK	5.5%	2.1%	0.8%	-10.6%
OR	-8.8%	-12.2%	-13.5%	-24.9%
PA	12.9%	9.5%	8.2%	-3.2%
RI	12.3%	8.9%	7.6%	-3.8%
SC	12.0%	8.6%	7.3%	-4.1%
SD	-12.7%	-16.1%	-17.4%	-28.8%
TN	11.7%	8.3%	7.0%	-4.4%
TX	3.0%	-0.4%	-1.7%	-13.1%
UT	6.7%	3.3%	2.0%	-9.4%
VA	9.7%	6.3%	5.0%	-6.4%
VT	4.6%	1.2%	-0.1%	-11.5%
WA	5.7%	2.3%	1.0%	-10.4%
WI	-2.6%	-6.0%	-7.3%	-18.7%
WV	12.4%	9.0%	7.7%	-3.7%
WY	-8.6%	-12.0%	-13.3%	-24.7%

1. Rebasing by -1.2% per year for 4 years would result in a 0% Medicare margin for Medicare-certified home healthcare providers.
2. The Affordable Care Act caps the rebasing cut at -3.5 percent per year.

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Medicare Rebasing & Home Healthcare

Impact of Current Law Cuts Should Be Considered

Under the Affordable Care Act (ACA), the Centers for Medicare and Medicaid Services (CMS) is authorized to rebase home health payments between 2014 and 2017. CMS has submitted a proposed rebasing rule to the Office of Management and Budget (OMB), which reports it is economically significant and will therefore impact the home health sector by at least $100 million. Analyses[1] indicate that reducing home health payments by $100 million corresponds to a 0.5% rebasing adjustment. **If Medicare home health reimbursement payments were cut by 0.5% annually, the national average Medicare margin would fall to 2.7% in 2017 and 18 states would have negative Medicare home health margins.**

Medicare Home Healthcare Has Already Been Hit With Deep Cuts

Since 2009, the nation's home healthcare community has experienced a number of Medicare payment cuts that will reduce reimbursement by more than 20 percent over the next a decade, as seen in the table below.

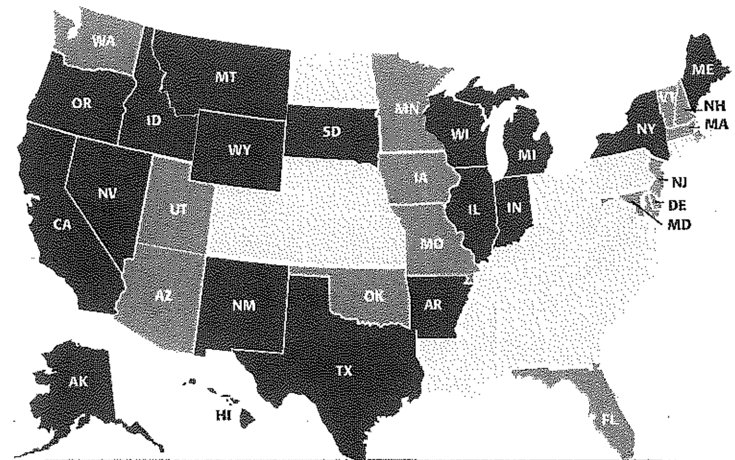
Legislative Cuts:	$24.9 BILLION
• 2.5% Outlier Cut: Calendar Year (CY) 2011	
• 1% Market Basket Cuts: CY 2011, 2012 and 2013	
• 1% (est) Productivity Cut: beginning CY 2015	
• 2% Sequestration Cut (2013-2021)	
Regulatory Cuts:	**$47.6 BILLION**
• 10% Outlier Limit: beginning CY 2010	
• 1.32-3.79% Case-Mix Cuts: CY 2009, 2010, 2011, 2012, 2013	
TOTAL Home Health Cuts (2011-2020):	**$72.5 BILLION**[3]

= 22% MEDICARE CUT TO HOME HEALTHCARE ALREADY IN CURRENT LAW

The Medicare home health benefit has experienced substantial cuts since 2009. To protect beneficiary access to care, CMS should carefully examine the impact of these cuts before further reducing Medicare home health reimbursement.

Additional Cuts of 0.5% Will Result in Narrow and Even Negative Margins in Nearly 65% of States[1]

Analyses utilizing Medicare costs reports and the MedPAC methodology for calculating Medicare margins reveal that Medicare margins for home health agencies will reach dramatic lows by 2017[2] under current law with 0.5% rebasing.



Medicare Home Health Margins Will Be 0-5% (2017)	
Arizona	4.9%
Delaware	5.0%
Florida	1.8%
Iowa	3.3%
Massachusetts	3.8%
Maryland	1.7%
Minnesota	3.9%
Missouri	2.9%
New Hampshire	4.4%
New Jersey	3.9%
Oklahoma	2.1%
Utah	3.3%
Vermont	1.2%
Washington	2.3%

Medicare Home Health Payments Will Be Below Costs (2017)	
Alaska	-12.2%
Arkansas	-0.3%
California	-1.3%
Hawaii	-15.1%
Idaho	-5.1%
Illinois	-0.4%
Indiana	-2.7%
Maine	-1.4%
Michigan	-0.9%
Montana	-4.9%
New Mexico	-1.1%
Nevada	-4.4%
New York	-9.4%
Oregon	-12.2%
South Dakota	-16.1%
Texas	-0.4%
Wisconsin	-6.0%
Wyoming	-12.0%

1. *This analysis utilizes Medicare cost reports and the Medicare Payment Advisory Commission (MedPAC) methodology for calculating Medicare margins, which exclude many of the operating costs common to home health agencies as well as the costs of services that are commonly delivered to Medicare beneficiaries by home health agencies. If these costs were included in the analysis, the resulting home health Medicare margins would be even lower than those shown here.*
2. *2017 is the year when the rebasing process authorized by the Affordable Care Act is to be completed.*
3. *Avalere Health. Cumulative Savings 2011-2020.*

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Ensuring the Correct Pricing of Medicare Home Healthcare Payments

Perspectives on the Implementation of PPACA Section 3131

Overview

- We believe savings objectives and rebasing factors have been met.
- We note that margins are already experiencing dramatic change.
- We recognize that the Secretary has implementation discretion.
- We respectfully propose that the Secretary utilize her discretionary authority in implementing ACA Section 3131 to:
  - » Consider all available data and take care to not over-correct home health.
  - » Avoid potentially serious access disruptions in many states and sectors.
  - » Ensure continued access to quality services, per Section 1895(b)(2).

Home Health Payment Adjustments: Total

- Legislative and Regulatory Cuts total $72.5 billion (2011-2020)[1,2]

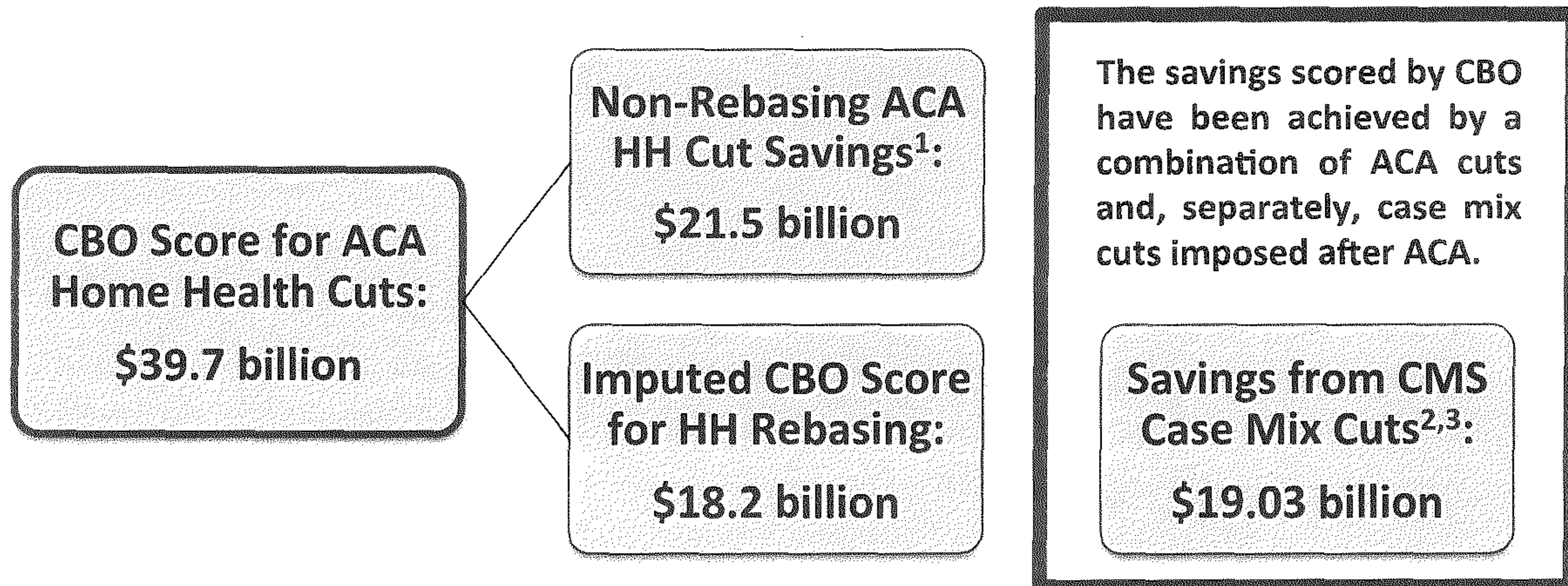
Payment Reduction	Estimated Impact	Source of Estimate
ACA Adjustments: • *Market Basket Reductions (2011, 2012, 2013)* • *Productivity Adjustment (beginning 2015)* • *Outlier Cut: 2.5 percent (beginning 2011)*	$20.8 billion	Avalere Health
Sequestration *(beginning April 1, 2013)*	$4.1 billion	Avalere Health
Case Mix Adjustments *(2009, 2010, 2011, 2012, 2013)*	$36.6 billion	Avalere Health
Outlier Limit *(beginning January 1, 2010)*	$11 billion	PQHH

- These cuts equal 22% of total Medicare home health funding.

[1] Avalere Health analysis of ACA outlier, market basket and productivity cuts, 2009-2013 case-mix adjustments, and sequestration.

[2] Partnership estimate of the impact of the 10% limit on outlier claims reimbursement.

Home Health Payment Adjustments: CBO



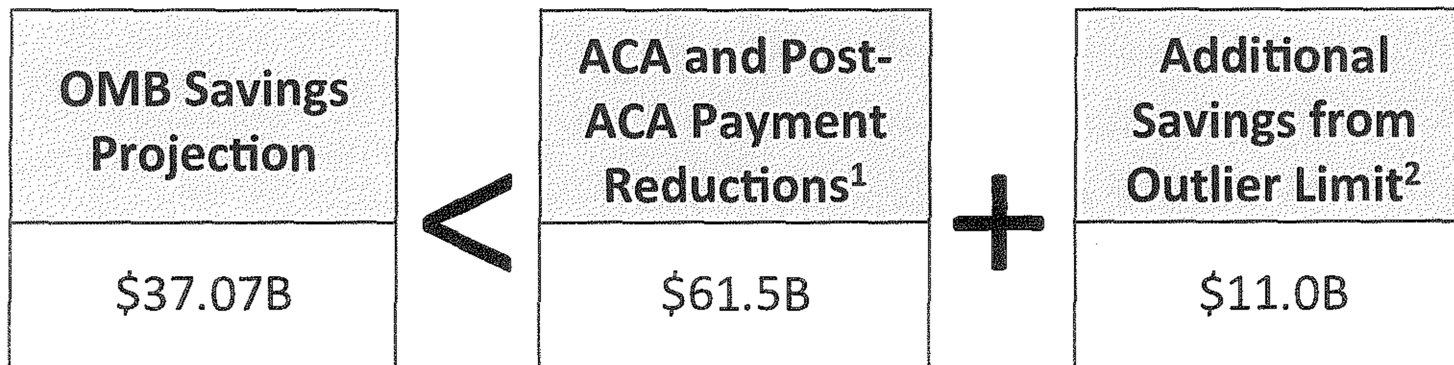
[1] Calculated by Avalere Health. Using the market basket update projections from the August 2010 CBO baseline, we impute CBO savings estimates for the market basket reductions (2011-2013), the 2.5 percent cut related to outlier payments, and the productivity adjustment (beginning in 2015) in the ACA. These savings are expressed as the additional amount (i.e., above the August 2010 baseline) that would have been spent in the absence of these cuts.

[2] Calculated by Avalere Health, for the period from 2010-2019 (budget window for CBO's ACA score). The post-ACA case-mix cuts are the CY 2011, 2012 and 2013 case-mix adjustments. To calculate the estimated savings from the post-ACA cuts, we use the spending projections from the most recent OACT (CMS) baseline, which includes actual home health spending for 2011.

[3] Avalere Health further notes that the payment reductions resulting from the 2011, 2012 and 2013 case-mix adjustments would not have been considered in CBO's 2010 baseline.

Home Health Payment Adjustments: OMB

- OMB-based Comparison:
  - » The President's FY 2010 Budget projected $37.07 billion in savings from "improv[ing] home health payments to align with costs."
  - » Avalere Health and Partnership analyses estimate that home health payments have been reduced $72.5 billion (2011-2020).



[1] Avalere Health analysis of ACA outlier, market basket and productivity cuts, 2009-2013 case-mix adjustments, and sequestration.

[2] Partnership estimate of the impact of the 10% limit on outlier claims reimbursement.

Data Analysis: Current Law Trajectory

- Analyses by Avalere Health and Dobson DaVanzo & Associates indicate that the cumulative effect of current law legislative and regulatory cuts *with 0 percent rebasing* would:
  - » Achieve the savings targets projected by CBO and OMB.
  - » Result in a sector-wide 2017 Medicare margin[1] of 4.7 percent.
  - » Generate low single-digit and even negative Medicare margins in certain market segments and states. (see next slide)

[1] The Partnership requests that overall margins be considered as well. For example, MedPAC projected a 13.7% Medicare margin for 2012, but a 2013 Avalere Health analysis (*Home Health Margins: Comparison of Public Company Financials to the MedPAC Margin Estimate*) examined publicly-traded home health companies' SEC filings and determined that their overall margin was 2.8% in 2012.

Data Analysis: Current Law Trajectory, *cont'd*

- Summary of Market Segment Analysis[1] *with 0% rebasing*:

Market Segment	2017 Medicare Margin (post-sequestration)
Home Health Sector (all)	4.7%
Rural	4.3%
High-Poverty	6.2%
Majority-Minority	2.8%
New York State	-6.0%
Oregon	-8.8%

[1] These data points are a sample excerpted from the attached Avalere Health table, which presents the findings of analysis on the impact of rebasing on Medicare margins of various market segments and states.

Data Analysis: Adjustment to 0.0% National Margin

- Analyses by Avalere Health and Dobson DaVanzo & Associates indicate that the cumulative effect of current law legislative and regulatory cuts *plus 1.2 percent rebasing* would:
  - » Exceed the savings targets projected by CBO and OMB.
  - » Result in a sector-wide 2017 Medicare margin of 0.0 percent.
  - » Generate negative Medicare margins in multiple market segments and states. (see next slide)

Data Analysis: Adjustment to 0.0% National Margin, *cont'd*

- Summary of Market Segment Analysis[1] *with 1.2% rebasing*:

Market Segment	2017 Medicare Margin (post-sequestration)
Home Health Sector (all)	0.0%
Rural	-0.4%
High-Poverty	1.5%
Majority-Minority	-1.9%
New York State	-10.7%
Oregon	-13.5%

[1] These data points are a sample excerpted from the attached Avalere Health table, which presents the findings of analysis on the impact of rebasing on Medicare margins of various market segments and states.

Data Analysis: Maximum Adjustment

- Analyses by Avalere Health and Dobson DaVanzo & Associates indicate that the cumulative effect of current law legislative and regulatory cuts *plus the maximum 3.5 percent rebasing* would:
  - » Exceed the savings targets projected by CBO and OMB.
  - » Result in a sector-wide 2017 Medicare margin of -11.4 percent.
  - » Generate negative Medicare margins in multiple market segments and states. (see next slide)

Partnership for Quality Home Healthcare

THERE'S NO PLACE LIKE HOME

Data Analysis: Maximum Adjustment, *cont'd*

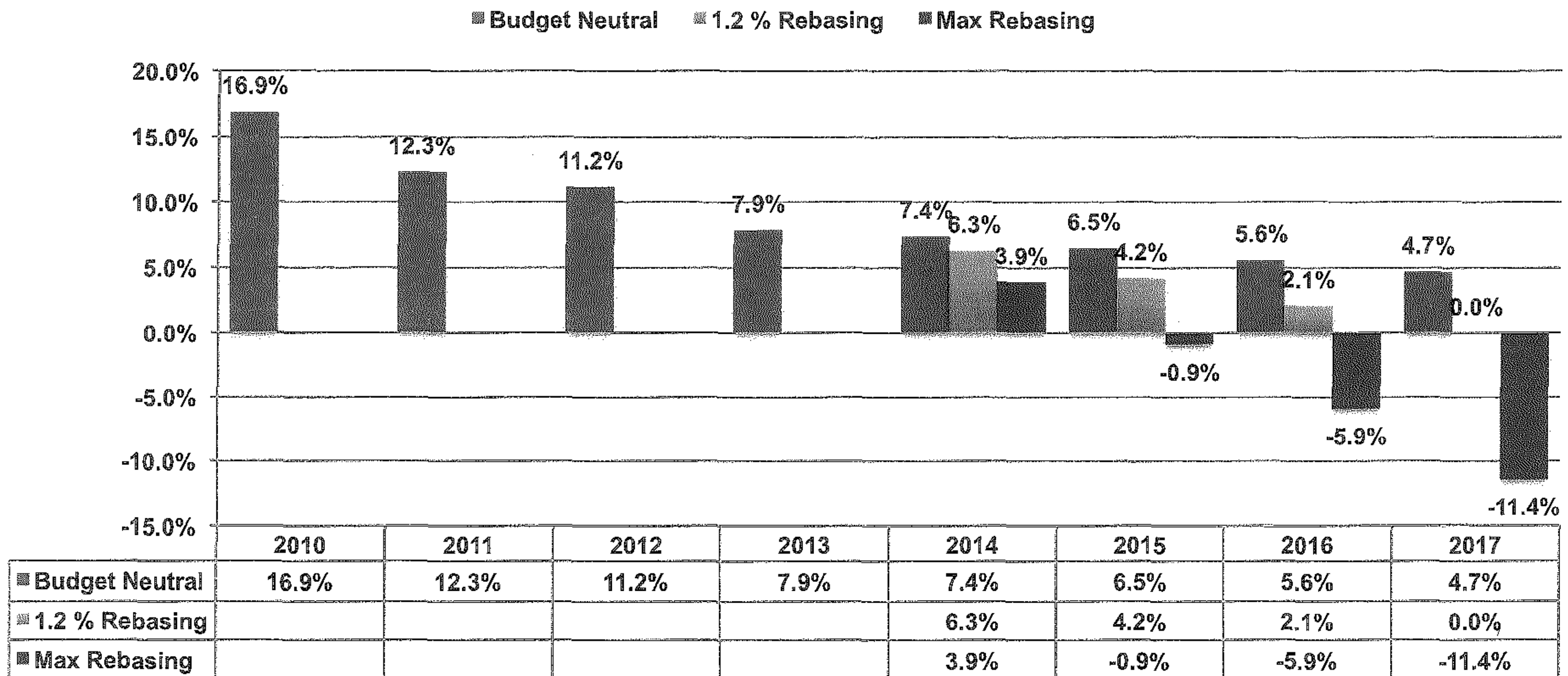
- Summary of Market Segment Analysis[1] *with 3.5% rebasing*:

Market Segment	2017 Medicare Margin (post-sequestration)
Home Health Sector (all)	-11.4%
Rural	-11.8%
High-Poverty	-10.0%
Majority-Minority	-13.3%
New York State	-21.8%
Oregon	-24.5%

[1] These data points are a sample excerpted from the attached Avalere Health table, which presents the findings of analysis on the impact of rebasing on Medicare margins of various market segments and states.

Data Analysis: Impact on Medicare Margins

- Projected Medicare home health margins[1] under each scenario:



	2010	2011	2012	2013	2014	2015	2016	2017
Budget Neutral	16.9%	12.3%	11.2%	7.9%	7.4%	6.5%	5.6%	4.7%
1.2 % Rebasing					6.3%	4.2%	2.1%	0.0%
Max Rebasing					3.9%	-0.9%	-5.9%	-11.4%

[1] 2010-2013 margins: MedPAC published projections, adjusted for hospital-based home health agencies. 2014-2017 margins: Avalere Health and Dobson DaVanzo & Associates.

Methodology Notes

- Two important factors in this methodology are case-mix and cost:
  - » The methodology is based on the Congressional Budget Office (CBO) baseline for home health, which includes case-mix growth.
  - » The methodology conservatively estimates that home health cost per visit will equal market basket, even though such costs have exceeded market basket in 5 of the 7 years spanning 2005-2011[1]:

Year	Cost per Visit	Percent Change	Home Health Market Basket
2005	$110	3.80%	3.12%
2006	$112	1.80%	3.02%
2007	$112	0.00%	3.40%
2008	$116	3.60%	3.35%
2009	$119	2.60%	2.25%
2010	$126	5.90%	1.65%
2011	$132	4.80%	1.85%

Avalere Health Analysis of CMS Medicare Home Health Cost Reports for Freestanding Agencies

[1] Factors driving the cost of home health visits include: higher labor costs (inclusive of salary and benefits), higher gasoline and other travel costs, and the cost of compliance with expanded regulatory requirements.

Secretarial Discretion

- ACA Section 3131 provides the Secretary significant discretionary authority in implementing its provisions:
  - » The Secretary is not required to reduce home health payments.
  - » The Secretary may establish any level of annual adjustment but is prohibited from cutting rates by more than 3.5 percent annually.
  - » The Secretary is not prohibited from providing for a budget neutral (i.e., 0%) rebase.

Partnership Recommendation

- Due to the above factors, the Partnership believes the payment modifications and targeted savings required by Congress have been met and proposes the Secretary utilize her authority to:
  - » Consider all data and take care to not over-correct home health.
  - » Avoid potentially access disruptions in many states and sectors.
  - » Ensure continued access to quality services, per Section 1895(b)(2).
- The Partnership stands ready to serve as a resource to CMS and assist with its work on this important issue.

Section 3131. Payment Adjustments for Home Health Care

(a) REBASING HOME HEALTH PROSPECTIVE PAYMENT AMOUNT.—

(1) IN GENERAL.—Section 1895(b)(3)(A) of the Social Security Act (42 U.S.C. 1395fff(b)(3)(A)) is amended—

(A) in clause (i)(III), by striking "For periods" and inserting "Subject to clause (iii), for periods"; and

(B) by adding at the end the following new clause: [As revised by section 1031(a)]

"(iii) ADJUSTMENT FOR 2014 AND SUBSEQUENT YEARS.—

"(I) IN GENERAL.—Subject to subclause (II), for 2014 and subsequent years, the amount (or amounts) that would otherwise be applicable under clause (i)(III) shall be adjusted by a percentage determined appropriate by the Secretary to reflect such factors as changes in the number of visits in an episode, the mix of services in an episode, the level of intensity of services in an episode, the average cost of providing care per episode, and other factors that the Secretary considers to be relevant. In conducting the analysis under the preceding sentence, the Secretary may consider differences between hospital-based and freestanding agencies, between for-profit and nonprofit agencies, and between the resource costs of urban and rural agencies. Such adjustment shall be made before the update under subparagraph (B) is applied for the year.

"(II) TRANSITION.—The Secretary shall provide for a 4-year phase-in (in equal increments) of the adjustment under subclause (I), with such adjustment being fully implemented for 2017. During each year of such phase-in, the amount of any adjustment under subclause (I) for the year may not exceed 3.5 percent of the amount (or amounts) applicable under clause (i)(III) as of the date of enactment of the Patient Protection and Affordable Care Act."