

MedPAC to Recommend that Congress Freeze Home Health Payments for 2006

The Medicare Payment Advisory Commission (MedPAC), the panel that provides advice and direction to Congress regarding Medicare payment policy, recently voted on a series of recommendations it will make for Medicare-related payment actions in 2006. Among those that got the green light is one that Congress eliminate the scheduled home health market basket index inflation update for the forthcoming payment year (calendar year 2006).

Note that under a provision of the 2003 Medicare reform legislation, the annual update is reduced by 0.8 from the level that would otherwise occur. In the 2005 rates, for example, the 3.1 percent update was reduced by 0.8 to 2.3 percent. To sum up the process, the Centers for Medicare & Medicaid Services (CMS) proposal for 2005 was to increase home health payments by 3.3 percent; the corresponding final rule lowered the proposal by 0.2 to 3.1 percent. From there, 0.8 is subtracted to arrive at the 2005 2.3 percent increase for home health payments.

MedPAC supports the "home health pay freeze" recommendation for the third consecutive time, citing internal studies that show access to care is "good," quality of care has improved slightly, and home health agencies are entering the Medicare program (the rationale is that business under the program is lucrative). Since 2003, 500 new Medicare-certified home health agencies have been certified, although MedPAC acknowledges that some of those may be "reconfigured" organizations rather than "totally new" home health agency additions.

The commission also finds that 99 percent of beneficiaries live in an area served by at least one home health agency. That same percentage of home health patients reports little or no difficulty in accessing care, MedPAC noted. In addition to the quality, access, and market reasons, MedPAC references "continued double digit profit margins" for supporting its recommendation. The specific Medicare margin for freestanding home health agencies MedPAC cited was 13.6 percent for 2003, which it projected will dip to 12.1 percent for 2005.

However, for the first time, MedPAC appears to recognize the wide variation in agency profit margins. It was noted at the hearing that according to the commission's data, 20 percent of home health agencies show a negative margin over a three-year period, while another 25 percent have profit margins exceeding 25 percent.

Agencies appear to be maintaining margins through cost controls, MedPAC speculated, which the commission said is reflected in an 8 percent decline it tracked in the number of service minutes and visits per episode. NAHC notes that this information appears inconsistent with Medicare cost reports. At the same time, MedPAC notes that the number of home health users increased to 2.6 million in 2003 from 2.4 million in 2001.

With respect to rural home health agencies, MedPAC will make no recommendation to Congress regarding continuation of the 5 percent rural add-on. The commissioners expressed some concern, however, regarding the fragility of access to rural home health services. MedPAC staff report that rural agencies served fewer zip code areas in 2003 than they did in 2002. So while no recommendation will be made regarding the add-on, the commission's data demonstrate service declines in rural home health. A bill to extend the sunset of the 5 percent rural add-on (which currently is set to expire March 31, 2005) was one of the first bills filed in the 109th Congress.

Although it was not a formal recommendation issued by MedPAC, great concern was expressed regarding the need to reform the home health prospective payment system (PPS). MedPAC staff indicated that costs may vary widely within payment groups, and that some patient characteristics that are not in the case mix system appear to correlate with high costs. The commission specifically was critical of the system's failure to address (1) informal caregiver availability, (2) patient obesity, and (3) the impact of heavy smoking on resource utilization. MedPAC plans to explore PPS alternatives in the coming months and issue a report later in the year.

MedPAC's recommendations and a transcript of the hearing proceedings are available on its website, www.medpac.gov. The commission will issue its formal report to Congress in March.