

Responding to Home Health Rate Rebasing

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Medicare Reforms

- **Health care reform law HR 3590**
- **Requires home health rate rebasing beginning 2014**
- **4 year phase-in**
- **3.5% cap on annual rate reductions**

Rebasing Background

- **MedPAC recommended rebasing in 2009 report to Congress**
- **Current rates based on 1996 per visit costs and 1997-8 utilization data**
 - 31 visits per episode
- **IPS related budget neutrality adjustment**
 - Reduced base rates by 14%
 - Based on estimated number of episodes

Rebasing Standards in Law

- **2014 rates adjusted by a percentage determined to reflect such factors as:**
 - Changes in the number of visits in an episode
 - The mix of services
 - The level of intensity of services
 - The average cost of providing care
 - Other factors deemed relevant

Rebasing Standards in Law

- **The Secretary shall consider the differences between:**
 - Hospital-based and freestanding agencies
 - For profit and nonprofit agencies
 - Resource costs or urban and rural agencies

Relevant Factors

- **Customary business costs**
 - Marketing
 - taxes
- **Cost of clinical services not recognized on the cost report**
 - Telehealth
 - Nutritionists, respiratory therapists
- **Need for working capital**
- **Need for operating margins**

Critical Study

- **Reform law requires a study on the need for revisions to the overall payment model**
 - **Accurately account for costs related to patient severity or improving access**
 - **Adjustments for over and under valued services**
 - **Resource use by low income or underserved area patients**
 - **Use of quality of care incentives**
 - **Wage index improvements**

Critical Study

- **Validity and reliability of OASIS**
- **Quality, efficiency, and access goals**
- **Considering population density, variations in costs of dual eligibles, chronic illness, poverty status, availability of caregivers, language barriers, security costs, etc.**

- **Congressional report by March 1, 2011**
- **Include stakeholders in consultations**
- **\$500M fund for vulnerable patients**

**FACT SHEET ON THE PROPOSED
MEDICARE CUTS TO HOME HEALTH
CARE PROVIDERS OF SERVICE**

**Prepared by a Special Ad Hoc Committee
For the
Home Care and Hospice Financial Managers
Association (HHFMA)**

**(An Affiliated Organization of the National
Association for Home Care and Hospice)**

**Special Ad Hoc Committee
Composition & Objective
Of the
Fact Sheet**

**The Special Ad Hoc Committee is comprised of Chief
Financial Officers and/or financial managers from
all auspices, both large and small, of the home
health industry**

**To Communicate to Congress and Administration the
cold/hard reality, from the voice of true hands-on
experts, on how the Medicare cuts will negatively
impact the delivery of home health services**

Fact Sheet sets forth the following Issues

- I. Access to Working Capital**
- II. Home Health Payer Mix**
- III. Cost Report Deficiencies Affect on Rebasing**
- IV. Other Important Financial Facts relevant to Home Health**
- V. Access to Care**

Access to Working Capital

- **FACT: MedPAC Position**
 - **HHA require little capital as they do not have to build the physical plant that other providers require**
 - **HHA are smaller and do not have capital intensive needs**
 - **Major publically traded have access to capital according to capital market analysts**
 - **Significant growth in new agencies suggest adequate access for start ups**

Access to Working Capital

- **IN FACT:** Approximately 75% to 80% of home health agency's expenditures are payroll and payroll related which have to be paid currently
- **IN FACT:** In order to coordinate patient care it is essential for home care to integrate with hospital & physician Electronic Health Records
- **IN FACT:** Home health has to continuously spend capital into technology if they are to continue to provide quality care
- **IN FACT:** Major lenders have acknowledged they are lending less to small businesses and they attribute the pull back to "financial problems of applicants and more "prudent" underwriting standards."

Access to Working Capital

- **IN FACT:** If the MedPAC recommendations are implemented the industry estimates 73.0% of ALL home health agencies will have negative margins
- **IN FACT:** These proposed reductions in Medicare reimbursement may cause agencies to be in default of predetermined covenants on their existing debt
- **IN FACT:** The proposed Medicare cut will represent the fourth significant Medicare reimbursement change to the Home Health industry since 2000
- **IN FACT:** . In order for home health providers to plan appropriately and capital markets to lend there needs to be a consistent and predictable revenue base.

ISSUE: Home Health Payer Mix

- **FACT:** Hospitals & Physicians are paid approximately 70% by government plans compared to what they get paid by commercial plans. These providers subsidize governmental payment deficiencies through the contracting power they have with the commercial plans
 - **IN FACT:** The majority of home health agencies incur negative margins providing services under contract to Medicaid & Commercial Payers

ISSUE: Home Health Payer Mix

- **IN FACT:** Compression of Medicare margins will force many agencies to re-evaluate other less profitable payors including but not limited to Medicare advantage and Medicaid programs
- **IN FACT:** Many States are currently having budgetary issues and are contemplating significant cuts in Medicaid reimbursement.

ISSUE: Cost Report Deficiencies Affect on Rebasing

- **FACT:** Medicare Cost Reports will be used for a proposed rebasing of the home health episodic rates.
 - **IN FACT:** The accuracy & consistency of the Medicare Cost Reports has deteriorated since the year 1999
 - **IN FACT:** The current Principles of Medicare Cost Reimbursement, system used to determine Medicare costs, is antiquated and should be revised to reflect the actual cost of conducting business
 - **IN FACT:** Rebasing rates during a period of imposing a productivity and case mix creep adjustment together with a reduction in the inflation update would be absolutely devastating to both freestanding and hospital based agencies
 - **IN FACT:** MedPAC has excluded Hospital Based Provider from the calculation of home health margins.

ISSUE: Other Important Financial Facts relevant to Home Health

- **FACT:** MedPAC has stated across the board cuts affect fraudulent, gamers, and caring home health agencies equally
 - **IN FACT:** Targeted and harsh cuts focused at the fraudulent and gamers should be instituted
 - **IN FACT:** There should be a smoothing out of proposed across the board cuts (i.e. rebasing, inflation updates, productivity, case creep, etc.)
 - **IN FACT:** All businesses need to have the ability develop short and long term strategic initiatives to weather reductions in revenue base, home care is not immune to this basic principle.

ISSUE: Other Important Financial Facts relevant to Home Health

- **FACT**: It is presumed the Medicare cuts to providers will, to some extent, be negated by the Coverage Expansion to the Uninsured. An example of this is hospitals will now be reimbursed for their “uncompensated and/or charitable care.
 - **INFACT**: Home health will not benefit from this new revenue source since their patients do not need or meet the criteria for the home care benefit. The majority of funding cuts from home health will not be recovered by agencies.

ISSUE: Access to Care

- **FACT**: If cuts are not implemented correctly this could be worse than the Interim Payment System (IPS) established in 1997 through 2001 which forced the closure of 30-35% of the home health agencies
 - **INFACT**: Many of home health’s cost containment strategies will include a reduction in workforce and/or pay freeze for direct care staff
 - **IN FACT**: Organizations will not be able to invest in clinical specialty programs that prevent readmissions to hospitals, as these are costly to initiate and costly to maintain
 - **IN FACT**: Non-profit organizations will be forced to re-evaluate many of their community outreach programs
 - **IN FACT**: Finance 101 would dictate a dramatic compression in growth will take place when businesses margins and capital access are restricted

Achieving Efficiencies

- **Controlling Costs**
- **Managing Smart**
- **Clinical/Financial Teamwork**

Cost Reports

- **Be sure you do your cost report completely and accurately**
 - **Include all your expenses**
 - **Allocate them to the correct payer**
 - **Allocate them to the correct discipline**
 - **Allocate them between direct and overhead correctly**

Utilization

- **Are the levels of service utilization reasonable and necessary**
 - Too much or too little or just right
- **Is the discipline mix appropriate**
- **Is the length of stay correct**

Claim Coding

- **Accuracy matters**
- **Consistency is key**
- **All dimensions are relevant**
 - Functional
 - Clinical
 - Service Utilization

Direct Expenses

- **Look at your current direct expenses**
- **Check on clinician productivity**
 - Can operations people use LPNs or PTAs
 - Should you be using admissions clinicians
 - Are you using point of care devices
 - Are you looking at scheduling of clinicians
 - Are you checking the length of visits
 - Are you validating the number of visits per episode

Payer Mix/Cost/Outsourcing

- **Are you checking your payer mix**
 - Medicare
 - Medicaid
 - Managed Care
- **What is your cost for each**
- **Should you be outsourcing**
 - Home health aides
 - Skilled visits

Insurance Costs

- **Have you reviewed your insurance plans**
 - Liability
 - Professional Liability
 - D&O
 - General liability
 - Umbrella
 - Non-owned auto
 - Network security
 - Workers Compensation
- **Review your loss runs**
- **Check the claim reserves the insurance company is reporting**

Health Benefit Plans

- **Have you reviewed your benefit plans**
 - Health insurance
 - High deductible health insurance plans
 - 125 plans

Pension Costs

- **Pension**
 - Does your broker provide services on your 401K and 403B plans (audit and 5500)
 - Are you getting the best deal from the providers
 - Are you getting the lowest cost on the investments
 - Check the trade-off between returns and cost

Medical Supplies

- **Medical Supplies**
 - Are you reporting all your supply costs on your cost report
 - Do you have supply formularies
 - Does your vendor provide patient level reports
 - Does your vendor enforce the formularies you have
 - Do you have wound care nurses to review for the least expensive dressings

Space Costs

- **Occupancy/Rent**
 - This is the time to review your leases and occupancy provisions
 - Extend your leases if your landlord is willing
 - Lock in renewal provisions
 - Check for added amendments
 - Renegotiate your lease cost
- Occupancy rates are low in some areas the landlords are willing to deal

Office Supplies/Telephone

- **Office supplies**
 - Are you dealing with a vendor with just in time programs
 - Don't keep inventory if avoidable
- **Telephone expense**
 - Do you have rates locked in
 - Are you checking with your vendor for carry over deals

Interest Costs/Consulting Services

- **Interest**
 - Interest rates are low, should you renegotiate line of credit or lease purchase rates
 - Are you getting your best deal on prime or LIBOR
- **Contractors**
 - Can you buy consulting services in advance at lower rates

CONCLUSION

- **Much to be determined on rebasing standards**
- **HHAs need to attend to their cost reporting**
- **Efficiency efforts can begin now**
- **Q&A**