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Valuation of Home Health Agencies: Reimbursement Environment

The U.S. government is the largest payor of medical costs, through Medicare and Medicaid, and has a strong influence on reimbursement for home healthcare services. In 2020, Medicare and Medicaid accounted for an estimated $829.5 billion and $671.2 billion in healthcare spending, respectively.[1] The outsized prevalence of these public payors in the healthcare marketplace often results in their acting as a price setter, and being used as a benchmark for private reimbursement rates.[2] This effect may be even stronger in the home health industry. Out of the $109.6 billion in revenue received by home care providers in 2021, nearly 74% came from government programs (approximately 40% Medicare and 34% Medicaid), with only 12% from private insurance and 10% from out-of-pocket payments.[3] This may be combined by the large number of individuals retiring each year, triggering switches from commercial health insurance plans to Medicare, which may exacerbate the government's influence on effecting change in the home health industry through revisions to its reimbursement models.[4]

Medicare beneficiaries who are restricted to their homes and require skilled care on an intermittent basis are eligible to receive specific medical services at home, including:

(1) Skilled Nursing Care;

(2) Physical, Occupational, and Speech Therapy;

(3) Home Health Aide Services; and,

(4) Medical Social Work.[5]

From 2000 to 2019, the Centers for Medicare and Medicaid Services (CMS) reimbursed HHAs for these services through a *home healthcare prospective payment system* (HH PPS).[6] This system utilized a 60-day episode of care period with a base payment ($3,154.27 in 2019[7]) that was adjusted based on 153 category case-mixes.[8] This model saw profit margins for HHAs rise to historic levels due to an overestimated base payment and a decline in home health services utilization, which meant HHAs often received more in payments than the costs they incurred.[9] As a result, the Medicare Payment Advisory Commission (MedPAC) recommended CMS lower the base payment closer to the actual costs of providing home health services.[10]

Following MedPAC's recommendation, CMS and the *Health Center Program Bipartisan Budget Act of 2018* (BBA) changed the way HHAs are reimbursed and how home health services are delivered.[11] The BBA established the *Patient-Driven Groupings Model* (PDGM), which went into effect January 1, 2020 (replacing the 153 category case mix adjustment), to improve the quality of care provided by HHAs.[12]

The main focus of the PDGM is to remove the incentive to overserve patients. To prevent over-utilization of services, CMS reduced the payment period from 60 days to 30 and required the HHA re-certify that a patient needs additional care after each period.[13]

The biggest change for HHAs to navigate under the new PDGM is their payment methods. The PDGM increased the number of case mix groupings, from 153 to 432, and placed an increased reliance on technology to provide care and monitor patients.[14] These changes make it more difficult for HHAs to maintain the high margins experienced over the previous two decades.

For 2022, the base payment is $2,013.43, which is down 67% from the 2017 HH PPS model base payment, but up 108% since 2020, the first year of the PDGM.[15] As noted above, this base payment is adjusted using the 432 case mix groupings under the PDGM. The new case mix groupings include: (1) period timing, (2) referral source, (3) clinical category, (4) functional impairments, and (5) presence of comorbidities.

The new PDGM also introduced low- and high-use categories. A patient is considered low-use if they use 2-6 visits during a 30-day period, with the actual visit number varying by the accompanying case-mix grouping.[16] HHAs are reimbursed on a per-visit basis for low-use patients, but HHAs that provide more than the case-adjusted number of visits during a 30-day period will be reimbursed for a full 30-day period.[17] High-use patients typically utilize more than the average number of visits per period, thus costing the HHA more money. Under these new provisions, CMS will reimburse HHAs up to 80% of the difference on any high-use utilization.[18]

In addition to the home health reimbursement model discussed above, the *Patient Protection and Affordable Care Act* (ACA) included a 3% add-on payment for home health episodes in rural areas.[19] Originally effective from April 2010 through 2015, the ACA rural add-on payment was subsequently extended (most recently through the

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BBA) through 2022.[20] The add-on percentage for 2022 is 1%.[21] MedPAC has suggested that this add-on payment may have led to fraud and abuse in certain rural counties based on their atypical patterns of utilization.[22] In 2019, approximately 77% of those that received the add-on payments were in rural counties with higher utilization than the median utilization for all counties; further, 21 of the 25 highest utilization counties in the U.S. are in rural areas.[23] MedPAC has argued that the rural add-on payment has done little to improve the quality of care for home health beneficiaries, with the high level of utilization in many rural areas resulting in payments made to areas with higher-than-average utilization.[24] MedPAC supports more targeted approaches in order to limit the rural add-on payments to combat fraud and abuse.[25]

As the healthcare system evolves and is reformed to meet the future needs of the rapidly aging U.S. population, the value of healthcare delivery at home may grow due to patients' familiarity with technology, their preference to be treated at home, and home health's cost effective means of delivering high-quality care. However, unlike in most industries, increasing demand does not result in higher payments, due to the government's prevalence as a payor in the marketplace, requiring HHAs to remain clinically and economically efficient in order to survive. The outlook for home healthcare's competitive environment will be discussed in the next installment in this series.

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