



PRESERVE THE FULL MARKET BASKET UPDATE FOR MEDICARE HOME HEALTH

ISSUE: Under the fiscal year (FY) 1999 Omnibus Appropriations Bill, the Medicare home health market basket index – used to adjust payments for inflation – was reduced 1.1 percentage points. As part of HR 1, The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Congress enacted reductions of 0.8 percent off the market basket from April 2004 through December 31, 2006. In its March 2004 Report to Congress, the Medicare Payment Advisory Commission (MedPAC) has recommended that Congress should eliminate the home health market basket update for FY 2005.

RECOMMENDATION: NAHC and home health providers urge that Congress reject MedPAC's recommendation and support a full market basket update for Medicare home health services.

RATIONALE:

- **Home health agencies have already experienced a disproportionate amount of cuts in reimbursement as a result of Balanced Budget Act of 1997 (BBA).** With the passage of the BBA, Congress intended to reduce Medicare outlays on home health care in FY 2003 from a projected \$32.3 billion to \$27.0 billion. The Congressional Budget Office (CBO) now projects that home health outlays for FY 2003 will be \$10 billion. This reduction is far in excess of the reduction originally envisioned by Congress, and already has had a profound impact on beneficiary access to care and home health agency (HHA) financial viability.
- **As a result of the BBA cuts and other factors, approximately 1 million fewer Medicare beneficiaries are receiving home health services annually than in 1997.** This loss in volume has made it more expensive for home health agencies to provide care by increasing the cost per visit triggered by the inability of home health agencies to allocate fixed operational costs over a higher visit volume.
- **Profit margins are projected to continue downward.** In the June 2003 report, "Seeking Stability in the Medicare Home Health Benefit — Margins Evaporate; Agencies in Financial Jeopardy," the National Association for Home Care and Hospice, Inc., (NAHC) analysis indicated that the average profit margin in 2001-2002 was 5.15 percent and projected the 2003 profit margin to be **minus .83 percent**. Rural HHAs' profit margin was calculated at **minus 0.46 percent** in 2001-2002, and estimated to drop to **minus 8.13 percent** in 2003. Overall, the NAHC study established that 30.7 percent of all HHA experienced financial losses under Medicare in 2001-2002, and estimated that figure would increase to 36.7 percent in 2003.
- **Current reimbursement levels have failed to adequately cover the rising costs of providing care** including: increasing costs for labor, transportation, workers' compensation, health insurance premiums, new technology for compliance with the Health Insurance Portability and Accountability Act, emergency and bioterrorism preparedness, and to accommodate the prospective payment system (PPS).
- **Home health agencies are already in financial jeopardy** as a result of Medicaid cuts, low private payment rates, and Medicare interim payment system (IPS) overpayments.
- **A loss of the market basket inflation update could leave home health providers no alternative but to cut down on the number of visits per episode** which could have potential adverse consequences to a patient's clinical outcome. Since 1997, the average visits provided over a 60-day episode of care has dropped from 36 to 20. It would be difficult for HHAs to continue to lower visit frequency without compromising quality of care. Outcome Concept



Systems, a national home health benchmarking firm, has found that reductions in average visits below 20 visits per episode result in lower outcome scores.

(3/24/04) For more information, contact NAHC Government Affairs, 202-547-7424