



Ruth L. Constant, EdD
Chairman of the Board

NATIONAL ASSOCIATION FOR HOME CARE & HOSPICE
228 Seventh Street, SE, Washington, DC 20003 • 202/547-7424 • 202/547-3540 fax

Val J. Halamandaris, JD
President

PRESERVE THE FULL MARKET BASKET UPDATE FOR MEDICARE HOME HEALTH

ISSUE: Home health agencies have experienced a number of reductions to the annual inflation update in recent years. 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 January 2005, the Medicare Payment Advisory Commission (MedPAC) recommended that Congress eliminate the home health market basket update for calendar year 2006.

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).** For example, under the BBA, Congress expected to reduce Medicare home health care outlays 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 were \$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 & Hospice (NAHC) analysis found that the average profit margin in 2001-2002 was 5.15 percent. An analysis of the most recent cost report data indicates that the average profit margin for 2003-2004 dropped to 1.53 percent. The NAHC study established that 30.7 percent of all HHA experienced financial losses under Medicare in 2001-2002; that figure has increased to 34.8 percent in 2003-2004.
- **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 adapt to the prospective payment system (PPS).
- **Home health agencies are already in financial jeopardy** as a result of Medicaid cuts and low private payment rates.
- **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 on a patient's clinical outcome. Since 1997, the average visits provided over a 60-day episode of care has dropped from 36 to 18. 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.

