HOME HEALTH CARE SERVICES PAYMENT SYSTEM

*payment***basics**

Revised:
October 2008

Beneficiaries who are generally restricted to their homes and need skilled care (from a nurse, physical, or speech therapist) on a part-time or intermittent basis are eligible to receive certain medical services at home. Home health agency (HHA) personnel visit beneficiaries' homes to provide services:

- skilled nursing care,
- physical, occupational, and speech therapy,
- medical social work, and
- home health aide services.

Beneficiaries are not required to make any copayments for these services.

About 2.9 million beneficiaries used home health care in 2006. Medicare pays for home health care with both Part A and Part B funds; in 2006, total payments were $14.1 billion. Over 9,227 agencies participated in the program in 2007.

In October 2000, CMS adopted a prospective payment system (PPS) that pays HHAs a predetermined rate for each 60-day episode of home health care. The payment rates are based on patients' conditions and service use, and they are adjusted to reflect the level of market input prices in the geographical area where services are delivered. If fewer than 5 visits are delivered during a 60-day episode, the HHA is paid per visit by visit type, rather than by the episode payment method. Adjustments for several other special circumstances, such as high-cost outliers, can also modify the payment.

Setting rates for Medicare home health services has always been complicated by the lack of a clear definition of the benefit. The benefit was originally intended for short-term, post-hospital recovery care for beneficiaries who could not leave their homes, but changes to eligibility criteria have expanded the benefit. Certain beneficiaries who have no preceding hospital stay and are capable of spending significant time outside their homes are now eligible to receive covered services furnished in an unlimited number of home care episodes.

The care Medicare buys

Medicare purchases home health services in units of 60-day episodes. To capture differences in expected resource use, patients receiving 5 or more visits are assigned to 1 of 153 home health resource groups (HHRGs) based on clinical and functional status and service use as measured by the Outcome and Assessment Information Set (OASIS) (Figure 1).

The 153 HHRGs are divided into 5 categories based on the amount of therapy provided and the episode's timing in a sequence of episodes. Four of the categories are based on a combination of whether the episode is an early episode (first or second episode) or late episode (third and subsequent episode) and whether the episode has zero to 13 therapy visits or 14 to 19 visits. A fifth separate category exists for episodes that have 20 or more therapy visits, and it is not affected by episode timing. These separate categories permit the case-mix system to differentiate between the resource use of different levels of therapy utilization and multiple episodes. The system is calibrated to provide higher payments for later episodes in a sequence of consecutive episodes (third and subsequent episodes), and raises payment as therapy visits increase.

Setting the payment rates

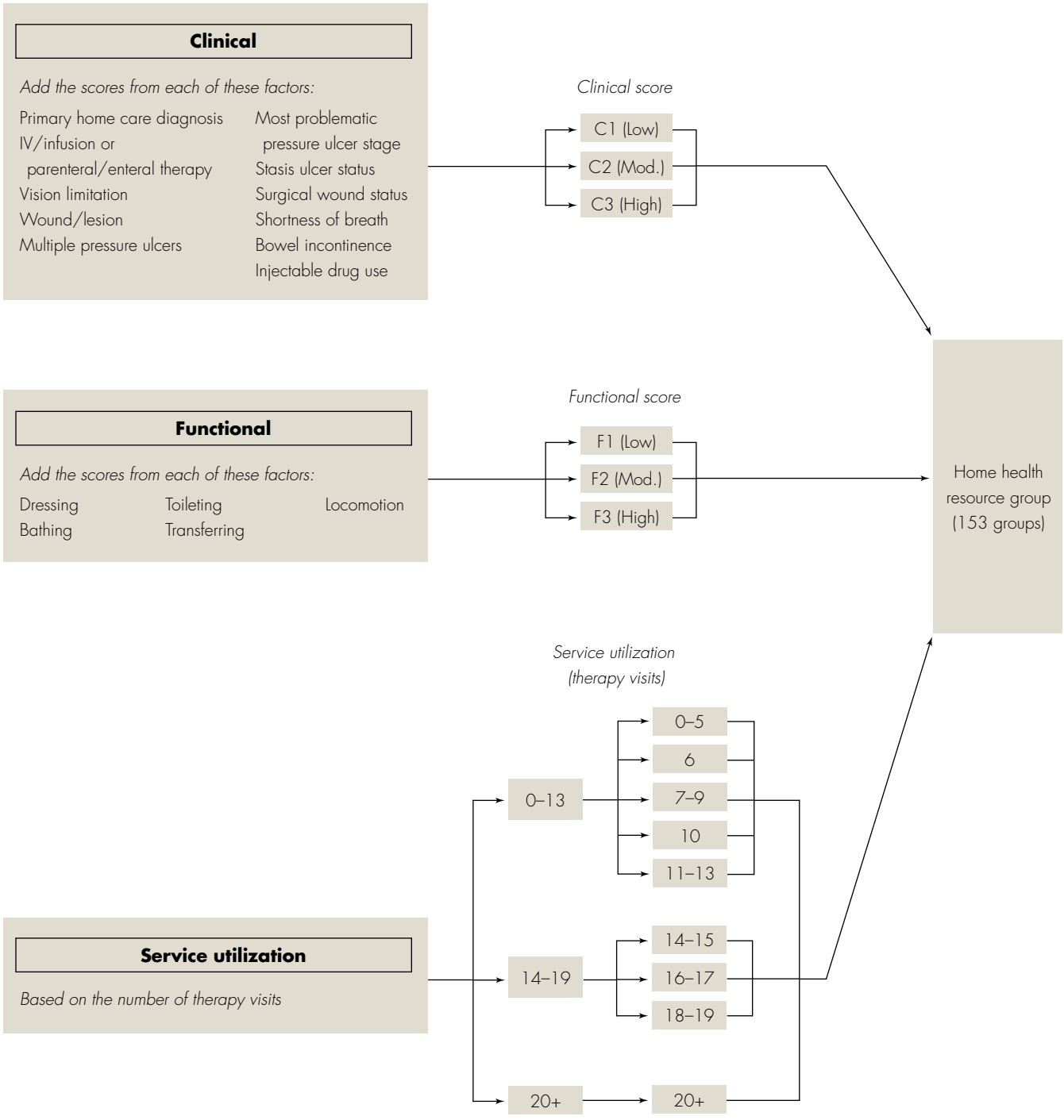
The HHRGs range from groups of relatively uncomplicated patients to those of patients who have severe medical conditions, severe functional limitations, and need extensive therapy. Each HHRG

This document does not reflect proposed legislation or regulatory actions.

MEDPAC

601 New Jersey Ave., NW
Suite 9000
Washington, DC 20001
ph: 202-220-3700
fax: 202-220-3759
www.medpac.gov

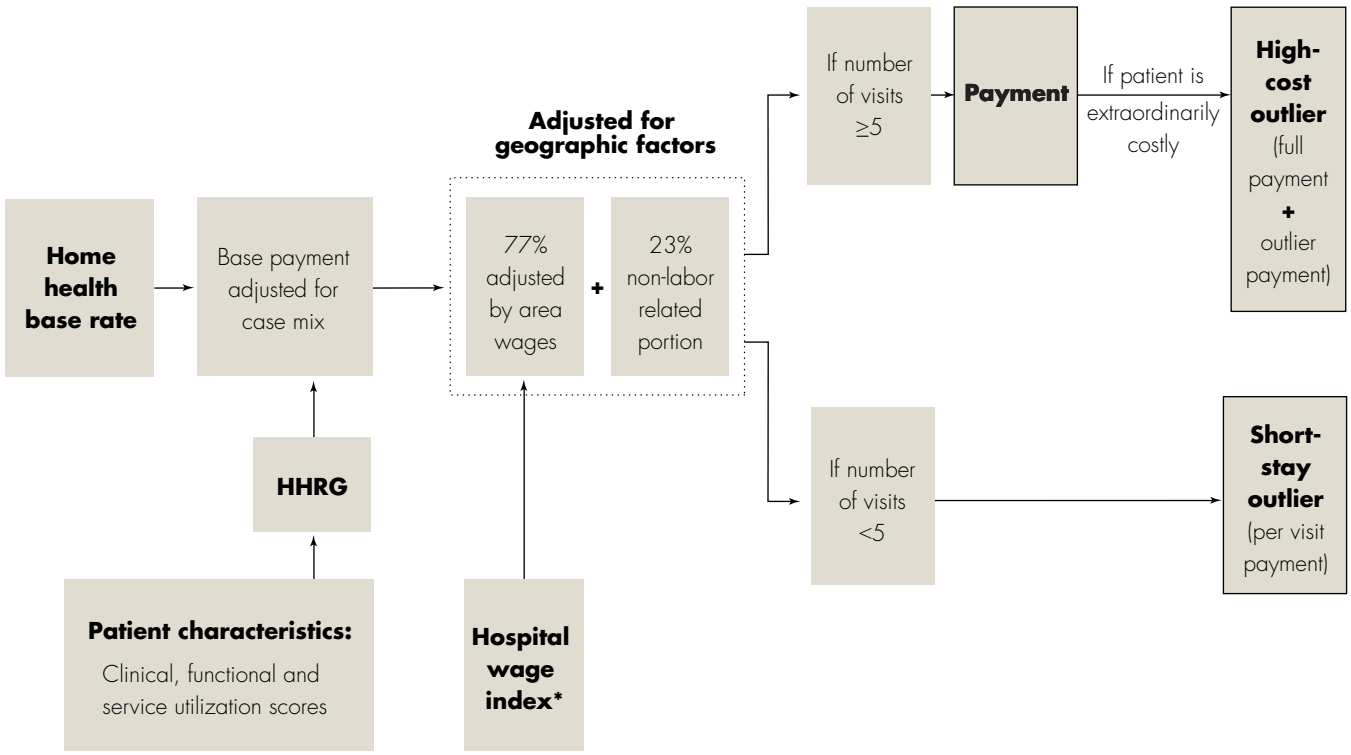
Figure 1 Clinical, functional, and service information from OASIS determines patients' home health resource group



Note: OASIS (Outcome and Assessment Information Set), IV (intravenous), IRF (inpatient rehabilitation facility), SNF (skilled nursing facility).

Source: CMS 2007.

Figure 2 Home health care services prospective payment system



Note: HHRG (home health resource group).
*Home health care services prospective payment system uses a version of the hospital wage index called the 'pre-floor, pre-classification hospital wage index.'

has a national relative weight reflecting the average relative costliness of patients in that group compared with the average Medicare home health patient. The payment rates for episodes in each local market are determined by adjusting a national average base amount—the amount that would be paid for a typical home health patient residing in an average market—for geographic factors and case mix (Figure 2).

To adjust for geographic factors, the per-episode payment rate is divided into labor and non-labor portions; the labor portion—77 percent—is adjusted by a version of the hospital wage index to account for geographic differences in the input-price level in the local market for labor-related inputs to home health services. Unlike most other Medicare payment systems, the local area adjustment for home health services is determined by the beneficiary's residence rather than the provider's location. The total payment is the sum of the adjusted labor portion and the nonlabor portion.

To adjust for case mix, the base rate is multiplied by the relative weight for each HHRG.

When a patients' episode of care involves an unusually large number or a costly mix of visits, the HHA may be eligible for an outlier payment. To be eligible, imputed episode costs must exceed the payment rate by 0.67 times the standard base payment amount (a portion of which is adjusted for local wages). To determine eligibility for an outlier payment, episode costs are imputed by multiplying the estimated national average per visit costs by type of visit—adjusted to reflect local input prices—by the numbers of

visits by type during the episode. When these estimated costs exceed the outlier threshold, the HHA receives a payment equal to 80 percent of the difference between the episode payment with the threshold and the episode's estimated costs.

The PPS also adjusts payments for nonroutine medical supplies (e.g., wound-related products). The payment is based on the beneficiary's estimated use of nonroutine supplies, based on the clinical and functional characteristics on the OASIS.

The base rate is updated annually. The update is based on the projected change in the home health market basket, which measures changes in the prices of goods and services bought by home health agencies. ■