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NY Home Care Hit with Growing Medicare Operating Losses Under CMS Rebasing Cuts, Threatening Access to Care

Beginning in January of 2014 and continuing in 2015, home care providers have been subject to enormous new cuts imposed by the U.S. Centers for Medicare and Medicaid Services (CMS) under CMS’s Home Health Prospective Payment System (PPS).

These cuts tragically undermine needed services for the elderly and disabled, affecting 3.5 million homebound seniors and persons with permanent disabilities who use home health care annually.

A major part of the 2014 and 2015 PPS is a process known as ‘rebasing’ – a method that involves a recalculation of the statistical base for Medicare reimbursement.

CMS’s ‘rebasing’ formula includes a **3.45% home health reduction** this year. This reduction is in year two of a four-year implementation process reducing payments to home health providers by **\$580 million nationally in 2014 and 2015 alone**.

These cuts are dramatically worsening an already bad, decade-long trend of deep and escalating Medicare losses for New York State home health agencies, threatening access to care for homebound elderly and disabled Medicare beneficiaries.

NEW YORK IMPACT: THEN & NOW

New York’s home care Medicare margins have **remained negative for thirteen years in a row**, with an unweighted average margin of -16.4% in 2013 (the most recent year of data available).

New York agencies in twenty-six out of the state’s twenty-seven Congressional Districts had unweighted **negative operating margins in 2013**, leaving no resources for capital to keep pace with increasing regulatory requirements and modernization through technology (i.e. home telehealth and electronic health records).¹

The National Association for Home Care and Hospice (NAHC) estimates that **59% of agencies in New York State will have unweighted Medicare operating margins at or below zero in 2014, due to rebasing**. (Only five other states – Hawaii, Montana, North Dakota, Oregon and Wisconsin – have a higher percentage.)

New York is among 13 states whose Medicare margins will plunge deeper into the red as a result of CMS’s 2014 and 2015 PPS. These Medicare losses include the impact of the 2014 PPS on top of 23.6% in rate cuts since 2008.

Meanwhile, as New York’s operating margins plummet, other regions of the country where operating margins have been positive will continue to have positive margins in some cases, given that the rebasing formula is evenly applied regardless of regional variations in Medicare growth or spending patterns.

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¹ Unlike other providers, home health has virtually no other payors that can offset losses in Medicare and Medicaid. In fact, an HCA analysis earlier this year found that over 70% of NY home care providers were operating at a loss across all payors in 2012 and 2013, not just Medicare.



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MAJOR FLAWS IN REBASING FORMULA

By statute, CMS must use the “most reliable, available data” in its rebasing process. HCA asserts that **CMS used neither reliable, nor complete, nor recent data in developing its formulas.**

- **CMS’s estimates use outdated, incomplete data:** CMS’s estimate of a 13.09% national operating margin in 2013 is based on 2011 data. Its projections do not account for major new cost impacts affecting providers since that time, including: a 25% rise in fuel prices; the increasing cost of employee health benefits; regulatory requirements; and past cuts. HCA and the home care community nationally also question CMS’s sampling methods. NAHC’s analysis of a broader sample of cost reports from 2011 shows a national home care margin of 11.25%, not 13.09%.
- **CMS only assesses a one-year impact of rebasing and fails to account for the effect on access to care:** In assessing its methodology on a year-to-year basis, CMS omits the cumulative and prolonged devastation of rebasing in the remaining two years: 2016 and 2017.
- **CMS’s approach ignores regional differences:** By attempting to collapse the national average home health operating margin, CMS’s formula severely jeopardizes providers in states like New York who are already operating at a net loss. Even assuming CMS’s flawed calculation of a 13.09% national operating margin, **rebasings would reduce New York’s unweighted operating margin to -33% – a nearly 50-percentage-point difference from the national estimate.**

RECOMMENDATIONS

The Secretary of Health and Human Services has the authority to revise the rebasing cut to protect seniors’ access to home health, and Congress can help ensure that this happens.

Congress should postpone or suspend the implementation of rate rebasing by CMS until CMS provides a detailed report to Congress on the full impact of the changes on access to care.

Congress should ensure that CMS properly considers cost trends in home health agencies (HHAs) and the imposition of new costs not included in cost report databases. All types of HHAs should be included in any CMS analysis of costs. Currently hospital-based HHAs are not included in CMS’s analysis.

HCA urges support from New York’s Congressional Delegation to postpone or suspend rebasing and create a process for CMS to recalculate its formula using more complete, accurate and up-to-date data.

Rebasing at a Glance

- *Rebasing is a process required by the Affordable Care Act to update the payment rates to providers.*
- *CMS’s rebasing formula calls for **\$290 million in annual cuts nationally.***
- *CMS’s 2014 rebasing formula puts **59% of NY home health agency Medicare operating margins at zero or in the red.***
- *CMS’s rebasing formula is rooted in **unreliable, incomplete and outdated sets of data.***
- *HCA urges: **Congressional action to postpone or suspend CMS’s rebasing policy.***