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CMS Updates Home Health Payment Rates for CY 2009

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Given the substantial changes CMS made to the Medicare Home Health Prospective Payment System (HH PPS) methodology for calendar year (CY) 2008, CMS is making few changes for CY 2009. In a Notice published in the Federal Register on November 3, 2008, CMS estimates that Medicare payments to home health agencies (HHAs) will increase by an estimated additional \$30 million next year. The highlights of this CY 2009 Notice, effective January 1, 2009, include the following:

- **Market Basket Increase Tied To Quality Reporting Requirements.** The CY 2008 national standardized 60-day episode payment rate of \$2,270.32 will be increased by the home health market basket update of 2.9 percent. To obtain this increase, an HHA must report the same 12 quality measures identified in the CY 2008 Final Rule. Those HHAs that fail to report the quality measures will receive a market basket increase of 0.9 percent.
- **Nominal Case-Mix Growth.** The national standardized 60-day episode rate is also adjusted by a 2.75 percent reduction for CY 2009 (the second year of a phased-in reduction). This accounts for the additional change in case-mix that CMS had determined is unrelated to an underlying change in patient health status (the "nominal case mix"), but rather is in the nature of coding creep.
- **Combined Effect.** Taking the Market Basket and Nominal Case Mix together, the updated CY 2009 national standardized 60-day episode rate is \$2,271.92 for an HHA that submits the required quality data, and \$2,227.75 for those HHAs that do not. These amounts are before adjustments to reflect an HHA's actual case mix and wage index.
- **Low Utilization Payment Adjustment.** Low utilization payment adjustment (LUPA) episodes that occur as the only episode or initial episode in a sequence of adjacent episodes are adjusted by adding an additional amount to the LUPA payment before adjusting the wage index. Using the same methodology as it did for CY 2008, CMS calculated an add-on amount for these LUPAs for CY 2009 of \$90.48 per episode.

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- **Non-Routine Medical Supplies.** For CY 2008, CMS changed the way it reimbursed non-routine medical supplies (NRS) by using a methodology based on six severity groups, to provide more adequate reimbursement for episodes with high utilization of NRS. NRS payments are computed by multiplying the relative weight for a particular severity level by the NRS conversion factor. For CY 2009, applying the same methodology as it did for CY 2008, CMS determined that the NRS conversion factor for CY 2009 is \$52.39.

- **Wage Index.** In the absence of home health-specific wage data, CMS continues to use the hospital inpatient wage data. CMS clarified its treatment of certain "New England deemed counties." Consistent with its policy of defining the terms "urban" and "rural" according to the definition of those terms as used in the IPPS, effective January 1, 2009, Litchfield County, CT and Merrimack County, NH, will be considered "rural." CMS noted that the CY 2009 HH PPS wage index incorporates the IPPS policy that apportions the wage data for multi-campus hospitals located in different labor market areas.

- **Outlier Adjustment.** For CY 2009, CMS calculated that Medicare would expend an estimated 10.26 percent of total estimated HH PPS payments in outlier payments. This amount is more than twice the statutory limit of 5 percent. CMS attributed this increase to an excessive growth in specific areas of the country (e.g., Miami-Dade, Florida). Further, CMS noted that it would have to raise the fixed dollar loss (FDL) ratio from 0.89 to 2.71 for CY 2009. CMS believes that the size of the statistical anomalies raises doubt as to the medical necessity of the outlier episodes in some areas, and states that it will be examining outlier payments in these areas in more detail, and will take action to remedy inappropriate outlier payments as necessary. CMS thus concluded that raising the FDL ratio at this time to 2.71 is not justified, and that the current FDL ratio of 0.89 will be used for CY 2009.