Home Health

# Difficult environment given pending rate cuts, labor pressure - call takes

**Government Regulations**

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CMS = Centers for Medicare & Medicaid Services

PDGM = Patient-Driven Groupings Model

## Rate cuts and labor remain headwinds for home health

We hosted a conference call with Joanne Cunningham, CEO of the Partnership for Quality Home Healthcare (PQHH), a coalition of large home health organizations. Key takes: **1)** the second half of the behavioral adj could result in a negative net rate update in 2024; **2)** recoupments could be 2x the initial estimate (we estimate 20-23% cut), possibly spread out over 4 years; **3)** the industry asked CMS for 1x forecast error adj (+5% to rates); **4)** the industry continues to lobby Congress for a relief, 5) labor remains a constraint.

## Recoupments $3.5-4bn, or 20-23% temporary cut

CMS previously had estimated that under the new payment model, PDGM, there was $2bn overpayments made in 2020 and 2021. Our speaker estimated that including overpayments made in 2022 and partially in 2023 (only half of permanent cut was implemented), the total estimated temporary adjustments could be $3.5-4bn using CMS' methodology. We estimate this would imply a 20-23% cut to home health spending.

## Recoupments possibly spread out over 4 years

Given the magnitude of the temporary rate cut that would be needed to recoup the est. overpayments, the industry expects that CMS may phase in these cuts over time (note, MedPAC had recommended a 4-year phase in). Given that the second half of the behavioral adj would result in a net negative rate update in 2024 (see our report), the industry hopes the recoupments would start in 2025 (in the final 2023 reg, CMS acknowledged the proposed 7.85% cut would create too much hardship for providers).

## Industry pushing CMS for 1x forecast error adj

Given that the market basket updates used in 2020 and 2021 rates were well below the cost inflation, the industry sent a letter to CMS requesting a one-time forecast error adjustment. If successful, this would imply a 5.2% increase to rates. The Partnership's legal and regulatory experts believe that CMS has authority to do that.

## Still working on Congressional relief

The industry continues its efforts in Congress to delay the implementation of the permanent and temporary cuts. Home health has support in Congress with the recent data points supporting the argument that PDGM (combined with labor shortages) has unintended negative consequences: the recent CBO estimates call for the home health spending to decline, and referral rejection rates for home health remain high (according to Forcura & Home Health Care News survey, 64% of respondents said the rate of patients not being admitted to home health was the same or worse vs 2022).

## Labor market for HH not improving, sometimes worse

Our speaker noted the labor market for home health (HH) continues to be a limitation as the competition among health care sectors is the same, if not worse. In addition, the rate cuts and uncertainty around the future cuts, make it harder for HH to compete with other types of providers that are not facing the same rate pressure. Of note, the labor headwinds in HH have repercussions for the entire system: as hospitals are not able to discharge patients to HH or skilled nursing, it results in higher total spending.


**Refer to important disclosures on page 2 to 3.**
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