

Post-Acute Care: Higher Margins, Cut More

Home Health -7% & Add Cost-Sharing, Rehab Hospice & SNF -3% in 2024

HOME HEALTH

- **Rec #1: For CY 2024, MedPAC recommends Congress reduce the Medicare base payment rate for home health agencies by -7%.** All the commissioners supported the recommendation. Commissioners noted that a 25% Medicare margin is obscene. However, commissioner Greg Poulsen noted that MedPAC may be underestimating cost increases and there may be a need for a market basket update next year.
- **MedPAC predicts a 2023 Medicare margin of +17% (down from +24.9% in 2021) for home healthcare services.** Decline is attributed to an assumed cost growth equal to market basket for 2022 and 2023 (~5% per year). Margins for 2023 could be higher if actual cost growth is lower than current projections.
- **Medicare margin for home healthcare services in 2021 was +24.9%, +25.9% with relief funds.** For relatively efficient home health agencies (HHA), Medicare margin was +28.4%. All-payer margin for 2021 was +11.9%. Link to slides is [here](#).
- **Medicare marginal profit for home healthcare services was +26%.** Payment per in-person visits increased to \$219, up from \$180 in 2019. The increase in per-visit payment reflects payment updates and the decline in average visits per period. Cost per 30-day period declined -2.3% in 2021.
- **Exploring cost-sharing gains increasing support.** Home health currently does not have any cost-sharing under FFS Medicare. Commissioners David Grabowski, Betty Rambur, and Kenny Kan supported investigating some form of cost-sharing. Commissioner Marge Ginsberg was hesitant to support cost sharing due to the potential impact of influencing beneficiaries to forgo home health or cut care short. This is likely to be revisited in the January meeting and in future recommendations.

INPATIENT REHAB FACILITIES (IRFs)

- **Rec #1: Congress should reduce the Medicare base payment rate for inpatient rehabilitation facilities (IRF) by -3% for 2024.** Non-partisan commissioners largely agreed with the recommendation as it is but were willing to make further cuts if more data emerges on potential impact to hospital-based IRFs. Link to slides is [here](#)
- **MedPAC predicts a 2023 Medicare margin of +11% (down from +17% in 2021) for IRF services.** Decline is attributed to Medicare payment sequester in effect in 2022 and an assumed cost growth equal to current market basket projections for 2022 and 2023. MedPAC noted that these projections are above recent actual cost growth and margins may be higher if actual growth is lower than projected.
- **Medicare margin for IRF in 2021 was +17%.** For relatively efficient IRFs, the Medicare margin was +20.4%. Medicare margin for freestanding facilities was +25.8%, significantly higher compared to +5.8% for hospital-based IRFs. All-payer margin for 2021 for freestanding facilities was +14%.

- **Marginal profit for IRF was +41% for freestanding facilities, +22% for hospital-based.** Both hospital-based units and freestanding facilities appear to have access to capital. And it was noted that M&A activity rebounded in 2021 for freestanding facilities.
- **Higher scrutiny is warranted as IRFs with higher case-mix also had higher profitability in 2021.** Commissioners David Grabowski and Cheryl Damberg supported MedPAC's work in investigating profitability as there might be some gaming of the coding system. There are differences in profitability among IRF conditions and among case-mix groups within a condition, which may lead to selection of certain types of patients and incentive to code lower functional status.

SKILLED NURSING FACILITIES (SNF)

- **Rec #1: MedPAC recommends that Congress reduce the Medicare base payment rate for skilled nursing facilities by -3% in 2024.** Non-partisan commissioners generally agreed with the recommendation, although there were some concerns about the headwinds facing the SNF industry.
- **MedPAC predicts a 2022 Medicare margin of 11% (down from 17.2% in 2021) for SNF services.** Costs are expected to increase more than payment rate updates in 2022, 2023, the sequester was reinstated in 2022, and there is an adjustment for overpayments resulting from a new case mix. See slides [here](#).
- **Medicare margin for SNF services in 2021 was +17.2%.** This is the 22nd consecutive year where margins are above 10%. For relatively efficient SNFs, Medicare margins were +22%. "All-payer margin" for 2021 was +3.4%, up from +3.1% in 2020.
- **Medicare makes up 10% of days, but 16% of revenue for SNFs.** The average cost per day for Medicare increased +4% in 2021. Average FFS payments per days were +25% higher than the average MA payments per day. Note that SNFs also experienced an increased shift in payments from other payers to Medicare due to Medicare coverage waivers. Marginal profit was +26%.

HOSPICE

- **Rec #1: MedPAC recommended that Congress update the 2024 Medicare base payment rates for hospice by the amount specified in current law (3.8%) and wage adjust and reduce the hospice aggregate cap by 20% for 2024.** This is the same recommendation made in January 2022. Non-partisan commissioners largely agreed with the recommendation as it leads to targeted payments. There was talk of MedPAC harnessing its influence to improve hospice care.
- **MedPAC hopes to signal the importance of quality measurement to CMS.** Commissioners agreed that quality reporting is key, with the idea of recommending a mandate brought up in discussion. There was also agreement surrounding the importance of palliative care being a good way to save dollars for end-of-life care, and the importance of supporting innovation in the space. Link to the slides are [here](#).
- **OUR TAKE/NEXT STEPS:** The MedPAC Commission will likely vote "yes" to all 2024 recommendations. See memo from this morning (Friday, 12-09-2022) for MedPAC recommendations on acute care hospitals, physicians, and dialysis. The commission will reconvene on January 12-13, 2023 for the vote.