



WISCONSIN HOSPITAL ASSOCIATION, INC.

**SUMMARY OF THE CY 2005
MEDICARE HOME HEALTH
PROSPECTIVE PAYMENT SYSTEM
FINAL RULE**

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I. OVERVIEW

The Centers for Medicare and Medicaid Services (CMS) published the final Medicare Home Health Prospective Payment System (HH PPS) rule for calendar year (CY) 2005 in the October 22 *Federal Register*. The final rule includes provisions to implement changes contained in the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003, including reducing the marketbasket update, a change in the update cycle from a federal fiscal year (FFY) basis to a CY basis, and a 5% add-on for services provided in rural areas. In the final rule, CMS rebased and revised the HH marketbasket, reducing the update as published in the proposed rule. In addition, CMS has lowered the outlier fixed-dollar loss ratio and will apply the current year's inpatient hospital wage index using the former Metropolitan Statistical Area (MSA) definitions that are based on the 1990 U.S. Census. Changes are effective January 1, 2005.

The final rule is available at http://www.wha.org/financeAndData/pps_home.aspx.

II. PROVISIONS OF THE MMA

Change in the Yearly Update Cycle (*Federal Register* page 62125)

Section 701 of the MMA changes the yearly update cycle of HH PPS rates from an FFY basis to a CY basis for CY 2004 and subsequent years. Therefore, the update to the HH rates published in the final rule will be effective January 1, 2005.

Reduction to the HH Marketbasket (*Federal Register* page 62125)

Section 701 of the MMA reduces the applicable marketbasket increase percentage by 0.8% for the last three quarters of 2004, 2005, and 2006. CMS Transmittal 59, published February 20, set the marketbasket increase for the last three quarters of CY 2004 (April-December) at 3.3% minus 0.8%. The update for CY 2005 as discussed below, and those for CY 2006 will equal the applicable marketbasket increase minus 0.8%. For CY 2007 and subsequent years, there will be no reduction.

HH Services Furnished in Rural Areas (*Federal Register* page 62125)

Section 421 of the MMA provides a 5% add-on for episodes or visits performed in rural areas. The increase is effective from April 1, 2004 through March 31, 2005.

III. STANDARD RATES

Rebasing and Revision of the HH Marketbasket (*Federal Register* page 62132)

Periodically, CMS rebases and revises the HH marketbasket to ensure that cost category weights continue to reflect changes in the mix of goods and services that HH providers purchase. Therefore, CMS is rebasing and revising the HH marketbasket to reflect FFY 2000 cost report data.

The rebased and revised HH marketbasket for CY 2005 is 3.1%. As discussed above, the MMA reduces the final HH marketbasket by 0.8%. Therefore, the HH marketbasket update for CY 2005 is 2.3%.

National 60-day Episode Rate (*Federal Register* page 62133)

In determining the CY 2005 standard prospective payment amount, CMS' starting point was the published rate in Transmittal 59, which provided a national 60-day episode rate of \$2,213.37 for the last three calendar quarters of 2004 (April-December). CMS has updated this rate for CY 2005 by increasing this rate by the

applicable marketbasket percentage (3.1% minus 0.8%). Therefore, the national 60-day episode rate effective January 1, 2005 is \$2,264.28.

As described above, the MMA provides a 5% add-on for episodes or visits performed in rural areas April 1, 2004 through March 31, 2005. Therefore, the national 60-day episode rate for episodes of visits performed in rural areas during this period is \$2,377.49 ($\$2,264.68 * 1.05$).

IV. RATE ADJUSTMENTS

Case Mix

The payment for a given episode of care is determined by assignment to a Home Health Resource Group (HHRG) based on similar levels of resource use in three areas: clinical severity, functional status, and service utilization. The assignment of cases to each level is determined primarily by the answers to Outcome and Assessment Information Set items. There are four levels of clinical severity, five levels of functional status, and four levels of service utilization, combining to form 80 HHRGs. Each episode is assigned a case-mix weight that is used to adjust the payment amount. CMS did not recalibrate the HHRG weights for CY 2005.

Wage Index (*Federal Register* page 62136)

Currently, the HH PPS uses the most recent inpatient hospital wage index without reclassification or the rural floor adjustment. Therefore, the current HH PPS rate is adjusted by the 2003 pre-reclassified, pre-rural floor inpatient hospital wage index.

The inpatient hospital final rule incorporated a number of significant changes to the wage index that result in major swings in Medicare payments. The revisions include the update of the hospital data used to calculate the wage index from 2000 to 2001 data, implementation of revised wage index areas based on the 2000 U.S. Census, and an adjustment to the wage index calculation to incorporate occupational mix data. CMS stated in the HH PPS proposed rule that it is “appropriate to wait until the public comments on that proposed rule have been submitted and analyzed before we consider proposing any new labor market definitions in the home health context.”

For CY 2005, CMS will continue to use the most recent pre-floor and pre-reclassified inpatient hospital wage index available for the HH PPS. Because the HH PPS update has been changed to a CY basis, the most recent inpatient hospital wage index that will be available for CY 2005 HH PPS is the FFY 2005 inpatient hospital wage index. However, the new labor market definition areas based on the 2000 U.S. Census and the occupational mix adjustment applied to the inpatient hospital wage index will not apply to the HH PPS. The HH PPS wage index will be calculated using the former MSA definitions based on the 1990 U.S. Census. Please note that use of the FFY 2005 inpatient hospital wage index for HH PPS skips the use of the FFY 2004 inpatient hospital wage index. The wage index adjustment is applied to a portion of the HH PPS rate. The CY 2005 labor-related share is 76.775%. The CY 2005 HH wage indexes for Wisconsin are below.

CY 2005 HH Wage Indexes by MSA

| MSA | Final CY 2005 Wage Index |
|-----------------------------|-------------------------------------|
| Rural Wisconsin | 0.9498 |
| Appleton-Oshkosh-Neenah, WI | 0.9115 |
| Duluth-Superior, MN-WI | 1.0356 |
| Eau Claire, WI | 0.9139 |
| Janesville-Beloit, WI | 0.9583 |
| Kenosha, WI | 0.9772 |
| La Crosse, WI-MN | 0.9290 |
| Madison, WI | 1.0395 |
| Milwaukee-Waukesha, WI | 1.0076 |
| Minneapolis-St. Paul, MN-WI | 1.1067 |
| Racine, WI | 0.9045 |
| Sheboygan, WI | 0.8949 |
| Wausau, WI | 0.9570 |

Notes:

Area designations are existing MSA definitions based on the 1990 Census.

National Per-Visit Amounts (*Federal Register* page 62134)

For episodes with four or fewer visits, home health agencies will receive a low utilization payment adjustment (LUPA). Under these circumstances, the HH agency is paid a wage-adjusted national average payment per visit according to the type of visit provided.

The final CY 2005 standard per-visit amounts by discipline are as follows:

CY 2005 HH Per-Visit Amounts

| Discipline | CY 2005 Final Per-Visit Payment Amount* | CY 2005 Final Per-Visit Payment Amount for Beneficiaries Residing in Rural Areas** |
|---------------------------|--|---|
| Home Health Aide | \$44.76 | \$47.00 |
| Medical Social Services | \$158.45 | \$166.37 |
| Occupational Therapy | \$108.81 | \$114.25 |
| Physical Therapy | \$108.08 | \$113.48 |
| Skilled Nursing | \$98.85 | \$103.79 |
| Speech-Language Pathology | \$117.44 | \$123.31 |

* Based on CY 2004 per-visit amounts published in Transmittal 59 effective April 1, 2004 increased by the final rule marketbasket of 3.1% minus 0.8%.

** Based on final CY 2005 per-visit amounts increased by 5%.

Please note that the discipline per-visit amounts listed above are used not only for LUPA adjustments, but also to compute costs for outlier payment calculations.

Cost Outliers (*Federal Register* page 62134)

Outlier payment adjustments provide additional payment for extremely high cost cases. Currently, if the HH provider's cost for an episode (as measured by the number of visits multiplied by the wage index-adjusted standard per-visit payment amount) exceeds the fixed-loss threshold (case mix and wage-adjusted payment for the episode plus a fixed dollar loss ratio of 1.13 times the standard payment amount), the agency receives an outlier payment of 80% of the amount over the fixed-loss threshold.

By law, CMS must project outlier payments to be no more than 5% of total HH payments. Analysis of both 2002 and 2003 claims data for the final rule estimated outliers at 3% of total HH payments and episodes. Therefore, CMS has updated the outlier policy by reducing the fixed-dollar loss ratio from 1.13 to 0.70 (lowered from the proposed 0.72). CMS estimates that 5.9% of episodes would qualify under the change, providing an overall increase to outlier payments.