Home Health Care: Prospective Payment Reduces Visits While Preserving Quality

by Valerie Cheh

This brief is based on Mathematica’s evaluation of phase II of the National Home Health Prospective Payment Demonstration for the Health Care Financing Administration (now the Centers for Medicare & Medicaid Services). The study tested whether a system of paying home health agencies a fixed sum in advance for an episode of care—called a per-episode prospective payment system—would lead to reduced use of home health care services without adverse effects on the quality of care. Under this system, agencies received a predetermined amount to cover all costs associated with a beneficiary during an episode of care. Ninety-one Medicare-certified home health agencies in five states—California, Florida, Illinois, Massachusetts, and Texas—volunteered for the study and were randomly assigned to either the prospectively paid group or the cost reimbursement (control) group. The demonstration ran from 1995 to 1998 and then was extended until Medicare prospective payment was implemented nationally in October 2000.

A Period of Rapid Change

The cost of Medicare home health services grew quickly between 1987 and 1995, fueled by an increase in services and a dramatic expansion in the size of the industry. Between 1989 and 1997, the number of home health users per 1,000 Medicare beneficiaries more than doubled, rising from 51 to 109 annually, and the average annual number of visits per user rose from 27 to 73 (DHHS 1998 and GAO 2000). At the same time, the number of Medicare-certified home health agencies nearly doubled.

To reverse this rapid growth, HCFA began testing an alternative payment system for Medicare home health care. However, at the same time, Congress also legislated cost-cutting changes, the biggest one limiting the per-beneficiary expenditure on Medicare home health services, as part of the Balanced Budget Act of 1997. Medicare home health services then decreased dramatically. Nationally, the average annual number of visits per user fell 43 percent from 1997 to 1999; the number of home health agencies dropped 25 percent as agencies consolidated or went out of business (DHHS 2000). The new prospective payment system was put to the test during a period of unprecedented decline in the use of Medicare home health services.

Reversing the Financial Incentives

Prospectively paid agencies received a lump-sum payment for the first 120 days of home health care, regardless of the number or cost of a beneficiary’s visits. As such, they were responsible for all home health costs incurred during this period. Only after the 120-day period and a subsequent 45-day gap in services had elapsed could an agency receive a new per-episode payment for a beneficiary. For each visit after the 120-day period that did not begin a new episode, agencies received a fixed per-visit payment. A loss-sharing arrangement with HCFA limited financial risks and encouraged participation in the demonstration. Control group agencies were paid based on the cost-reimbursement system in place at the start of the demonstration.

A key incentive for agencies participating in the demonstration was that they could earn profits—something they couldn’t do under cost reimbursement. But in order to do so, they had to lower their
expenses, either by lowering the cost per visit or by reducing the number of visits provided during the 120-day episode period.

**Creative Strategies to Reduce Visits**

Most prospectively paid agencies focused on reducing visits and were able to dramatically lower their visits per episode. During the demonstration, control agencies rendered an average of 45 visits per beneficiary served, compared with 37 for prospectively paid agencies, a 17 percent difference (Figure 1).

**Figure 1: Cumulative Number of Visits During the Year After Admission**

![Graph showing cumulative number of visits](image)

Source: Medicare claims data.

Furthermore, prospectively paid agencies continued to learn how to reduce services throughout the demonstration. These agencies’ average number of visits per episode fell from 38 in year one to 32 in year three. Control group agencies, while delivering more visits per episode each year, also reduced their average number of visits over the course of the demonstration, in response to the Balanced Budget Act.

Prospectively paid agencies made these large reductions in services provided without “cherry picking,” or attempting to select beneficiaries who needed less care. They used the following strategies:

- Increasing supervision of visiting staff
- Encouraging staff to promote beneficiaries’ independence
- Improving beneficiary education on matters related to their conditions
- Rethinking the timing of visits (for example, visiting beneficiaries more frequently early in an episode to reinforce learning, or sending a social worker to arrange long-term care services before a beneficiary was ready for discharge)

**Quality Remained Consistent**

The study found that the large reductions agencies made in service use had little or no adverse impact on the quality of care provided, allaying HCFA’s concerns. Prospective payment had no measurable impact on beneficiary functioning and no detrimental effects on multiple measures of health status.

Furthermore, beneficiaries who received care from prospectively paid agencies were no more likely than their counterparts under the cost reimbursement system to be admitted to the hospital or to visit the emergency room. There was a slight increase in beneficiary dissatisfaction, but policymakers may consider this an acceptable price to pay for the substantial decrease in utilization (Table 1).

The reductions in home health use also had no effect on the cost and use of other Medicare-covered services, such as hospital stays. Beneficiaries served by prospectively paid agencies did not require more Medicare-reimbursed services as a result of the reduction in home health services. Furthermore, they did not substitute informal care from family members and friends, formal home- and community-based services (such as home-delivered meals), or formal residential services (such as assisted-living facilities) for Medicare home health care.

**Policy Implications**

The study shows that prospective payment for Medicare home health can be implemented in a way that reduces agency costs and Medicare expenditures without creating negative consequences for beneficiaries. It also shows that, given a strong financial incentive, agencies can safely and effectively reduce service use, earning profits while providing care.

Given current concerns about maintaining quality of care, policymakers should note that we found little
evidence that the large reductions in service use had any negative ramifications for beneficiaries and their families. Furthermore, other organizations did not provide more services to compensate for the reductions in home health.

All signs point to a continuing consolidation of the home health industry as a result of prospective payment. In this climate, agencies can lower their financial risks by serving a larger number of beneficiaries. Very small agencies will likely find it beneficial to merge with other agencies to keep overhead costs per episode low. As a result, the government will have to consider how lowering prospective payment rates may affect agencies in sparsely populated areas. The agencies may not be able to capture the economies of scale available to their counterparts in more populated areas.

### TABLE 1

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<th>Type of Measure</th>
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<th>Favoring Improvements</th>
<th>Favoring Stabilization</th>
<th>Favoring Improvements in Clinical Symptoms</th>
<th>Favoring Stabilization in Clinical Symptoms</th>
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<th>Favoring Hospital Care</th>
<th>Favoring Patient Satisfaction</th>
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</table>

* Each year counts as a separate measure.

To Find Out More

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**PUBLICATIONS AVAILABLE FROM THE STUDY**


*Prospective Payment for Medicare Home Health: A Promising System to Save Resources.* Valerie Cheh and William Black, April 2001.

*Medicare Per Episode Prospective Payment: A System with No Apparent Shifts in Cost or Burden.* Barbara Phillips, June 2000.

*Effects of Per-Episode Prospective Payment for Medicare Home Health Care on Patient Selection and Retention.* Christopher Trenholm, June 2000.

*Per-Episode Prospective Payment for Medicare Home Health Care Sharply Reduces Service Use.* Christopher Trenholm, May 2000.


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References


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