

## Eli's Rehab Report

### Prospective Payment System: 2.3% Pay Cut Hits Freestanding For-Profits Hardest In 2012

#### Case mix changes reduce reimbursement rates for high-therapy episodes.

The home care industry's call to halt cuts for so-called case mix creep fell on deaf ears at CMS. Medicare payment rates for home health agencies will fall 2.3 percent starting Jan. 1, the Centers for Medicare & Medicaid Services says in a 236-page final rule posted to the Federal Register website Oct. 31. The new base per episode rate will be \$2,138.62 in non-rural areas and \$2,202.68 in rural areas. That's down from \$2,192.07 and \$2,257.83, respectively.

CMS calculated the cut by reducing the 2.4 percent inflation update by 1 percent as required by law, then adding on a 3.79 percent cut for case mix creep -- an increase in case mix that CMS says isn't due to actual changes in patient acuity. The cut will strip \$430 million from Medicare spending on home care in 2012 compared to 2011, CMS reports in the 2012 prospective payment system final rule.

#### Assess The Impact To You

Because of accompanying changes to the case mix system, however, some HHAs will actually see payment increases while others will see steeper cuts. CMS has finalized its proposals to remove two hypertension codes from the case mix model and to recalibrate case mix weights to pay high-therapy episodes less and no- or low-therapy episodes more.

It's not just therapy utilization that saw changes in the case mix calculation, notes **Jim Robinson** with Boyd & Nicholas in Rohnert Park, Calif. Early (first or second) episodes that involve therapy up to 19 visits see pay increases, while third or later episodes of all therapy utilizations see decreases, Robinson points out.

Stats: CMS is reducing therapy payments by 5 percent for patients with 20+ visits and by 2.5 percent for patients with 14 to 19 visits, explains financial consultant **Ken Hooper** with HC Healthcare Consulting in Boise, Idaho. And CMS is increasing payments by 3.75 percent for patients with 0 to 5 visits, Hooper reports.

The therapy and coding case mix changes are budget neutral overall, but not for agencies that have a high concentration of high-therapy cases or patients with 401.1 and 401.9 diagnoses. "A provider-specific analysis using the provider's particular case mix is the only reliable way to assess impact," NAHC advises. Even then, agencies can make only a projection of their 2012 case mix.

Impact: The therapy changes are the biggest drivers of reimbursement increases and decreases, says financial consultant **Pat Laff** with Laff Associates in Hilton Head Island, S.C. And because the base episode rate is going down, the case mix redistribution "for some people will be very significant," Laff tells **Eli**.

Don't be fooled by CMS's general category predictions, Laff says. You need to run your own HHRGs for closed 2011 episodes through a 2012 calculator to see how your reimbursement will stack up.

For example: CMS projects freestanding for-profits to have the biggest drops, but Laff has one such client who has been in business for more than 20 years whom he expects will see a rate increase due to the case mix changes.

#### Make Sure Your PPS Coding Is Up To Snuff

Members of the industry lodged numerous comments taking exception to the case mix creep cuts and the other changes to case mix. One common complaint was that CMS's case mix creep calculations are unsupported and penalize agencies for improving their diagnosis and OASIS coding. CMS dismisses those arguments.

Despite the agency's protests, it appears CMS's philosophy is "because you understand [coding] better, we're doing to hit you with a stick for it," laments attorney **Robert Markette Jr.** with Benesch Friedlander Coplan & Aronoff in Indianapolis.

Do this: "Agencies should continue to monitor coding accuracy and completeness, since CMS has assumed that in the adjusted payment," Hooper advises. "Agencies with suboptimal coding practices will be at greater risk." Under the cuts, agencies will feel pressure to monitor plans of care to achieve outcomes without over utilizing resources, Hooper predicts. "And, as always, to reduce administrative costs," he adds.

CMS also shoots down suggestions to target the rate cuts or substitute them with aggressive fraud-fighting or medical review as "not feasible," according to the rule.

### **Watch Out For More Therapy Changes**

Another common complaint was that CMS's case mix redistribution regarding therapy is arbitrary and based more on dollar figures than clinical factors. CMS defends its new policies, pointing out that its data shows Medicare is overpaying for episodes with 14 to 19 visits by \$1,100 and 20+ visits by \$1,500.

Markette expresses skepticism that those figures truly take all of an agency's costs in a high-therapy episode into account, especially intensive labor costs.

Analysis: At least the therapy case mix changes aren't quite as drastic as those proposed earlier this year. "The final rule seems to have softened the extreme changes from the proposed rule," Robinson notes. "Where the proposed rule decreased the case mix, the final rule has softened the loss and where the proposed rule increased the case mix, the final rule lessened the increase."

More changes ahead: CMS also repeatedly mentions that therapy assistants, especially for physical therapy, are used more now than when it formulated PPS in 2000. The agency plans to monitor data from the new billing G codes for therapists vs. assistants and will likely revise PPS in the future based on the results.

CMS will also be on the alert for therapy utilization changes following the new payment rule's Jan. 1 implementation date. "Based on observation of sharp changes in distribution of episodes by the number of therapy visits, on information coming to us about provider practices in the field, as well as on analysis of margins in HH PPS, an effect on the behavior of HHAs would not be surprising," the agency notes in the rule. CMS also cites the recent Senate Finance Committee report on publicly traded home care companies' therapy utilization and even the Wall Street Journal's articles on the matter.

Note: The final rule is online at [www.ofr.gov/OFRUpload/OFRData/2011-28416\\_PI.pdf](http://www.ofr.gov/OFRUpload/OFRData/2011-28416_PI.pdf).