2014 PPS Rate Update

On December 2, 2013, CMS issued the Final Rule to update the Home Health Prospective Payment System (HH PPS) rates for Calendar Year (CY) 2014. In summary, this final rule:

- Reduces payments by 1.05 percent after considering the payment update of 2.3%, offset by a decrease of 2.7% and a decrease of 0.6% due to a refinement of the PPS Grouper
- Reduces the Case Mix Weights by 34.64%
- Increases the Base Rate by 34.64%
- Starting in 2014, CMS will use three LUPA add-on factors in calculating the LUPA add-on payment amount for LUPA episodes that are the only episode or the first episode in a sequence of adjacent episodes
- The Outlier Fixed Dollar Loss (FDL) ratio remains at 0.45 and the Loss Sharing factor remains 80%.
- Retains caps for EACH AGENCY'S outlier payments at 10% of total PPS payments

Section 3131(a) of the Affordable Care Act rule implements rebasing adjustments, with a 4-year phase-in, to the national, standardized 60-day episode payment rates; the national per-visit rates; and the NRS conversion factor.

Payments to home health agencies (HHAs) are estimated to decrease by approximately 1.05 percent in CY 2014, reflecting the combined effects of the 2.3 percent HH payment update percentage, the rebasing adjustments to the national, standardized 60-day episode payment rate, the national per-visit payment rates, and the NRS conversion factor, and the effects of ICD-9-CM HH PPS Grouper refinements.

This final rule also discusses our transition to ICD-10-CM coding, establishes home health quality reporting requirements for CY 2014 payment and subsequent years, specifies that Medicaid responsibilities for home health surveys be explicitly recognized in the State Medicaid Plan, and revises the methodology for calculating state Medicaid programs' fair share of Home Health Agency (HHA) survey costs.

Case Mix Recalibration to Average Weight of 1.0000

The most significant changes reflected in the 2014 final rule is the rebasing of all elements of the prospective payment system: the base episodic rates, LUPA per visit rates, and the NRS conversion factor. When the HH PPS was created, it was expected that the average case-mix weight would be around 1.0000, but has consistently been above 1.0000 since the start of PPS. Claims data on non-LUPA episodes showed that the average case-mix weight for non-LUPA episodes in 2012 was 1.3464.

Therefore, as part of rebasing, for CY 2014, CMS is lowering them to an average case-mix weight of 1.0000 and increasing the national, standardized 60-day episode payment rate by the same factor used to lower the rates to 1.0000, making the downward adjustment to the weights budget neutral. CMS recalibrated all of the case mix weight categories in the HHRG grouper, resetting them to the average weight of 1.000. This resulted in an across the board reduction on every HHRG by 34.64%. To offset the effect of resetting the case-mix weights such that the average is 1.0000, the 60-day episode payment rate was inflated by the same 34.64% factor used to decrease the weights. The combination of these reduced weights and the increase based rates essentially keep all payments budget neutral BEFORE applying mandated payment updates.

Episodic Base Rate

The 2014 Episodic Base Rate is **$2,869.27** compared to $2,137.73 for 2013. For patients served in Rural areas, agencies will continue to receive a 3% add-on, resulting in an Episodic Base Rate of **$2,955.35**. As stated previously, all Case Mix Weights reflect a reduction of 34.64%.

Low Utilization Payment Adjustments (LUPA)

The Standardized Rates used for LUPA's and the Outlier computation changed as follows:

	2014	**2013**
Skilled Nursing	$121.10	$114.35
Physical Therapy	132.40	125.03
Occupational Therapy	133.30	125.88
Speech Therapy	143.88	135.86
Medical Social Worker	194.12	183.31
Home Health Aide	51.79	51.13
Initial or Only Episode add-on payment:	-	95.85
Skilled Nursing is first skilled visit	102.34	-
Physical Therapy is first skilled visit	88.71	-
Speech Therapy is first skilled visit	82.99	-

Starting in 2014, CMS will use three LUPA add-on factors in calculating the LUPA add-on payment amount for LUPA episodes that are the only episode or the first episode in a sequence of adjacent episodes. In 2013 a single rate of $95.85 was made in addition to the initial visit rate. For 2014, CMS is finalizing three LUPA add-on factors to be used in calculating the LUPA add-on payment amount: 1.8451 for skilled nursing, 1.6700 for physical therapy and 1.6266 for speech-language pathology **when that discipline is the first skilled visit in a LUPA episode** that occurs as the only episode or an initial episode in a sequence of adjacent episodes. For example, if the first skilled visit is a Skilled Nurse, the payment for that visit will be $223.44 (1.8451 multiplied by $121.10). Effectively, this translates to an equivalent add-on payment of $102.34, $88.71 and $82.99 for SN, PT, and ST, respectively (as reflected in the above table).

Wage Index

The Standardized **Episodic Rate** and the Standardized **LUPA Rates** stated above are BEFORE applying the CBSA **Wage Index Adjustments**.

The **labor-related** share for episodic and LUPA rates remains at 78.535%; meanwhile, the wage index has changed for all CBSA's.

Outliers

No changes were made to the Outlier Fixed Dollar Loss (FDL) factor which remains at **45%** ($1,291.17) of the Episodic Rate and the Loss Sharing Ratio which remains at **80%**. As implemented in the 2010 final rule, outlier payments will continue to be "capped" at 10% of the AGENCY'S *Total PPS Payments*. The claims processing system would ensure that for each time a claim for a provider was processed, YTD outlier payments for that calendar year could never exceed 10% of YTD total PPS payments for that

provider for that calendar year. The 10% payment cap is intended to penalize agencies that are abusing the outlier system and reward those that have not abused the system.

Non-Routine Supplies (NRS)

The Non-Routine Supply (NRS) Conversion Factor changes from $53.97 to $53.65; however, non-routine supply (NRS) relative weights will remain unchanged.

After applying the relative weights for the severity levels, the NRS payment changed as follows:

	Relative Weight	2014	2013
Level 1	0.2698	$ 14.47	$ 14.56
Level 2	0.9742	52.27	52.58
Level 3	2.6712	143.31	144.16
Level 4	3.9686	212.92	214.19
Level 5	6.1198	328.33	330.29
Level 6	10.5254	564.69	568.06

Unlike the Episodic rate and the LUPA rates, the above NRS rates are NOT subject to wage adjustment.

Rural Add-on

A 3% rural add-on continues to apply to the Episodic rates, per visit LUPA rates, and Non-Routine Supplies (NRS) rates.

ICD–9–CM Grouper Refinements

CMS identified two categories of codes, made up of 170 ICD–9–CM diagnosis codes to remove from the PPS Grouper, effective January 1, 2014. The first category included ICD–9–CM codes that, based upon clinical judgment, were ‘‘too acute’’, meaning that this condition could not be appropriately cared for in a HH setting. These codes likely reflect conditions the patient had prior to the HH admission (for example, while being treated in a hospital setting). It is anticipated that the condition progressed to a less acute state, or is completely resolved for the patient to be cared for in the home setting (and that often times another diagnosis code will have been a more accurate reflection of the patient’s condition in the home). The second category included codes that, based upon clinical judgment, reflect a condition that does not require HH intervention, would not impact the HH plan of care (POC), or would not result in additional resource use when providing HH services to the patient. Table 2 of the Federal Register includes all 170 ICD–9–CM diagnosis codes that we proposed to remove from assignment to one of our diagnosis groups within the HH PPS Grouper, effective January 1, 2014, along with the category classification. A copy of these codes is attached.

This message does NOT address every aspect of the Final Rule. I strongly encourage you go to the CMS website to read the rule for yourself. The final rule can be found at:
www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/HomeHealthPPS/Home-Health-Prospective-Payment-System-Regulations-and-Notices.html