

Home Health Quick Take: Providers Notch 2024 Win as CMS Cut Phase-in Improves Update; Clawbacks, Phased Cuts Loom for '25 and Beyond

November 2, 2023

What's the News:

On November 1, the Centers for Medicare and Medicaid Services (CMS) published the [2024 final rule for home health agencies](#) (HHAs). Notably, CMS diverged from the proposed rule by halving a -5.1% rate reduction between 2023 and 2024, improving the net update by 2.5 percentage points (pp). Slight market basket improvement from 2.7% to 3.0%, in line with other Medicare payment systems, similarly helped to lift the net rate update from -2.2% in the [proposed rule](#) to +0.8%.

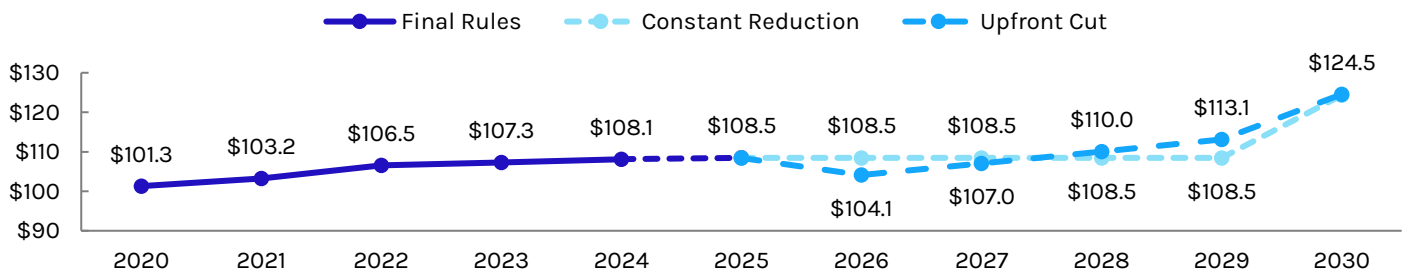
Our Take:

Capstone believes home health providers will benefit from near-term relief in reimbursement pressure as the 2024 Medicare rate update swings from a 2.2% cut to a marginally positive 0.8% rate increase. CMS confirmed expectations from the proposed rule and will not begin temporary clawbacks in 2024, though, the most recent decision to phase in permanent reductions will again escalate the total amount of temporary clawbacks the agency will be required to collect in future rulemaking.

Capstone anticipates the temporary clawback adjustment total will now increase from a previously estimated \$4.2 billion to approximately \$4.7 billion, which will be more difficult to phase in over the typical four-year period. However, the last two years of rulemaking cycles have demonstrated CMS is sensitive to the burdens net negative updates put on providers, and will likely seek to delay clawbacks until at least 2026.

In our analysis (see Exhibit 1), Capstone presents an early outlook for potential scenarios CMS could take to enforce temporary adjustments: 1) a consistent rate reduction each year roughly equal to CMS market basket projections, or 2) a larger upfront rate cut followed by regular market basket updates in subsequent years. Home health advocates have [presented](#) the upfront rate reduction scenario in lobbying materials, but may ultimately pursue a consistent rate reduction or rate freeze as more palatable to providers.

Exhibit 1: Medicare Home Health Updates 2020-2030 - Base Rate Indexed at \$100



Congress required CMS to make two types of adjustments related to Patient-Driven Groupings Model when it passed the Balanced Budget Act (BBA) of 2018:

- Permanent adjustments that change the base rate to ensure budget neutrality in future years (for example, cuts made in 2023 and 2024); and
- Temporary adjustments that are one-time reductions or additions to the base rate to ensure budget neutrality in past years.

Capstone expects the growth in overpayments to slow as permanent adjustments begin to take effect in 2023, though additional cuts could arise in the future if visits per episode continue to decline as the 2024 rulemaking cycle proved.

What's Next:

Following the phase-in of 2024 cuts, Capstone believes CMS is unlikely to pursue clawbacks of overpayments until at least 2026 and will continue to exercise its authority to extend the implementation timeline for collecting clawbacks at a time it determines appropriate.

CMS rejected calls for forecast error adjustments in the final rule, despite lobbying from home health advocates. However, rate relief could still arrive in the form of 1) congressional intervention, which faces a high hurdle due to the Congressional Budget Office's re-scoring of home health payment system reform and a multi-billion dollar price tag, or 2) a victory in the US District Court against the Department of Health and Human Services for misinterpreting the BBA.

In Case You Missed It: A roundup of Capstone's recent notes on home health:

[Healthcare Weekly: Home Health Litigation Primer; Litigants Circle CMS Budget Neutrality Methodology, Multi-Year Path Ahead for Relief](#), August 26, 2023

[Home Health Quick Take: CMS Proposes a Larger-Than-Expected Cut for Providers in 2024; Outlook for Relief From Congress, Biden is Doubtful](#), June 30, 2023

[Healthcare Weekly: Home Health Rule Update Likely Disappoints with Net Negative Update Due to Low Inflation, PDGM; Clawbacks to Begin in 2025](#), April 15, 2023