Assessment of 2020 PDGM Budget Neutrality using the FY 2023 SNF PPS Proposed Rule Parity Adjustment Methodology

PRESENTED TO: CMS

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Overview

1. In response to the CY 2022 HH PPS Proposed Rule, PQHH noted that CMS' Proposed Methodology for Assessing Budget Neutrality in the CY 2022 HH PPS Proposed Rule does not account for the reduction in therapy visits under PDGM
2. CMS Acknowledges and Corrects for Similar Reductions in the FY 2023 SNF PPS Proposed Rule and in so doing uses a Parity Adjustment Methodology that Accounts for the Payment System-Driven Decline in Therapy Visits

2. Applying the FY 2023 SNF PPS Proposed Rule Parity Adjustment Methodology to 2020 PDGM Data Indicates that 2020 PDGM Payments were Approximately 2.5% Below Budget Neutral Levels

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CMS' methodology for assessing HH PPS budget neutrality under PDGM does not account for the reduction in therapy visits under PDGM

- **Budget neutrality requires that the estimated aggregate HH PPS expenditures in CY 2020 are equal to the estimated aggregate expenditures that otherwise would have been made in the absence of the change to a 30-day unit of payment**
- **CMS used CY 2020 data to determine what payments would have been under the 153-group case-mix system and 60-day unit of payment**
- **CMS determined the actual CY 2020 30-day base payment rate was approximately 6% higher than it would have been under the 60-day payment system**
  - However, this methodology is inaccurate because under the 60-day system, case-mix and payments are largely driven by therapy visits, while under PDGM case-mix and payments rely on clinical characteristics as therapy thresholds are eliminated
  - PDGM implementation was accompanied by a ~30% payment-driven drop in therapy utilization which in turn results in much lower calculated budget neutral payments when CY 2020 data are repriced under the 60 -day payment system. As CMS states in the 2023 SNF proposed rule, this leads to an overcorrection.

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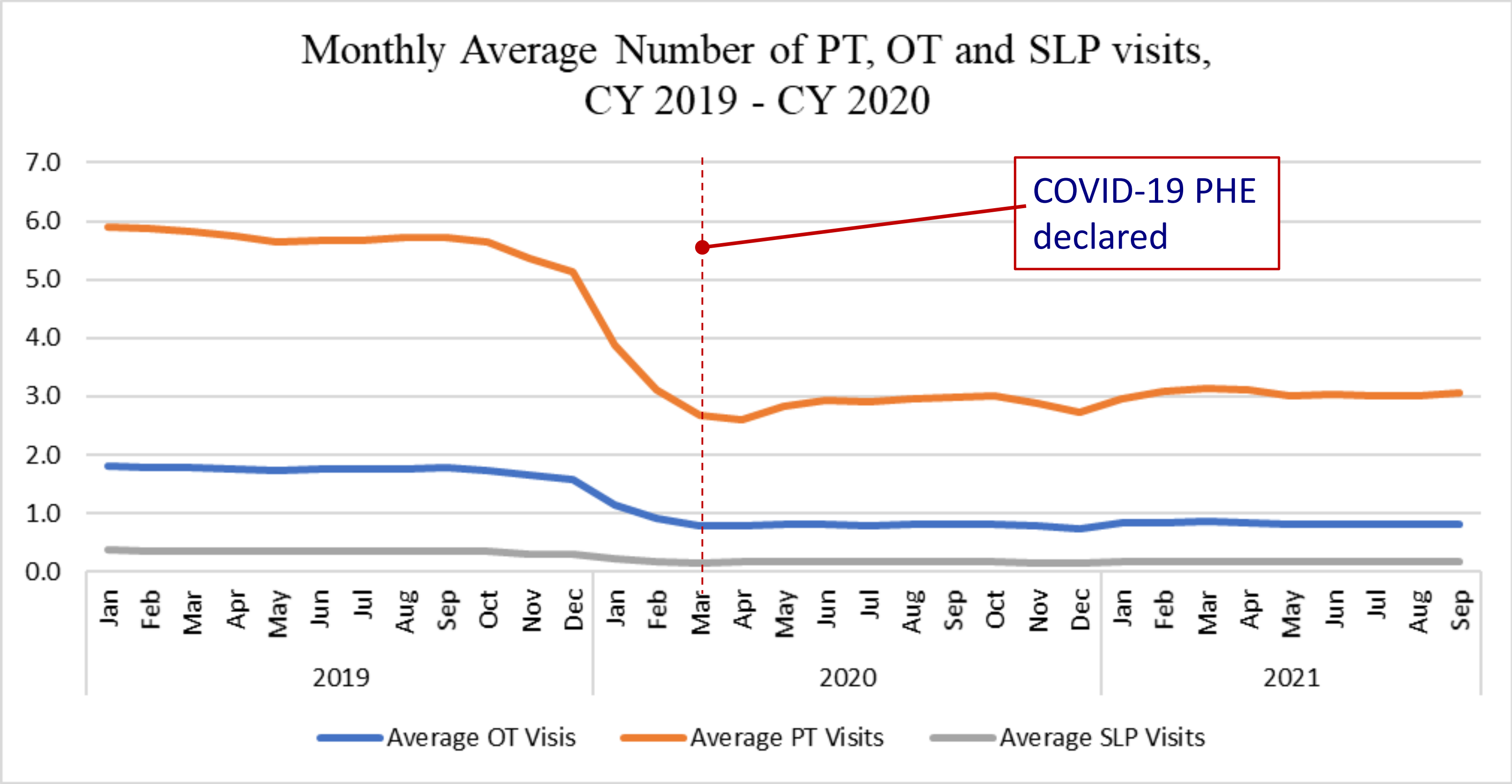
The reduction in the average number of therapy visits occurred early in 2020 prior to the COVID-19 pandemic



Source: Dobson | DaVanzo Analysis of Claims in RIF DUA 54757

Extracted March 2022

- **CY 2020 data are distorted by the effects of PDGM implementation and the COVID-19 PHE, as the shift of payment incentives away from therapy visits and the COVID-19 PHE drove a 29.7% reduction in CY 2020 therapy visits**
  - *Similar reductions were observed after the implementation of PDPM where the average number of therapy minutes SNF patients received per day dropped approximately 27 percent*
- **The reduction in the average number of therapy visits primarily occurred early in 2020 prior to the COVID-19 Public Health Emergency (PHE) indicating that it was driven by PDGM implementation**

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CMS does not penalize SNFs for the precipitous decline in therapy visits driven by PDPM implementation

Extract from Page 22738 FY 2023 SNF PPS proposed rule[1]

> *"Between October 2019 and December 2019, the 3 months after PDPM implementation and before the onset of the COVID-19 PHE, the average number of therapy minutes SNF patients received per day dropped to approximately 68 minutes per utilization day, a decrease of approximately 27 percent."*
>
> *"Given this reduction in therapy provision since PDPM implementation, we found that using patient assessment data collected under PDPM would lead to a significant underestimation of what RUG-IV case-mix and payments would have been (for example, the Ultra-High and Very-High Rehabilitation assignments are not nearly as prevalent using PDPM-reported data), which would in turn lead to an overcorrection in the parity adjustment."*

- **Note that this also holds true for the HH PPS, where there was a 29.7% reduction in the average number of therapy visits in CY 2020**

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1. CY 2023 SNF PPS Proposed Rule, 87 FR 22720; https://www.federalregister.gov/d/2022-07906/p-193

FY 2023 SNF PPS proposed rule parity adjustment methodology applied to 2020 PDGM budget neutrality assessment

As described in the FY 2023 SNF Proposed Rule, the parity adjustment methodology includes the three key steps described below.

I. Determine budget neutral counterfactual total payments (60-day payment system)

II. Determine actual total payments under PDGM in 2020 (30-day payment system)

III. Calculate budget neutral adjustment factor (Step II – Step I)

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FY 2023 SNF PPS proposed rule parity adjustment methodology applied to 2020 PDGM budget neutrality assessment (cont..)

I. Determine budget neutral counterfactual total payments (60-day payment system)

Step 1: **Define subset of HH cases including and excluding those with COVID-19 as a primary or secondary diagnosis on the claim**

Step 2: **Define the time period for the assessment and determine the number of total 60-day cases**

The time period[1] for this analysis is defined as the 12 months in 2020. Dobson | DaVanzo (D|D) calculated a multiplier (0.58842) to convert actual CY 2020 30-day episodes to 60-day episodes using the data provided by CMS in the CY 2022 HH PPS Proposed and Final Rule.[2.] The CY 2020 data used by D|D includes all 30-day episodes to date (as of April 2022) without any exclusions. [3]

	Total (60-day cases)	Total (30-day cases)	Multiplier
CMS Analysis of CY 2020 PDGM data (published in CY 2022 HH PPS rules)	4,378,823	7,441,602	0.58842
Dobson | DaVanzo Analysis of Home Health Claims in RIF DUA 54757	5,377,880	9,139,452	0.58842

Step 3: **Calculate the proportion of cases in each HHRG group in CY 2019 and multiply the proportion by the total number of cases in CY 2020 (from step 2) to obtain the counterfactual case count by HHRG Group**

Step 4: **Determine the counterfactual payment rate by HHRG Group (inflated by 2020 update factor) adjusted for case mix and incorporating the rural add-on, Partial Episode Payments (PEP), Outlier Cases and LUPAs then multiply the total cases in each HHRG group by the counterfactual 2020 HHRG payment**

1. Note that in the CY 2023 SNF PPS proposed rule, CMS defines a control period from Oct. 2019-Apr. 2020, and Apr. 2021 through Sept. 2021 as PDPM was implemented Oct 2019. However, this period would not be applicable for PDGM as PDGM was implemented in January 2020 thus 2019 data would belong to the old 60-day system
2. CY 2022 HH PPS Proposed Rule, 86 FR 35874 https://www.federalregister.gov/d/2021-13763/p-157.
3. In the CY 2022 HH PPS proposed rule CMS noted that the final dataset, after converting CY 2020 30-days episodes to 60-day episodes, included 7,441,602 actual 30-day periods of care and 4,378,823 simulated 60-day episodes of care for CY 2020. Also note that CMS excluded close to 9% of cases with missing data or those that could not be grouped into 60-day episodes.

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FY 2023 SNF PPS proposed rule parity adjustment methodology applied to 2020 PDGM budget neutrality assessment (cont..)

II. Determine actual total payments under PDGM in 2020 (30-day payment system)

Step 1: Determine actual total payments under PDGM in CY 2020 for the exact subset of counterfactual cases

Actual Payments in 2020 = Sum of Actual PDGM Payments in 2020 for the exact set of counterfactual cases

III. Calculate budget neutral adjustment factor (Step II – Step I)

Step 1: Compare the counterfactual total payments for the subset population to the actual 2020 total PDGM payments

$$\text{Budget Neutrality Factor} = \frac{\text{Actual Payments in 2020} - \text{Total Counterfactual Payments}}{\text{Total Counterfactual Payments}}$$

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2020 PDGM payments were approximately 2.5% below budget neutral levels based on the SNF parity adjustment methodology

PDGM Budget Neutrality Assessment Using the SNF Parity Adjustment Methodology

All Cases				
	Counterfactual Payments	CY 2020 Actual Payments	Payment Difference	Percent Difference
Fully Paid Case Payments	$15,070,828,298			
LUPA Case Payments*	$271,186,559			
PEP Case Payments	$291,051,349			
Outlier Case Episode Payments	$638,148,574			
Outlier Add-On Payments**	$417,210,635			
Total Payments* **	**$16,688,425,416**	**$16,276,736,137**	**-$411,689,279**	**-2.467%**
Total Cases	**5,377,880**	**9,139,452**		

Cases Excluding COVID-19				
	Counterfactual Payments	CY 2020 Actual Payments	Payment Difference	Percent Difference
Fully Paid Case Payments	$14,589,367,263			
LUPA Case Payments	$261,933,481			
PEP Case Payments	$281,753,261			
Outlier Case Episode Payments	$617,761,926			
Outlier Add-On Payments	$403,867,075			
Total Payments	**$16,154,683,007**	**$15,759,292,822**	**-$395,390,184**	**-2.448%**
Total Cases	**5,206,075**	**8,847,478**		

Source: Dobson | DaVanzo Analysis of Claims in RIF DUA 54757

- **D|D analysis indicates that 2020 PDGM payments were approximately 2.5% below budget neutrality (with COVID-19 cases included) and 2.4% below budget neutrality with COVID-19 cases excluded**

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Analytic caveats for D|D analysis of PDGM budget neutrality using SNF methodology

Analytic Caveats	**Impact**
*Counterfactual LUPA payments do not account for the LUPA add-on which will increase total counterfactual payments	+
**Outlier add-on payments are calculated as 2.5% of payments (as CMS policies mandate that add-on payments may not exceed 2.5% payments in given year), to the extent that outlier add-on payments are less than 2.5% of total payments then the counterfactual total payments are overstated	-
***Counterfactual payments do not account for quality reporting penalties which will decrease total counterfactual payments. *CMS indicated in the CY 2020 HH PPS final rule that for the CY 2019 payment determination, approximately 11.2 percent (1,286 of the 11,444) active Medicare-certified HHAs did not receive the full annual percentage increase due to quality reporting penalties. Accounting for this would likely reduce the counterfactual total payments by an insignificant amount.*	-

+ means the percent difference will increase (become more negative)
- means the percent difference will decrease (become more positive or closer to one)

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Recommendations

1. **Similar to CMS' conclusions in the CY 2023 SNF PPS proposed rule, CMS should not use the CY 2022 HH PPS proposed and final rule methodology to assess 2020 PDGM budget neutrality as it could lead to a potential overcorrection**
2. **Instead of the potential proposed 6% reduction in the CY 2022 HH PPS Proposed Rule, CMS from a budget neutral perspective should consider taking corrective action to increase base payment rates by 2.5% so the HH PPS will be more likely to achieve budget neutrality, as authorized by the Bipartisan Budget Act**