

As part of its ongoing effort to study methods of providing more cost-effective care, (CMS) implemented the Per-Episode Home Health Prospective Payment Demonstration. Ninety-one agencies in five States entered the three-year demonstration at the start of their 1996 fiscal years. Before the start of the demonstration, the participating agencies were randomly assigned to either the treatment or the control group. Agencies assigned to the treatment group were paid a fixed, lump-sum payment for the first 120 days of each episode of care provided to Medicare beneficiaries and a predetermined rate for each visit thereafter.

### **Evaluation Highlights:**

The demonstration showed that a home health prospective payment system could save resources relative to cost-reimbursement. The evaluation by Mathematica Policy Research (which was completed in 2001) found that:

- Agencies in the treatment group (per-episode payment) dramatically reduced their number of home health visits, primarily visits by skilled nurses and home health aides, without substantial adverse effects on quality of care.
- Prospective payment reduced the average number of visits to a patient in the year following admission by 24 percent compared to their levels under cost-based reimbursement. Prospectively paid agencies achieved these reductions by shortening the overall length of service and by lowering the frequency of visits provided.
- Emergency room use, hospital and skilled nursing facility admissions, and hospice admissions were not affected. Use of nondemonstration home health services increased somewhat but did not reflect adverse patient outcomes. Use of Part B services and overall reimbursement were equivalent in treatment and control groups.
- The overwhelming majority of patients in both groups were satisfied with their home health service.
- The evaluation also identified methods that agency staff found successful in reducing home health utilization, including more careful supervision of visiting staff and improved patient education.
- The typical agency in the demonstration was able to earn small profits under the prospective payment system. They were able to do so by reducing their cost per episode by 14 percent--a decrease achieved by reducing service use. However, efforts to reduce service use resulted in increases in the agencies' cost per visit. The outcome reduced profits, as approximately half an average agency's visits were paid according to the per-visit methodology, at a predetermined rate. Furthermore, the agencies' Medicare revenues fell by 20 percent, largely because the number of visits rendered after 120 days of care dropped as well.

(See downloads area below for more information: Final Report)