Modern Healthcare

CMS Rule Could Trigger Consolidation, Headaches for Home Healthcare

Diane Eastabrook, Nov 03, 2023

The Centers for Medicare and Medicaid Services' threat to claw back billions of dollars in overpayments to home health agencies could trigger more industry consolidation and affect patients' access to care in their homes.

CMS announced Wednesday that it would raise Medicare reimbursements to home health companies by 0.8% in 2024–a reversal from a 2.2% payment cut proposed in June. However, the agency also warned that as early as 2025, care providers could be on the hook for $3.5 billion in overpayments CMS made from 2020 through 2022. Those overpayments stemmed from adjustments in the Patients-Driven Groupings Model that took effect in 2020.

Here is how that uncertainty could play out in home healthcare.

More M&A in an already fragmented industry

There has been a wave of acquisitions since the beginning of the COVID-19 pandemic, driven by increased demand for care in the home. Private health insurers with Medicare Advantage plans have been among the biggest buyers. Humana paid $8.1 billion in 2021 for Kindred at Home, which rebranded as CenterWell. United Health closed its $5.4 billion purchase of LHC Group in February and is waiting to complete its $3.3 billion purchase of Amedisys.

Home healthcare remains a “bright spot” for investment in the industry due to patient preference to heal at home instead of in nursing homes, according to Andre Ulloa, a partner and executive advisor at M&A Healthcare Advisors.

From the beginning of 2020 through the second quarter of 2023, there were 184 home health acquisitions, according to Mertz Taggar, a mergers and acquisitions advisory firm. There were 16 transactions in the second quarter but only four in the third quarter, in part due to uncertainty over the home health rule, said Cory Mertz, the firm’s managing director. Transactions could increase as larger buyers seek smaller home health agencies put up for sale because of rising labor costs and the prospect of Medicare clawbacks, he said.

The potential for home health deserts

Many home health companies warn that next year’s small Medicare rate increase and the potential for future cuts will make it harder to recruit and retain workers in a competitive labor market. As a result, some could close, leaving no provider in some urban and rural areas.

Home health deserts are already popping up in the New York City metropolitan area, according to VNS Health, a provider of home health and hospice services throughout New York. The nonprofit is only able to fill about 30% of the referrals it receives for home health services in the Bronx, said Dan Savitt, president and CEO.

“It makes it really difficult when CMS makes a cut to even sustain yourself as a home health organization," Savitt said.

There also are issues in rural areas. In September, the director of a home health company in Hastings, Nebraska, told a Senate Finance Committee hearing on home healthcare that the agency reduced its service area from 13 counties to one county in the past year because Medicare reimbursements for home health are not covering rising labor costs.

“Some of the previous counties that we served have no coverage by any home health provider,” said Carrie Edwards, director of home care services at Mary Lanning Healthcare, during her testimony.

Higher costs for hospitals

There already were delays in moving patients from hospitals to post-acute care and service cuts or closures could exacerbate the problem. Home health agencies were only able to accept 55% of patient referrals as of July, according to home healthcare technology company WellSky which provides software solutions for approximately 12,000 home healthcare providers nationally.

Hospitals forced to keep patients longer than medically necessary don’t get reimbursed for the extra days. The American Hospital Association on Thursday said it was troubled by CMS’ home health payment rule and the impact it could have on the industry.

“Home health providers are important partners in that continuum and properly resourcing them is crucial to ensuring hospitals can discharge patients in a timely manner,” said Jonathan Gold, AHA senior associate director of payment policy, in the statement.

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