Modern Healthcare

Medicare Advantage Rates Stressing Out Home Health Providers

Diane Eastabrook, Nov 09, 2023

Older adults shifting from fee-for-service Medicare to Medicare Advantage is costing the home health industry millions of dollars in revenue, prompting some providers to demand higher reimbursements from private insurers or end contracts with them.

Enhabit Home Health and Hospice's revenues in its home health business declined $8 million year-over-year in the third quarter due in part to continued erosion in the number of patients covered by fee-for-service Medicare. The company reported a net loss of $2.4 million or 5 cents per share for the quarter, compared with net income of $8.6 million, or 17 cents per share, in the year-ago period.

Due to an increase in the number of patients covered by Medicare Advantage, Enhabit has been working harder to negotiate more lucrative contracts with private insurers, according to CEO Barb Jacobsmeyer.

“Some payers are now recognizing the variation of quality results within the industry and are willing to pay for access to high-quality providers like Enhabit," Jacobsmyer said Wednesday on a quarterly earnings call with analysts.

While an aging population is increasing demand for home healthcare, the industry faces a number of headwinds. Threats by the Centers for Medicare and Medicaid Services to claw back billions in overpayments to home health agencies as early as 2025 and the federal agency’s 1.1% base rate cut to Medicare Advantage plans in 2024 are putting home health companies and private insurers on a collision course over rates. Home health companies say they need better reimbursements in order to hire more workers to respond to increasing patient referrals.

Addus HomeCare CEO Dirk Allison told analysts during an earnings call last week that a nearly 9% decline in the company's home health revenues in the third quarter was due to limits the company placed on admissions of patients covered under Medicare Advantage plans that do not pay what he said was an adequate rate to cover the company's costs.

Tensions between payers and providers come as Medicare Advantage has grown to 51% of the Medicare market. The plans are growing in popularity with older adults because they are less expensive than fee-for-service Medicare plans and many offer supplemental benefits, such as hearing, dental and eye exams.

Medicare pays private insurers a monthly capitated rate per Medicare Advantage enrollee to cover all services, incentivizing payers to keep provider reimbursements low to boost profits. Stephens healthcare analyst Scott Fidel estimated home health companies are making 30% to 40% less from Medicare Advantage than from traditional fee-for-service Medicare plans.

Another threat to home health providers is growing competition from private insurers that own home health businesses, Fidel said. UnitedHealth Group owns home health and hospice provider LHC Group and is waiting to close on its $3.3 billion deal for Amedisys. Humana owns CenterWell Home Health.

"As companies, such as United and Humana, continue to build out their captive home health capacity, it will further reduce the bargaining leverage that independent home health operators have to negotiate higher rates," Fidel said in an email.

Still, some home health agencies say threats to drop patients remain one of the few tools they have to extract higher reimbursements from private insurers. Termination notices to low-paying Medicare Advantage plans have become a common bargaining chip at VNS Health, a nonprofit provider of home health and hospice services throughout New York. VNS President and CEO Dan Savitt said the company has successfully negotiated better rates with some private payers after sending out the notices. He admitted, though, that negotiations are becoming harder as Medicare Advantage continues to grow.

"Unless you have material market share within any local geography, the leverage [with Medicare Advantage] is minimal," Savitt said.

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