

Do Home Health Beneficiaries Have “Skin in the Game”?

Partnership for Quality Home Healthcare
www.homehealth4america.org
November 15, 2012

OVERVIEW

- A Medicare proposal that is occasionally considered to offset other Medicare spending such as the SGR/doc 'patch' is a home health co-payment.
- Under current law, there is no co-payment or other cost-sharing requirement for Medicare home health care.
 - Beginning in 1965, 20 percent co-insurance was required for home health.
 - In 1972, however, Congress repealed the home health copayment.
- Among the copayment-related issues that policymakers should consider are:
 - The extent to which home health beneficiaries already have “skin in the game”.
 - The savings that Medicare realizes when seniors receive care in their homes.
 - The higher costs that Medicare could bear if a copayment were re-introduced.

Defining “Skin in the Game”

- An argument made by proponents of reintroducing a home health co-payment is that it would give Medicare home health beneficiaries “skin in the game” in that it would require them to pay part of the cost of their home healthcare.
- “Skin in the game” can also be defined as the full scope of costs that a beneficiary bears as an integral part of receiving Medicare-covered services, particularly if doing so has the effect of reducing Medicare spending.
- In undertaking this analysis, Avalere Health has determined that seniors receiving home-based services have “skin in the game” due to their out-of-pocket spending on housing and other living expenses.
 - Medicare home health beneficiaries bear significant out-of-pocket costs.
 - This spending allows beneficiaries to receive services in the home, rather than in higher-cost institutional settings.

Summary of Findings

- The average annual cost of basic living expenses that low-income beneficiaries in the community bear is **\$15,648**.¹
- If a Medicare beneficiary is served in an institutional facility, the taxpayer bears higher treatment costs as well as the housing and food costs that the beneficiary would otherwise personally assume if he or she were to remain at home.
- As indicated by this analysis and extensive related research:
 - Beneficiaries' living expenses are lower when they receive treatment in an institutional setting instead of in their home.
 - Medicare program and taxpayer costs are higher when beneficiaries are served in institutional settings instead of in their home.

Avalere Health's Findings

Low-Income Seniors Have 'Skin in the Game'

Table 1: 2010 Average Annual Living Expenses for Households with Incomes Under 200 Percent of the Federal Poverty Limit (FPL)* with at Least One Individual 65 Years or Older

Living Expense	One-Person Elderly Household	Two-Person Elderly Household	All Elderly Households
Housing	\$5,918	\$7,230	\$6,810
Food	\$2,305	\$3,792	\$3,265
Transportation	\$1,430	\$3,593	\$2,686
Health Care (OOP**)	\$1,823	\$3,194	\$2,387
Total	\$11,476	\$17,809	\$15,648

The average cost of housing alone represents approximately 25-27% of annual income for one and two-person elderly households at 200% FPL.

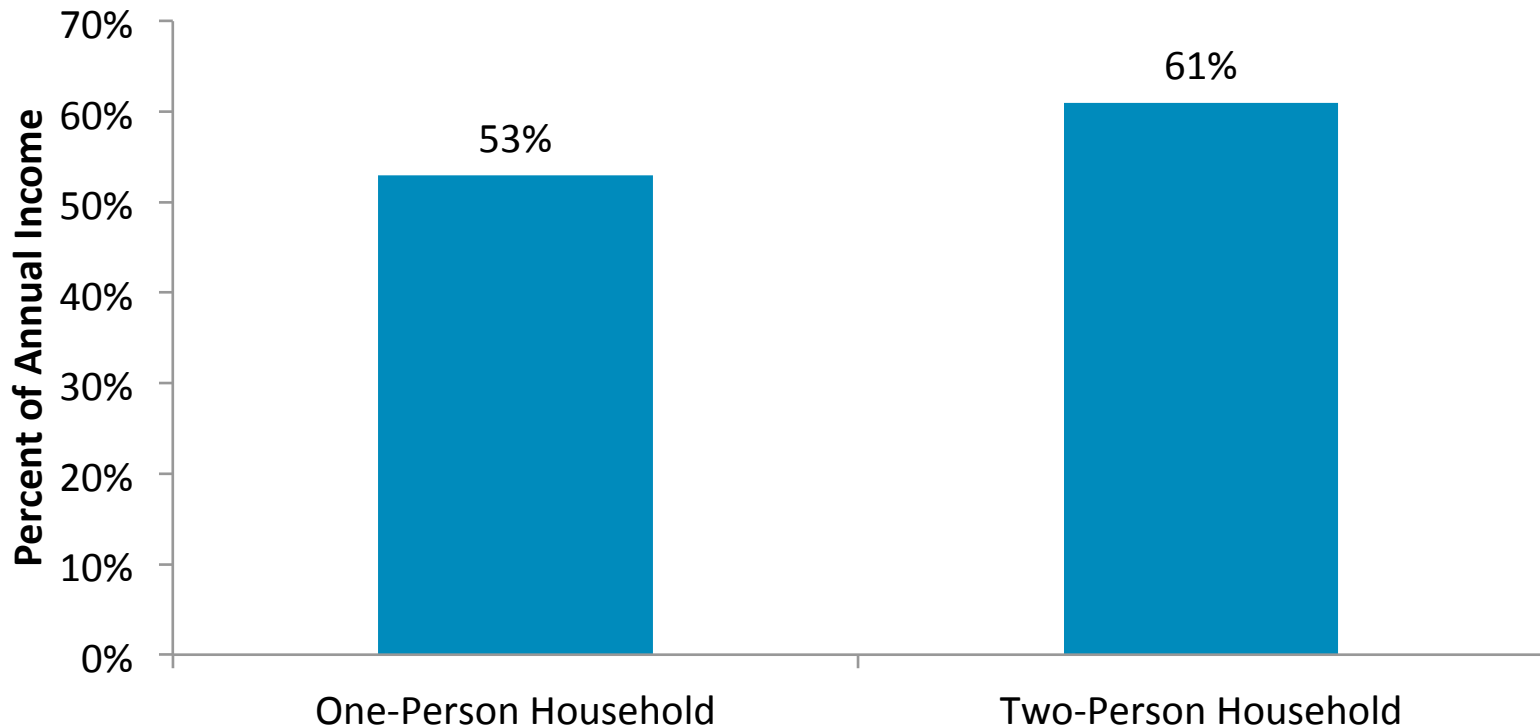
Source: Avalere analysis of the 2010 Bureau of Labor Statistics Consumer Expenditure Survey. The analysis includes households with 1 or more individuals age 65 or older and annual incomes below 200% of the Federal Poverty Limit.

*\$21,660 for a one-person household; \$29,140 for a two-person household. **Out-of-Pocket Costs

Avalere Health's Findings

Low Income Seniors' "Skin" Exceeds 50% of their Annual Income

Burden of Average Annual Living Expenses* for One- and Two-Person Households at 200%** of the Federal Poverty Limit with at Least One Individual 65 Years and Over



*2010 average annual living expenses for one-person or two-person households, respectively, under 200 percent of the Federal Poverty Limit with at least one individual 65 years or older

**\$21,660 for a one-person household; \$29,140 for a two-person household

A Copayment Could Lead to Higher Program Costs

- A copayment would require Medicare home health patients, who already dedicate a large share of their income to basic living expenses, to bear additional cost.
- If this additional cost compelled low-income beneficiaries to forego physician-prescribed home health care to avoid the co-payment, some could end up in more expensive institutional settings.
- The additional inpatient costs could offset much if not all of the anticipated savings from imposition of a home health co-payment.
- As discussed below, related research indicates this is a serious concern.

Research Findings on Impact of Copayments

A 2010 study in *The New England Journal of Medicine* analyzed a nationally representative sample of elderly Medicare managed care enrollees¹ and found:

Decreases

Medicare Advantage plans that raised co-pays for outpatient care had 19.8 *fewer annual outpatient visits* per 100 enrollees, but...

Increases

These plans saw 2.2 *more annual hospital admissions* and 13.4 *more inpatient days* per 100 enrollees

The authors estimate that the *cost of the additional hospitalizations exceeded the savings from the decrease in outpatient visits.*

Medicare Covers Living Expenses for Institutionalized Care

- The Medicare program covers most of the living expenses (housing, food, etc.) for beneficiaries who receive treatment in institutional treatment settings.
- This results in two cost shifts that policymakers should consider:
 - Beneficiaries' living expenses are *lower* when they receive treatment in an institutional setting instead of in their home.
 - Medicare program and taxpayer costs are *higher* when beneficiaries are served in institutional settings instead of in their home.
- As has been extensively documented, an inpatient stay is more costly to Medicare than a home health episode. If the inpatient stay is followed by post-acute care in an institutional setting other than the home, the cost to Medicare is even greater.
- As a result, the shift of beneficiaries from the home to institutional settings has the unintended and ironic effect of *reducing* beneficiaries' "skin in the game" while increasing taxpayers'.

Seniors and Public Payers Benefit from Home-Based Care

- Beneficiaries overwhelmingly prefer to remain in their homes, to “age in place.”
- By devoting the majority of their income to basic living expenses, these beneficiaries are putting “skin in the game” – and are enabling Medicare to deliver services in the least costly setting.
- A co-payment could lead some low-income beneficiaries to forego needed home health services and end up in an institutional setting as a result, where the cost to Medicare and taxpayers would be higher.

Because imposing an additional cost burden on Medicare beneficiaries could lead to increased costs for the Medicare program, policymakers should consider this effect when assessing a home health copayment.