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Home Healthcare Margins: Comparison of Public Company Financials to the MedPAC Margin Estimate

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Introduction

- The Medicare Payment Advisory Commission (MedPAC) annually issues its estimate of the Medicare margin for multiple provider sectors.
  - *MedPAC projects that home health agencies will have a Medicare margin of 12.6% in 2014 and 10.3% in 2015.*
- Although MedPAC's margin estimate is not a measure of a sector's overall profit/loss, it is often interpreted as such.
- It is therefore instructive to compare MedPAC's estimate with margin data calculated from the financial statements of publicly-traded companies.

1 MedPAC March 2014 Report to Congress (2014 Estimate) and MedPAC March 2015 Report to Congress (2015 estimate)

Background: Company Financial Statements

- Financial statements from publicly-traded home health companies are a reliable source of information on overall (net income) margins for the sector.
  - *Net income (from the income statement) takes into account all costs/expenses for home health agencies.*
  - *Company financial statements are filed with the Securities and Exchange Commission.*
  - *By law, financial statements must be reviewed by an independent auditor, and there are civil and criminal penalties for providing false or misleading information.*

Overall Margins: Publicly-Traded Home Health Companies

Year	Q1	Q2	Q3	Q4	Full Year Margin
2010	8.0%	7.9%	6.6%	6.0%	**7.1%**
2011	4.4%	4.6%	3.1%	3.7%	**4.0%**
2012	2.6%	2.8%	2.9%	2.7%	**2.8%**
2013	1.9%	2.0%	1.2%	0.04%	**1.3%**
2014	0.9%	2.9%	2.8%	3.0%	**2.4%**

The overall margin is calculated by dividing net income by revenue. Net income excludes one-time items and discontinued operations.

Publicly-traded home health companies: Almost Family, Amedisys, Gentiva (acquired by Kindred Healthcare in February 2015), LHC Group

1 SEC-filed company financial reports

Comparison: MedPAC vs. Overall Margins

MedPAC 2014 Medicare Margin (estimated):	**12.6%**
Publicly-Traded Company 2014 Overall Margin:	**2.4%**

- MedPAC's Medicare margin estimate differs from overall margins calculated from financial statements filed with the SEC because it is based on Medicare cost report data only and does not include all revenue and expenses.
- Like CMS, MedPAC's margin analysis does not include many costs that are standard for home health agencies and which are included in the SEC filings, including corporate income taxes and the costs of telehealth and other services routinely provided to patients.

1 MedPAC March 2014 Report to Congress

Conclusion: Considering Home Health Margins

- The MedPAC Medicare margin estimate is not intended to serve as a measure of home health agencies' profit/loss, but is often interpreted as such.
- The overall margin, on the other hand, is a standard measure of a home health company's bottom line/profit (or loss, as applicable).
- For this reason, policy makers may want to consider providers' overall margins, as well as the MedPAC Medicare margin, when contemplating changes to home health reimbursement.
- For example, as shown on slide 4, the overall margin for publicly-traded home health companies has declined from 7.1% in 2010 to 2.4% in 2014.