

## Annual Home Health Agency Prospective Payment System (HHA PPS) Rate Updates - CY 2008

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Home Health Agency Prospective Payment System (HHA PPS) - Determination of Standard HHA PPS

Section 1895(b)(3)(B) of the Act, as amended by Section 5201 of the Deficit Reduction Act (DRA), requires for CY 2008 that the standard prospective payment amounts be increased by a factor equal to the applicable home health market basket update. The end date of the 60-day episode as reported on the claim determines which CY rates will be used to pay the claim. The updated CY 2008 rates will become effective January 1, 2008.

### **Change in Labor Related and Non-Labor Related Share of HH PPS Rates - CY 2008**

- Labor related share of **77.082**
- Non-labor related share of **22.918**

### **National 60-Day Episode Payment Amount for Episodes Beginning in CY 2007 and Ending in CY 2008**

- For episodes that begin in CY 2007 and end in CY 2008, the new 153 Home Health Resource Group (HHRG) case-mix model (and associated Grouper) would not yet be in effect. For that reason, episodes that begin in CY 2007 and end in CY 2008 will be paid at the CY 2008 update rate which will be further adjusted for wage differences and for case-mix, based on the current 80 HHRG case-mix mode1.
- This recognizes that the annual update for CY 2008 is for all episodes that end on or after January 1, 2008 and before January 1, 2009. Paying this rate for episodes that begin in CY 2007 and end in CY 2008, will appropriately recognize that these episodes are entitled to receive the CY 2008 home health market update, even though the new case-mix model will not yet be in effect.
- **Calculating Annual Rate Update (CY 2008) for Episodes Beginning in CY 2007 and Ending in CY 2008**
  - The CY 2007 national standardized 60-day episode rate (\$3,339.00) was first increased by the rebased and revised home health market basket update of 3.0% for CY 2008.
  - Given this updated rate, a reduction of 2.75 was taken to account for change in the CY 2007 national standardized 60-day episode rate not related to actual change in case-mix.

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- The resulting value was multiplied by 1.05 and 0.95 to account for the estimated percentage in outlier payments for CY 2008 (that is,  $\$2,339.00 \times 1.030 \times 0.9725 \times 1.05 \times 0.95$ ), to yield the CY 2008 national standardized 60-day episode payment rate of **\$2,337.06** for episodes that begin in CY 2007 and end in CY 2008.

**National 60-day episode amounts updated by the home health market basket update for CY 2008, before case-mix adjustment, wage index adjustment based on the site of service for the beneficiary or applicable payment adjustment for episodes beginning in CY 2007 and ending in CY 2008.**

Total CY 2007 national standardized 60-day episode payment rate	Multiply By The Home Health Market Basket Update (Three Percent)	Reduce By 2.75% For Nominal Change In Case-Mix	Adjusted To Account For The Five Percent Outlier Policy	National Standardized 60-day Episode Payment Rate For Episodes Beginning In CY 2007 And Ending In CY 2008
\$2,339.00	x 1.030	x 0.9725	x 1.05 x 0.95	<b>\$2,337.00</b>

**National 60-Day Episode Payment Amount for Episodes Beginning and Ending in CY 2008**

- Further adjustments were necessary in the establishment of a national 60-day episode payment amount for episodes beginning and ending in CY 2008, to take into account the new 153 HHRG case-mix model and associated grouper.
- **Calculating Annual Rate Update (CY 2008) for Episodes Beginning and Ending in CY 2008**
  - The CY 2007 national standardized 60-day episode payment rate was increased by the home health market basket update (3.0%) ( $\$2,339.00 \times 1.030 = \$2,409.17$ ).
  - The dollars associated with the outlier targeted estimates were put back into the base rate by multiplying  $\$2,409.17$  by 1.05, resulting in  $\$2,529.63$ .
  - Based upon the change to the Low Utilization Payment Adjustment (LUPA) payment, the Non-Routine Supplies (NRS) redistribution, and the elimination of the Significant Change In Condition (SCIC) policy, the amounts needed to account for outlier payments, and the reduction to account for the 2.75% case-mix change adjustment, the national standardized 60-day episode payment rate was reduced by  $\$5.70$ ,  $\$45.87$ ,  $\$10.96$ ,  $\$127.22$ , and  $\$69.56$ , respectively. This resulted in a CY 2008 updated national standardized 60-day episode payment rate for episodes beginning and ending in CY 2008 of  $\$2,270.32$ .
  - These episodes would be further adjusted for case-mix based on the 153 HHRG case-mix model for episodes beginning and ending in CY 2008.

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**National 60-day episode amounts updated by the home health market basket update for CY 2008, before case-mix adjustment, wage index adjustment based on the site of service for the beneficiary or applicable payment adjustment for episodes beginning and ending in CY 2008.**

Total CY 2007 National Standardized 60-Day Episode Payment Rate	Multiply By The Home Health Market Basket Update (Three Percent)	Adjusted To Return The Outlier Funds To The National Standardized 60-day Episode Payment Rate	Updated And Outlier Adjusted National Standardized 60-Day Episode Payment	Changes To Account For LUPA Adjustment (\$5.70), NRS Payment (\$45.87) Elimination of SCIC Policy (\$10.96), Outlier Policy (\$127.22), and 2.75% Reduction For Nominal Change In Case-Mix (\$69.56) for Episodes Beginning And Ending In CY 2008	CY 2008 National Standardized 60-day Episode Payment Rate For Episodes Beginning And Ending In CY 2008
\$2,339.00	x 1.030	x 1.05	\$2,529.63	- \$259.31	\$2,270.32

**Home Health Quality Measures.** TRICARE will not impose the two percentage point reduction in the home health market basket percentage update for HHAs failing to submit health care quality data as required under Sections 1895(b)(3)(B)(v)(I) and II of the Social Security Act.

**Change in NRS Payment**

- Under the HH PPS, NRS payment, which was \$49.62 at the onset of the HH PPS, has been updated yearly as part of the national standardized 60-day episode payment.
- As of CY 2008 the current NRS payment amount portion is being removed from the national standardized 60-day episode payment rate and new severity-adjusted NRS payment amounts subject to case-mix and wage adjustments are being added to the national standardized 60-day episode payment rate (refer to [Section 4, Figure 12.4-9](#) for NRS severity level relative weights and payment amounts). The NRS conversion factor for CY 2008 is **\$52.35**.

**Calculation of episode prospective payment amounts using new case-mix model, NRS severity payment amounts and revised labor and non-labor sharing amounts for episode that begins and ends in CY 2008**

- Take the non-adjusted national standardized 60-day episode payment rate and multiply it by the appropriate case-mix weight in [Addendum J2](#).
- Next, multiply the case-mix adjusted national standardized 60-day episode payment by the labor portion (77.082%).
- Multiply this result by the appropriate wage index factor listed in this addendum to wage-adjust the 60-day episode payment.
- Next, multiply the case-mix adjusted national standardized 60-day episode payment by 22.918% to compute the non-labor portion.
- Add this result to the wage-adjusted labor portion to get the case-mix and wage-adjusted national 60-day episode payment without NRS.

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- Calculation of NRS amount:
  - Multiply the episode's NRS weight (taken from [Section 4, Figure 12.4-9](#)) by the NRS conversion factor (\$52.35).
  - This adjusted NRS payment is added to the case-mix and wage-adjusted national standardized 60-day episode payment.
  - The resulting amount is the case-mix and wage-adjusted national standardized 60-day episode payment rate including NRS for the particular episode.

**Example 1:** An HHA is providing services to a TRICARE beneficiary in Grand Forks, ND; the episode begins and ends in 2008. The national standardized payment rate is \$2,270.32. The HHA determines that the beneficiary is in his or her third episode and thus falls under the C1F3S3 HHRG for 3rd+ episodes with zero to 13 therapy visits (Case-Mix = 1.4674). It is also determined that the beneficiary falls under NRS severity level 4. The NRS Severity Level 4 weight = 3.9686 and the NRS Conversion Factor = \$52.35 ([Section 4, Figure 12.4-9](#)).

**Calculate the Case-Mix Rate:**

- Case-mix weight from [Addendum J2](#) for HHRG C1F3S3 for 3rd+ episode with zero to 13 therapy visits: 1.4674
- National standardized 60-day episode payment rate without NRS amount for CY 2008: \$2,270.32
- Calculate the case-mix rate:  $\$2,270.32 \times 1.4674 = \mathbf{\$3,331.47}$

**Calculate the Wage-Adjusted Labor and Non-Labor Portions of the Payment:**

- Case-mix adjusted national standardized 60-day episode payment rate without NRS amount: \$3,331.47
- Labor portion: 0.77082
- Non-labor portion: 0.22918
- Wage index value for Grand Forks, ND: 0.7881
- Calculate the labor portion of the case-mix adjusted national standardized 60-day episode payment without NRS amount:  $\$3,331.47 \times 0.77082 = \mathbf{\$2,567.96}$
- Apply the wage index factor for Grand Forks, ND to the labor portion:  $\$2,567.96 \times 0.22918 = \mathbf{\$763.51}$

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### Calculate the Total Prospective Payment Rate:

- Case-mix adjusted and wage-adjusted labor portion of the rate without NRS amount: \$2,023.81
- Case-mix adjusted non-labor portion of the rate without NRS amount: \$763.51
- Calculate the total case-mix and wage-adjusted national standardized 60-day episode payment rate without NRS amount:  $\$2,023.81 + \$763.51 = \mathbf{\$2,787.32}$

### Calculate the NRS Amount:

- NRS conversion factor: \$52.35
- NRS severity level 4 relative weight: 3.9686
- Calculate the NRS amount:  $\$52.35 \times 3.9686 = \mathbf{\$207.76}$
- Calculate the total case-mix and wage-adjusted national standardized 60-day episode payment rate including NRS amount:  $\$2,787.32 + \$207.76 = \mathbf{\$2,995.08}$

### National Per-Visit Amounts Used to Pay LUPAs and Compute Imputed Costs in Outlier Calculations

#### Calculation of National Per-Visit Amounts for CY 2008

- CY 2007 national per-visit amounts used to calculate payments for LUPA episodes and to compute the imputed costs in outlier calculations were increased by the rebased and revised home health market basket (3.0%), and multiplied by 1.05 and 0.95 to account for the estimated percentage of outlier payments.
- The national per-visit amounts were not adjusted (reduced) for increases in case mix since they were not affected by the 4-equation case-mix model.

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**National per-visit amounts for LUPAs (not including the increase in payment for a beneficiary's only episode or the initial episode in a sequence of adjacent episodes) and outlier calculations updated by the home health market basket update for CY 2008, before wage index adjustment based on the site of service for the beneficiary.**

Home Health Discipline Type	Final CY 2007 Per-Visit Amounts Per 60-day Episode For LUPAs	Multiply by the Home Health Market Basket (Three Percent)	Adjusted CY 2008 Per-Visit Payment Amount Per Discipline
Home Health Aide	\$46.24	x 1.030 x 1.05 x 0.95	\$47.51
Medical Social Services	\$163.68	x 1.030 x 1.05 x 0.95	\$168.17
Occupational Therapy	\$112.40	x 1.030 x 1.05 x 0.95	\$115.48
Physical Therapy	\$111.65	x 1.030 x 1.05 x 0.95	\$114.71
Skilled Nursing	\$102.11	x 1.030 x 1.05 x 0.95	\$104.91
Speech-Language Pathology	\$121.22	x 1.030 x 1.05 x 0.95	\$124.54

**Changes in the Payment of LUPA Episodes for CY 2008**

- Payment for LUPA episodes is changed in that for LUPAs that occur as initial episodes in a sequence of adjacent episodes or as the only episode, a revised payment amount of \$87.93 is being added to the LUPA payment before adjusting for wage index.
- This additional payment will be reflected in the payment for the earliest dated revenue code line representing a home health visit.

**Example 2.** An HHA is providing services to a beneficiary in rural New Hampshire. During the 60-day episode the beneficiary receives only three visits. It is the initial episode during a sequence of adjacent episodes for this beneficiary. The HHA submits all its required quality data.

Number of Visits and Visit Type	Per-Visit Payment Amounts
1 Skilled Nursing Visit	\$104.91
2 Home Health Aide Visits	47.51
Wage Index Value for Rural New Hampshire	1.0863
Increase in LUPA episode payment for only or initial episode in a sequence of adjacent episodes	87.93

Calculate the total wage-adjusted adjustment amount for only or initial episodes in a sequence of adjacent episodes:

Calculate the wage-adjusted portion of the \$87.93 adjustment for only or initial episodes in a sequence of adjacent episodes: $(0.77082 \times \$87.93)$	\$67.78
Apply the wage index factor for rural New Hampshire from <a href="#">Addendum M (CY 2008)</a> : $(1.0863 \times \$67.78)$	\$73.63
Calculate the non-labor portion of the \$87.93 adjustment for only or initial episode in a sequence of adjacent episodes: $(0.22918 \times \$87.93)$	\$20.15
Calculate the total wage-adjusted adjustment amount for only or initial episodes in a sequence of adjacent episodes: $(\$73.63 + \$20.15)$	<b>\$93.78</b>

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Calculate the wage-adjusted LUPA payment amount for the skilled nursing and home health aid portion of the payment:

Calculate the labor portion of the per visit payment amount for one skilled nursing visit: (0.77082 x \$104.91)	\$80.87
Apply the wage index factor for rural New Hampshire from <a href="#">Addendum M (CY 2008)</a> : (1.0863 x \$80.87)	\$87.85
Calculate the non-labor portion of the per-visit payment amount for one skilled nursing visit: (0.22918 x 104.91)	\$24.04
Calculate the wage-adjusted LUPA payment amount for one skilled nursing visit: (\$87.85 + \$24.04)	\$111.89
Calculate the labor portion of the per-visit payment amount for two home health aid visits: (0.77082 x (\$47.51 + \$47.51))	\$73.24
Apply the wage index factor for rural New Hampshire from <a href="#">Addendum M (CY 2008)</a> : (1.0863 x \$73.24)	\$79.56
Calculate the non-labor portion of the per-visit payment amount for two home health aide visits (0.22918 x (\$47.51 + \$47.51))	\$21.78
Calculate the wage-adjusted LUPA payment amount for two home health aide visits: (\$79.56 + \$21.78)	\$101.34
Calculate the LUPA amount for one skilled nursing/two home health aide episodes, before applying any increase for the only episode or initial episode in a sequence of adjacent episodes: (\$111.89 + \$101.34)	<b>\$213.23</b>

Calculate total LUPA payment:

Calculate the Total LUPA payment (with proposed increase for an only episode or initial episode in a sequence of adjacent episodes): (\$213.23 + \$93.78)	<b>\$307.01</b>
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**Outlier Payment Calculations.** Outlier payments are determined and calculated using the same methodology that has been used since the implementation of the HH PPS. The following example details the calculation of an outlier payment.

**Example 2:** Calculation of an Outlier Payment

The outlier payment amount is the product of the imputed amount in excess of the outlier threshold absorbed by the HHA and the loss sharing ratio. The outlier payment is added to the sum of the wage and case-mix adjusted 60-day episode amount. The steps to calculate the total episode payment, including an outlier payment, are given below.

For this example, assume that a beneficiary lives in Greenville, SC and that the episode in question began and ended in CY 2008. The episode has a case-mix severity = C3F3S5, and is a second episode with 63 visits (30 skilled nursing, 20 home health aide visits, and 13 physical therapy visits). The beneficiary had 105 NRS points, for an NRS severity level = 6). Therefore, the NRS payment amount = \$551.00, the case-mix weight = 1.9413, the wage index = 0.9860.

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**Step 1:** Calculate case-mix and wage-adjusted 60-day episode payment, including NRS.

National standardized 60-day episode payment amount for episodes beginning and ending in CY 2008:	\$2,270.32
Calculate the case-mix adjusted episode payment:	
Multiply the national standardized 60-day episode payment by the applicable case mix-weight: ( $\$2,270.32 \times 1.9413$ )	\$4,407.37
Divide the case-mix adjusted episode payment into the labor and non-labor portions:	
Labor portion: ( $0.77082 \times \$4,407.37$ )	\$3,397.29
Non-labor portion: ( $0.22918 \times \$4,407.37$ )	\$1,010.08
Wage-adjust the labor portion by multiplying it by the wage index factor for Greenville, SC: ( $0.9860 \times \$3,397.73$ )	\$3,349.73
Add wage-adjusted labor portion to the non-labor portion to calculate the total case-mix and wage-adjusted 60-day episode payment before NRS added: ( $\$3,349.73 + \$1,010.08$ )	\$4,359.81
Add NRS amount to get the total case-mix and wage 60-day episode payment including NRS: ( $\$551.00 + \$4,359.81$ )	<b>\$4,910.81</b>

**Step 2:** Calculate wage-adjusted outlier threshold.

Fixed dollar loss amount = national standardized 60-day episode payment multiplied by 0.89 FDL ratio: ( $\$2,270.32 \times 0.89$ )	\$2,050.58
Divide fixed dollar loss amount into labor and non-labor portions:	
Labor portion: ( $0.77082 \times \$2,020.58$ )	\$1,557.50
Non-labor portion: ( $0.22918 \times \$2,020.58$ )	\$463.08
Wage adjust the labor portion by multiplying the labor portion of the fixed dollar loss amount by the wage index: ( $\$1,557.50 \times 0.9860$ )	\$1,535.70
Calculate the wage-adjusted fixed dollar loss amount without NRS by adding the wage-adjusted portion of the fixed dollar loss amount to the non-labor portion of the fixed dollar loss amount: ( $\$1,535.70 + \$463.08$ )	\$1,998.78
Calculate the fixed dollar amount of NRS:	
Multiply the NRS payment amount by the FDL ratio: ( $\$551.00 \times 0.89$ )	\$490.39
Divide the NRS fixed dollar loss amount into labor and non-labor portions:	
Labor portion: ( $0.77082 \times \$490.39$ )	\$378.00
Non-labor portion: ( $0.22918 \times \$490.39$ )	\$112.39
Wage-adjust the labor portion by multiplying the labor portion of the NRS fixed loss amount by the wage index: ( $\$378.00 \times 0.9860$ )	\$372.71
Add the wage-adjusted labor portion to the non-labor portion for the total NRS amount: ( $\$372.71 + \$112.39$ )	\$485.10
Calculate the total wage-adjusted fixed dollar loss amount including NRS by adding the wage-adjusted fixed dollar loss amount of NRS to the wage-adjusted fixed dollar loss amount without NRS: ( $\$485.10 + \$1,998.78$ )	\$2,483.88
Add the case-mix and wage-adjusted 60-day episode amount including NRS and the wage-adjusted fixed dollar loss amount including NRS to get the wage-adjusted outlier threshold: ( $\$4,910.81 + \$2,483.88$ )	<b>\$7,394.69</b>

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**Step 3:** Calculate the wage-adjusted imputed cost of the episode.

Multiply the total number of visits by the national average per-visit amounts:	
30 skilled nursing visits x \$104.91	\$3,147.30
20 home health aide visits x \$47.51	\$950.20
13 physical therapy visits x \$114.71	\$1,491.23
Calculate the wage-adjusted labor and non-labor portions for the imputed skilled nursing visit costs:	
Labor portion: $(0.77082 \times \$3,147.30)$	\$2,426.00
Non-labor portion: $(0.22918 \times \$3,147.30)$	\$721.30
Adjust the labor portion of the skilled nursing visits by the wage index: $(0.9860 \times \$2,426.00)$	\$2,392.04
Add the wage-adjusted labor portion of the skilled nursing visits to the non-labor portion for the total wage-adjusted imputed costs for skilled nursing visits: $(\$2,392.04 + \$721.30)$	\$3,113.34
Calculate the wage-adjusted labor and non-labor portions for the imputed home health aide visits:	
Labor portion: $(0.77082 \times \$950.20)$	\$732.43
Non-labor portion: $(0.22918 \times \$950.20)$	\$217.77
Adjust the labor portion of the home health aide visits by the wage index: $(0.9860 \times \$732.43)$	\$722.18
Add the wage-adjusted labor portion of the home health aide visits to the non-labor portion for the total wage-adjusted imputed costs for home health aide visits: $(\$722.18 + \$217.77)$	\$939.95
Calculate the wage-adjusted labor and non-labor portions for the imputed physical therapy visits:	
Labor portion: $(0.77082 \times \$1,491.23)$	\$1,149.47
Non-labor portion: $(0.22918 \times \$1,491.23)$	\$341.76
Adjust the labor portion of the physical therapy visits by the wage index: $(0.9860 \times \$1,149.47)$	\$1,133.38
Add the wage-adjusted labor portion of the home health aide visits to the non-labor portion for the total wage-adjusted imputed costs for physical therapy visits: $(\$1,133.38 + \$341.76)$	\$1,475.14
Total wage-adjusted imputed per-visit costs for skilled nursing, home health aide, and physical therapy visits during the 60-day episode: $(\$3,113.34 + \$939.95 + \$1,475.14)$	<b>\$5,528.43</b>

**Step 4:** Calculate the amount absorbed by the HHA in excess of the outlier threshold:

Subtract the outlier threshold from (Step 2) from the total wage-adjusted imputed per-visit costs for the episode from (Step 3): $(\$5,528.43 - \$4,910.81)$	<b>\$617.62</b>
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**Step 5:** Calculate the outlier payment and total episode payment.

Multiply the imputed amount in excess of the outlier threshold absorbed by the HHA from (Step 4) by the loss sharing ratio of 0.80: $(617.62 \times 0.80) =$ outlier payment	\$494.10
Add the outlier payment to the case-mix and wage-adjusted 60-day episode payment, including NRS, calculated in (Step 1): $(\$494.10 + \$4,910.81)$	\$5,404.91
Total payment for the episode, including the outlier payment.	\$5,404.91

**Contractor Requirements**

- Return claims to the provider if:
  - The new Health Insurance Prospective Payment System (HIPPS) codes are submitted on episodes beginning before January 1, 2008.

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- The current HIPPS codes are submitted on episodes beginning on or after January 1, 2008.
- Claims for episodes beginning on or after January 1, 2008, contain more than one revenue code 0023 line.
- Validate the treatment authorization code except where condition code 21 is present on the claim.
- Revise the provider submitted HIPPS to the correct code based on the number of therapy services billed.
- Ensure that the provider submitted HIPPS code on a claim or adjustment accurately reflects the position of the episode within a sequence of adjacent HH episodes. (Sequence of adjacent episodes is defined as episodes with no more than 60 days between each episode end date and the next episode start date).
- Use new HH Pricer module containing modification for the CY 2008 annual updates (i.e., revisions to the base rates, per visit rates, wage index, labor and non-labor portions, etc.) and revisions reflecting case-mix refinement policies.
- Ensure that claims and adjustments submitted with HIPPS containing 1 or 2 in the first position represent the first or second episode in a sequence.
- Identify claims and adjustments with HIPPS codes misrepresenting first or second episodes for re-coding and re-code such claims and adjustments using the last nine positions of the treatment authorization code and the re-coding logic.
- Return claims and adjustments re-coded to adjust the episode sequence to the HH Pricer.
- Adjust previously paid episodes when the receipt of earlier dated episodes changes their position in a sequence of episodes.
- Calculate a supply adjustment amount and add it to the otherwise calculated payment amount for the episode.
- Include an add-on amount to per visit payment calculations for LUPAs made on first episode in a sequence.
- Add additional payment to the first revenue code calculated on LUPA claims for first episodes in sequence.

#### **Record Layout and Pricer Logic Changes for CY 2008**

- Refer to [Addendums S](#) and [T](#) for changes input/output record layout and Pricer logic for 60-day episodes beginning on or after January 1, 2008.

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