

December 2008

Unstable Ground: The Fiscal Instability of Home Care in New York State

EXECUTIVE SUMMARY

A recent HCA/NYAHSA membership survey, combined with a detailed analysis of Medicaid cost reports, reveals that as a result of inadequate reimbursement relative to actual costs, more and more home care agencies (i.e., CHHAs and LTHHCPs) in New York are financially compromised.

What emerged from the analysis is a troubling picture of financially vulnerable organizations struggling to maintain access to high quality services to New Yorkers of all ages needing care in the community. By almost every measure used to ascertain financial health, home care agencies are confronting unsustainable losses.

Since 1998, the state has cut Medicaid funding for home health services by over \$500 million. These cuts – combined with Medicare cuts and managed care reimbursements that are less than what Medicaid pays – have left the state's home care providers financially troubled and highly vulnerable in the event of further Medicaid reductions.

Furthermore, the HCA/NYAHSA survey data also clearly reveal that additional Medicaid cuts could lead many home care agencies to close, otherwise reduce services, reduce staffing, abandon technology investments and delay paying vendors. The resulting service disruptions could leave thousands of New Yorkers without access to essential home care services, and would place unsustainable and expensive pressures on other parts of the health care system.

Among the major findings of this analysis are the following:

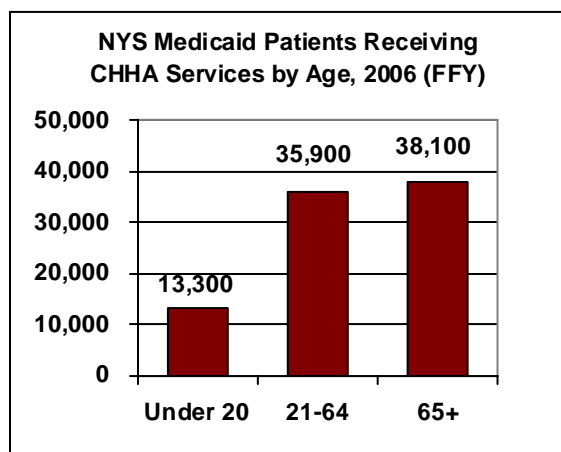
- 1. Most home care agencies are reporting operating losses due to inadequate reimbursement and rising costs.**
- 2. More home care recipients rely on Medicaid than any other insurer for their care.**
- 3. Further Medicaid cuts could cause nearly half of the state's home care agencies to close.**
- 4. Rural New Yorkers will be at high risk of losing home care services if Medicaid funding is further cut.**
- 5. Added Medicaid cuts will make it even harder for agencies to recruit and retain sufficient staffing.**
- 6. Many agencies will have to abandon technology investments that would improve quality and efficiency, due to Medicaid cuts.**

BACKGROUND

New York’s home care providers make it possible for individuals to receive the health care services and supports they need in the security and comfort of their own homes. Home care encompasses a broad spectrum of health, therapeutic and social services delivered at home to people who are disabled, chronically ill and/or recovering from an illness. Home care patients include newborns who need maternal-infant care services, children who need therapy services, chronically ill seniors who need skilled nursing care or home health aide assistance, patients who depend on life-sustaining home medical equipment and technology, and many other people of all ages.

There are two types of home care agencies that provide skilled medical care: certified home health agencies (CHHAs) and long term home health care programs (LTHHCPS). CHHAs are licensed by the NYS Department of Health (NYSDOH) to serve both Medicare beneficiaries and Medicaid recipients who need short-term, skilled nursing care. CHHAs provide preventive, therapeutic and supportive services including case management, nursing care, therapies, home health aide services and medical supplies and equipment suitable for home use. CHHAs may also provide home telehealth services. They can be sponsored by not-for-profit, for-profit and local government agencies. As shown in Figure 1, CHHAs served nearly 90,000 Medicaid-eligible New Yorkers of all ages in 2006.

Figure 1



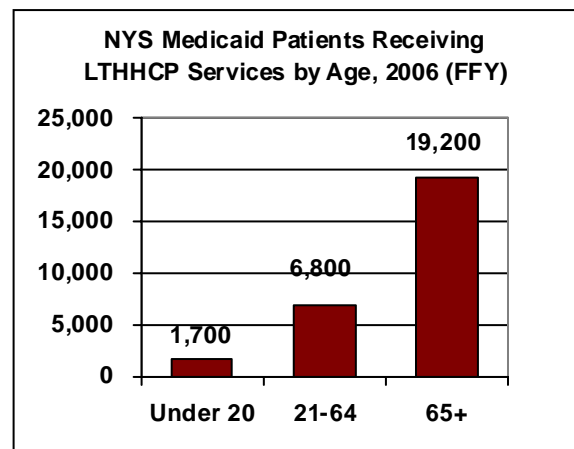
Source: NYS DOH Medicaid DataMart

The LTHHCP, also known as the “nursing home without walls,” provides home care services to frail,

disabled and chronically ill persons who are medically eligible for nursing home placement. Services provided include case management, nursing, home health aide, personal care, homemaker, housekeeper, medical social services, respiratory therapy, nutritional counseling, home-delivered and congregate meals, social day care, social transportation, in-home and facility-based respite care, personal emergency response systems, housing improvement/home adaptation, home maintenance services, moving assistance, medical supplies and equipment. LTHHCPS may also provide home telehealth services.

The program is able to provide these expanded home and community-based services under a special federal Medicaid waiver. This waiver allows the LTHHCPS to provide a comprehensive package of services that may not otherwise be available, but are essential for individuals who want and are able to remain in their own homes. As Figure 2 illustrates, LTHHCPS served over 27,000 Medicaid-eligible New Yorkers of all ages in 2006.

Figure 2



Source: NYS DOH Medicaid DataMart

New Yorkers are also served by licensed home care services agencies (LHCSAs). LHCSAs often provide home care services through contractual arrangements with CHHAs and LTHHCPS which are the focus of this report, as well as local departments of social services.

Despite the key role that CHHAs, LTHHCPS and LHCSAs play in efforts to rebalance the state’s long term care system towards more home and community-based care, these services have been the target of repeated Medicaid cuts. These cuts are increasingly threatening the viability of the entire

home health care system, along with the establishment of reforms needed to achieve a more person-centered service infrastructure.

CURRENT LANDSCAPE

Information from our member organizations has been indicating for several years that New York's home health care system is fragile. Though policymakers have stressed the importance of providing more services in people's homes and the community, recent home care funding cuts have undermined efforts to deliver cost-effective and comprehensive in-home care to thousands of New Yorkers who depend on these vital services as an alternative or follow-up to facility-based care.

In recent state budget actions affecting both 2008 and 2009, Medicaid funding for people who rely on home care services was reduced by \$140 million, in order to cut state spending by about \$70 million. These multi-year Medicaid funding cuts were the result of state budget negotiations at the start of the 2008-09 fiscal year in April 2008, and as part of further spending reductions to all sectors of the budget made in August 2008. Because state Medicaid spending is matched by federal funds, one dollar of savings to the state results in the loss of two dollars worth of services to Medicaid home care recipients.

In November 2008, Governor David Paterson proposed another \$300 million in cuts to home and community-based services as part of a \$5.2 billion deficit-reduction plan. The Legislature did not act on these proposals.

To better understand the ramifications of Medicaid cuts, we conducted a survey of our home care agency and program members in which we asked about actions that they were taking and were likely to take in response to further funding cuts.

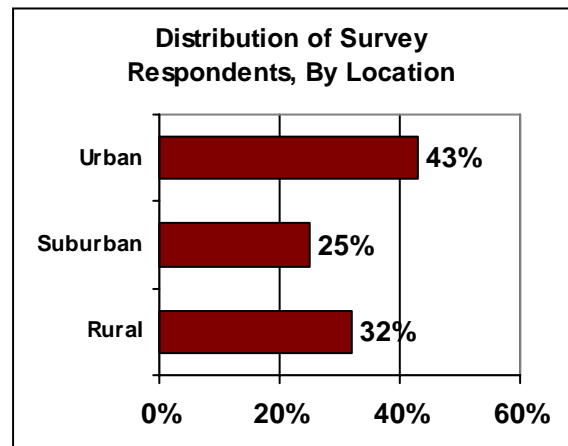
To obtain a more comprehensive picture of the financial health of home care providers, we also analyzed most recently available financial data each agency and program files with the state. In combination, the survey and analysis paint a clear picture of the financial plight of home care providers, their ability to withstand further Medicaid reimbursement cuts and the implications to patients that depend on these services every day.

SURVEY OF HOME CARE PROVIDERS

In October 2008, the Home Care Association of New York State (HCA) and the New York Association of Homes and Services for the Aging (NYAHS) jointly surveyed our home care agency and program members to learn more about their current fiscal situation, and to broaden understanding about the impact of any future Medicaid cuts.

Ninety-one agencies, representing nearly 40 percent of all CHHAs and LTHHCPs in the state, responded to our survey. Respondents included 46 CHHAs, 34 LTHHCPs and 11 entities that operate both a CHHA and a LTHHCP. Providers in 36 counties as well as all five New York City (NYC) boroughs were represented in the responses, and there was a good mix of service locations as shown in Figure 3.

Figure 3



Providers were asked to consider a series of measures health care organizations might take in response to financial hardship (i.e., delay in paying vendors, staff reductions, borrowing for operating expenses, cutting programs/services, agency/program closure, etc.). Particular emphasis was placed on those measures that would have the most direct impact on individuals receiving home care services.

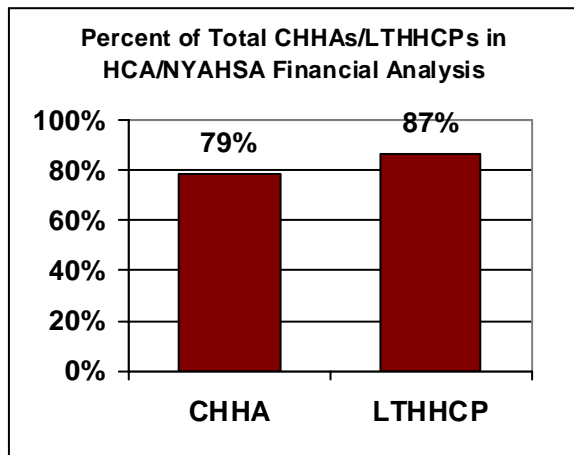
Respondents were then asked to assess whether the measure is already being taken, and how likely the organization would be to take the action if Medicaid funding were to be cut by five percent or ten percent.

Survey questions centered on three main areas: 1) overall agency or program fiscal health; 2) staffing challenges; and 3) issues concerning access to services, including the prospect of agency or program closure and potential service cutbacks.

COST REPORT DATA

In addition to the financial impact survey, HCA and NYAHSAs conducted a detailed analysis of 2006 CHHA and LTHHCP (most recently available) cost reports these home care providers are required to submit annually to NYSDOH. The cost reports provide hard data on provider finances that are reinforced in this report by the experiences expressed in the survey responses of home care providers.

Figure 4



These cost reports include each agency's/program's certified financial statements and other financial data. HCA and NYAHSAs have analyzed this financial information for 110 CHHAs (about 79% of all CHHAs in the state) and 94 LTHHCPs (approximately 87% of all LTHHCPs in the state) that filed 2006 calendar year cost reports, and we have used this analysis as a basis for our report.

To observe how the financial condition of these organizations has changed in recent years, we also analyzed 2004 cost report data and compared it to 2006.

KEY FINDINGS

What emerged from our analysis of the cost reports and member surveys is a troubling picture of financially vulnerable organizations struggling to

keep pace with cost increases while maintaining the quality of the services provided to people needing care in the community. Because costs have outpaced Medicaid, Medicare and managed care rates of reimbursement, most providers are losing money on operations, and the losses are worse than they were two years ago.

At the same time, the survey results clearly show that additional Medicaid cuts are likely to cause further program or service cutbacks that will decrease the availability of home care services for New Yorkers. Not only are providers already experiencing staffing shortages, cash flow difficulties and even program/agency closures, but overall provider financial and service stability is increasingly threatened under the prospect of further cuts in Medicaid funding.

Troublingly, many of the actions that home care providers would be forced to take, such as delays in filling staff vacancies or outright staff reductions, to say nothing of agency closure, would directly impact the availability of home care services in many areas of the state. Other actions, such as cutting training and delaying technology initiatives, will adversely affect the types and quality of services offered.

Our analysis, particularly the written comments shared by providers who completed the survey, shows that any additional financial pressure on home care providers will reduce their capacity to accept new patients, and force agencies to scale back services to such an extent that patients will either go without care or else spend more time in hospitals or other facilities. This would, in turn, create other serious problems elsewhere in the health system and increase overall health care costs.

The following is a detailed summary of the key findings from our analysis:

1. Most home health agencies in New York lost money on operations in 2006.

The most fundamental gauge of an agency or program's day-to-day financial health is its operating margin. It is calculated by subtracting operating expenses from operating revenues and dividing by operating revenues. A negative margin indicates that an organization is generating insufficient revenue to cover its expenses.

The number of home health agencies (CHHAs and LTHHCPs) that lost money on operations increased by approximately 18 percent between 2004 and 2006. In 2004, operating expenditures exceeded operating revenues in just over half, or 52 percent, of the agencies and programs we examined. Two years later, 62 percent of this same group of agencies and programs in the state were losing money. In 2006, approximately 29 percent of the LTHHCPs and 20 percent of the CHHAs in our study suffered operating losses of over \$500,000.

For the 94 LTHHCPs examined in our study, the median operating margin worsened from negative 4.1 percent in 2004 to negative 9.5 percent in 2006, with 75 percent of LTHHCPs in the state suffering operating losses. For the 110 CHHAs in our study, the median operating margin fell from a positive 1.9 percent to a money-losing negative 1.3 percent in 2006, with 53 percent of CHHAs in the state suffering operating losses (see Figures 5 and 6).

Figure 5

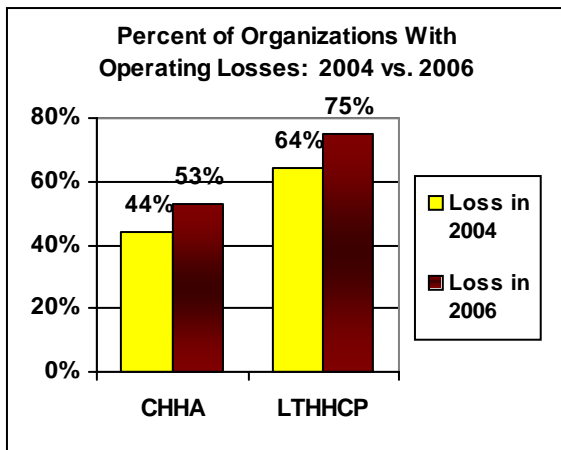
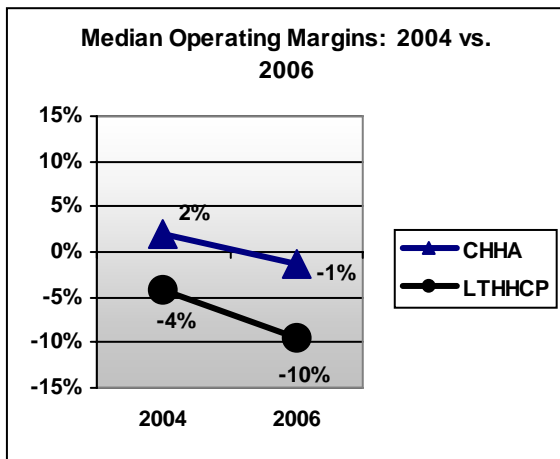


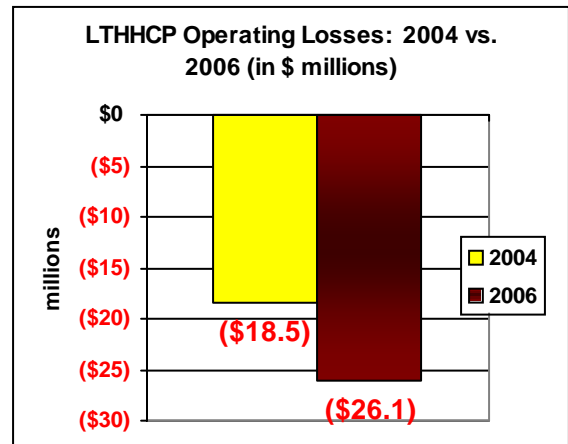
Figure 6



2. Total operating losses for all LTHHCPs increased by 41 percent from 2004 to 2006.

Between 2004 and 2006, total operating losses for all LTHHCPs increased from negative \$18.5 million to negative \$26.1 million, a 41 percent increase in operating losses during this period. An examination of the changes that occurred from 2004 to 2006 shows more plainly the negative financial trends facing New York’s LTHHCPs: increasing operating and bottom-line losses, inadequate Medicaid inflationary adjustments that failed to keep up with actual cost increases, cash flow disruptions and a Medicaid system that unfairly punished home care providers that were trying to become more efficient by utilizing technology (such as home telehealth monitoring) by subjecting them to Medicaid rate cuts due to their increased administrative and general (A&G) costs.

Figure 7



Because LTHHCPs serve Medicaid patients who are eligible for nursing home level of care, they are especially instrumental in reducing Medicaid costs by delaying or preventing admissions to nursing homes, an often more costly care setting. At the same time, LTHHCPs are especially vulnerable to Medicaid cuts because they serve a large proportion of poor, vulnerable New Yorkers.

3. Most home care agencies and programs serve a large proportion of Medicaid patients.

Medicaid is and has been the backbone of the home care system for providing care and services to New York’s elderly and young disabled population. Like other states, New York is also attempting to rebalance its Medicaid supported long term care

system from institutional-based care to more of an emphasis on home and community-based services.

In 2006, 85 percent of total statewide LTHHCP revenue and 57 percent of total statewide CHHA revenue came from Medicaid. While most LTHHCP patients are dually eligible for both Medicaid and Medicare benefits, Medicaid is usually the appropriate payor, since most of these patients are nursing home eligible with chronic medical needs that do not qualify them for Medicare home health services.

Further home care Medicaid cuts will not only exacerbate an already precarious situation for home care providers; they will also threaten New York’s commendable attempt to realign its long term care system to comply with the U.S Supreme Court’s *Olmstead* decision, which speaks to offering services in less restrictive settings.

services or liquidate long-term assets, is a very important factor in how lenders, management and other stakeholders evaluate an entity’s financial condition.

In our recently conducted survey, approximately 41 percent of all CHHA and LTHHCP respondents reported that their current cash flow situation is “worse” or “much worse” now than it was in 2007.

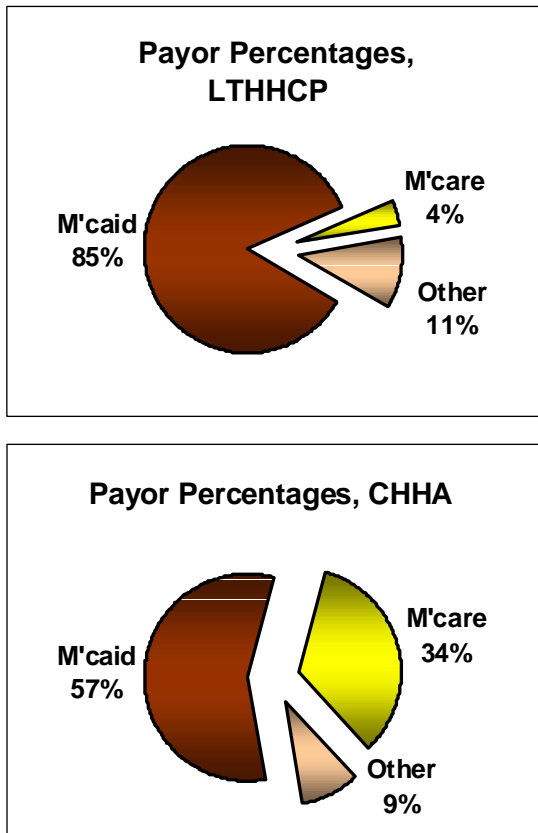
In some circumstances, this increased inability to meet basic short-term financial obligations is the first step towards bankruptcy and asset liquidation. More often, this lack of liquidity leads to technical insolvency, which limits a provider’s ability to invest in needed goods/services or to obtain credit.

5. Further Medicaid cuts will cause home care agency/program closures.

With recent Medicaid cutbacks, along with the prospect of additional funding reductions to come, access to home health care services in New York state is in jeopardy. This is all coming at a time when the care needs of home care patients are growing increasingly complex, due to quicker discharges from hospitals and state efforts to rebalance the long term care system from institutional care to more community-based care.

Since 2004, 14 New York home care agencies have closed or have been consolidated through mergers. Further closures or consolidations may make it more difficult for certain individuals – especially those in already underserved areas – to access needed home care services.

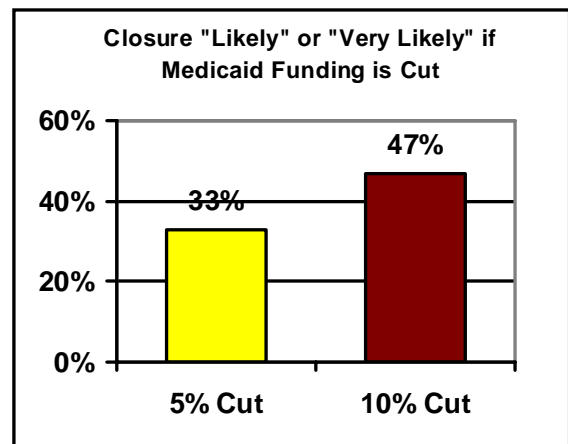
Figure 8



4. Cash flow is a serious problem for New York’s home care providers.

The ability to meet short-term financial obligations without having to borrow, discontinue or reduce

Figure 9



According to our survey, one-third of existing CHHAs and LTHHCPs will have to seriously consider closing if an additional five-percent Medicaid cut is imposed. A staggering 47 percent of these CHHAs and LTHHCPs will seriously consider closure if reductions to their Medicaid revenue approach ten percent.

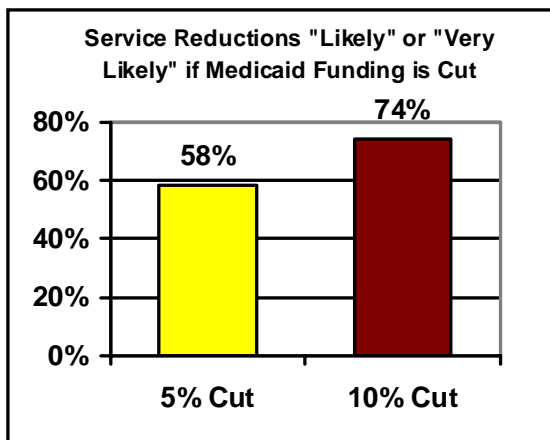
More specifically, our survey found that three percent of providers currently face the prospect of agency/program closure, even if no further Medicaid cuts are made. However, under a five - percent Medicaid cut, 25 percent of providers said that closure is “likely” and eight percent responded that it is “very likely.” Under a ten-percent Medicaid cut, 26 percent reported that closure is “likely” while 21 percent answered “very likely.” In other words, the probability of closures is dramatically higher under a 10-percent cut scenario.

As one county-sponsored agency reported, “if cuts are implemented, we will most likely be advised by our county legislature to close.”

6. Additional Medicaid cuts would lead to diminished access to services.

Respondents answered similarly to the likelihood of program or service cutbacks, with ten percent indicating that program or service reductions currently exist. Under a five-percent Medicaid cut, 37 percent responded “likely” and 21 percent responded “very likely” to the possibility of a reduction of programs/services. Under a ten-percent Medicaid cut, 19 percent responded “likely” and 55 percent responded “very likely” to having to reduce programs/services.

Figure 10



As one agency reported, “With a ten percent reduction, we would have to evaluate LTHHCP patients that need a high frequency of visits and may need to discharge them. We already turn down 400+ referrals per year related to lack of available staff. This will worsen.”

A county-sponsored agency noted: “If faced with a ten percent reduction, the county may force the Health Department to freeze hiring, which could just make it worse – lower staff, lower visits, lower caseload, leading to increased re-hospitalizations or institutional care for greater lengths of stay.”

7. The impact of added Medicaid cuts on rural New Yorkers would be especially severe.

New York has 43 rural counties. According to our cost report analysis, 62 percent of New York’s CHHAs and LTHHCPs serving patients in rural counties experienced operating losses in 2006. Furthermore, 19 rural counties have only one CHHA or LTHHCP providing skilled home care for Medicaid and Medicare recipients. In recent years, ten county-sponsored home care agencies have closed and more are considering closing. If any more of these vitally-needed rural home care agencies/programs close, people in large regions of New York will have no access to skilled home care.

8. Home care Medicaid cuts worsen already enormous staffing challenges.

An adequate and properly trained staff is essential to the delivery of home and community-based services now and, just as importantly, in the future to meet increased need as individuals grow older and the long term care system is rebalanced.

Unfortunately, agencies currently face shortages of professional and paraprofessional staff, experience delays in filling vacant positions, and have had to cut direct and non-direct care staff. Not surprisingly, the situation is expected to worsen for providers facing Medicaid cuts equaling five percent, and more so for providers facing a ten-percent Medicaid cut.

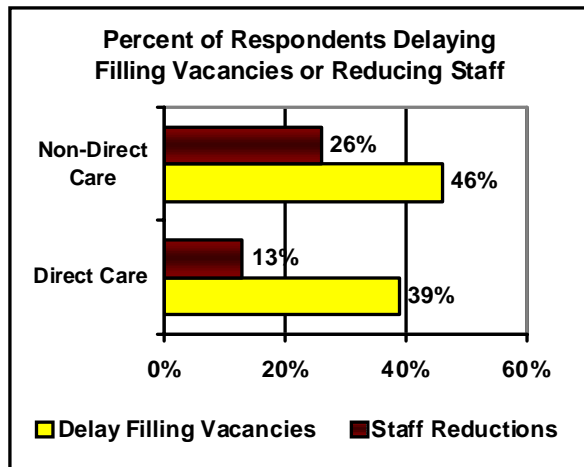
According to the HCA/NYAHSAs survey, 66 percent of CHHAs and LTHHCPs are currently experiencing shortages of professional staff and 66 percent are having more difficulty recruiting professional staff than they did one year ago. The picture for paraprofessional staff is equally bleak:

60 percent of agencies are experiencing a shortage of paraprofessional staff and 64 percent are having more recruitment difficulty than one year ago. In more global terms, 85 percent of respondents are encountering difficulties in maintaining the needed level of quality staff.

Agencies are also experiencing delays in filling vacant positions. Forty percent of programs are currently encountering delays in filling direct care staff vacancies – a phenomenon that will worsen if further Medicaid reductions occur. According to our survey, 26 percent of agencies have already reduced their non-direct care staff and 13 percent have reduced their direct care staff to shore up their financial base.

CHHAs and LTHHCPs expect to make further reductions if additional Medicaid cutbacks are made. Such actions will lead to less staff to provide home care and, as one member stated, result in hospital back-ups and a costly shift to institutional care, at a time when the system should be encouraging the provision of less costly services.

Figure 11



In analyzing the responses by geographic area, a larger percentage of suburban agencies have had to reduce their staff to deal with existing financial pressures, while rural agencies fared the worst in currently facing delays in filling direct care vacancies. A higher percentage of suburban than urban or rural agencies face shortages of professional and paraprofessional staff and are having more difficulties recruiting professional and paraprofessional staff in 2008 than one year ago.

9. Medicaid cuts seriously threaten needed technology investments.

In addition to agency/program closures and service cutbacks, which are already of serious concern, providers also indicated that they will be scaling back technology initiatives as a consequence of current and prospective cuts. Medicaid cuts that stymie provider-based technological innovation run counter to the state’s policy focus on health information technology through programs like the Medicaid home telehealth initiative, the Health Care Efficiency and Affordability Law (HEAL NY) and other efforts.

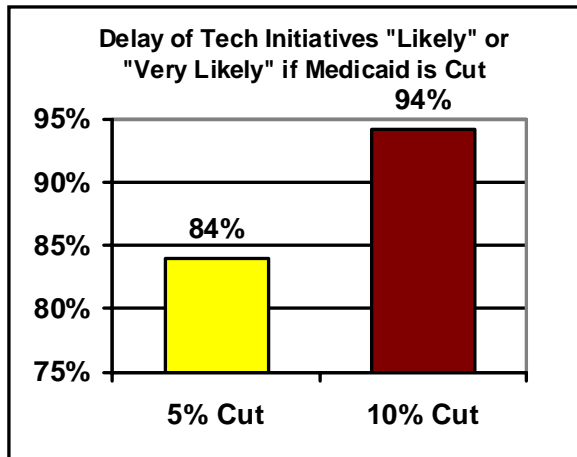
Health information technology is a proven, cost-efficient investment, and home health providers are an important locus for system-wide savings through applied use of information technology. For instance, home telehealth – which includes a range of technologies that allow home care clinical staff to monitor patients remotely through video or data links as a supplement to routine in-home visits – reduces hospitalizations, the incidence of emergent care and overall health care costs.

In fact, a recent study by economist Robert Litan found that widespread use of remote-monitoring systems could cut the nation’s health care costs by an astonishing \$197 billion over the next 25 years. New York’s Medicaid program could experience a share of these savings, but not with Medicaid cuts that will hamper provider innovation.

Meanwhile, providers and their patients also benefit from a variety of new health management technologies that reduce administrative costs by wirelessly linking data obtained by clinicians in the field with primary care physicians and integrated patient records systems.

According to the results of our survey, 34 percent of providers are already delaying or cancelling planned technology initiatives. Under a five-percent Medicaid cut, 57 percent said they would be “likely” and 27 percent “very likely” to delay or cancel technology initiatives. Under a ten-percent Medicaid cut, 24 percent responded “likely” and 70 percent responded “very likely” to the possibility of delaying or cancelling technology initiatives. This would represent a lost opportunity to not only enhance patient care, but also reduce overall health care costs.

Figure 12



As one agency reported, “Should a 10% cut go forward (or perhaps any further cut at all), we may be stopped from our planned December installation of a clinical and billing software upgrade which we anticipate will cut nursing office time and increase the productivity of our nurses.”

CONCLUSION

Our analysis of cost report data and 2008 survey responses clearly shows the negative financial realities facing New York’s home care providers, and the potential implications of new Medicaid cuts for New Yorkers of all ages who rely on these services.

The comparison of 2004 to 2006 data indicates that the financial health of these providers has worsened considerably. During this time, the number of CHHAs and LTHHCPs that reported negative operating margins sharply increased and cash flow disruptions became more commonplace.

In large part, these alarming developments were attributable to Medicaid rates not keeping pace with providers’ actual cost increases for staffing and other essential goods and services. Our survey data indicates that the negative financial trend observed from 2004 to 2006 is continuing, due in large part to Medicaid cuts.

The ramifications of major additional Medicaid cuts include the very real possibility of numerous CHHA and LTHHCP closures and other service cutbacks. This, in turn, would seriously affect the stability of the entire health care system as well as the quality of life of thousands of home care patients throughout the state, particularly those in rural areas who would have the most difficulty finding alternative services.

The health care system is complex and inter-dependent. Major disruptions in one sector – like home care – will pose new pressures elsewhere along the entire continuum of care. Further cuts to home care would simply drive up costs elsewhere, as patients who desperately need care at home will have no choice but to remain longer in the hospital, enter a nursing home, or forgo preventive, chronic care management and post-acute care altogether. This will undoubtedly lead to higher health care costs, through an increase in re-hospitalizations, emergency room use and other high cost services.

Moreover, these cuts would have real world implications for thousands of New Yorkers of all ages and their families who rely on CHHA and LTHHCP services to continue living in their own homes.