Report: State Budget Cuts Have Imperiled New York’s Home Health Care Delivery System

The Home Care Association of New York State (HCA) and New York Association of Homes & Services for the Aging (NYAHSA) have issued an alarming report on the fiscal condition of New York’s home health care community. Based on an analysis of official, independently-certified financial statements, this report, entitled *Vital Signs* (see attached), discovered that prior-year state budget cuts and unfunded mandates have forced:

- **70% of New York home care agencies** to be operating in the red.
- **79% of home care programs serving the chronically ill** to be operating in the red. These programs provide essential long term care services at home to nursing-home-eligible patients at an average of 50% of the cost of nursing home care.
- **83% of county-run home care agencies** to be operating in the red. These agencies are a lifeline in predominately rural communities, providing vital public health services in critical-need areas of the state.

HCA President Joanne Cunningham said: “Home care already saves millions of dollars by preventing higher-cost health services. These safety-net programs continue to save dollars, sustain lives, and support New York’s entire health system even against a tide of irresponsible budget cuts that have done little else than needlessly threaten their existence and deteriorate access to services. This course is unacceptable, especially as the home care community offers realistic, productive and workable efficiency and reform proposals that build upon existing models, further enhancing the system and protecting access to care.”

Dan Heim, NYAHSA Interim President/CEO, emphasized that cuts to home care will most likely increase Medicaid costs, not reduce them. “This starkly shows the consequences of setting policy through budget cuts,” he said. “Rather than promoting a coordinated long term care system that would provide frail New Yorkers with the most appropriate and cost-effective care, cut after cut has endangered the very existence of the vital home care services an increasing number of individuals will rely upon, whether funded by Medicaid or not. Destroying existing services will not eliminate the need for them; rather, it will only lead to adverse health outcomes and increased reliance on services in more expensive settings.”

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Further information

The findings of this report are based on the 2008 Medicaid Cost Reports that home care providers must submit to the state in order to participate in Medicaid. The reports provide official, independently-certified financial and statistical data. Of note:

1) **2008 is the most recent cost report year available**, since New York State uses two-year-old cost reports for setting provider reimbursement rates.

2) **Since 2008, the Legislature and Executive have enacted $434 million in state budget cuts to home and community-based providers** (see chart in Vital Signs report), meaning that the impact of these recent, unprecedented cuts **is not** reflected in this analysis.

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Background – Effect of State Actions on New York’s Home Care System

The Home Care Association of New York State (HCA) and the New York Association of Homes & Services for the Aging (NYAHSA) conducted an analysis of official, independently-certified financial statements, along with other data, to assess the impact of state budget cuts on New York’s home care system.

Key Findings At-a-Glance
A cross-method financial analysis of New York’s home care system yielded the following “Key Findings”

- 70% of home care agencies reported total operating losses
- 79% of LTHHCPs reported total operating losses
- 84% of all county-run home health agencies reported operating losses
- $75M – the impact of recent home care unfunded mandates
- 73% of providers expect to delay investment in life-saving, cost-saving technologies under a 10% Medicaid cut

Executive Summary

An analysis of official, independently-certified financial statements, along with other data, reveals that a devastating $434 million in state Medicaid cuts to home and community-based care enacted since April 2008, combined with other state actions, have pushed home care agencies to the brink financially, with perilous consequences for patients, families, communities and the health care system as a whole.

The vast majority of these cuts strike at the core of New York’s home care system: specifically, the state’s front-line Certified Home Health Agencies (CHHAs) and Long Term Home Health Care Programs (LTHHCPs) which directly support New York’s home and community-based Medicaid infrastructure.

CHHAs traditionally provide post-acute, preventive and rehabilitative health services to countless patients at home and also manage patients with chronic illness. LTHHCPs, also known as the “Nursing Home Without Walls,” offer long term care, including care management, at home to 25,000 to 30,000 elderly, disabled and chronically ill patients who are nursing-home-eligible, providing a cost-effective alternative to institutionalization.

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Patients depend on home care nurses, therapists, aides and other direct-care staff to manage complex health conditions at home, preventing illness, injury, and costlier levels of care. In addition, elderly New Yorkers and persons with disabilities rely on home care to support their independence through services otherwise available only in a facility. These programs are the safety-net for our entire health care system.

The Home Care Association of New York State (HCA) and the New York Association of Homes & Services for the Aging (NYAHSA) recently conducted a thorough financial analysis of home care providers in New York State. At the center of this analysis, HCA and NYAHSA examined the official, independently certified financial statements that CHHA and LTHHCP providers submit every year to the state. This analysis was further supplemented by a detailed survey of home care provider members.

HCA and NYAHSA’s cross-method analysis discovered, among other “key findings,” that an alarming 70% of home care providers are operating in the red, with many of these agencies approaching closure – and patients at risk of losing services – as state policies continue to erode the home care service infrastructure.

At the core of this analysis, HCA and NYAHSA examined the 2008 Medicaid Cost Reports that must be submitted by every CHHA and LTHHCP in the state. These independently-certified financial statements are required for agencies to participate in the state’s Medicaid program and are the intended vehicle for informing the state’s Medicaid reimbursement-setting policies.

Cost reports provide official financial and statistical data related to all categories of an organization’s revenues and expenses (not just for Medicaid, but for all payors). Given the array of reliable, independently-certified data shown in these reports, the documents are a fundamental instrument for gauging an organization’s financial health, especially in the context of discussions about Medicaid policy.

It should be noted that 2008 is the most recent data year available to HCA and NYAHSA, given that the state uses two-year-old cost reports as a base for setting provider reimbursement rates; therefore, the financial impact of $434 million in enacted state budget cuts to home care since 2008 will not be evident in the reports.

As a supplement to the cost report analysis, HCA and NYAHSA also surveyed their CHHA and LTHHCP members to assess the impact of recent cuts, since 2008, and to gauge the fiscal, operational and regulatory challenges confronting agencies that serve New York’s most vulnerable patients.

Blended together, the cost reports provide data about an agency’s operating margins as of 2008 – well before the home care system was hit with $434 million in unprecedented state budget cuts – while the home care provider surveys offer a more current “snapshot” of provider experiences since that time.

What follows on page 3 is a summary of key findings from the HCA/NYAHSA analysis.
**Key Findings**

1. According to the HCA/NYAHSA cost report analysis, **more than 70% of New York’s home care providers had negative operating margins in 2008**, and the size of those losses is mounting, due to chronic reimbursement cuts and unfunded mandates. For two-thirds of those providers operating in the red, the depth of operating losses increased from the amount reported in 2007.

   In this context, CHHAs face a unique crisis as they wait for the state Department of Health (DOH) to issue them their final 2009 and 2010 Medicaid rates, which include massive retrospective rate reductions. These retroactive cuts will begin upon the federal government’s approval of the state’s Medicaid Plan Amendment. Thus, while the State Legislature and Executive have approved $434 million in cuts to home care since 2008, many of these providers still face a wave of retroactive cuts already budgeted by the state for that period. Like a financial “Doppler Effect,” those cuts will compound the impact of any future reductions proposed as part of the upcoming budget process.

2. **Medicaid cuts have greatly and disproportionately hit high-need providers like the LTHHCP.** The LTHHCP is a cornerstone of New York’s community-based long term care system and is essential to the functioning of the state’s entire health care continuum, providing long term care at half the Medicaid rate paid for nursing home care.

   LTHHCPs exclusively serve high-need patients, from individuals with severe disabling conditions to the chronically ill and frail elderly, all of whom would otherwise require care in a facility. The LTHHCP, therefore, produces great cost savings to the system. The LTHHCP – because it primarily serves nursing-home-eligible individuals, the vast majority of whom are covered by Medicaid – has been disproportionately affected by state budget cuts.

   HCA and NYAHSA’s cost report analysis found that: **79% of LTHHCPs reported total operating losses in 2008**; the median operating margin for LTHHCPs fell from negative-6.7% in 2007 to negative-9.3% in 2008; 58% of LTHHCPs experienced operating losses in each of the past three years; and Upstate LTHHCPs saw their operating losses increase by 70% from 2007 to 2008. Additionally, the HCA/NYAHSA survey discovered that further disproportionate reductions of 10% or more would jeopardize the financial viability of 40% of these essential care providers.

3. According to the HCA/NYAHSA cost report analysis, **84% of all county-run home health agencies had operating losses in 2008**. These agencies provide vital public health services and are the safety net of the service delivery system for many areas of the state, especially in rural New York where health services are scarce.

   The consequences of this fiscal situation for patient care are very real. Nine county-run agencies have closed and/or sold their licenses in the last two years and an additional seven are in the process of closure or sale or are contemplating such action now, destabilizing the health care infrastructure in these predominately rural communities and threatening access to care.

4. **CHHAs and LTHHCPs report that new unfunded mandates and taxes have approached $75 million.** This $75 million in unfunded mandates compounds the $434 million in cuts to create the extreme financial instability of the home care infrastructure. In addition, this litany of unfunded mandates diverts precious staff time from actual home care services. Along with unfunded responsibilities, all home care providers also face a gross receipts tax, while providers in New York City, Long Island, Westchester, Rockland, Orange, Putnam and Dutchess counties must additionally pay a Metropolitan Transit Authority (MTA) commuter tax.

5. **Cuts and fiscal instability further block cost-saving and lifesaving technology investments.** Home care’s use of health-related technologies – including home telehealth, electronic medical records and disease-management technologies – has resulted in dramatic reductions in hospitalizations and ER visits, saving payors millions of dollars by reducing health system utilization.

   The state’s home care reimbursement methodology already lacks a component for capital support, and providers have been severely restrained in their technology development capacity due to the toll of previous cuts. Of further significance, according to the HCA/NYAHSA survey, **66.7% of providers reported that a 5% cut in Medicaid will delay or cancel new technology investments, while a 10% Medicaid cut will lead 73% of providers to delay investment in these lifesaving technologies.**
Conclusion

As HCA and NYAHSA’s study shows, New York’s home care system has already seen the effect of chronic rate and formula reimbursement cuts and past attempts to advance structural overhauls that, under the banner of Medicaid reform, have functioned as a back-door vehicle for imposing even deeper cuts, leading to the seriously destabilized home care infrastructure revealed in this study.

Meaningful reforms that make the system more efficient and enhance the care that New York provides its citizens are certainly possible. At the Association level, both HCA and NYAHSA have advanced productive reform and efficiency proposals that build off the strengths and opportunities created by the current infrastructure, supporting the effective models which have otherwise made New York a leader in home health and long term care.

It is clear from HCA and NYAHSA’s analysis that blunt reimbursement cuts – including cuts cloaked in the mantle of reform – cannot be the answer. With 70% of home care providers operating in the red and care for hundreds of thousands of patients at risk, it is obvious that the state’s recent cost-cutting efforts are threatening the viability of one of the most cost-effective and pivotal components of the health care system.

Mounting State Budget Medicaid Reductions to Home Care (2008 to present)

www.nyahsa.org

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