

Memorandum

To: Bobby Lolley, Executive Director; Home Care Association of Florida

From: Stephen Palmer, PhD; Principal, Health Management Associates

CC: Joel Overton, Senior Associate; Larry J. Overton and Associates

Debby McNamara, LCSW, PMP; Senior Consultant, Health Management Associates

Date: April 6, 2021

RE: Estimated impact of an increasing minimum wage on Medicaid funding needed for personal care services

Summary

Absent increases in Medicaid rates for personal care services, the increasing minimum wage in Florida will make the service no longer viable. By 2026, the industry will need an additional \$60 million per year compared to 2021 just to absorb the increase in the minimum wage, not taking into account any growth in utilization.

Background

Personal care services are routine, ongoing care or services required by an individual in a residence or independent living environment that enable the individual to engage in the activities of daily living or to perform the physical functions required for independent living. In the Florida Medicaid program, Medicaid reimburses for home health services (HHS) delivered by providers known as home health aides (HHAs), and personal care services (PCS), through which the delivering providers are known as personal care aides. The provider organizations that employ HHAs or personal care aides are primarily home health agencies. While home health agencies may provide skilled home health services (e.g., nursing, physical therapy, occupational therapy, and speech therapy) as well as personal care services, many specialize in personal care services only.

The primary payer for personal care services is Medicaid, which typically sets reimbursement rates through the State fee-for-service (FFS) delivery system with the goal of enabling providers to cover their costs and recognize a modest profit margin. Since almost all revenue for home

health agencies that specialize in personal care services is from Medicaid, the industry is very vulnerable to changes in Medicaid rates or changes to the cost of doing business. While a large portion of the Florida Medicaid program, including long-term services and supports like personal care services, is delivered through Medicaid managed care organizations (MCOs) which set their own rates, they typically pay at or near the FFS rates, so the FFS rates are usually a good proxy for rates in general.

The largest cost associated with running a home health agency is labor. Many personal care aides are paid near the current minimum wage and well below the level of the minimum wage as authorized by Amendment 2 from 2020, which will gradually increase the minimum wage to \$15 per hour.

Minimum Wage Schedule

The minimum wage increased by \$0.09 to \$8.65 per hour on January 1, 2021, and will increase to \$10 per hour on September 30, 2021, and then by an additional \$1 per hour on September 30 of each year through 2026 according to the following schedule:

| Table 1: Minimum Wage Schedule | |
|---------------------------------------|------------------------------------|
| <i>Date</i> | <i>Minimum Wage (per hour)</i> |
| September 30, 2021 | \$10 |
| September 30, 2022 | \$11 |
| September 30, 2023 | \$12 |
| September 30, 2024 | \$13 |
| September 30, 2025 | \$14 |
| September 30, 2026 | \$15 |

Florida Personal Care Services Reimbursement Rates

The base payment for personal care services is about \$15-\$18 with additions (“modifiers”) for providing care to multiple recipients, as shown in the tables below.

| Table 2: Personal Care Services Fee Schedule 2021¹ | | | | |
|--|--------------|--------------|---|--|
| <i>Code</i> | <i>Mod 1</i> | <i>Mod 2</i> | <i>Description</i> | <i>Max Fee</i> |
| S9122 | | | Personal care rendered by a home health service provider (1 to 24 hours per day) | \$15.00/hr |
| S9122 | TT | | Personal care rendered by a home health service provider (1 to 24 hours per day) provided to more than one recipient in the same setting. | \$15.00/hr – 1st recipient \$7.50/hr – 2nd recipient \$3.75/hr – each additional recipient |
| S9122 | UF | | Personal care rendered by a home health service provider (1 to 24 hours per day) provided by more than one provider in the same setting. | \$15.00/hr |
| S9122 | TT | UF | Personal care rendered by a home health service provider (1 to 24 hours per day) provided to more than one recipient by more than one provider in the same setting. | \$15.00/hr – 1st recipient \$7.50/hr – 2nd recipient \$3.75/hr – each additional recipient |

¹ https://ahca.myflorida.com/medicaid/review/Reimbursement/2021-01-01_Fee_Sched_Billing_Codes/Personal_Care_Services_Fee_Schedule_2021.pdf

| Table 3: Home Health Visit Services Fee Schedule 2021² | | | | |
|--|--------------|--------------|---|--|
| <i>Code</i> | <i>Mod 1</i> | <i>Mod 2</i> | <i>Description</i> | <i>Maximum</i> |
| T1021 | | | Home Health Aide (HHA) Visit-unassociated with skilled nursing services. | \$17.46/visit |
| T1021 | TD | | Home Health Aide (HHA) Visit-associated with skilled nursing services. | \$17.46/visit |
| T1021 | TT | | Home Health Aide (HHA) Visit-unassociated with skilled nursing services provided to more than one recipient in the same setting. | \$17.46/visit – 1st recipient \$8.73/visit – each additional recipient |
| T1021 | GY | | Home Health Aide (HHA) Visit-unassociated with skilled nursing services to a Dually Eligible Recipient | \$17.46/visit |
| T1021 | TD | TT | Home Health Aide (HHA) Visit-associated with skilled nursing services provided to more than one recipient in the same setting. | \$17.46/visit – 1st recipient \$8.73/visit – each additional recipient |
| T1021 | TT | GY | Home Health Aide (HHA) Visit-unassociated with skilled nursing services to a Dually Eligible Recipient provided to more than one recipient in the same setting. | \$17.46/visit – 1st recipient \$8.73/visit – each additional recipient |

² https://ahca.myflorida.com/medicaid/review/Reimbursement/2021-01-01_Fee_Sched_Billing_Codes/Home_Health_Visit_Services_Fee_Schedule_2021.pdf

Personal Care Expenditures

The following table shows the actual expenditures on personal care services and home health aide visits not associated with skilled nursing services for fiscal years (FY) 2019 and 2020. Note that the vast majority of spending was for code S9122 without a modifier, paid at \$15 per hour.

A typical visit is about an hour.

| Table 4: State Medicaid Expenditures on Personal Care Service by Type | | | | |
|--|-------------------|-------------------|---------------|---------------|
| <i>Procedure</i> | <i>Modifier 1</i> | <i>Modifier 2</i> | <i>FY2019</i> | <i>FY2020</i> |
| S9122 | ## | ## | \$80,019,991 | \$107,256,749 |
| S9122 | TT | ## | \$4,672,683 | \$6,024,326 |
| S9122 | TT | UF | \$22,988 | \$10,708 |
| S9122 | UF | ## | \$470,115 | \$791,905 |
| S9122 | UF | TT | \$105 | |
| T1021 | ## | ## | \$20,835,491 | \$18,497,621 |
| T1021 | GY | ## | \$7,361,369 | \$8,370,505 |
| T1021 | TT | ## | \$62,755 | \$33,306 |
| T1021 | TT | GY | \$126,003 | \$162,431 |
| Total Expenditures: | | | \$113,571,501 | \$141,147,551 |

| Table 5: Special Modifier Descriptions | |
|---|---|
| Modifier | Description |
| TT | Individualized service provided to more than one patient in same setting |
| UF | Services provided in the morning |
| GY | Item or service statutorily excluded, does not meet the definition of any Medicare benefit or, for non-Medicare insurers, is not a contract benefit |

A Day in the Life

A personal care aide or home health aide will typically work an eight-hour day, during which he or she will be able to make five or six home visits. Sometimes those home visits will involve providing services to more than one recipient, but the vast majority of the time, each visit will be for a single recipient. The following table provides an example of the daily revenues and costs for a home health agency for a single personal care aide or home health aide. For the cost per visit to the home health agency, we calculated a weighted hourly rate based on the hourly Medicaid reimbursement for each service and the relative contribution of each service to the total spend. Given the high proportion of personal care services paid at \$15 per hour, it should not be surprising that the weighted average (\$16 per hour) is close to that amount. For 2019, there were about 7 million paid claims for the codes analyzed herein for total expenditures of about \$114 million and in 2020, there were about 9 million paid claims for total expenditures of about \$141 million. The resulting average cost per claim for 2019 was \$15.78 and for 2020 it was \$15.65. The remainder of this analysis uses \$16 per hour as the weighted average for simplicity of exposition. This will result in a conservative estimate of the additional funding needed to enable the industry to absorb the higher minimum wage.

| Table 6: Anticipated Costs and Revenues Associated with a Single Personal Care Aide or Home Health Aide for a Single Day | |
|---|--------------|
| <i>Metric</i> | <i>Value</i> |
| Number of visits | 6 |
| Total hours worked | 8 |
| Hourly wage | \$10 |
| Rate per visit | \$16 |
| | |
| Wage costs | \$80 |
| Service revenues | \$96 |
| | |
| Overhead + margin | \$16 |

Impact of Increased Minimum Wage on Daily Cost Experience for Home Health Agencies

With an increasing minimum wage, the margin after covering labor costs will decrease and become negative well before the minimum wage reaches its peak. The following table shows the impact of the increasing minimum wage after covering labor costs. As above, this estimate is for a single personal care aide or home health aide for a single day.

| Table 7: Impact of Increased Minimum Wage on Home Health Agency Margins After Labor Costs per Personal Care Aide or Home Health Aide per Day | | |
|---|-------------------|--------------------------|
| <i>Min Wage</i> | <i>Wage Costs</i> | <i>Overhead + Profit</i> |
| \$11 | \$88 | \$8 |
| \$12 | \$96 | \$0 |
| \$13 | \$104 | -\$8 |
| \$14 | \$112 | -\$16 |
| \$15 | \$120 | -\$24 |

Impact of Increased Minimum Wage on Rates Necessary to Sustain the Industry

Assuming rates are designed to enable the same level of overhead and profit margins as in the example above (\$16 per personal care aide or home health aide per day), the rates themselves will need to increase by about 8% per year. The table below shows the projected appropriations that will be needed to enable the home health industry to absorb the increasing minimum wage and remain viable. By 2026, the increase in the minimum wage will necessitate state expenditures for personal care services approximately \$60 million more per year than would have been the case absent the minimum wage increase, and assuming no change in underlying demand. Note that this does not assume any growth in demand for the number of services provided.

| Table 8: Projected Funding Needed to Enable the Home Health Industry to Absorb the Increasing Minimum Wage | | |
|---|--------------------------------------|---|
| <i>Fiscal Year</i> | <i>Fiscal Year Spend³</i> | <i>Notes</i> |
| 2019 | \$113,571,501 | Actual |
| 2020 | \$141,147,551 | Actual |
| 2021 | \$141,147,551 | Assume flat from 2020 |
| 2022 | \$152,909,847 | Projected need based on increasing minimum wage |
| 2023 | \$164,672,143 | |
| 2024 | \$176,434,439 | |
| 2025 | \$188,196,735 | |
| 2026 | \$199,959,031 | |

Limitations

This analysis has several limitations, most of which suggest that the incremental funding needed to maintain an adequate network of providers may be higher than estimated here.

- *Aggressive assumption regarding number of visits per day* – Taking travel time into account, for which personal care aides and home health aides are paid, but for which the home health agency is not reimbursed, the assumption that the delivering providers can complete six hour-long visits in an eight-hour work day is pretty aggressive. As such, the incremental funding needed to maintain an adequate network of providers may be higher than estimated here.
- *Aggressive assumption regarding prevailing market wage* – This analysis assumes a starting prevailing wage for personal care aides and home health aides of \$10 per hour. In some markets, \$10 per hour may not be adequate to recruit the necessary workforce. As such, the incremental funding needed to maintain an adequate network of providers may be higher than estimated here.
- *Assumption of no growth in utilization* – The fiscal projections included herein do not assume any growth in demand for services. Given that, between FY 2019 and FY 2020, total state spending on personal care services grew by almost 25%, this suggests that

³ Refer to Table 4

there may be future increases in utilization, causing the incremental funding needed to maintain an adequate network of providers to be higher than estimated here.

- *Suspension of Redeterminations During the Public Health Emergency* – The suspension of eligibility redeterminations during the public health emergency as a condition of receiving the increased Federal Medical Assistance Percentages (FMAP) authorized under the Families First Coronavirus Relief Act may be the cause of the significantly increased spending between 2019 and 2020, in which case, the baseline perhaps should be closer to the 2019 spending level, which would cause the incremental funding needed to maintain an adequate network of providers to be lower than estimated here, but still at a similar scale.
- *Assumption of no other increasing costs due to increasing minimum wage* – Increasing wages for personal care aides and home health aides may put upward pressure on wages elsewhere within home health agencies, such as for supervisors or administrative staff. As such, home health agencies may be compelled to increase wages elsewhere within their organization causing the incremental funding needed to maintain an adequate network of providers to be higher than estimated here.