

APPENDIX: MODEL YEAR 6 HH UPDATE FACTOR CALCULATION

The Home Health (HH) case-mix classification system was replaced with a new system, the Patient-Driven Groupings Model (PDGM), on January 1, 2020. The PDGM classifies residents into payment groups based on their resource use within a 30-day period. There are five determinants of these resource-based payment groups: timing of admission, source of admission, clinical grouping, functional impairment level, and comorbidity adjustment. The PDGM also adjusts payments for low or high utilization of resources in the 30-day period through Low-Utilization Payment Adjustment (LUPA) and outlier payments.

To account for these payment system changes, the BPCI Advanced Home Health Update Factor for Model Year 6 will be calculated using three methodologies: one for FY2018-2019 baseline years, one for the FY2020 baseline year, and one for the FY2021 baseline year.¹ For the FY2018-FY2019 baseline years, the Home Health update factor has two components: One component uses baseline year claims and updates Target Prices from the baseline year to a reference period using the Home Health Resource Group (HHRG) payment rates (classification system prior to PDGM). The other component uses reference period claims and updates Target Prices from the reference period to the Model Year sub-period (Model Year 6 contains two sub-periods²: CY2023/FY2023 and CY2023/FY2024) and accounts for the change from HHRG to PDGM. The reference period must contain claims with both HHRG and PDGM data. However, the reference period must also have consistent rates throughout. For the HH update factors for Model Year 6, the reference period consists of claims with start dates between January 1st, 2018 and December 31st, 2018 (since HH payment rates are updated on a calendar year basis).³ For the FY2020 and FY2021 baseline years, the update factor uses baseline year claims and updates Target Prices from the baseline year to the Model sub-period.⁴

Among FY2018-FY2019 claims, it is possible that certain ACHs will have low or zero HH claim counts in the reference period. In order to avoid high variability in update factors due to low volume in the reference period and missing update factors due to zero volume in the reference period, the second component of the HH update factors will only be calculated individually for ACHs that meet a minimum threshold of 41 Clinical Episodes with HH spending during the reference period. If the ACH does not meet this threshold, the second component of

¹ Since the MY6 baseline contains FY2020 and FY2021, which only contains PDGM rates, the HH update factor methodology has been modified compared to prior Model Years.

² In the MY6 Preliminary Target Price run, Target Prices will be generated using FY2022/CY2022 rates. For subsequent updates, the Target Prices will be updated to match the relevant sub-periods in the MY6 Performance Periods.

³ More details on how claims are grouped to the reference period are discussed below in Step A3.

⁴ More details on the methodologies are discussed in Sections 1.2-1.3.

the HH update factor will instead be calculated using the ACH’s peer group.⁵ In case the peer group also does not meet the threshold, the second component of the HH update factor will instead be calculated using the national set of ACHs.

1.1 Update Factor Methodology for Baseline Years up through FY2019

- Step A1. Calculate three HH factors for each Acute Care Hospital (ACH), Clinical Episode Category and baseline year:** For each triggering ACH, Clinical Episode Category, and baseline (fiscal) year combination, calculate the HH factor (the average cost of an HHRG revenue unit) three times: once using baseline year claims⁶ grouped to Clinical Episodes initiated at the ACH, and HHRG rates from the calendar year overlapping the first quarter of the baseline year; once using these same baseline year claims but HHRG rates from the calendar year overlapping the last three quarters of the baseline year; and once using these same baseline year claims but HHRG rates from the calendar year of the reference period.⁷ An ACH’s factor for the HH setting for a specific Clinical Episode Category, baseline year, and payment rate year is defined as shown below for the HHRG payment model.⁸

$$F_{HHRG,P}^T = \frac{\sum_{i=1}^k HHRG_Wt_{i,P} * REV_UNIT_{HHRG,i}}{\sum_{i=1}^k REV_UNIT_{HHRG,i}} * base\ rate_{HHRG,P}$$

where P is the time period the base rate and HHRG weights are from, T is the time period claims are taken from, k is the number of HH lines the ACH has in the period T , i indexes these lines, $HHRG_Wt_{i,P}$ is the period P HHRG weight corresponding to line i and $REV_UNIT_{HHRG,i}$ is the Revenue Center Unit Count for line i , and $base\ rate_{HHRG,P}$ is the HHRG base rate in period P .

- Step A2. Calculate the first component of the update factor:** The first component uses baseline claims in both the numerator and the denominator as shown below. The denominator is calculated as a weighted average of factors for the calendar years that overlap the baseline year (since the baseline years are fiscal years while the HH payment rates, and hence factors, are updated every calendar year)

$$UF\ Component\ 1 = \frac{F_{HHRG,CY18}^{BY}}{0.25F_{HHRG,BY-1}^{BY} + 0.75F_{HHRG,BY}^{BY}}$$

where the superscript ‘BY’ represents that claims are taken from the baseline year in both the numerator and the denominator, and the different subscripts represent the time periods that the HHRG rates are taken from.

⁵ ACHs are considered to be in the same peer group if and only if they are in the same census division, have the same MTH-urban/rural status (options are MTH, urban non-MTH, and rural non-MTH), and have the same safety net status.

⁶ Baseline year claims are HH claims grouped to Clinical Episodes that have an Anchor Stay or Anchor Procedure end date in the baseline year.

⁷ Clinical Episodes before overlap resolution are used to calculate the update factor.

⁸ The formulae used to calculate the HH factors, payments, and final Update Factor are specific to an ACH, year, and Clinical Episode Category, although this is not explicitly represented in the formulae subscripts/superscripts.

Appendix Tables 1a and 1b display how the first component of the update factor is calculated for an example ACH that is having its historical costs updated from baseline year FY2019 to CY2022/FY2022 using a reference period for HH claims of CY2018. Since only the first two claims are grouped to Clinical Episodes with Anchor Stay or Anchor Procedure end dates in FY2019, only these claims are used to calculate the first component of the update factor. The numerator of the first component of the HH update factor is a simple average of the costs on the two claims grouped to FY2019 Clinical Episodes under CY2018 HHRG rates.

$$1st\ Component\ Num_{ACH} = \frac{100,000 + 150,000}{120} = 2,083.33$$

To get the denominator, the same FY2019 claims are used but they are priced once using CY2018 rates and once using CY2019 rates, since these are the calendar years overlapping FY2019. The CY2018 HH factor using FY2019 claims is a simple average of the costs for the FY2019 claims under CY2018 rates, or \$2,083.33. Similarly, the CY2019 HH factor using FY2019 claims is a simple average of the costs for the FY2019 claims under CY2019 rates, or \$2,500. CY2018 overlaps with FY2019 for one quarter, so the CY2018 factor receives a weight of 0.25, whereas CY2019 overlaps with FY2019 for three quarters, so the CY2019 factor receives a weight of 0.75. This results in a weighted average factor of \$2,395.83 for the denominator.

$$1st\ Component\ Denom_{ACH} = 0.25 * \frac{100,000 + 150,000}{120} + 0.75 * \frac{120,000 + 180,000}{120}$$

$$= 2,395.83$$

The 1st component of the update factor is equal to \$2083.33/\$2395.83, or 0.870.

Appendix Table 1a: Example of Component 1 of Update Factor for HH setting

Claim Number	Revenue Center Units	HHRG Payment Group	Anchor Stay/Anchor Procedure End Date of Episode	Costs under HHRG (CY2017 rates)	Costs under HHRG (CY2018 rates)	Costs under HHRG (CY2019 rates)
1	60	Group 1	1-Nov-2018	\$140,000	\$100,000	\$120,000
2	60	Group 2	17-Aug-2019	\$220,000	\$150,000	\$180,000
3	60	Group 1	13-Oct-2019	\$140,000	\$100,000	\$120,000
...

Note: The costs shown in this table incorporate the product of the base rate and the HHRG weight, additionally multiplied by the revenue units, for each claim.

Appendix Table 1b: Component 1 of Update Factor for HH Setting

Numerator	Denominator	Ratio
\$2,083.33	\$2,395.83	0.870

- **Step A3. For each ACH and Clinical Episode Category, calculate the total cost of reference period HH claims using HHRG reference period rates and Model Year sub-period PDGM rates:**

For each eligible ACH⁹ and Clinical Episode Category, calculate total payments for HH claims twice using reference period claims: once using reference period HHRG rates, and once using Model Year sub-period PDGM rates.

To ensure that the same set of HH claims are used in both the numerator and denominator of the second component, for MY6, reference period HH claims are defined as claims with a start date between January 1st, 2018 and December 31st, 2018, grouped to a BPCI Advanced Clinical Episode in the appropriate Clinical Episode Category; and for which both the HHRG and PDGM rates are available. PDGM rates are calibrated for a 30-day episode while the HHRG rates are calibrated for a 60-day episode.

The total cost of claims under the HHRG payment system is defined as shown below. This calculation is performed separately for each ACH and Clinical Episode Category combination.

$$C_{HHRG,P}^T = \frac{\sum_{i=1}^k HHRG_Wt_{i,p} * REV_UNIT_{HHRG,i} * base\ rate_{HHRG,P}}{60}$$

where P is the time period the base rate is from, T is the time period claims are taken from, k is the number of HH lines the ACH has in the period T , i indexes these lines, $HHRG_Wt_{i,p}$ is the period P HHRG weight corresponding to line i , $REV_UNIT_{HHRG,i}$ is the Revenue

⁹ An eligible ACH is defined as one that has at least 41 baseline Clinical Episodes in a given Clinical Episode Category. Final Clinical Episodes after overlap resolution are used to determine if the ACH meets the minimum threshold of 41 Clinical Episodes.

Center Unit Count for line i for claims (with expected length of 60 days), and base rate_{HHRG,P} is the HHRG base rate in period P .

Calculate the total cost of claims under PDGM in the reference period at the ACH and Clinical Episode Category level.

$$C_{PDGM,P}^T = \frac{\sum_{i=1}^J PDGM_Wt_{i,P} \times REV_UNIT_{PDGM,i}}{30} \times base_rate_{PDGM,P}$$

where P is the time period the base rate and PDGM weights are from. J is the number of claims (with expected length of 30 days) that the ACH has in the period T for the Clinical Episode Category, i indexes these claims, and REV_UNIT_{PDGM,i} is the Revenue Center Unit Count for the claim.¹⁰

- **Step A4. For each peer group and Clinical Episode Category, calculate the total cost of reference period HH claims using HHRG reference period rates and Model Year sub-period PDGM rates:**

For each peer group and Clinical Episode Category, calculate the total cost of HH claims twice: once using reference period HHRG rates, and once using Model Year sub-period PDGM rates.

- **Step A5. For each Clinical Episode Category, calculate the total cost of the national set of HH reference period claims using HHRG reference period rates and Model Year sub-period PDGM rates:**

Using the national set of reference period HH claims in a given Clinical Episode Category, calculate the total cost of HH claims twice: once using reference period HHRG rates, and once using Model Year sub-period PDGM rates.

- **Step A6. Calculate second component of the update factor:** The second component updates Target Prices from the reference period to the Model Year sub-period and accounts for the change from HHRG to PDGM as shown below:

$$UF \text{ Component } 2 = \frac{C_{PDGM,CY22}^{Ref \text{ Per}}}{C_{HHRG,CY18}^{Ref \text{ Per}}}$$

where the numerator is the total cost of HH reference period (CY2018) claims using PDGM rates from the Model Year sub-period (i.e. CY2022 rates¹¹) and the denominator is the total cost of HH reference period (CY2018) claims using HHRG rates from the reference period (i.e. CY2018 rates).

¹⁰ The costs described in this step and subsequently may not necessarily represent actual costs in the claims, which also include adjustments such as those for outlier payments.

¹¹ In the MY6 Preliminary Target Price run, Target Prices will be generated using FY2022/CY2022 rates. For subsequent updates, the Target Prices will be updated to match the relevant sub-periods in the MY6 Performance Periods.

For each ACH that meets a threshold of 41 Clinical Episodes with HH spending and an associated PDGM payment during the reference period in the Clinical Episode Category, use the individual ACH's total cost of reference period HH claims¹² from Step A3 to calculate the second component of the update factor. For ACH-Clinical Episode Category combinations that do not meet the 41 Clinical Episode threshold but belong to a peer group that does, use the peer group's total cost of reference period HH claims for the Clinical Episode Category from Step A4 to calculate the second component of the update factor. For ACHs that belong to a peer group that does not meet the threshold in a Clinical Episode Category, use the national total cost of reference period HH claims for the Clinical Episode Category from Step A5 to calculate the second component of the update factor.

Appendix Tables 2a and 2b continue the example from Appendix Tables 1a and 1b, and display how the second component of the example update factor is calculated. Claims 4 and 5 in Table 2a are considered reference period claims.

Since this is an illustrative example, we use a small number of claims and ignore the minimum volume threshold. If an ACH had only 2 reference period claims in the actual data, the second component of its update factor would be calculated either at the peer group level or at the national level. To get the numerator of the second component of the update factor, add the total cost of the reference period stays under PDGM CY2022 rates.¹³

$$\begin{aligned} 2nd\ Component\ Num_{ACH} &= \frac{82,000 + 49,000 + 75,000 + 42,000}{30} \\ &= \$8,266.67 \end{aligned}$$

To get the denominator of the second component, add the total cost of the reference period claims under HHRG CY2018 rates.

$$\begin{aligned} 2nd\ Component\ Denom_{ACH} &= \frac{300,000 + 136,000}{60} \\ &= \$7,266.67 \end{aligned}$$

To get the second component of the update factor, divide the numerator by the denominator, which gives $\$8266.67 / \$7266.67 = 1.138$.

¹² Recall that claims are removed from the reference period if rates are missing for the claim under either payment system.

¹³ Note that the costs of reference period claims in Appendix Table 2a incorporate the product of the respective base rates and weights, additionally multiplied by the revenue units; and thus are divided by 60 and 30 days for HHRG and PDGM, respectively, to calculate total costs.

Appendix Table 2a: Example of Component 2 of Update Factor for HH setting

Claim Number	HHRG Rev Units	PDGM 30 Day Episode ID	Claim Start Date	Cost Under HHRG (2018)	Cost Under PDGM(2022)
1	60	N/A	1-Nov-2018	\$100,000	N/A
2	60	0001	17-Aug-2019	\$150,000	\$66,000
3	60	0002	13-Oct-2019	\$100,000	\$43,000
4	60	0003	15-Jan-18	\$300,000	\$82,000
4		0004	15-Jan-18		\$49,000
5	60	0005	19-Sep-18	\$136,000	\$75,000
5		0006	19-Sep-18		\$42,000
6	60	N/A	10-Oct-18	\$50,000	N/A

Note: Claims that have HHRG rate but no PDGM rate are excluded from the calculations of the 2nd component. Further, the costs under HHRG and PDGM rates shown in this table incorporate the product of the respective base rates and weights, additionally multiplied by the revenue units; and need to be divided by 60 and 30 days, respectively, to calculate total costs.

Appendix Table 2b: Component 2 of Update Factor

Numerator	Denominator	Ratio
\$8,266.67	\$7,266.67	1.138

- **Step A7. Calculate the update factor:** Multiply the first and second components to calculate the update factor.

$$F_{HH,CY22}^{BY} = \frac{F_{HHRG,CY18}^{BY}}{0.25F_{HHRG,BY-1}^{BY} + 0.75F_{HHRG,BY}^{BY}} \times \frac{C_{PDGM,CY22}^{Ref Per}}{C_{HHRG,CY18}^{Ref Per}}$$

Continuing with the example from above, the update factor will be calculated as:

$$UF_{HH,CY22}^{FY19} = 0.870 \times 1.138$$

$$= 0.990$$

1.2 Update Factor Methodology for Baseline Year FY2020

- **Step A8. Calculate numerator components for each Acute Care Hospital (ACH), Clinical Episode Category and baseline year 2020:** For each triggering ACH, Clinical Episode Category, and baseline (fiscal) year 2020 with claims that have from dates in calendar year 2019 (denoted by superscript “2019” below), the total cost is defined as:

$$C_{HHRG,P}^{2019} = \frac{\sum_{i=1}^k HHRG_Wt_{i,P} \times REV_UNIT_{HHRG,i}}{60} \times base_rate_{HHRG,P}$$

where P is the time period the base rate and HHRG weights are from, k is the number of HH lines the ACH has in 2019, i indexes these lines, $HHRG_Wt_{i,P}$ is the period P HHRG weight corresponding to line i , REV_UNIT_i is the Revenue Center Unit Count for line i , and $base_rate_{HHRG,P}$ is the HHRG base rate in period P . Episode length for HHRG system for HHRG system is 60 days.

For each triggering ACH, Clinical Episode Category, and baseline (fiscal) year 2020 with claims that have from dates in 2020 or after (denoted by superscript “2020” below), the total cost is defined as:

$$C_{PDGM,P}^{2020} = \frac{\sum_{i=1}^J PDGM_Wt_{i,P} \times REV_UNIT_{PDGM,i}}{30} \times base_rate_{PDGM,P}$$

where P is the time the period base rate and PDGM weights are from, J is the number of HH lines the ACH has in 2020, i indexes these lines, $PDGM_Wt_{i,P}$ is the period P PDGM weight corresponding to line i , REV_UNIT_i is the Revenue Center Unit Count for line i , and $base_rate_{PDGM,P}$ is the PDGM base rate in period P . Episode length for PDGM system is 30 days.

For each triggering ACH, Clinical Episode Category, and baseline (fiscal) year 2020 with claims that have from dates in 2019, the total cost for Model sub-period is defined as:

$$C_{PDGM,CY22}^{2019} = C_{HHRG,CY18}^{2019} \times \frac{C_{PDGM,CY22}^{Ref_Per}}{C_{HHRG,CY18}^{Ref_Per}}$$

where $\frac{C_{PDGM,CY22}^{Ref_Per}}{C_{HHRG,CY18}^{Ref_Per}}$ represents the second component that is used for baseline years prior to 2020, which accounts for the change from HHRG to PDGM.

For each triggering ACH, Clinical Episode Category, and baseline (fiscal) year 2020 with claims that have from dates in 2020, the total cost for Model Sub-Period is defined as:

$$C_{PDGM,CY22}^{2020} = \frac{\sum_{i=1}^J PDGM_Wt_{i,CY22} \times REV_UNIT_{PDGM,i}}{30} \times base_rate_{PDGM,CY22}$$

- **Step A9. Calculate denominator components for each Acute Care Hospital (ACH), Clinical Episode Category and baseline year 2020:**

For each Acute Care Hospital (ACH), Clinical Episode Category and baseline (fiscal) year 2020, the denominator components denote the sum of two components:

$C_{HHRG,CY19}^{2019}$, the costs of claims that have from dates in 2019, based on CY19 HHRG rates;

$C_{PDGM,CY20}^{2020}$, the costs of claims that have from dates in 2020, based on CY20 PDGM rates.

- **Step A10. Calculate update factor for each Acute Care Hospital (ACH), Clinical Episode Category and baseline (fiscal) year 2020:**

$$UF_{PDGM,CY22}^{FY20} = \frac{C_{PDGM,CY22}^{2019} + C_{PDGM,CY22}^{2020}}{C_{HHRG,CY19}^{2019} + C_{PDGM,CY20}^{2020}}$$

1.3 Update Factor Methodology for Baseline Year FY2021

- **Step A11.** For each triggering ACH, Clinical Episode Category, and baseline (fiscal) year 2021, the total cost is defined as:

$$C_{PDGM,P}^{2021} = \frac{\sum_{i=1}^J PDGM_Wt_{i,P} \times REV_UNIT_{PDGM,i}}{30} \times base_rate_{PDGM,P}$$

where P is the time the period base rate and PDGM weights are from, J is the number of HH lines, i indexes these lines, $PDGM_Wt_{i,P}$ is the period P PDGM weight corresponding to line i , REV_UNIT_i is the Revenue Center Unit Count for line i , and $base_rate_{PDGM,P}$ is the PDGM base rate in period P . Episode length for PDGM system is 30 days.

- **Step A12.** Calculate update factor for each Acute Care Hospital (ACH), Clinical Episode Category and baseline (fiscal) year 2021; once using baseline year rates and once using Model sub-period rates as:

$$UF_{PDGM,CY22}^{FY21} = \frac{C_{PDGM,CY22}^{2021}}{0.25 C_{PDGM,BY-1}^{2021} + 0.75 C_{PDGM,BY}^{2021}}$$