Home Health Labor Cost Survey

Inflationary wage impacts on home health agency labor costs as of 2022 with implications for the future

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Submitted to:
Partnership For Quality Home Healthcare (PQHH)

Submitted by:

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HEALTH ECONOMICS CONSULTING

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Executive Summary

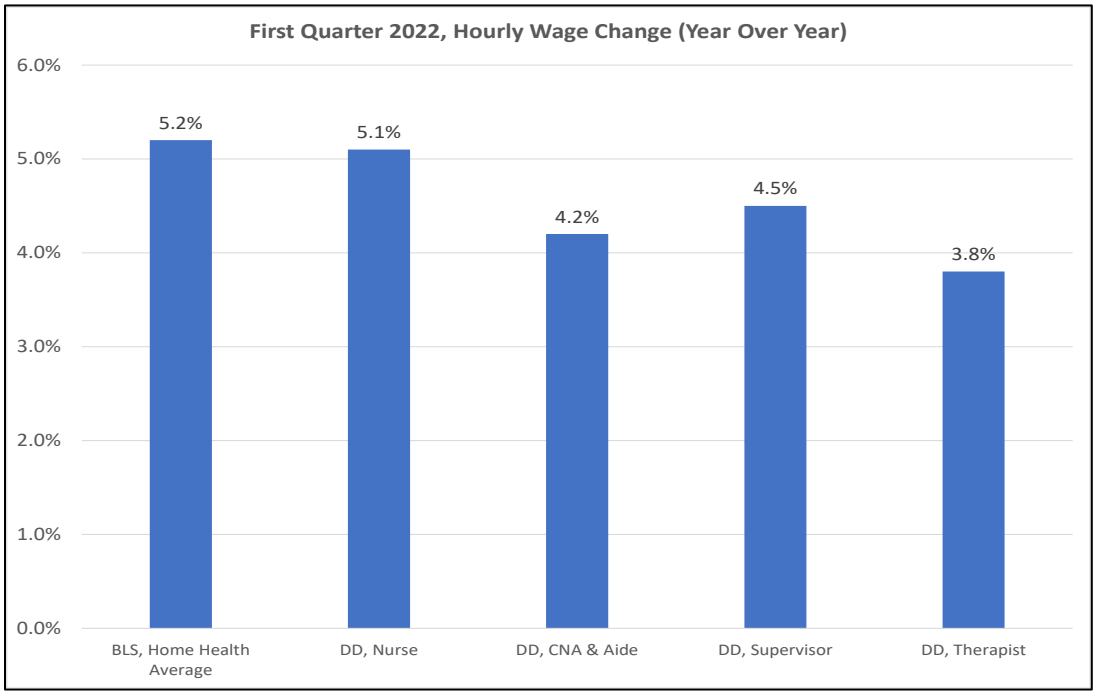
The Partnership for Quality Home Healthcare (PQHH) commissioned Dobson DaVanzo & Associates, LLC (Dobson | DaVanzo) to investigate changes in the home health labor costs of member agencies. This study is an update to an August 2021 study of home health wage trends. This 2022 update was conducted in response to current economic volatility from the continuing impact of the COVID-19 pandemic and the resultant shifts in the workforce, supply chain constraints, and inflationary pressures due, in part, to the war in Ukraine. In addition, and very importantly, fiscal, and monetary policy changes (such as increases in short term interest rates) are exerting new pressure with unknown outcomes.

In the August 2021 study, we estimated that "the average percent increase in wages is expected to rebound at 3.5%." At the time, the Centers for Medicare and Medicaid Services (CMS) and the federal government believed that the current inflation was temporary and that our estimate was too high. While our estimate was higher than the general belief at the time, it turned out to be low relative to our current findings

As illustrated in ***Exhibit ES-1***, the United States Bureau of Labor Statistics (BLS) recently found a home health overall wage inflation rate of 5.2% for the 1st quarter 2022. Also shown in ES-1 below, our updated 2022 home health labor survey found clinician-specific inflation rates ranging from 3.8% for therapists to 5.1% for nurses.

The BLS also found that hospital employee wages are increasing faster than those of the home health workforce. This finding means that home health agencies likely will be forced to increase wages for clinical staff more and more quickly than in prior time periods in order to be competitive.

Exhibit ES-1. Average Hourly Wage Year Over Year Inflation for 1Q2022



Source: Dobson | DaVanzo Analysis of BLS and PQHH Survey Data

According to individual confidential stakeholder interviews and survey results, the difficulty of maintaining operations during unexpected increases in wage inflation rates, home health agencies are currently being challenged to meet increasing demand for services by the following two factors:

1. Insufficient supply of clinicians; and
2. Home health staff turnover from employer competition.

These factors are briefly discussed below.

1. Insufficient supply of clinicians. Prior to the COVID-19 pandemic, employment demand in the home health industry increased steadily. During the pandemic, some clinicians exited health care, either permanently or temporarily, leaving home health agencies with an average of 59% filled positions during first-quarter 2022, as reported in our current 2022 survey. Reasons cited for exiting the industry include retirement, burn-out, vaccine mandates, and risk of developing COVID-19.

2. Staff turnover from competing offers from other employers. The insufficient supply of clinicians is not just experienced by home health agencies but is experienced by providers throughout the spectrum of health care. For home health agencies, more than half of participants in the current 2022 survey reported increased turnover from the prior year due to certain clinicians exiting the health care sector altogether. In addition, over half of respondents also reported increased turnover for clinicians shifting employment to other care settings. Moreover, individual confidential interviews of key stakeholders indicated that turnover within home health is fueled by recruiting efforts of facility-based providers which can offer higher compensation.

With inflationary pressures from the economy and staffing challenges within the healthcare sector, home health agencies may have limited response options, especially given regulatory constraints. Response options identified by survey respondents and key stakeholder interviews include the following:

- **More denials of referrals** – Having to turn away referrals is related to the inability to hire clinicians. This response choice was selected by 71% of survey participants as a factor affecting the number of services that could be provided. This factor was also identified during key stakeholder interviews.
- **Increased costs to recruit and retain staff**– In addition to increasing hourly rates, home health agencies are often seeking to offer competitive compensation through offering incentives, such as signing bonuses, performance bonuses, tuition assistance, and student loan payments.

We note that some healthcare providers are able to respond to short-term supply shortfalls with contract and PRN professionals, but that these clinicians represent only a small proportion of home health staff members --about 3% for contracted field staff and about 2% for PRN employees. However, volatility in current HHA contract compensation rates has nearly doubled in recent months, according to an interviewee.

Conclusion

Results from our quantitative survey and qualitative interviews highlight the increasing labor cost pressures home health agencies are currently facing. These results are consistent with contemporary news articles that observe tight labor conditions generally with more jobs available than individuals seeking employment.

Responses by home health agencies to labor challenges include increased utilization of non-FTE workers and large signing bonuses, and yet capacity constraints in the current labor climate were reported to have led to significant increases in turned-away referrals. Some

Medicare beneficiaries are especially impacted by reduced access to care as agencies focus service delivery in more dense geographic areas to increase efficiency.

The wage pressures associated with the current labor climate may be experienced, if not increased, over the long-term. Interview participants indicated that some health care staff are exiting clinical practice permanently due to early retirement or a change in career. As a result, provider inability to meet short-term wage demands will likely mean reduced home health capacity into the future. Home health agencies are working to meet demand for medical services in a labor climate that has "never been so tight: a record 1.9 jobs are available for every unemployed person."[1]

Reduced home health care capacity may disproportionately impact Medicare beneficiaries. CMS is a major payer in the health care sector, but beneficiaries may experience reduced access as Medicare payments lag environmental changes. Without a nimble response to a volatile labor situation, continued CMS reliance on methodologies that are appropriate only in a stable labor climate could result in barriers to access to home health care for Medicare beneficiaries.

Our survey instrument was designed to answer three questions:

1. What were the actual 2021 labor cost increases faced by PQHH membership?

The cumulative impact of the increases in 2020 and 2021 wages reported by survey respondents and reported by the BLS are very much larger than the cumulative payment increases for home health care agencies over the same time frame.

2. Will these rates of increase continue in 2022?

Survey data provided by participants indicate that wage inflation is continuing into 2022. These quantitative data are consistent with qualitative data provided during key stakeholder interviews. This finding is also consistent with the BLS estimates.

3. Will wage rate increases continue to play an outsized role in the 2022 HHA labor segment?

As wage increases are continuing into the third year, the 2022 home health agencies will likely continue to experience both staffing pressures and volatility calling for innovative recruiting and retention strategies noted by our respondents.

[1]The Economist. 2022, June 4. Finance and Economics.

Introduction

The Partnership for Quality Home Healthcare (PQHH) commissioned Dobson DaVanzo & Associates, LLC (Dobson | DaVanzo) to update the 2021 Home Health Labor Cost survey which examined the state of home health labor costs for PQHH member organizations and investigated the impacts of the COVID-19 PHE.

Since the fielding of the 2021 Home Health Labor Cost survey, home health providers have continued to experience unprecedented financial pressures as a result of the ongoing inflationary environment combined with the COVID-19 PHE-driven workforce shortages[2] and supply chain issues and federal monetary and fiscal policy changes. Although the BLS continues to report rising inflation[3], CMS home health payment updates do not accurately reflect these pressures. In the CY 2023 HH PPS proposed rule for instance, CMS proposes a market basket update factor of 3.3 percent[4]—a slight increase compared to 2.6 percent in CY 2022 HH PPS final rule[5]—although far below the reported nationwide rates of inflation.

In the 2021 Home Health Labor Cost survey, we correctly concluded that CMS had underestimated recent and future wage increases by using outdated historical data averaged over several years of low inflation. The survey also correctly indicated that the pressures exerted on HHA labor segment incentive pay were very much a part of overall wage inflation. Specifically, we estimated that "*the average percent increase in wages was expected to rebound at 3.5% in 2021 – an increase higher than the increase observed in*

[2] https://khn.org/news/article/pandemic-fueled-home-health-care-shortages-strand-patients/

[3] https://www.bls.gov/opub/ted/2022/consumer-prices-up-8-6-percent-over-year-ended-may-2022.htm

[4] https://www.federalregister.gov/documents/2022/06/23/2022-13376/medicare-program-calendar-year-cy-2023-home-health-prospective-payment-system-rate-update-home

[5] https://www.federalregister.gov/documents/2021/11/09/2021-23993/medicare-and-medicaid-programs-cy-2022-home-health-prospective-payment-system-rate-update-home

2019."[6] At the time, this observation ran contrary to government reports and private forecasts indicating that increased labor costs and other sources of inflation were temporary, and not of long-term concern. While CMS echoed the same predictions of a short-lived inflationary period in their CY 2022 HH PPS proposed rule, PQHH members thought otherwise at that time and indicated that, if anything, our survey results underestimated actual inflation. Indeed, inflationary pressures, especially on home health wages, continued to build later in 2021 and in 2022.

The goal of the 2022 survey is to continue collecting more current and trending data from the PQHH membership about increased labor costs, turnover among staff, and reasons for high staff turnover. This survey provides information critical to understanding the implications of the rapidly evolving US healthcare labor conditions on PQHH members' ability to recruit and employ the personnel necessary to fulfill organizational missions and meet the increasing demand for home health services. This survey is also intended to provide CMS and other policy makers with more timely information on home health wage growth—an important component of federal payment policies.

Consistent with applicable federal antitrust compliance guidelines, all individual agency survey responses are confidential and accessible only to Dobson | DaVanzo as an independent third party. Only aggregated data are reported, and all data reported based on the responses of at least 5 agencies that responded to the survey. In addition, weighting was performed to take into account the size dispersions among all home health providers nationally. After such weighting for agency size, no individual provider's data can be identified, and no individual provider's data represents more than 25 percent on a weighted basis of that statistic. As such, all information is aggregated such that it would not permit recipients to identify the price charged, compensation paid by, or any expected trend projected by any particular agency.

All recipients of this report are also reminded that the information contained herein should be used solely for its intended purpose and in compliance with all applicable antitrust laws. Recipients should not discuss, suggest, or agree to any coordination of their individual business decisions or disclose or discuss any of their competitively sensitive non-public information outside their organizations. Recipients should consult their individual legal counsel with any questions about appropriate antitrust compliance.

[6] Dobson DaVanzo & Associates, LLC (2021*). Home Health Labor Cost Survey. Understanding the impact of the COVID-19 Public Health Emergency (PHE) on home health agency labor costs*. Report Submitted to PQHH.

Methodology

To create the 2022 PQHH Labor Cost survey instrument, we analyzed the 2021 PQHH Labor Cost survey to identify and select relevant survey items. The key questions queried in the current study are:

1. What were the actual 2021 labor cost increases faced by PQHH membership?
2. Will these rates of increase continue in 2022?
3. Will wage rate increases continue to play an outsized role in the 2022 HHA labor segment?

Through an iterative development process as well as beta testing to update the survey, PQHH members provided feedback on the content of our survey as it was developed. Changes to the draft instrument were made to ensure clarity, as well as increase access to the requested information. Participants were required to input data and respond to open-ended questions. Several questions about staffing compositions were clarified to incorporate clinical and paraprofessional staff and employment types (i.e., contractual, full-time employment).

The survey contains several questions about industry organization, staff turnover, wages, benefits, and other labor costs relative to the provision of home health services for 2019 through 2022. We also pose a series of qualitative questions as to the impact of inflation on HHAs' ability to recruit and maintain labor. Directions to submit the survey via FTP and instructions not to share their links with any other respondents were provided. Dobson | DaVanzo provided technical assistance via email and phone throughout this period.

All data analyses were conducted using Microsoft Excel. Dobson | DaVanzo downloaded survey data in a Microsoft Excel file and quality checks were performed. We followed up with agencies with aberrant or missing data.

We note that the panel of participating PQHH members is not identical to the panel of members participating in the 2021 survey report. Depending on the survey items, the

number of responding PQHH members varied across select questions. We excluded from our analysis any question that did not meet the basic response requirements as noted by anti-trust guidance and regulatory standards. As our analysis was based on responses obtained which are not necessarily reflective of the national HHA labor sector, we weighted each response to account for the size dispersions among all home health providers nationally to better reflect the national dynamics.

To fully address the questions above, we also conducted individual confidential stakeholder interviews to gain insight about the current level of inflation for wages and other labor-related costs, and to determine if the rising labor costs noted in last year's survey had continued. We sought to determine if HHA labor segments are functioning in such a way as to allow PQHH members to identify, recruit and maintain an appropriate labor force to meet an expanding demand for their services.

The purpose of the stakeholder interviews was to collect qualitative data. The interview component was introduced to provide context to quantitative data responses and to enhance our understanding of the dynamics of the current operating environment. An experienced interviewer who has frequent contact with individuals from various health care sectors on an ongoing basis was selected to conduct these interviews. The questions were open-ended. As noted in this report, the interviews augmented the survey results by providing context to the relationships between labor segments, inflation, delivery of care, and the development of relevant payment policies

Survey and Interview Results

Results Overview

Six PQHH member organizations responded at least in part to the 2022 Labor Cost survey, and five industry leaders additionally participated in the interviews. Responding members represented home health agencies in the vast majority of all states and regions in the country. All respondents are well versed in clinical and operational aspects of home care delivery.

Below we present survey results on wage inflation, factors impacting home health labor supply and demand, and the demographics of home health agencies.

Wage Forecasts for Home Health Staff in 2022

In this section, we set the stage with a discussion of the results on home health labor costs from the Bureau of Labor Statistics (BLS). Throughout the section, we compare results from our study to those found by the BLS.[7] We end this section with BLS data on hospital wage inflation to show how the hospital labor segment could affect the home health labor segment.

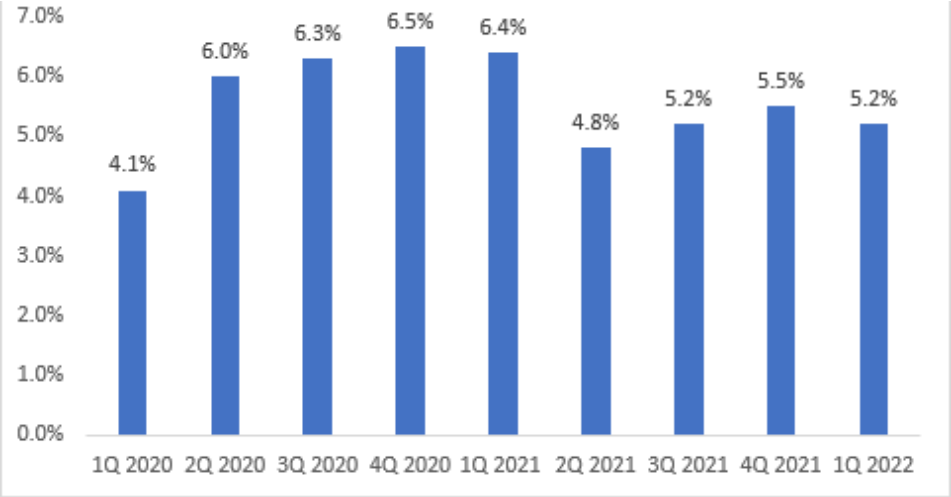
HOME HEALTH INDUSTRY WAGE INFLATION (BLS)

Exhibit 1a shows the Bureau of Labor Statistics (BLS) home health average hourly wage percent changes year-over-year by quarter. As shown in the graph, the inflation in home health hourly wages increases rapidly from 4.1 percent in the first quarter of 2020 to 6.5

[7] Bureau of Labor Statistics, U.S. Department of Labor, *Occupational Outlook Handbook*, Home Health and Personal Care Aides, at https://www.bls.gov/ooh/healthcare/home-health-aides-and-personal-care-aides.htm.

percent in the 4th quarter of 2020. We then observe a slight decrease in wage inflation between the first and second quarter of 2021, followed by a period of increase between the second quarter of 2021 (4.8 percent) and the 1st quarter of 2022 (5.2 percent). This finding suggests continued wage inflation in the home health labor segment and is consistent with previous estimates, but somewhat below the over 9 percent national average inflation estimate as of July 2022.

Exhibit 1a: Home Health Average Hourly Wage Y/Y by Quarter



Source: Bureau of Labor Statistics

WAGE INFLATION: NURSES

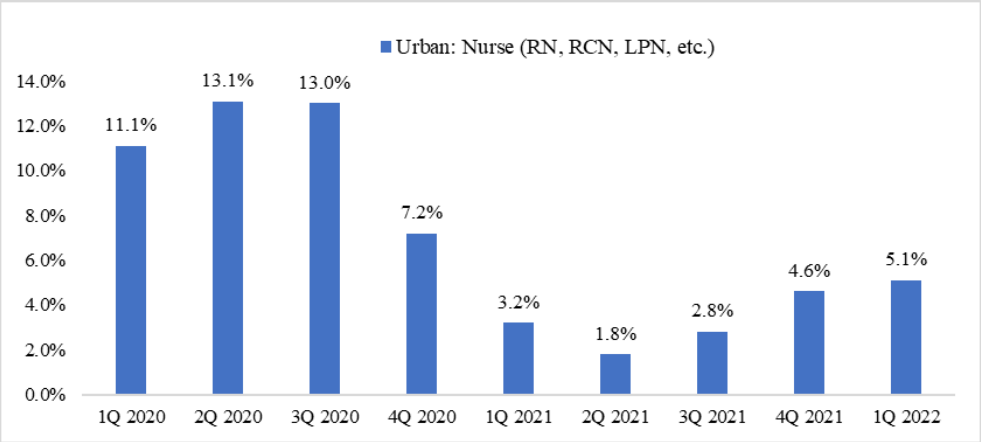
Exhibit 1b shows comparable statistics for PQHH respondents' average hourly wages for nurses. Similar to the trends in overall wage inflation from BLS in Exhibit 1a., inflation in nurse hourly wages increases in first quarter of 2020, dips in first and second quarter 2021, and rebounds to 4.6 percent in fourth quarter 2021 and 5.1 percent in first quarter 2022. The endpoints of both Exhibit 1a and 1b are about 5 percent.

These results are almost twice the estimates from last year's survey which predicted a 3.5 percent wage growth rate for the 2022 timeframe. Our results lie under those of BLS but reflect the BLS national trend rates. Working from this logic, the BLS data for 2020 and 2021 show a cumulative inflationary impact very much higher than the CMS payment increases cumulated over the same time frame.

It is important to note that inflation rates are cumulative over time. For instance, if inflation in year 1 increases by 5.0%, in year 2 increases by 6.4%, and in year 3 increases

by 5.8%, then the sum of 3-year increases results in a cumulative 17.2% inflation. Similarly, if CMS underestimates wage increases year after year, the miscalculation is cumulative in effect as well. This distinction is important during periods of increasing inflation as we are now experiencing.

Exhibit 1b: Average Percent Change in Hourly Wages for Nurses, Y/Y by Quarter

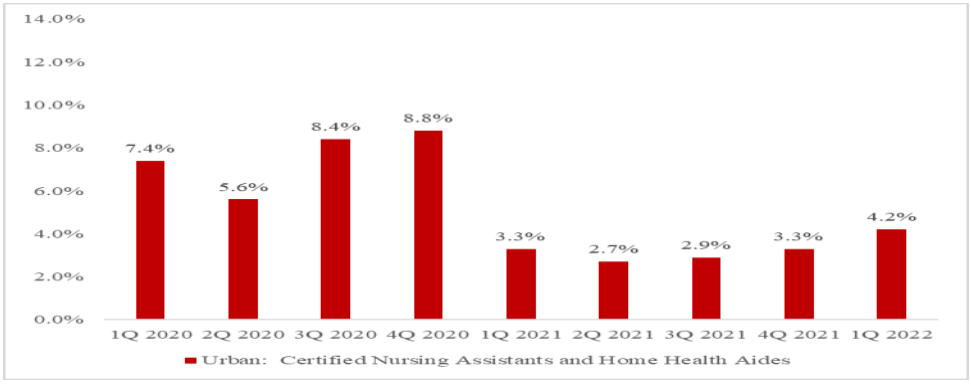


Note: Responses are based on nurses employed in urban areas.

WAGE INFLATION: CERTIFIED NURSING ASSISTANTS AND HOME HEALTH AIDES

As with Exhibits 1a and 1b, similar trends were noted in Exhibit 1c. Certified nursing assistants and home health aides saw a 4.2% growth year-over-year for the first quarter of 2022.

Exhibit 1c. PQHH Respondents' Certified Nursing Assistants and Home Health Aides Average Hourly Wage Y/Y by Quarter

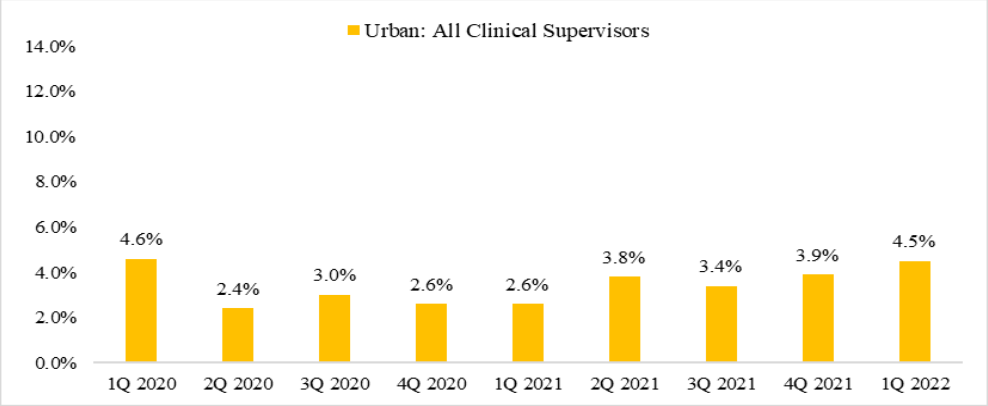


Note: Responses based on CNAs and Home Health Aides employed in urban areas.

WAGE INFLATION: CLINICAL SUPERVISORS

As shown in **Exhibit 1d**, inflation in hourly wages for Clinical Supervisors did increase as rapidly as for nurses, CNAs, and home health aides in 2020. However, wage inflation demonstrated for clinical supervisors began to increase markedly during the period from the fourth quarter of 2021 to the first quarter of 2022—growing from 3.4 percent to 4.5 percent in the first quarter 2022.

Exhibit 1d: Average Percent Change in Hourly Wages for Clinical Supervisor Y/Y by Quarter

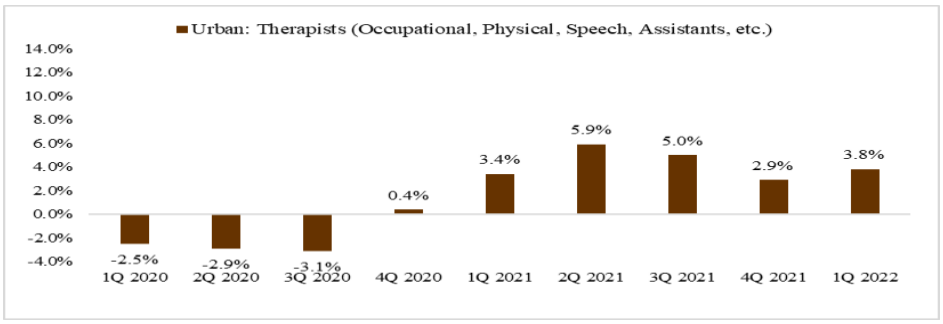


Note: Responses are based on Clinical Supervisors employed in urban areas.

WAGE INFLATION: THERAPISTS

Exhibit 1e shows the changing dynamics in the home health industry for therapy services. The first three-quarters, beginning with first quarter 2020 (-2.5%) and ending with the third quarter of the same calendar year (-3.19%), may show an overcorrection regarding the decline in therapy visits experienced during the 2020 calendar year, which over corrected in 2021.

Exhibit 1e: Average Percent Change in Hourly Wages for Therapists, Y/Y by Quarter

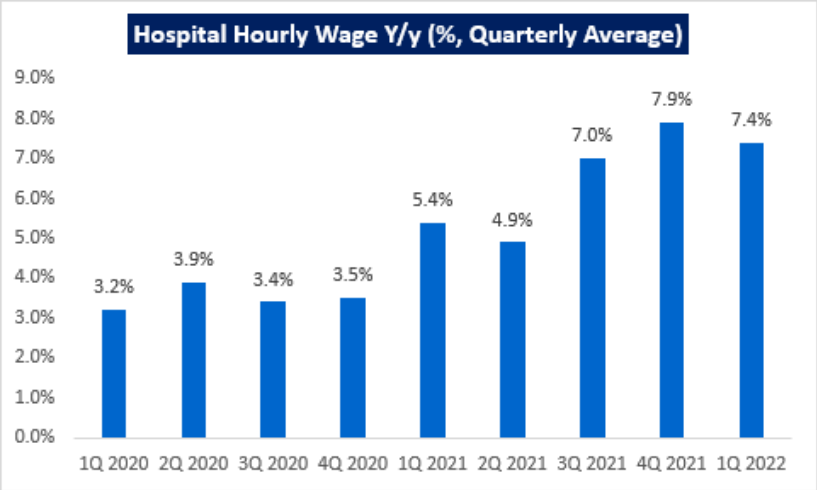


Note: Responses are based on therapists employed in urban areas.

OVERALL HOSPITAL LABOR WAGE INFLATION (BLS)

Exhibit 1f shows BLS reported hourly wage growth for hospitals. Similar to BLS reported wage inflation for home health labor (in **Exhibit 1a**), **Exhibit 1f** shows that hospital wage inflation increased in the second quarter of 2020, and dipped in the third quarter of 2020 and the second quarter of 2021, followed by a resurgence to highs of 7.9 percent in fourth quarter 2021 and 7.4 percent in first quarter 2022. These results suggest there will be upward pressures on home health industry labor wages in 2022, if not beyond as hospitals and home health agencies compete for the same staff.

Exhibit 1f: Hospital Hourly Wage Y/Y by Quarter

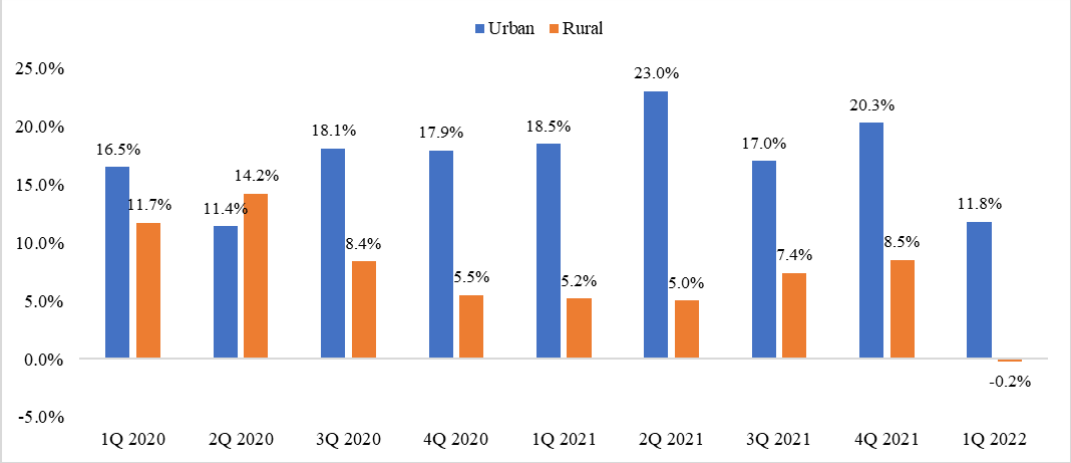


Source: Bureau of Labor Statistics

Growth in Administrative, General and Other Expenses

Exhibit 1g shows the percent change in administrative, general, and other expenses from 2020 to 2022 for PQHH respondents operating in both urban and rural areas. Administrative, general and other expenses are defined as administrative support, financial services, medical supplies, rubber and plastics, telephone, professional fees, other products and other services. As shown, the percent increase more than doubled in second-quarter 2021 at 23.0% compared to 11.4% in second-quarter 2020.

Exhibit 1g: Average Percent Change in Administrative, General and Other Expenses



As a final point, **Exhibit 1h** shows the cumulative change in nursing wages for 2020 and 2021 reported by PQHH respondents compared to cumulative overall home health care wages reported by the BLS.

As shown in the exhibit, the two year quarterly compounded wage growth rate for 2020 and 2021 reported by PQHH respondents is 14.5 percent compared to 11.5 percent reported by BLS. In comparison, the cumulative Medicare payment update for 2020 and 2021 is 4.6 percent. These measures indicate that PQHH members have experienced significantly greater increases in wage costs than corresponding reimbursement, with wage costs increasing 3.0 percentage points higher than rates reported by BLS and more than triple the Medicare payment update.

Exhibit 1h: Two Year Quarterly Compounded Wage Growth (2020 & 2021) from the PQHH Labor Market Survey as Compared to BLS and the Medicare Payment Update

Two Year Quarterly Compounded Wage Growth (2020 and 2021)	
Partnership Nursing Wages	14.5%
BLS All Home Health Care	11.5%
Medicare HH PPS Payment Update	4.6%

Source: BLS, PQHH Labor Cost Survey, CY 2023 HH PPS Proposed Rule

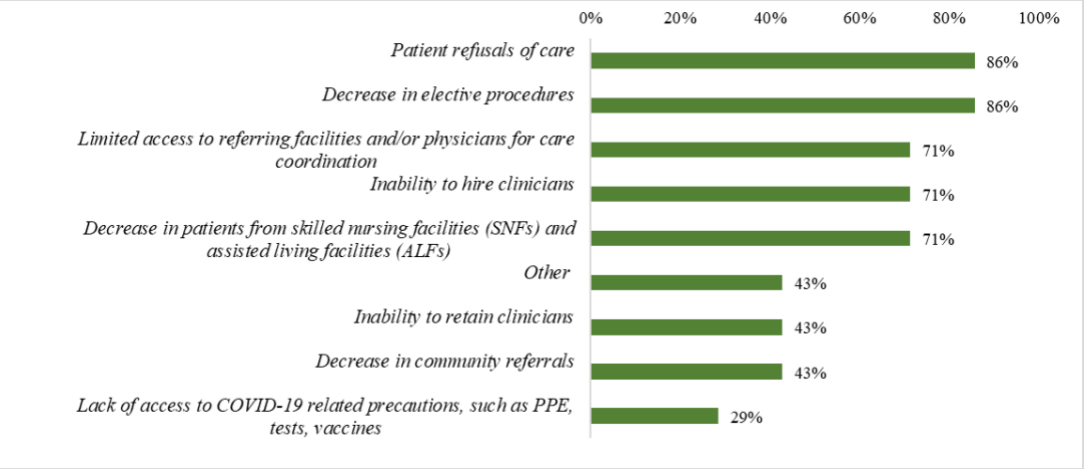
Factors Affecting Home Health Supply and Demand

FACTORS AFFECTING CHANGES IN DEMAND FOR HOME HEALTH SERVICES

Exhibit 2 shows the factors home health agencies reported as driving the reductions in home health care services provided between CY 2019 and CY 2020. The majority of agencies (86 percent) indicated that they experienced reductions in the number of home health episodes rendered between 2019 and 2020 because patients either refused care or because of the reduction in elective procedures.

Seventy one percent of agencies also cited that they experienced reductions because they had limited access to referring facilities and physicians for care coordination, could not hire clinicians, and/or experienced a reduction in referrals from SNFs and assisted living facilities.

Exhibit 2: Factors Affecting Changes in the Number of 30-day Periods or 60-day Episodes Delivered by Home Health Agencies in CY 2020 as Compared to CY 2019



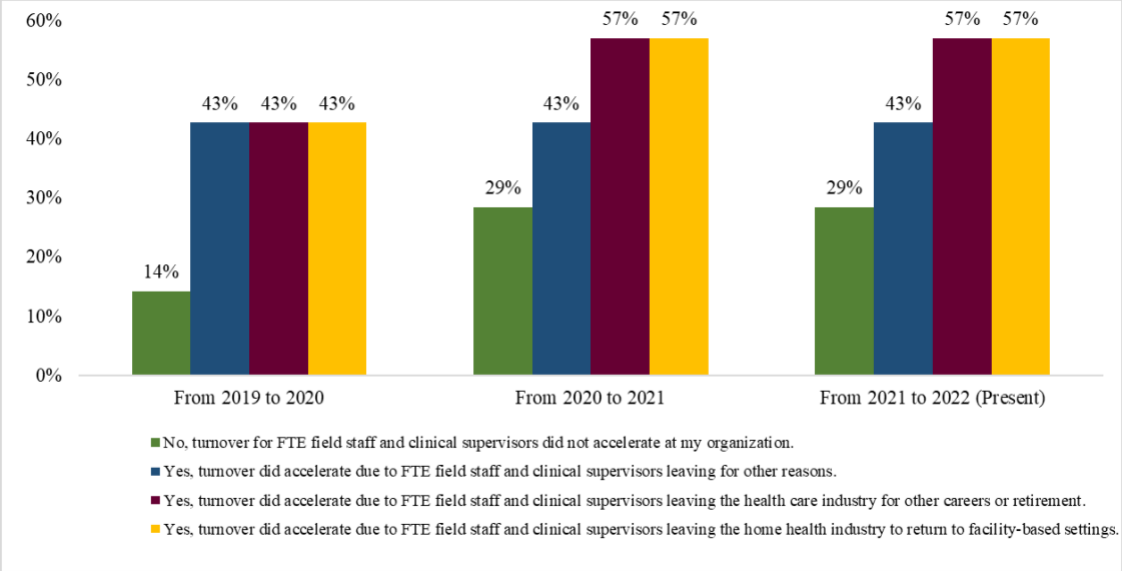
Note: Respondents could choose more than one response item.

REASONS FOR STAFF *TURNOVER*

As shown in **Exhibit 3**, 71 percent of the surveyed agencies responded that the turnover rates accelerated from 2020 to 2022 (29% reported that turnover did not accelerate at their organizations in both periods). Between 2020 and 2021, the majority (57 percent) of agencies reported that their staff and supervisors left the home health industry for other careers, retired, or sought employment at facility-based settings. This is in contrast to agency responses for reasons for turnover between 2019 and 2020, where surveyed

agencies indicated that staff and clinical supervisors were equally likely to leave for other careers, retire, seek employment at facility-based settings or leave for other reasons.

Exhibit 3: Reasons for Turnover if Turnover for FTE Field Staff and Clinical Supervisors Accelerated from CY 2019-2022 at Home Health Agencies

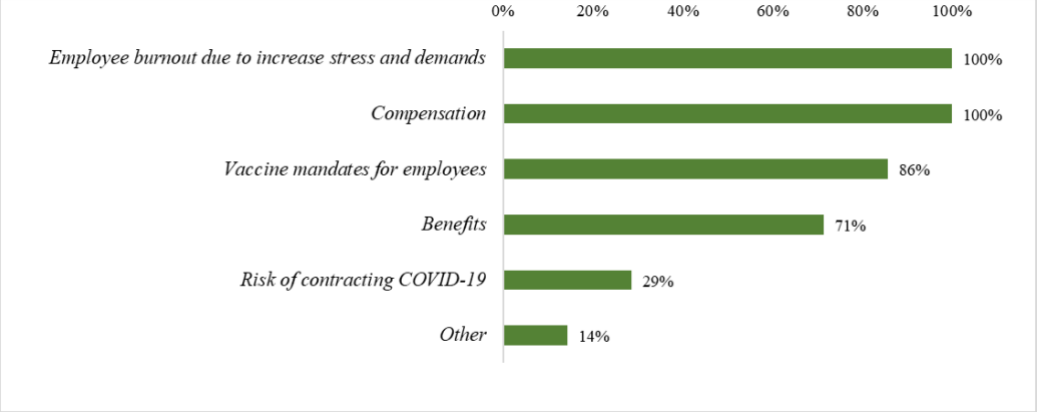


Note: Respondents could choose more than one response item.

REASONS FOR MOVING TO OTHER HEALTHCARE SECTOR JOBS

Among agencies that indicated that staff and clinical supervisors left for other healthcare sector jobs, all agencies indicated that employee burn-out and compensation were the primary factors why staff and clinical supervisors left. 86 percent of the agencies also indicated that the vaccine mandates for employees were a key driver for staff migrating to other healthcare sector jobs. These results are shown in **Exhibit 4** below.

Exhibit 4: Primary Reason if FTE Field Staff and Clinical Supervisors Left for Other Healthcare Sector Jobs



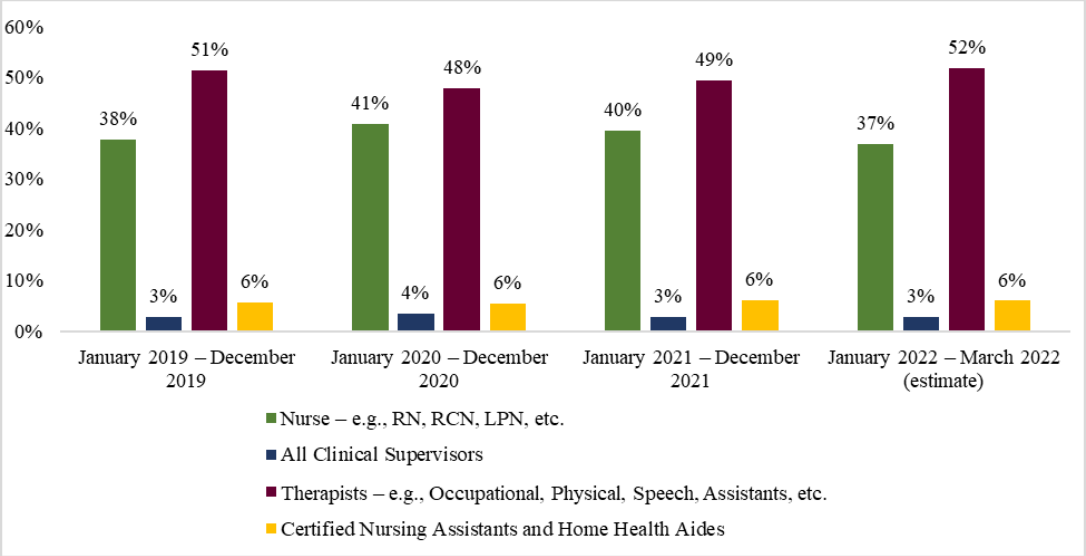
Note: Respondents could choose more than one response item.

TRENDS IN FTE FIELD STAFF AND CLINICAL SUPERVISORS

As shown below in **Exhibit 5**, the composition of the home health workforce remained relatively constant between 2019 and 2022. Predominantly, therapists and nurses are in high demand in each period, comprising on average combined 89 percent of FTEs for the HHA workforce. Therapists comprise the largest share of the workforce (between 48 to 52 percent), while nurses comprise between 37 to 41 percent of the workforce. Clinical supervisors, CNAs and home health aides comprised a combined 9 to 10 percent of the HHA workforce between 2019 and 2022.

Given that nurses represent a large and generally increasing proportion of the HHA labor force, and interviewees stated that nurses are the most mobile members of the workforce, this leads to increasing challenges in maintaining the appropriate labor mix. The decrease in therapists in 2020 is likely driven by the removal of the payment system incentives to provide therapy and the COVID-PHE-driven reduction in therapy demand as elective services were canceled across the nation. The rebound in therapists after 2020 possibly reflects over correction after the initial therapy visit reduction.

Exhibit 5: Average Percent of Full-Time Equivalent Field Staff and Clinical Supervisors by Labor Category



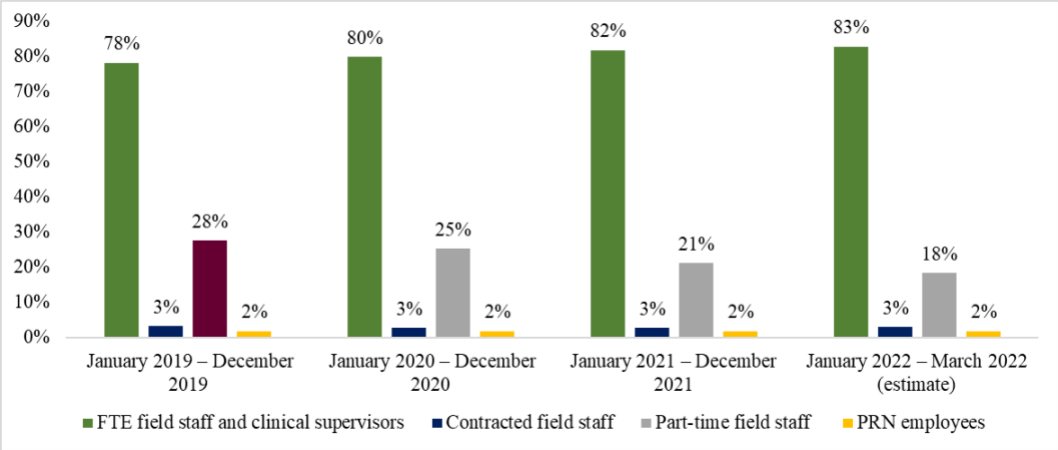
Note: Data for social worker labor category were insufficient, thus excluded.

TRENDS IN PROPORTION OF SERVICES DELIVERED BY LABOR TYPE

Exhibit 6 shows the percentage of visits delivered by FTE field staff and clinical supervisors, contracted field staff, part-time staff, and Pro re Nata (PRN)[8] employees. Between 2019 and 2022, FTE staff and clinical supervisors increasingly delivered a higher proportion of home health visits (growing from 78 percent in 2019 to 83 percent in 2022), while part-time staff delivered a lower and declining proportion of 17 percent in 2019 to 12 percent in 2022. Visits delivered by contracted field staff and PRN employees remained consistent at a combined 5 percent in each of the years. These are all relatively small changes but should be tracked over time as the impact of inflation plays out.

Exhibit 6: Percentage of Visits Staffed by FTE, Contracted, or Part-Time (Field Staff or Clinical Supervisors)

[8] PRN are staff that are requested to work as needed.

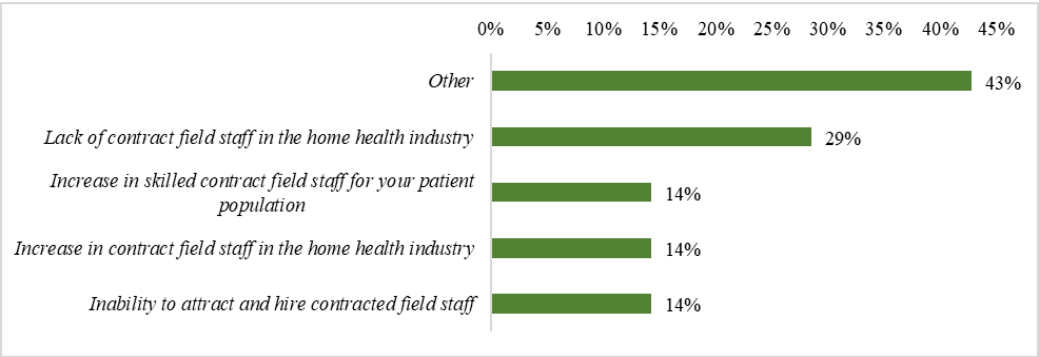


FACTORS AFFECTING CHANGES IN THE MIX OF CONTRACTED LABOR

Forty-three percent of responding members reported "other"reasons that are not included as the items comprising the main factors as shown below in **Exhibit 7**.

These other reasons include employee-to-contract ratios remaining flat and difficulties in attracting and retaining nurses during the pandemic and associated nursing shortage. Twenty-nine percent of the responding members selected lack of contract field staff in the home health industry as the main factor.

Exhibit 7: Factors Affecting Changes in the Mix of Contracted Field Staff and Clinical Supervisors

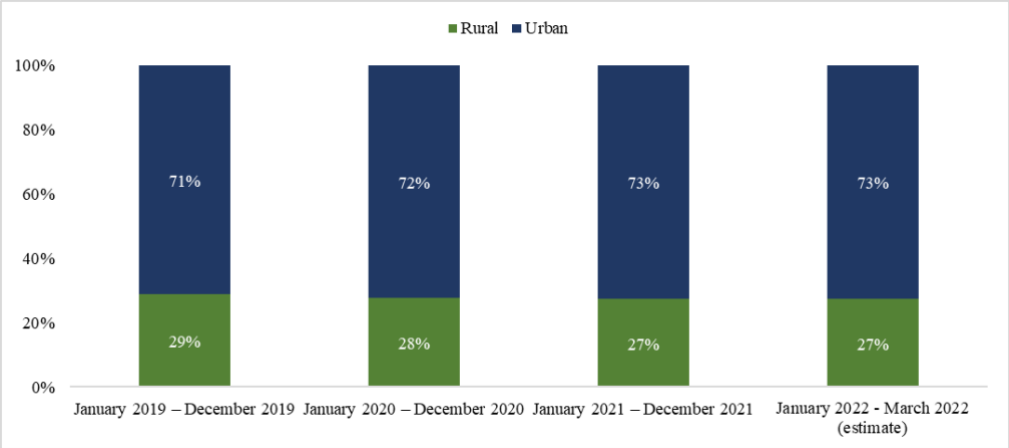


Home Health Agency Demographics

Average Percent of Patient Population by Geographical Distribution

Exhibit 8 shows a slight decline in the proportion of the patient population living in rural areas that surveyed agencies delivered care to. Between 2019 and 2022, the proportion of patients living in rural areas declined from 29 percent to 27 percent while the proportion of patients living in urban areas increased slightly from 71 to 73 percent. This shift is consistent with findings from our stakeholder interviews and warrants continued monitoring.

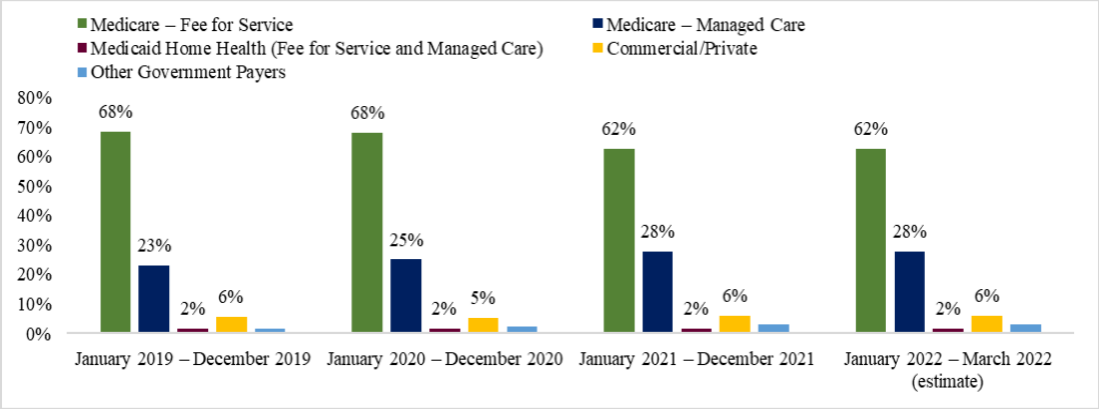
Exhibit 8: Average Percent of Patient Population by Geographical Distribution



Average Payer Mix Distribution of FTE Field Staff and Clinical Supervisors

There were several noteworthy changes in the payer mix distribution of the home health workforce between 2019 and 2022, as shown below in **Exhibit 9**. Over the time period between 2019 through 2022, Medicare Advantage (MA) paid for an increasing proportion of services delivered by surveyed agencies—increasing from 23 percent in 2019 to 28 percent in 2020. In contrast, Medicare FFS paid for a decreasing proportion of services—declining from 68 percent in 2019 to 62 percent in 2020. The proportion of services paid for by other payers over the same period were stable.

Exhibit 9: Average Payer Mix of Responding Member Agencies



Industry Leader Interviews

This section summarizes the stakeholder discussion. We analyzed the stakeholder interviews. Each bolded statement is based on observations we heard Discussion of these results is below.

Increasing Demand for Services

Home healthcare is an effective component of the healthcare continuum, and its cost-effectiveness is demonstrated by an increasing demand for services

The value of home health services is further demonstrated by the increasing complexity of patients served. "Upwards of thirty percent of people who seek home health don't get in," explained a CEO. Skilled services delivered in patients' homes divert patients from hospital admissions and readmissions, as well as stays in skilled nursing facilities. "Home health is increasingly functioning as SNF [skilled nursing facility] diversion – we're getting more critical patients," noted one CEO. Demand has also increased due to fears of COVID-19 exposure at healthcare facilities and this demand is expected to remain elevated as patients have developed a preference for in-home care and HHAs have created the capacity to serve patients.

Labor Costs and Inflation

Given increasing demand for home care service, home health providers struggle to provide services in the current environment because of strong competition for health care professionals at all levels and associated staffing costs driven by tight labor conditions and continued inflation

The impact of COVID-19 on health care professionals practicing across the health continuum continues to be profound because of fatigue, burn-out, and fear of contracting COVID-19. The pandemic increased the number of professionals leaving practice permanently through early retirement or career changes and temporarily for family-care responsibilities. Additionally, some professionals exited practice because of COVID-19 vaccine mandates. Potential candidates also had less interest in pursuing medical education as the pandemic created an environment in which individuals questioned the merits of health care careers relative to other career options.

The exodus of health care professionals from the field continues to create enormous competition among health care and non-healthcare sectors and leads to significant increases in employee compensation levels required to attract, train, and retain professionals. Compensation increases are especially notable for nurses, including LPNs. Staff departures necessitate increased use of part-time and on-call employees, which increases direct costs from higher wages and indirect costs associated with more significant management requirements. Clinical supervisors and directors of nursing also are experiencing high turnover, as the stress of supervising many nurses with great turnover is high.

Providers seek to manage intensifying compensation pressures with incentives, including bonuses, student loan forgiveness, continuing education opportunities, and wound care training. Merely increasing employee base wage rates would limit providers' flexibility to adjust to conditions should the environment stabilize.

Considering the broader economic context, provider costs are also rising due to general inflation rates which, in turn, worsen providers' financial situation. Fuel price increases have led to higher costs, investments in more economical vehicles, and home health staff not wanting to travel. As a result, rural areas are more difficult to serve.

Competition for nurses is expected to continue given reports of decreased nursing school enrollment. A supply shortage for LPNs is anticipated to be particularly significant.

Staffing Challenges

Staffing challenges are exacerbated because of the steep learning curves of professionals new to health care delivered in the home

Providing health services in patients' homes is a physically and mentally challenging practice. Contributing to the challenge is that services are often provided with significantly

greater independence without facilities' resources and backup support. Home health practice requires much critical thinking to respond to a wide range of medical and psychosocial needs in home environments of varying conditions. Successful home health practice requires greater knowledge of treatment options that typically comes with experience.

Experienced home health professionals may have relatively flat learning curves when changing HHA providers. One stakeholder opined, "the curve is steep for professionals newly entering home health practice from other sectors of service delivery – one full year of mentoring is often required for fully independent practice, noted another stakeholder." Widely noted by stakeholders, home health is sufficiently complex that newly graduated professionals often lack the skills for home health practice.

CMS Payment Rates

The ability of home health providers to adapt to the current environment is limited because CMS payment rates are not adjusting to the reality of increasing labor costs and regulatory constraints

Providers seek to meet service demands by leveraging the RN labor shortage with LPNs and paraprofessionals. As other providers are following similar hiring practices – such as hospitals relying on LPNs more frequently – there is limited ability to implement such options.

Home health providers are also limited in options because of regulatory constraints. For instance, initial treatment encounters are required to be performed by RNs and therapists, rather than LPNs.

Providers are also responding to changes in the home health payment system, such as the recent shift to the Patient Driven Groupings Model (PDGM). Providers are modifying care delivery models to meet the criteria implicit in these payment models.

Increased Costs and Financial Stress

Providers have experienced increased costs due to labor shortages, inefficiencies associated with professional turnover, increased professional compensation, and inflationary pressures on other operating costs. Concurrently, Medicare has not shifted its payment levels accordingly. Pressure on home health margins may limit the ability of home health providers to compete for professionals in the current tight labor environment.

Some providers are responding to the current environment by trying to renegotiate rates with other payers and expanding to achieve cost savings through economies of

scale. Another strategy some providers reported is to seek service areas with dense populations for increased efficiencies, making rural populations susceptible to even further undersupply of services.

While providers are having some success with these strategies, diminished patient access is becoming evident. Traditionally, home health providers declined about 5% of referrals. Our respondents reported decline in referrals approaching 50% for some providers during certain periods.

Limitations

- These responses reflect providers' best estimates and their interpretation of the questions. As such, accuracy and consistency of the responses may vary.
- Given the survey's quick turnaround, agencies may have been limited in the extent to which they could complete the survey.
- As such, the sample size is limited as some providers could not participate.
- For these reasons, the results should be taken as correct in terms of direction and magnitude, but the actual numbers may be different in future analyses.
- The respondents who participated operate in different geographical areas and manners, thus any individual averaged or aggregated data observation may not necessarily be indicative of activities in all or particular areas within the United States.

Conclusion

The results described above highlight the labor cost difficulties home health agencies, and many other industries, are facing in 2022. *The Economist's* June 4, 2022 observation that labor conditions have "never been so tight: a record 1.9 jobs are available for every unemployed person,"[9] sets the context for understanding our survey results. Workforce and job environments for home health providers are in disarray. Approximately one-fifth of HHA visits are delivered by non-FTE workers, large signing bonuses are common, turnover and vacancy rates are at historic highs, and training needs for new employees are sizeable. As of June 2022, it is probable that inflation will remain relatively high for at least the near-term.

The inflation rate has reached new heights to 9.1%. It was not evident in last year's report that inflation is on the rise, but as of now, this topic dominates the discussion of how payers, providers, patients, and employees of the health care industry will interact in the future.

If payers such as CMS are to enable their provider partners to be competitive in a very aggressive health care labor environment, they must give more consideration to current economic evidence on inflationary trends. Not doing so could threaten patient access to care. For instance, survey respondents and interview participants alike noted significant increases in referrals having to be turned away due to lack of provider capacity. Another risk is the migration of health care employees to other economic sectors where wages are comparable or better and the work is less stressful and otherwise less demanding.

CMS's regulatory process is well developed and generally permits healthcare providers to deliver adequate amounts of quality care to patients. However, the CMS regulatory

[9]The Economist. 2022, June 4. Finance and Economics.

process for home health companies and other CMS covered providers is now being stressed.

This uncertainty applies to CMS as a major payer in the health care sector as its regulatory process was not designed to handle significant exogenous shocks to the overall economy that spill over to the health care sector.

As CMS considers its role as the major payer for HHA services, it may be confronted with pronounced structural changes in the home health labor segment that it is unfamiliar with. As salary increases advance and ramp up at an unprecedented rate, the current CMS market basket may not resemble the emerging dynamics of the health care labor segment.

Our survey results from both the preceding year and this year suggest that the HHA labor segment is currently fractured. While home health providers have been able to respond to volatility with short-term strategies, these short-term responses do not appear to be sustainable. In summary, our research found answers to our study questions:

1. What were the actual 2021 labor cost increases faced by PQHH membership?

The cumulative impact of the increases in 2020 and 2021 wages reported by survey respondents and reported by the BLS are very much larger than the cumulative payment increases for home health care agencies over the same time frame.

2. Will these rates of increase continue in 2022?

Survey data provided by participants indicate that wage inflation is continuing into 2022. These quantitative data are consistent with qualitative data provided during key stakeholder interviews. This finding is also consistent with the BLS estimates.

3. Will wage rate increases continue to play an outsized role in the 2022 HHA labor segment?

As wage increases are continuing into the third year, the 2022 home health agencies will likely continue to experience both staffing pressures and volatility calling for the types of innovative recruiting and retention strategies noted by our respondents.

Conclusion