Considerations for Entering Private Duty Home Care

By Dexter W. Braff

In the aftermath of the Balanced Budget Act of 1997, the first groundswell of enthusiasm for private duty emerged, if for nothing else, as a hedge against the uncertainty of government-based reimbursement. Once providers learned to grapple with and prosper under PPS, the immediacy of entering the sector began to wane. Flash forward 10 years. More than a few "early movers" have put their stakes firmly in the ground and are well positioned to capitalize on a market poised to explode. So for those interested in getting in, the time is drawing near. Below are several factors that will likely shape the industry over the coming years.

While not here yet, the "boomers" are coming.

The good news is that for reasons discussed below, the Baby Boom Generation is particularly likely to demand and pay for private home care. The less good news is that the leading edge of this monster demographic just turned 60 in 2006. Accordingly, they will likely not be ready for these services en masse for several more years.

The boomers will be willing to pay for health care privately.

Much of the current generation of senior citizens has come to expect and rely upon some form of government reimbursement for their health care needs. So much so that the idea of paying for health care services privately, regardless of financial ability to pay, simply goes against the cultural grain. But in the face of mounting budget deficits, soaring health care costs, and reduced contributions from employers, their boomer children have slowly but surely, grown more accustomed to picking up a greater portion of the health care tab. In so doing, they are evolving from patients to consumers, a mind-set that foments greater utilization of private duty.

The boomers will be better able to pay.

Demographic demand and the willingness to pay for private duty is not enough to drive the sector. The funding must be in place as well. And here, the next generation is in better shape as well. Watching their parents struggle to pay for their health care needs, boomers are increasingly picking up long-term care insurance, which often includes home care benefits. Fearing that federal, state, and even company subsidized health care and retirement programs may not be available to them in their later years, many boomers are beginning to stash away "just-in-case" dollars that could be directed to private duty. Moreover, sociologically we sense that while their depression era parents may have felt that it was their sacred duty to accumulate and pass whatever estate they could muster to their children, boomers growing up in a time of prosperity, feel differently about this. As such, they will likely be more open to spend savings and even tap into reverse mortgages to pay for their health care needs.

Private duty is difficult to scale.

While a Medicare or Medicaid beneficiary may give providers some leeway when it comes to less than perfect customer service – "after all, the government is paying for it" – they give no such slack when they're paying privately. As such, private duty requires a depth of customer service, relationship, and management oversight that is often best provided by an active, on-site owner with a financial stake in the business (as opposed to a branch manager that generally does not have such a stake). This makes it challenging to develop a large, multi-site operation, which explains why the franchise model with its local ownership, has prospered in private home care. Alternatively, some of the most innovative private duty entrepreneurs have

grown by making such managers real or quasi owners by giving them stock in a branch location (real, or phantom), profit sharing, or other meaningful incentive pay.

The economy matters.

While health care in general tends to be substantially immune to changes in the economy, and since private duty is often a discretionary expenditure, an individual's real or perceived wealth can have an impact on demand. In an economy that may be in recession, we may see a short-term slow-down in the sector's rate of growth.

The merger and acquisition outlook is bright.

Short term economic concerns notwithstanding, with (a) acquisition often the best route for Medicare and Medicaid providers to enter the industry, given its unique consumer and customer service mind-set, (b) extremely favorable and long-term growth prospects, and (c) no "stroke of the pen" reimbursement risk attendant to third party reimbursement, we anticipate an extended period of growth in acquisition demand, transaction volume, and valuation.

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