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Face-to-face, therapy regs lead to profit declines at Big Four companies

Evidence of the face-to-face encounter and therapy reassessment regulations' impact can now be measured in dollars and cents, as earnings reports filed this month by the four publicly traded home health companies for second quarter 2011 all showed significant profit declines.

The earnings reports reflect activity from April 1 through June 30, 2011 – the first three months of CMS' face-to-face encounter and therapy reassessment enforcement. And they show Almost Family had a 41% decline from second quarter 2010, Amedisys had a 33% decline, Gentiva Health Services had a 72% decline and LHC Group had a 21% decline.

“The overwhelming majority of providers are struggling in the manner consistent with the [Big Four] in that they're facing contraction of their business coming from multiple directions,” says Dexter Braff, president of The Braff Group in Pittsburgh.

A roughly 5% Medicare reimbursement rate cut that began Jan. 1, 2011 and the increased scrutiny these four companies are facing from auditors since last year both played a role in the second quarter declines, on top of the new CMS regulations, Braff says.

Three of the four public companies specifically blamed the face-to-face encounter requirement in their earnings statements and two of four cited the therapy reassessments, while a fourth – Atlanta-

based Gentiva Health Services – mentioned “difficult operating conditions driven by the implementation of new regulations.”

Amedisys breaks down new regs' impact

The combination of multiple profit-slashing factors makes it difficult to measure the exact decline caused by face-to-face encounters and therapy reassessments. But at Baton Rouge, La.-based Amedisys, company executives broke down the damage in an Aug. 2 conference call:

- Operating revenue in the home health division fell in second quarter 2011 by \$63 million, or about 16%, from second quarter 2010, said Michael Snow, chief operating officer.
- Care center closures and mergers drove about \$14 million of that \$63 million in lost revenue.
- Medicare reimbursement cuts led to another \$18 million reduction.
- The remaining \$31 million is largely due to a fall in same-store admissions and a decline in patient therapy utilization, both impacted by the face-to-face encounter and therapy reassessment requirements.
- Complications with the therapy reassessment thresholds led to a write-off of 30,000 visits during the quarter, or \$4 million of lost revenue. Reassessments are required before the 14th and 20th visit or at least once every 30 days in order to bill Medicare for ensuing visits.

- Admissions declined by 4.3% from second quarter 2010 to second quarter 2011. Amedisys believes the face-to-face encounter rule contributed to the decline, as more physicians prefer not to refer to home health due to the burden of completing documentation within 90 days before home health admission or 30 days after.

Entire industry responding to cuts, regs

Smaller privately owned and non-profit agencies are seeing similar declines because they face the same business contractions – reimbursement rate cuts, CMS regulations and being more conservative on their OASIS scoring and recertification out of fear of auditors, Braff says.

And even though all agencies will see another 3.35% shaved off their overall base rate beginning in 2012 if CMS' PPS rule is finalized as proposed, Braff sees encouraging signs that the industry will be prepared. Whereas three months ago he was concerned agencies were slow to react to the anticipated cuts with reengineered processes, today "most providers fully understand where they are and we are beginning to see a more focused managerial effort to attack these problems and mitigate the pressures.

"It would not be surprising to me that by the third quarter, maybe midway into the fourth quarter, some of these providers will be back on the upswing in terms of recapturing some of that lost profit margin," Braff says. Further, he expects agencies will be much better prepared for 2012's base-rate cuts than they were

for 2011's cuts, due to measures taken for this year's cuts that will continue to help them next year (*HHL 5/23/11*).

Big Four to acquire hospices

Publicly held home health companies are looking to expand into the hospice business in order to offset the unavoidable losses in home health, market followers expect. In fact, two of the Big Four are already at work in this department, as Gentiva Health Services completed a billion-dollar acquisition of multi-state provider Odyssey Hospice last year and Amedisys acquired the 23-site Beacon Hospice in June.

Braff's research shows evidence of this trend beginning to circulate in the form of hospice merger and acquisition activity, where he's documented 17 hospice transactions in the first six months of 2011, compared to 15 in the first six months of 2010, a 13% climb. In the same period, home health transactions have seen a 37% decline, from 38 transactions in the first half of 2010 to 24 in 2011, according to The Braff Group. (*See box, p. 5.*)

The decline in home health transactions, even with stock prices falling to the point that buyers could seek to take advantage of the low price, is due to the fact that both buyers and sellers are looking to retool their own operations rather than make a move during this time of great transition, Braff says. Acquiring hospices, meanwhile, not only presents a less risky venture than home health at this time, but gives agencies a chance to change "the mix of their business," he says. – *Ben Penn (bpenn@decisionhealth.com)*

BENCHMARK of the Week**Big Four profits, home health M&A activity on the decline**

All four of the publicly traded home health companies reported significant declines in net income for second quarter 2011 compared to the same April 1 through June 30 period in 2010, according to earnings statements filed with the Securities and Exchange Commission this month.

The Big Four will look to expand into the hospice industry to help soften the blow home health is facing from the regulations and Medicare cuts, as evidenced by mergers and acquisitions activity in the first six months of 2011 compared to 2010. (See related story, p. 1.)

Making the hospice transactions increase and home health decrease even more significant is the fact that the buyers of hospice right now are limited mostly to hospice consolidators and large home health companies, whereas the market for home health acquisition is more widespread, says Dexter Braff, president of The Braff Group in Pittsburgh.

Big Four second quarter profits: 2011 vs. 2010

Home health company	2nd quarter 2011 net income	2nd quarter 2010 net income	Percent difference
Almost Family	\$4.95 million	\$8.34 million	41% decline
Amedisys	\$21.7 million	\$32.4 million	33% decline
Gentiva	\$5.3 million	\$18.9 million	72% decline
LHC Group	\$9.8 million	\$12.4 million	21% decline

Source: SEC second quarter earnings filings

M&A Activity: 2011 vs. 2010

Type of activity	2011, first six months	2010, first six months	Percent difference
Medicare home health	24 transactions	38 transactions	37% decline
Hospice	17 transactions	15 transactions	13% increase

Source: The Braff Group, Pittsburgh

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