

# The Top 10 Events That Impacted the Home Health and Hospice Industry in 2008

By Dexter W. Braff



In no particular order...

1. Barack Obama wins the presidency and the Democrats hold majorities in Congress. Though certainly not a guarantee (recall that the balanced budget Act of 1997 was passed under the Clinton administration), Democrats (a) lean more favorably to Medicare, and (b) are generally less inclined to support privatization initiatives – notably Managed Care. Both bode well for Medicare home health.
2. The credit crunch limits private equity's access to debt. Generally speaking, in financially engineering transactions, the greater the amount of debt a private equity group (PEG) can deploy, the greater the rates of return it can enjoy. As debt becomes scarce and expensive, the primary tool PEGs can use to increase their rate of return is to reduce price, which may render their offers less competitive. Accordingly, we may begin to see reduced M&A activity from private equity.
3. The recessionary economy has contributed to substantial state budget shortfalls. According to the Center on Budget and Policy Priorities, "At least 44 states faced or are facing shortfalls in their budgets for this and/or next year." With Medicaid accounting for a significant portion of most states' budgets, virtually all are looking to trim Medicaid spending to bridge their budget gaps – cuts that will likely trickle down to home care.
4. Prospective Payment System Reforms are initiated. After the industry made the difficult transition from the interim payment system to the prospective payment system, providers were extremely apprehensive about changing what they had, perhaps reluctantly, grown comfortable with. While under PPS reform, some agencies have benefited greatly, with others less so, our read is that for the most part, providers feel that the revisions better match revenues and resource utilization, a positive iteration to the PPS model.
5. Publicly traded home health care providers soar while the broad markets plunge. While The Braff Group's Broad Market Index fell 37 percent in 2008, our Home Health and Hospice Index surged an extraordinary 46 percent on the strength of (a) record growth and profitability, (b) successful acquisition strategies, (c) favorable PPS reforms, and (d) recognition that health care services are non-discretionary in nature and are less subject to downturns in the economy. This performance will likely bring more attention, investment dollars, and perhaps credit to the home health care arena.
6. CMS begins collecting additional detailed information on hospice. In July, CMS began requiring that hospices report detailed information regarding visits performed by nurses, social workers, home health aides, physicians, and nurse practitioners, as well as charge data. This is likely a key step in gathering the information necessary to develop payment reforms for hospice. The good news is that the industry is mobilizing efforts to get "in front" of these reforms and participate cooperatively to improve the benefit.
7. The recessionary economy has reduced discretionary spending. Unlike the short term, acute care provided by Medicare home health, which is generally not discretionary in nature, longer term, out-of-pocket, private duty home care, is in

- many situations, somewhat discretionary. As such, while concrete data is elusive, the buzz in private duty circles is that with the economy in tatters, at least some agencies are seeing a slow down in utilization – and revenues.
8. MedPac considers going beyond recommending a freeze to the Medicare home health update. As an alternative to the “annual” recommendation by MedPac to freeze the home health update in 2010, in December, staff offered a draft recommendation to cut the episodic base rate by 5 percent in addition to the scheduled 2.75 percent creep adjustment. While only a draft recommendation (in early January, MedPac voted instead to accelerate the 2011 creep adjustment to 2010), the industry’s risk profile definitely ticked upward.
  9. Senator Kerry seeks to increase access to home and community-based waivers. In August, Senator John Kerry introduced “The Empowered At Home Act” in order to give states the ability to expand services provided under home and community-based waivers – services often provided by home health agencies. While the bill has made little progress, it nevertheless brings attention to waiver programs as an alternative to more costly institutional care, which will likely become increasingly important as states struggle to trim Medicaid spending.
  10. Nation’s first baby boomer becomes eligible for social security benefits. While the growing number of seniors has been well documented, it is nevertheless noteworthy that on January 1, 2008, the nation’s first baby boomer, Kathleen Casey-Kirschling, born one second after midnight on January 1, 1946, became eligible for social security benefits. According to the Social Security Administration, she precedes an estimated 80 million Americans that will likewise become eligible for benefits and need health care services over the next two decades.

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