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Home Care and Hospice Looking Bright As Business Opportunities, Two National Experts Concur

Home Health Care and Hospice are generally on an upward swing as business opportunities. This summarizes the opening and closing keynote presentations made last week at the Southwest Regional Home Care Conference in Albuquerque, New Mexico. Though the two keynoters, Dexter Braff and Dr. Robert Fazzi, did not encounter each other, their messages could not have been more in agreement.

In his analysis of recent research, Dr. Fazzi emphasized that the current global economic downturn is not at all like home care's last hit, brought on by the Balanced Budget Act of 1997 and resulting in the Interim Payment System (IPS). That disaster saw home care shrink by more than 2,000 agencies.

"There are always cycles in this business." Fazzi told the four-state audience, "Remember the downturn of 1983, followed by the upswing in 1993 and the crash in 1997. This is just another cycle but it is an up cycle." He said the agency owner's task right now is to increase profits and increase quality. They know how, it is a question of willingness to do it.

"The number of people who will ultimately use your services is going to grow, even if you do not do anything," he said. "Just take a look at population projections. The looming obstacle is that we can expect continued downward pressure on Medicare payment rates. MedPAC continues to push for rate reductions.

Dexter Braff, principal with Braff Associates, had emphasized the same point two days earlier. "You have been watching MedPAC's annual recommendations to Congress," he began. "And you have been watching while Congress ignores

them year after year. There is a reason for this. MedPAC board members do not have as many votes as Medicare providers and beneficiaries have."

Watch out, though, Braff continued to explain. "Right now, Congress has to actually *do* something to turn MedPAC rate recommendations into law. If they do not act, and we know how Congress likes to not act, the recommendations do not go into effect. That may soon change. 'SuperMedPAC' is coming. Soon, the law will change and MedPAC's recommendations will become law if Congress does *not* do something to block them. In a few years, it is quite likely MedPAC will get much more of what it wants."

What does MedPAC want? Fewer total home health care agencies.

Your proactive response plan

There are steps that can be taken now, both keynoters agreed. "Focus on your foundational strengths," Fazzi put it. "99% of all Medicare dollars are spent on people with chronic diseases, so work on your ability to care for these people. Reduce your expenses by 5%. Take serious steps to ensure OASIS accuracy. Work on ensuring competitive HH-CAHPS scores. Become strategic rather than reactionary. And, overall, gain control over your operations."

Most importantly, Fazzi began and ended his plan with the admonition to avoid trying to make too many improvements all at once. "Do one thing," he repeated. "Pick one thing to improve and give it all your energy."

As examples of how to be strategic rather than reactionary, Fazzi pointed out a number of facts discovered in his recent research project, "The BlackBerry® Report: The National State of the Home Care Industry."

- The national average Case Mix weight is 1.27. An agency with 500 patients and a case mix average of 1.00 is losing \$312,000 per year, before figuring local wage adjustments.
- Hospitals have until October, 2012 to get their avoidable readmission rates under control. After that, they could lose 1% of Medicare payments in 2013, 2% in 2014 and 3% in 2015. Home care needs to be in their face right now, offering to help.
- 16% of all hospital Medicare discharges are to home care. 17% are to Long Term Care facilities. There is plenty of room to grow patient census by working hospital discharge planners.

Fazzi turned up one additional statistic by asking a question that had not been asked in past surveys. Even though only 16% of Medicare patients discharged from hospitals are referred to home care, three of six other sub-acute care sites send their patients to home care for a second stop after hospital discharge. It is also important to seek referrals from these other post-acute centers.

Rate cuts need not be disasters

In the most nuanced and carefully explained segment of his keynote, Braff reassured the audience that MedPAC's constant pressure to lower rates and the sorry condition of state Medicaid budgets are not signs of Armageddon.

"First, there is ARRA," he began, referring to the American Recovery and Reinvestment Act, signed into law in February, 2009. "It is providing \$87 billion to shore up Medicaid through the end of 2010. Secondly, the new healthcare reform bill created a Federal Matching Assistance Program (FMAP) that will deliver additional federal money to state programs. You have heard of the 32 million people without insurance who will be helped by the reform law? Half of those will be helped through Medicaid."

Medicaid having more money to spend on caregivers is not the only source of hope Braff mentioned. And here is where the nuance comes into play and where he explained himself so carefully. He calls it "The Lincare Effect."

Lincare is a Home Medical Equipment company that once enjoyed a 39% profit margin EBITDA (earnings before interest, taxes, depreciation and amortization). Suddenly, its industry's Medicare payment rate was cut 25%. The following year, Lincare's EBITDA was still 39%. Braff explained the phenomenon thus:

"Lincare found room to cut costs without cutting services. Maybe a nurse did not drop in on a patient as often to see how their oxygen tank was working. Maybe some salary concessions or staff reductions became possible. The obvious question is, 'If they could do that after the pay rate cut, why couldn't they have done it before and achieved maybe a 60% margin?' The answer is that the market wouldn't let them. At higher reimbursement levels, customers demand and competitors force providing services at a corresponding level. When everyone was cut and everyone cut back on services, Lincare could cut back without losing its market position."

This, Braff insists, is what will happen in home care if MedPAC continues to get its way. He did not stop there, however, with his optimistic market overview.

Hospice looking bright

There have been Concurrent Care Demonstration Projects that support the benefits of a change to the law, since incorporated into the new healthcare reform law, that will allow patients to enter hospice without having to stop curative care procedures they had been receiving. "This seems that it would raise costs dramatically," Braff continued, "but in private demonstrations, at least one insurance company found that costs per beneficiary actually went down."

The cost of care go down, he concluded, because patients are more willing to enter hospice when they know they can continue chemotherapy or other procedures. Now you have individuals who are experiencing both types of

services and they find they like hospice more than they like curative care. Eventually, hospice usage rises and the more expensive curative care usage decreases, along with it the cost to payers.

Don't forget private duty

Lastly, both keynoters agreed that the demand for private pay services will rise in tandem with the age of the average Baby Boomer. But this will be a double-edged sword. The outlook is good for opening a private duty home care service but be warned that this is a customer service-intensive business. Braff put it best, "You have to understand how demanding people can be when they are paying you directly."

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