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Expand Or Exit?
Tough Question For Home Care Agencies

Home health is a $34 billion market, expected to reach $54 billion in 2019. The main driver is growing utilization.

With shrinking margins and agency consolidation ramping, owners of home care agencies have a tough choice to make. Expand your business to make up in volume what you will likely lose in profitability, due to increasing regulatory demands and lower reimbursements. Or create an exit strategy, including a merger, sale or strategic partnership that will allow you to protect years of financial investments and hard work.

Home Health: An Alluring Business Opportunity

Over the past seven years the home health market boomed with the opening of more than 2,000 new agencies, and for good reason. Home health is a $34 billion market, expected to reach $54 billion in 2019. The main driver is growing utilization. The number of people over the age of 65, who are common beneficiaries of home care, is projected to grow 40% by 2020 and a study shows that 82% of Americans in the middle of their life or older prefer home health care.

As the U.S. healthcare market struggles to keep rising healthcare costs under control, home care is also attractive to payer systems since it is a less expensive care setting. It represents only 20% of the cost of skilled nursing facility care and 5% of the cost of hospital-based care.

Yet Outlook For Today's Home Health Agency Owners Is Mixed

While the market as a whole is on the rise, the fate of individual home health agencies is less clear. Increased regulatory demands and lower reimbursements are squeezing margins, making it more difficult especially for smaller agencies to maintain profitability.

With the fifty largest home health companies controlling less than 25 percent of total revenues, there are an estimated 12,000 "smaller" agencies that fall in this camp.

In fact, analysts estimate that as a result of Medicare payment reductions, such as the 3.5% rebasing cut each year until 2017 from the Centers for Medicare & Medicaid Services (CMS), average industry margins across all states will fall from 8.6% in 2014 to a negative margin or deficit of 5.0% in 2017.

"CMS will continue to compress margins until there is a general collapse of the industry, until a third of agencies that we have today are weeded out," said William Simione, Jr., founder of Simione Healthcare Consultants.

Consolidation On The Rise

As a result, larger agencies are actively looking for merger and acquisition opportunities to distribute operating costs over larger numbers of patients. This leaves many home health agency owners in the proverbial fish pond needing to decide on a strategy of "eat or be eaten."

By 2016 50% of Medicare payments will be risk-based, requiring that participating home health agencies have advanced information systems that can report with reliable accuracy the cost of caring for people with certain illnesses or certain populations.

Signaling increased consolidation, home health and hospice merger and acquisition activity for the first three quarters of 2014 was up 34% year- over-year, according to the Braff Group. In addition, 379 transactions were completed during the 12 months from fourth quarter 2013 to third quarter 2014. That's more than the Braff Group has ever seen during any four consecutive quarters since it started tracking this data in 2001.

Where Will Your Agency Reside On The Food Chain?

Survival will require agencies make capital investments in order to acquire more market share, reduce overhead and improve staffing and revenue cycle management. For those owners whose career goals don't align with this long-term plan, it may be time to consider one's exit strategy and how to maximize your return on a sale. For those in it for the long-haul, there are several strategies to consider for future success.

Strategies For Successful Growth

Each is aimed at expanding an agency's market presence in order to achieve greater volume of business. In this instance, big is better, in that it enables economies of scale, shares fixed costs over a larger patient base and helps make up in volume what is lost in profit margin. Each also requires the right business processes, resources and technology investments to succeed.

1. Diversify Payer Sources

For a significant number of agencies that are focused on a single primary payer source – Medicare, Medicaid or Private Pay – there is an opportunity to increase business through diversification. Each of these lines of business has distinct nuances when it comes to running operations.

Medicare – Historically the largest source of home health care funding, Medicare covers primarily skilled medical care, such as RNs and licensed therapists, and pays higher hourly rates on an episodic basis. However, by 2016 50% of Medicare payments will be risk-based, requiring that participating home health agencies have advanced information systems that can report with reliable accuracy the cost of caring for people with certain illnesses or certain populations.

Medicaid – This home care business includes some skilled care but has a high percentage of home health aides and companions, which bill at comparatively lower rates. It operates on a complex authorization system which will pay depending on the conditions, for instance three hours per week, which varies by state, and in some cases by county.

Systems must also be able to manage different requirements for straight Medicaid visits versus Medicaid Waiver programs. One of the historical benefits of Medicaid was a shorter reimbursement cycle of approximately one week from the time of submittal. This aided cash flow management, especially for the high percentage of smaller agencies that typically served this market. However, as Medicaid moves towards a managed care model, participating agencies must enter a community contract that pays net 45 days.

This will have an extraordinary impact on agencies' need to tighten the accuracy and timeliness of their submittal process. With a typical rejection rate on Medicaid claims of 10%, this means for every 1 million dollars billed, $100,000 is typically held up for an additional 45 days before claims can even be resubmitted.

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Private Pay – In comparison to managing the Medicaid authorization system, collecting payments directly from patients, mostly for senior helpers as opposed to more expensive skilled care, may seem like an attractive alternative. While some people have purchased long-term care policies, most pay for services out-of-pocket and in some cases after Medicare coverage has been exhausted. As a result, this business is extremely price-sensitive and therefore operates on tight margins, as well.

2. Penetrate Market By Integrating Services

With the staffing model for most home health and hospice providers being similar, vertical integration of these two services is a significant opportunity for expansion. Considering the aging population, there is a large and growing number of potential hospice patients in the U.S. The nuances between these two services are primarily cultural. Many hospice programs have roots in the non-profit arena and professionals attracted to the field have a very specific recruitment profile that differs from traditional clinical and non-clinical home health professionals.

Hospice caregivers in the home tend to become immersed in the familial and home setting, often serving around-the-clock, as opposed to daily or even weekly visits. While demand is growing for home health and hospice services, the supply of qualified employees is relatively scarce. Therefore, skilled recruiters and systems that can manage candidate sourcing, help ensure compliance with screening and verification standards, manage scheduling with efficiency and provide employees with convenient, easy- to-use patient data and charting tools at the point-of-care are essential to achieving retaining the best talent and maintain a competitive advantage.

3. Expand Geographically

Geographic expansion across county and state lines is a common strategy for many agencies seeking to expand, especially for those who prefer to stay within their chosen specialty. With Medicare being a federally funded program, geographic expansion is less complex from a reimbursement aspect than, for example Medicaid. The greater disparities emerge in understanding the unique patient and recruiting dynamics of certain local markets. These may include differences in skill supply and demand, compensation trends, and specific community needs or limitations.

For Medicaid providers, crossing county and state lines relies heavily on well refined processes and a software solution than automates as much of the authorization, submittal and reconciliation process as possible. A software solution must also be backed my enough resources to constantly modify automation and tracking tools as quickly as multiple regulations change.

Regardless Of Strategy, One Imperative Trumps All Others

Data is king: Reinvesting dollars into new technologies that standardize collection of data and the information those technologies track to make better decisions will be an overriding key strategy, according to Caldwell. “You can’t manage what you can’t measure, and with today’s reduced payments there is little room for error before an agency is losing money,” he said. “The bottom line is if you can’t measure it, then it doesn’t exist.”

Best Practice Management Of Payer Sources Improves Productivity & Profitability

Payer Source Management is the most direct link to maximum payment collection, versus leaving money on the table due to missed visits, paperwork errors or lengthy submission processes. For Interim HealthCare of Colorado, Complia Health’s ContinuLink Software helped the agency to virtually eliminate manual Medicaid data entry and reduce annual write-offs by 90%, from $200,000 to $20,000. In addition, their process for entering invoices into the Medicaid system which used to consume 120 staff hours now takes less than an hour. As a result, the agency was able to expand from $20 million in annual revenues to $29 million, without an increase in staff.

For another Medicare-certified agency in Port St. Lucie, Fla., Aloha Home Care, Complia Health’s ContinuLink Software reduced the time to complete Requests for Anticipated Payments (RAP) from 28 to 11 days, which generated reliable cash flow required for meeting payroll. It also reduced man hours so drastically that the agency did not have to increase billing staff when they experienced a growth in their Medicare business.

Ability To Quickly Adapt To Regulatory Changes Is Critical

The looming Oct. 1, 2015 deadline for ICD-10 coding is just one example of how critical it is for agencies to be nimble in their ability to adapt to changing regulations. Experts predict that rejected Medicare and Medicaid claims will be so high that they will significantly impact the cash flow of larger agencies and will put smaller agencies out of business. As part of the world’s largest provider of business software solutions for post- acute care delivery, Complia Health has more than a decade of experience handling ICD-10 codes for its customers in Australia. As a result, the conversion to ICD-10 for Complia Health customers will be virtually as simple as turning on a switch.

Data To Support Evidence-Based Care And Risk-Sharing Contract Management

As the U.S. moves closer to alternative models, such as Accountable Care Organization (ACO), At Risk and Medical Home, interest in the use of home care to help reduce readmissions grows. But to take advantage of the opportunities for expansion, agencies must be able to demonstrate the positive impact of homecare on patient outcomes and project costs of care per patient with reliability.

This model is fairly new and intimidating to most U.S. providers but there are lessons to be learned from those who have gone before us.

For example, Canada has operated under a complete population health risk model for decades. As a result, evidenced- based data collection and analysis tools that allow companies to make informed decisions related to capitated contracts are already built- into Complia Health’s software solutions.

In addition to the software reducing the learning curve for agencies expanding into capitated contracts, the Complia Health team of software consultants serves as an invaluable resource to clients, guiding tool selection, process standardization, system configuration and user training and adoption.

Recruiting, Staffing And Scheduling Management

In a tight labor market, arming an agency with software tools that are easy-to-use and streamline the workflow of its care givers offers a clear competitive advantage. After all, most healthcare professionals choose home care or hospice for more one-on-one patient interaction, and growing clinical and payer documentation requirements at the point-of-care can interfere with the most satisfying part of the job.

“Sometimes it’s best to fail fast,” said Caldwell. “Today’s challenging healthcare market, which requires that agencies do things differently, is one of those times. Complia Health gives home care providers the insight and metrics they need to quickly determine whether a strategy is working and make the necessary adjustments to succeed.”

Because of its deep expertise in home care, Complia Health’s solutions focus on what matters most to health care professionals – exceptional matching of patients and care givers, accurate scheduling, remote access to patient information and care plans, custom communication alerts, and easy-to-use electronic forms that reduce paperwork. The result is a field-based workforce that is always connected and well-equipped to deliver excellent care.

Point-of-Care Data And E-Capture Of Information For Compliance

Compliance is a fundamental standard for a home health or hospice agency. Leveraging ContinuLink’s decades of real-world home care experience, it provides clinicians with turn-key tools that make it easy for them to ensure compliance and saves them time. These tools, such as automated eligibility checking using the Office of Inspector General (OIG) database, as well as multiple third party solutions and our own client and physician portals, can be easily accessed through ContinuLink in either an online or offline environment.

The Right Business Software Supports Profitable Growth

In a consolidating market you must grow, or be absorbed. ContinuLink helps home care and hospice agencies handle greater complexity in their business due to expansion into new geographic regions or new service lines. The experts at ContinuLink take a hands-on approach to understanding an agency’s unique operations in order to drive additional efficiencies and keep your business ahead of the regulatory and margin pressures.

About Complia Health

Complia Health is a leading global provider of technology and expertise for the long-term and post-acute care market. Nearly 3,000 home health, residential, community care, and hospice organizations count on Complia Health for the clinical, operational, and financial solutions required to profitability deliver quality care. Complia Health's innovative products—including Procura, ContinuLink, Suncoast, Igea, and Progresa—are supported by a team of global health and technology experts located in the United States, Canada, and Australia. For more information, visit www.compliahealth.com.

For more information on how Complia Health can help:
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