



Healthcare Hot Topics

HMS Home Health / Home Care / Hospice

Second Quarter 2024



Sectors Covered by This Report:

- Reminder that Kroll's Healthcare Investment Banking Group and this report cover the following segments of the labor-based home health and community-based services (ranked by market size):
 - **Adult Home Care**
 - **Adult Home Health**
 - **Hospice and Palliative**
 - **Pediatric Home Health**
 - **Adult Day Health**
 - **Pediatric Therapy**
 - **Home Behavioral Health**
 - **Workers Comp Home Health**
 - **PPEC (Pediatric Day Health)**



(Note that we issue a separate Hot Topic report on the home RT, HME, complex rehab, home medical supplies and other home and community-based medical equipment and products sectors.)

Kroll's View of Industry Dynamics and Factors

- **Medicare home health:** likely net rate reduction for 2025 is not totally unexpected, but it is tough on this sector
 - We believe this fact will accelerate industry consolidation, with larger entities continuing to seek growth and some smaller providers looking to exit/sell
 - We also think this dynamic will lead home health players to add or grow hospice services, which are viewed as more stable in terms of reimbursement and that may offer additional growth opportunities
- **Medicare Advantage home health:** under the “right” operating model and assuming contracting/pricing discipline, we assert that MA-focused home health providers can achieve notable profitability. Important factors:
 - Potentially reduced sales and marketing
 - Opportunity to gain market share over others
 - Other, potentially reducible back-office expenses
 - Opportunities to outsource certain functions, leading to lower back-office expenses
- **Medicaid home care:** we think M&A activity will revive in the coming months and quarters. The “80/20” uncertainty is now moved back by six years and, according to some industry observers and our view, there is a good chance for alteration to the rule, in our view. HCBS initiatives and the low-cost nature of these services will continue to be important drivers. In that regard, other HCBS services also deserve attention: IDD, meals on wheels, adult day health, etc.
- **Reminder on another Kroll home health-related Hot Topic report:** The Kroll Healthcare Group also publishes a separate quarterly Hot Topic report focused on home, mobility and chronic care equipment, products and supplies used by individuals and patients in home and community-based settings

Home Care and HCBS

- **GAO report citing insufficiencies in home-based care services and nutrition support for elderly.** The May 2024 GAO analytical report puts food insecurity among older Americans at an estimated 18%. Citing data from the 2020 Health and Retirement Study, the GAO highlights that 3.2 million elderly with difficulty with one or more instrumental activities of daily living (ADL) do not receive any home-based care from any source, representing 27% of the 18.9 million US elderly population that has at least 1 ADL



Home Care and HCBS (cont.)

- **HCBS statistics of note.** The following HCBS statistics are worth your review:
 - **HCBS Medicaid expenditures vs. institutional.** As a percentage of MLTSS, 61% of expenditures were related to HCBS and 39% to institutional. In the mid-1990s, these percentages were 19% for HCBS and 81% institutional, demonstrating the dramatic growth in HCBS. The crossover point when HCBS expenditures became more than 50% occurred in 2013
 - **Medicaid enrollment.** Some 82.8 million persons were enrolled in the various Medicaid programs in March 2024 (down slightly from the prior month), of whom 7.1 million were enrolled in CHIP.
 - **Medicaid dually eligible expenditures.** Medicaid spending on full-service (73% of beneficiaries), fee-for-services DEBs in CY2021 amounted to \$57 billion (plus \$52 billion under Medicare). Medicaid spending growth for DEBs was 6.9% in 2021 (7.6% under Medicare). FFS annual spending growth for home care for DEBs was 5.5% in the 2018-2021 period

Medicare Home Health

- **Traditional Medicare home health statistics.** The following statistics related to Medicare home health are worth reviewing. Note that we also cited a multitude of key Medicare home health statistics in prior Hot Topic reports:
 - **Discharges from hospital:** 48% of Medicare patients receive no referrals. Of the ones that required post-acute care, 24% were referred into home health, 19% into SNF, 4% into IRFs and 5% into other care settings
 - **Medicare enrollment** stood at 67.2 million in March 2024, up 119K from February 2024. This statistic includes the 33.9 million older Americans enrolled in Medicare Advantage plans
 - The **enrollment of dually eligible persons in MA plans** stood at 12.1 million in 2022 (these persons are included in both MA figures shown above under each of Medicare and Medicaid. The proportion of these persons in MA plans grew from 24% in 2013 to 51% in 2021

Medicare Home Health (cont.)

- **Proposed net 1.7% rate reduction for 2025 home health rates.**

The composition of this net reduction is as follows: (1) a proposed 2.5% home health payment update, (2) 3.6% statutory rate reduction based primarily on the permanent behavior adjustment, and (3) 0.6% FDL-related decrease

Kroll's Observations:

Unless there is legislative interference, it is likely that we will see another (at minimum small) reduction in Medicare home health rates for 2026. Between payment pressures in traditional Medicare and Medicare Advantage, providers will need to find ways to adjust their operating models and seek efficiencies. We expect acquisition activity to ramp up in Medicare home health as larger providers will look to grow further via acquisitions (with some scale benefits) and as smaller providers look for an exit in what has become a bit more challenging-to-navigate sector.



Medicare Advantage

- **More diagnoses.** There is agreement among many sector participants and observers that Medicare Advantage uses more taxpayer money for its enrollees vs. traditional Medicare for its enrolled beneficiaries. MA plans are paid based on submitted diagnoses, in effect incentivizing providers to report as many diagnoses as possible
- **Coding intensity.** Research by Paul Jacobs (agency for Healthcare Research and Quality) identifies two powerful factors that are driving higher encounter-based risk scores (i.e., coding intensity that effectively adds to diagnoses) for MA enrollees vs traditional enrollees: in-home health risk assessments and chart reviews



CMS Home Healthcare Projections

- **CMS' definition of home healthcare:** providers primarily engaged in providing skilled nursing services in the home, along with a range of the following: personal care services; homemaker and companion services; physical therapy; medical social services; medications; medical equipment and supplies; counseling; 24-hour home care; occupational and vocational therapy; dietary and nutritional services; speech therapy; audiology; and high-tech care, such as intravenous therapy. (Hospital-based HHAs are classified with hospitals (NAICS 622) and are, therefore, included with hospital care expenditures.)”
- **Home healthcare expenditures** were projected to have reached \$145 billion in 2023, up 8.2% from 2022. 2024 Home healthcare expenditures are estimated to reach \$155 billion, representing 6.6% growth over 2023. For 2025-2026, projected annual growth is expected to be 8.1%, rising to a growth rate of 8.1% in the 2027-2032 period. In 2023, home healthcare spending was estimated to have been just 3.2% of total U.S. healthcare expenditures of \$4.8 trillion

Home Health Staff Turnover

- **High turnover.** Based on Activated Insights' 2024 Benchmarking Report, annual turnover in home care – here defined to include home healthcare, non-medical home care and hospice – has reached a current 79%, highlighting a 12 percentage point increase over the past 2 years



In-Home Emergency Care

- **Not reimbursed by government payers.** This segment arose during the Covid-19 pandemic. Traditional Medicare and Medicaid programs do not reimburse for these services
- **Care facets.** In-home emergency care “deploys paramedics or nurses to check vital signs, draw blood and take x-rays with portable imaging devices. Physicians supervise the visits via telehealth, then refer patients to primary care providers for further treatment or to hospital emergency departments if more complex care is needed”
- **Cost savings via reduced hospitalizations.** A collaborative partnership between Medically Home and Atrius Health, a primary care provider subsidiary of Optum, instituted such a program. Per their study of the program’s effects, 83% of nearly 3,700 patients served with at-home emergency care did not have a hospital visit over a 2-year period, producing savings of \$4.5 million for Atrius

Hospice

- **Spotlight on compliance in hospice.** An array of articles in Hospice News in Q2 highlights an increase in fraud and abuse pursuit and overall compliance initiatives. These articles note a “mixed bag of uncertainty”, program integrity oversight increasing significantly, and “one of the most challenging regulatory environments”. Many hospice providers themselves are asking for more pursuits of fraud and abuse in their sector. In June, Democratic Representative introduced the Hospice Care Accountability, Reform, and Enforcement (Hospice CARE) Act who stated that the sector had lacked an overview since 1982

Kroll's Observations:

We often maintain that these reform and/or increased oversight measures, on a net basis, are positives for any home health-based sectors, including hospice. Technology and compliance-invested providers with a keen focus on quality and strict operational documentation processes and controls should benefit as compliant-marginal providers may be impacted by any audits or investigations and may need to curtail their business or exit the space.

M&A Activity

- First quarter M&A and other transactions remained near the low points of the past few previous quarters, although there are signs of re-awakening of transaction flow
- **Diversified/Home Health & Hospice:**
 - VitalCaring was announced as the acquiror of certain Amedisys home health and hospice locations ahead of a sale of Amedisys to Optum (June 2024 announcement)
- **Medicaid and Other Non-Medical Home Care:**
 - Elara acquired Caregivers Home Health, a home care provider in KS and IA (June 2024)
 - Addus acquired Gentiva's personal care business for \$350 million, allowing it to expand its presence in 4 states and to enter 3 new states



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