



Healthcare Hot Topics

- **Adult:** Home Care, Home Health, Hospice & Palliative, Day Health
- **Pediatric:** Home Health, Therapy, Day Health
- Home Behavioral Health
- Workers Comp Home Health

Catch-up Period: January–May 2024



Kroll's View of Industry Dynamics and Factors

- Medicare home health: **potential rate reductions in 2024-2025** (however, potential access issues, inflation and lobbying could be meaningful counter-factors)
- Amidst hopeful Medicaid beneficiary re-enrollments, substantial support for a variety of services and ongoing waiting lists, **keep an eye on state budgets and their positive (or potentially negative) impact on HCBS**
- Kroll opinion: a lot could change regarding the “80/20” rule ahead of its implementation in 6 years
- Dually eligible spending and growth statistics are “staggering, suggesting underlying **potential for growth in both skilled home health and HCBS**”
- **Surveys continue to highlight the patient and cost savings benefits of hospice**, which did, at least, get a rate increase for 2024. With VBID cancelled and cost savings demonstrated, this segment has a more solid reimbursement outlook vs. some other home-based services segments
- **M&A activity remains muted**, with only moderate visibility for improvement over the very near term
- **Staffing challenges and need for process optimization and automation** remain among the highest operational concerns for all types of home health and community-based service providers

Home Care

- **Support for growth in home care and related social needs services.** The reader is reminded that in 2023, the Administration of Community Living released a final rule to effect updates to the 1988 Older Americans Act (OAA). Among other provisions, all of which were designed to deepen the stability and sustainability of these social needs programs, this rule includes requirements for state and local programs to assist and help elderly with aging in place. Some OAA programs address needs that include transport to medical appointments, nutritious meals, in-home care and support to family caregivers
- **80 /20 Medicaid rule – positives amidst tough provision .** The passing of the politically driven 80/20 rule has caused consternation among industry participants and financial sponsors. However, we think a lot could change or otherwise happen to this rule: (1) six years provides a long preparation time to adjust operating models, potentially exit Medicaid services selectively, and/or diversify revenue streams; (2) much could change from regulatory and legislative perspectives that could modify the rule; and (3) consolidation opportunities could accelerate, giving rise to potential synergies and scale benefits.
- **Updated MACPAC views of HCBS services.** Brief, relevant observations from the Medicaid and CHIP Payment and Access Commission’s (MACPAC) latest Medicaid compendium piece focused on 1915c waiver programs. Key findings include:
 - According to the agency’s definitions, HCBS workers include: (1) direct care workers (PCAs, HHAs and CNAs), (2) direct support professionals providing a broader range of services vs PCAs and assisting IDD individuals, (3) independent providers employed directly by beneficiaries (consumer or patient-directed HCBS care
 - All states report shortages of HCBS works, leading to a mismatch between the need for services and the quantity of services provided
 - States determine wages based on Bureau of Labor Statistics, state wage statistics, average wages from providers, market rates, and provider input
 - Many states (30) conduct formal rates studies every 1-5 years

Home Care (Cont.)

- **Key statistics on dually eligible beneficiaries (DEBs).** Here are just a few statistics key from MedPAC/MACPAC's lengthy 2023 databook on dually eligibles:
 - Spending on full-service (73% of beneficiaries), FFS DEBs in CY2021 amounted to **\$52 billion from Medicare** and **\$57 billion from Medicaid**
 - Long-term benefits (full-service DEBs utilizing Long Term Services and Support or LTSS) totaled \$84 billion (any LTSS), \$112 billion (institutional LTSS), \$78 billion (HCBS waivers), \$49 billion (state plan HCBS), \$27 billion (no LTSS)
 - Spending growth for DEBs grew 7.6% in 2021 (Medicare) and 6.9% (Medicaid). FFS annual spending growth for home care was 5.5% in the 2018-2021 period
- **More profound statistics on Medicaid LTSS (for DEBs and Non-DEBs)** based on KFF research:
 - **6 million people receive LTSS**, 4.2 million of whom receive services in their home and in the community. 56% of beneficiaries are under the age of 65
 - 62% are DEBs
 - Beyond people who currently receive LTSS, there are 700,000 beneficiaries on waiting lists
 - Interestingly, the rate of health conditions is only slightly higher among beneficiaries using institutional LTSS compared to those who use HCBS

Kroll's Observations:

The statistics on DEBs and non-DEB beneficiaries are simply staggering, including the growing spend for HCBS waiver and state plan HCBS programs (totaling \$127 billion). These findings provide a solid underpinning for potential investments in HCBS areas, especially given the continued shift to home and community based services.

Medicare Home Health

- **Survey highlights challenges, but also opportunities in “home-based care”.** The 2024 publication by Home Health Care newsletter and homecare homebase focused more on skilled home health providers, highlights the following, excerpted statistics:
 - Great challenges in 2024 for providers: **58% of providers noted staffing and 31% stated changing payment dynamics as key issues.** Among staffing challenges, recruiting and retention is highest on the list
 - Providers ranked the most significant efficiency opportunities in 2024 as follows: **(1) staffing utilization (27% of those survey); agency process optimization and automation (25%), referral management (15%), scheduling (12%),** etc.
 - For 2024, **65% of providers believe that revenue will grow in 2024.** Among growth tactics, jv/partnership ranked first (40%), same store growth (34%), M&A(17%), and de-novo and 9%, respectively, via M&A and de-novo openings
 - Value-based care has catalyzed operational process changes among 70% of providers surveyed
 - 52% of providers offer personal care/HCBS
- **Nothing new with MedPAC. Unsurprisingly, MedPAC has again called for reductions in home health payments (specifically 7% in 2025). Industry sources note that MedPAC’s calculations are based on antiquated methodologies.**

Kroll’s Observations:

The Medicare home health reimbursement outlook remains uncertain. However, providers find ways to adjust their operating models and seek efficiencies. Further, Congress and CMS, following industry input, can and probably will make changes to any rate adjustments (in line with the past where some rate changes were made to the positive)

Medicare Home Health (Cont.)

- **National home health survey: larger bonuses, less turnover.** The 2023-2024 Home Care Salary and Benefits Report, with 1,018 home health agencies surveyed, highlights the following trends for turnover:
 - (1) standard 20-25% turnover pre-Covid for RNs, LVNs and HHAs, (2) 37% at Covid's peak, (3) continual trending towards the norm since 2021
 - 80% of providers have been offering sign-on bonuses for new RNs. RN hourly raises were 3.9% in this time period, lower than in the year before
- **National survey: fewer RNs in home health and hospice.** There were 174K RNs in these 2 sectors in 2022 (5% of the workforce), compared to 180K in 2018, according to a survey of Health Resources & Services Administration and the Census Bureau (with burnout, high risk and inadequate staffing seen as reasons). However, 57% of RNs were utilizing telehealth as part of patient care in 2022, up from 50% in 2018

Sources: McKnights Home Care 2024 Industry Directory, April 2024, "RNs are moving away from home health and hospice, federal survey reveals"



Hospice and Palliative

- **Flat hospice enrollment.** In 2021 (latest available data), **1.71 million Medicare beneficiaries were enrolled in hospice care**, compared to 1.72 million in 2020. The downward trend was in line with the utilization experience in 2020. Certainly, Covid-19 had an impact, particularly in 2020
- **Hospice survey: challenges and opportunities.** The 2024 Hospice News Outlook Survey and Report highlights the following, key statistics related to the outlook for 2024:
 - **Top 3 challenges** for surveyed providers: **staffing (36%), regulatory changes and oversight (17%) and public awareness and education (15%)**
 - Growth tactics among providers for 2024: JVs/partnerships (45% of surveyed), same store growth (36%), M&A(13%), and de-novos (6%)
 - **Top 3 opportunities** for cost savings in 2024: **process optimization and automation (31%), staffing (16%) and RCM (13%)**
 - M&A outlook: **43% of providers believe M&A will increase this year**, while 11% think it will stay the same
- **Hospice survey: salary increases and bonuses.** The 2023-2024 Home Care Salary and Benefits Report, surveying 704 hospices, noted:
 - Raises for hospice RNs were 4.5% in 2023, with the national average hourly pay rate at over \$45
 - LPN and HCA (hospice care aides) pay raises were 4.3% and 6.6%, respectively
 - Average sign-on bonuses were \$7,000 (RNs), \$4,700 (LPNs) and \$2,300 (HCAs)

Hospice and Palliative (Cont.)

- **VBID abandoned.** CMS has decided to stop the hospice component of the Value-Based Insurance Design (VBID) model, in part because the agency has come to view the program as burdensome, challenging and unsustainable for providers and payers. Providers have said all along that given the uniqueness of hospice with a multi-disciplinary, person-centered approach, hospice does not fit into a VPID/Medicare Advantage model
- **Interest in palliative services declining among hospice providers.** In its latest, 2024 survey, Hospice News found that **only 16% of hospice provider survey respondents indicated plans to start palliative care programs**, down from 56% in 2023
- **Reimbursement increase – albeit small.** In March, CMS proposed a 2.6% rate increase for hospices for FY2025. Notably, without submission of required quality data, hospices would receive a -1.4% rate penalty. Finally, the hospice cap would move to \$33,494 (the implied 2.6% rate enhancement).
- **Significant savings for Medicare.** Prior to the above CMS rate update, MedPAC had suggested to keep hospice reimbursement rates flat for 2025. Factors that were considered: (1) the commission projected that 2024 hospice margins would be 9%, vs. 13.3% in 2021; and (2) a March 23, 2023 study indicated that hospice services generated \$3.5 billion in savings during the patients' last 12 months of their lives

Kroll's Observations:

Of course, the suggested rate freeze by MedPAC makes no sense, in our view, a rising amidst labor and other costs for hospice providers. CMS' preliminary decision to provide for a 2025 increase of 2.6% improves this situation, but only to a limited extent, especially given the above-mentioned cost savings to the Medicare system. That said, it appears that hospice is better positioned than some other home-based services categories to receive some increases (also in light of the VBID cancellation).

Spending and Other Statistics

- Aside from numerous statistics above in the various sector discussions, CMS' December 2023-released fact sheets highlights **home healthcare spending of \$133 billion in 2022**, representing only 3% of total health spending in the U.S. This statistic includes skilled home health, Medicaid home care and private insurance-based services. It does not include the approximate \$25 billion in hospice spend and other HCBS

M&A Activity

- First quarter transaction volume remained near the low points of previous quarters
- Diversified/Home Health & Hospice
 - Broad-based home health, home care, home IV and IDD service provider **BrightSpring completed its IPO** in January 2024
 - **Fortis Health (Grant Avenue)** acquired IN-based Physiocare Home Health and Hospice in January. Aside from its focus on Medicare home health and hospice, this company also comes with palliative and home care services
- Franchisors
 - In March 2024, **Waud Capital** acquired 400-location home care franchisor Senior Helpers from surprising, previous owner Advocate Aurora
- Home Care
 - In May 2024, **Family Resource Home Care (Great Point Partners)** acquired Adeo Home Care and Helping Hands Home Care in OR
- Home Health
 - In January, **BrightSpring** acquired a small, MD-based home health agency
 - Pennant Group remains one of the more active acquirors in this segment
- Hospice
 - In January, **New Day Healthcare (Kaltroco)** purchase TX-based Compassion Hospice, its ninth acquisition



Nick Konstantinou

Managing Director

nick.konstantinou@kroll.com

+1 (216) 543 7885



Michael Weber

Managing Director

michael.weber@kroll.com

+1 (804) 543 1438

About Kroll

As the leading independent provider of risk and financial advisory solutions, Kroll leverages our unique insights, data and technology to help clients stay ahead of complex demands. Kroll's global team continues the firm's nearly 100-year history of trusted expertise spanning risk, governance, transactions and valuation. Our advanced solutions and intelligence provide clients the foresight they need to create an enduring competitive advantage. At Kroll, our values define who we are and how we partner with clients and communities. Learn more at [Kroll.com](https://kroll.com).

M&A advisory, capital raising and secondary market advisory services in the United States are provided by Kroll Securities, LLC (member FINRA/SIPC). M&A advisory, capital raising and secondary market advisory services in the United Kingdom are provided by Kroll Securities Ltd., which is authorized and regulated by the Financial Conduct Authority (FCA). Valuation Advisory Services in India are provided by Kroll Advisory Private Limited (formerly, Duff & Phelps India Private Limited), under a category 1 merchant banker license issued by the Securities and Exchange Board of India.