Home Health

BUSINESS REPORT

MONDAY, SEPT. 20, 1999 VOL. 6, NO. 38 PAGE 1 OF 5

A WEEKLY REPORT ON NEWS, TRENDS & STRATEGIES FOR THE HOME HEALTHCARE EXECUTIVE

GW study shows home care in sharp decline

By MATTHEW HAY
***HHBR* Washington Correspondent**

WASHINGTON – Home health advocates are hoping to get significant mileage from a major study by George Washington University's Center for Health Services Research and Policy that shows a beleaguered home healthcare industry in the wake of the Balanced Budget Act of 1997 (BBA). "This is the first evidence we have seen of an imploding benefit," said **Home Health Services and Staffing Association** (HHSSA; Washington) counsel Jim Pyles. "The GW study shows that patients who need the care the most are simply going without it because agencies are laying off staff."

The study's lead author, Barbara Markham Smith, detailed the study's findings, which she had previewed earlier in the year before the Senate Permanent Committee on Investigations, at the National Press Club in Washington, DC, Sept. 14. The study, which was funded by HHSSA and the **National Association for Home Care** (Washington), examined 28 home health agencies from nine different states.

The study concluded that Congress should postpone the 15% cut scheduled for Oct. 1, 2000, until definitive data on the effects of the current reductions can be assessed. In her remarks, Smith pointed out that the **Congressional Budget Office** included that 15% reduction in its original projected BBA savings of $16 billion over five years. The CBO's revised estimate is now $48 billion.

Overall, the number of Medicare beneficiaries admitted to care among the agencies studied, as a percentage of all patients, has declined 21% since 1996. Medicare 1998 revenue among the agencies studied has declined by 25% from 1994 levels reflecting lower payments and utilization for Medicare beneficiaries.

According to Smith, the BBA has resulted in certain efficiencies in the delivery of home care. Such as more case management, higher levels of nursing supervision, more

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HCFA says proposed PPS rule on track; industry voices concern

By MATTHEW HAY
***HHBR* Washington Correspondent**

WASHINGTON – The **Health Care Financing Administration**'s (HCFA; Baltimore) Bob Wardwell said at the **Home Health Services and Staffing Association** (HHSSA; Washington) annual meeting last week that the agency still plans to publish the proposed rule for the home health prospective payment system (PPS) as scheduled next month. But he added that as publication of that rule nears, he is able to volunteer less about the precise form it will take.

"I guess the only thing that was a surprise is that really nothing much has changed since they gave us their last briefing," said HHSSA counsel Jim Pyles. "I think the folks at HCFA are well intended and are trying to come up with a system that they think is a good system," he added. "But my very grave concern right now is that

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GAO says the BBA is having intended effect on home care

By MATTHEW HAY
***HHBR* Washington Correspondent**

WASHINGTON – The effect of the interim payment system (IPS) on home health agencies has raised concerns, but reductions in the number of agencies and changes in home health utilization are consistent with the incentives of the IPS to control the rapid and unexplained growth that preceded the Balanced Budget Act of 1997 (BBA). That is what the **General Accounting Office**'s (GAO; Washington) William Scanlon told the House Commerce Committee last week as the committee attempted to measure the impact of the BBA across a range of healthcare services.

The IPS is not "an appropriate payment method" for the long term because it does not adjust payments for differences in beneficiary needs, Scanlon told the committee Sept. 15. He said that makes it important to implement the BBA-mandated prospective payment system (PPS) as

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GAO

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scheduled by Oct. 1, 2000. "In ongoing work, we are examining the formidable challenges of designing a PPS with the appropriate unit of payment, level of payment, case-mix adjustment method, and risk-sharing mechanism," he added. "Our work indicates that the PPS will likely require further adjustments after it is implemented."

But Nancy Roberts of **Kent County Visiting Nurse Association** in Warwick, RI, painted a far different picture before the committee. Roberts cited HCFA data from its OSCAR files that shows that as of Aug. 18, 1999, there have been 2,486 home health agency closures — almost 25% of all home health agencies across the country. That figure is much higher than the GAO's estimate last May of 1,436 closures as of Jan. 1, 1999, she said.

In addition, she said that roughly 545,270 fewer Medicare beneficiaries received home health services in 1998 than in 1996, representing a 15.2% decline in the total number of patients served. Meanwhile, home health reimbursement has decreased 29% since 1996, she added.

"In 1997, home healthcare represented only 9% of Medicare, but was slated for about 14% of the reductions in Medicare spending," Roberts told the committee. "Currently, the home health program comprises less than 7% of the Medicare program and is now projected to absorb 24% of the Medicare cuts between FY 1998."

Roberts cited the Medicare Payment Advisory Commission's (Washington) finding earlier this year that nearly 40% of agencies surveyed no longer admit all Medicare patients and that about 30% reported discharging Medicare patients with chronic conditions.

She also cited two "alarming outcomes" found in a recent survey by VNAA of its members. "While VNAs have historically made every attempt to admit all eligible beneficiaries regardless of condition or ability to pay, many VNAs are now selectively admitting patients or must discharge patients earlier than the optimal time for discharge," she told the committee. In addition, she reported that many VNAs have discontinued Medicare participation or eliminated rural service areas.

She reiterated the industry's call for elimination of the 15% additional cut scheduled for Oct. 1, 2000, as well as some type of outlier policy for high-cost, medically complex patients. She also urged the committee to increase the IPS per-visit cost limit and provide relief from "financially disabling overpayments."

Earlier in the week, the **National Association for Home Care** (NAHC; Washington) concluded that based on analysis of the OSCAR data, the pace of home care closures seems to be accelerating. "The average monthly rate of closings has grown from 36 agencies per month in December 1997 to 108 agencies per month by August 1999," according to NAHC. Worse yet, HCFA's most recent data is based on provider numbers and not sites of care, according to the association. "If branches were included, the totals would be much higher." NAHC hinted that actual agency closures may now be approaching the 3,000 mark.

The crisis is far from over, argued NAHC. It reported that data from one home health fiscal intermediary showed 91% of agencies had overpayments that totaled more than $1 billion.

The House Commerce Committee is currently working on legislation that would restore some of the reimbursement eliminated by the BBA. But all sides agree that agreement on the size and scope of that funding is very uncertain. ■

CORPORATE LADDER

• **Option Care** (Bannockburn, IL) has appointed James Hussey to its board of directors, boosting the number of members to six. Hussey is the president/CEO of **NeoPharm**, a biopharmaceutical company specializing in the development and marketing of new drugs for the treatment of cancer.

• **Allied Healthcare** (St. Louis) said Earl Refsland is rejoining the company as president/CEO and a director. As president/CEO of Allied from 1986 to 1993, Refsland guided the company through a period of strong sales and profit growth, as well as its 1992 initial public offering. ■

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COMPANIES IN THE NEWS

Air Liquide buys French unit of Gehe AG

Air Liquide SA (Paris, France) said its **Air Liquide Sante** unit acquired home care company **PharmaCom**, the French subsidiary of **Gehe AG** of Germany. This subsidiary, best known for its Orkyn brand products, derives its annual turnover from sales of home care products, including wheelchairs, walking frames, crutches, and respiratory aids. Air Liquide is a developer of and provider of healthcare products and services. The acquisition will enable Air Liquide to double the value of its home healthcare activities.

Beverly fights Labor Department policy

Beverly Enterprises (Fort Smith, AR) said it will ask a federal judge to bar a **Labor Department** demand that it have access to Beverly's headquarters so investigators can review employment-related records, reported the *Associated Press*. The Labor Department said Beverly could be barred from contracting with the federal government if it doesn't comply with the administrative decision. The department also said that access to the company's records is critical. Having access to a company's headquarters is "the only way we can be sure that companies doing business with the federal government are treating all their employees in accordance with the law, Alexis Herman, labor secretary, told the *AP*. A Beverly spokesman said the Labor Department has not explained why Beverly was chosen for review over other government contractors.

Caretenders announces new development plans

Caretenders (Louisville, KY) last week announced development plans and activities that will more than double its adult day care operations in Kentucky. The company was granted four certificates of need (CON) from the state authorizing it to add new adult day care centers in Elizabethtown, Frankfort, and Owensboro, KY, and the metropolitan Cincinnati area. Fulfillment of these CONs would increase to seven the number of centers the company has in Kentucky.

Caretenders also has acquired the assets of the **Hardin County Adult Day Care Center** in Elizabethtown, which recently moved into a newly constructed facility. The center has capacity for 49 guests per day. In addition, the company has doubled the capacity of one of its two existing Louisville, KY, centers from 50 to 100 guests per day.

Kelly sees increased sales in 2Q99

Kelly Services (Troy, MI) reported a profit in 2Q99 ended July 4 of $190 million, compared to a 2Q98 profit of $177.7 million. Total sales reached $1.1 billion, a 6.5% increase from 2Q98 sales of $1 billion. The company recorded a net income in 2Q99 of $20.7 million, 58 cents per share, compared to a net income in 2Q98 of $20.6 million, 54 cents per share.

Chairman/President/CEO Terence Adderley said in 2Q99, the company organized **Kelly Financial Resources**, a professional business that provides financial professionals on a temporary basis to corporations and accounting firms.

Olsten completes annual patient survey

Olsten Health Services (Melville, NY) said last week that children and their families who complete an average of 5.5 hours of in-home asthma self-management training can dramatically improve the quality of their lives, reduce visits to their doctors by 50% and hospital emergency rooms by 34.2%, and reduce healthcare costs by an average of $7,300, according to a study released recently by Olsten. More than 880 children and 460 adults participated in Olsten's annual patient survey for the in-home Asthma Self-Management Program, the company said.

Upon completing the in-home training with Olsten's nurses, according to the study, the children with asthma were healthier overall, with only 5% considered severe and 9% hospitalized within three months after the program's conclusion. The study also showed that adults participating in the training program saved an average of $10,000 annually.

Respironics warns of lower 1Q00 results

Respironics (Pittsburgh) said last week that based on preliminary results, its operating results for 1Q00 ending Sept. 30 might be below published analysts' estimates due primarily to certain company-specific factors associated with its previously announced restructuring. The company stated that it is not changing its outlook or guidance for the remainder of FY00.

The company estimated the revenues for 1Q00 will be less than the $86.4 million recorded in the comparable quarter last year, perhaps by as much as 5%. Accordingly, the related earnings per share, excluding the impact of previously announced restructuring charges, will likely be less than the 19 cents per share recorded in 1Q99, Respironics said, perhaps by as much as 5 cents per share. The revenue decrease includes the impact of the previously announced change in distribution in Germany, which will not impact company profitability, but will impact sales comparisons for the quarter by $2 million.

On July 6, the company announced its intent to restructure. The reorganization caused disruption during 1Q00, the company said.

Sunrise reaches agreement with Kolorfusion

Sunrise Medical's (Carlsbad, CA) home health group has reached an agreement of exclusivity with **Kolorfusion International** (Denver), an innovator in the decoration of three-dimensional products. For the past several months, Sunrise has been using Kolorfusion's patented process to decorate some of its Quickie custom manual wheelchairs with boldly colored, diverse designs, the company said. ■

MANAGED CARE REPORT

• **Aetna U.S. Healthcare** (Blue Bell, PA) is rolling out a program to get corporate employees who are out on disability to return to work sooner, according to a *Wall Street Journal* report. The company's plan, called HealthWorks, would combine elements of its managed healthcare plans with those of its disability-insurance lines. It could reduce employers' disability costs by up to 20%. The plan would mostly work by speeding disabled workers' return to work. Aetna said it could do that primarily by identifying potential cases early in the process and then having its case managers work with the employee's doctor and supervisor to work on a schedule for rehabilitation and return to work. In other news, the company has received approval from the **Department of Insurance** to begin marketing its new USAccess plan in Florida, giving members more choice and flexibility in their managed care plans. USAccess offers three tiers of benefits that range from in-network, referred coverage, to complete freedom to self-refer and choose any participating or non-participating physician or hospital. While the costs to the employer remains the same no matter which tier of coverage the employee chooses, out-of-pocket costs for the employee will vary based on those decisions.

• **HIP Health Plan of Florida** (Hollywood, FL) has named to new executives. Ronald Platt has joined HIP as vice president for medical affairs. Platt, a pediatrician, was previously medical affairs director at **HIP Health Plan of New York**. Edwin Pont has been named associate medical director. Pont is a specialist in internal medicine and was previously chief medical officer of **Healthplan Southeast** (Tallahassee, FL).

• **Cigna HealthCare of North Carolina** (Raleigh, NC) plans to reward doctors who have endured several cost-cutting initiatives that the company has launched in the past year, reported the *Raleigh News & Observer*. Starting Oct. 1, Cigna will pay its network of nearly 10,000 doctors an average of 8% more for patients' office visits, the *Observer* reported. The higher fees are partly a bid to appease doctors frustrated with Cigna's new cost-cutting programs and the additional paperwork and administrative headaches they've created, reported the *Observer*.

• **PacifiCare of Texas** (Dallas) and **PacifiCare of Oklahoma** (Oklahoma City) last week announced the debut of a regional advertising campaign for Secure Horizons, its Medicare+Choice product, in its Southwest markets. The two distinct but complimentary campaigns are geared toward Medicare eligible consumers in Dallas, San Antonio, Beaumont, Port Arthur, and Orange, TX, and in Oklahoma City and Tulsa, OK. ■

TECH UPDATE

• **Per-Se Technologies** (Atlanta) last week announced 2Q99 sales of its Resource1 family of staff management, patient scheduling, and resource management solutions. The company sold its Resource1 Ansos system to three networks – one in Nevada, one in Pennsylvania, and one in Indiana. The company sold its Resource1 One-Staff system to six networks. And it sold its Resource1 Orsos system to five networks – three in New York, one in Canada, and one in California. Per-Se also sold its Resource1 One-Call system to two networks.

• **Simione Central Holdings** (Atlanta) has entered into an amendment to the **MCS** merger agreement dated May 26, whereby the shares of MCS would be spun off to the shareholders of **Mestek**, MCS' parent company, and MCS would be merged with and into Simione. In connection with the signing of the amendment, Mestek loaned Simione $3 million on a short-term basis. Upon the closing of the merger, Mestek will contribute an additional $3 million to Simione, and the short-term loan will be canceled – resulting in a total of $6 million committed by Mestek – in return for newly issued Simione series B preferred stock, with voting rights equal to 11.2 million shares and a warrant for 2 million shares. In connection with the amendment and infusion of cash, Mestek has agreed to help in the operational management of Simione. As a consequence, Bruce Dewey, Mestek senior vice president, will assume the role of day-to-day executive leadership of Simione as its CEO within the office of the chairman. The office of the chairman, pending the closing of the merger transaction, will be made up of Dewey, Barrett O'Donnell, Simione chairman, and David Ellis, managing director of **EGL Holdings**, a large shareholder of Simione.

• Some home care workers in Monroe and Schuylkill counties in Pennsylvania joined the electronic age last week, using a paperless patient care tracking system called CareWatch, reported the *Allentown Morning Call*. The 12 workers are preparing to leave the **Lehigh Valley Hospital Home Care Group**'s satellite offices in Tamaqua and Mount Pocono and work from home. The move to the automated system has been going on for the past two years, said Carol Schaffer, vice president of the home health group. Cutbacks forced the hospital to act, she told the *Morning Call*. In 1997, passage of the Balanced Budget Act caused hospitals such as Lehigh Valley Hospital, which depend on Medicare reimbursement, to reduce costs.

• **Allegro Home Health Care Supplies** (Scottsdale, AZ) last week released the latest version of the Web's first on-line home healthcare superstore. The new design enhances the purchasing experience and adds to the overall functionality of the site, the company said. The site includes new features designed to make it faster and easier for customers to locate and order products. To visit the site, go to *www.goAllegro.com*. ■

Study

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goal and outcomes orientation with patients, encouragement of greater patient independence, and reduction of administrative costs.

But she was quick to point out that those efficiencies have been accompanied by major disruptions, as well as other unanticipated effects. For example, the new home health payment methodology is exacerbating regional variations in the health status characteristics of home care beneficiaries, even though it was designed in part to increase national uniformity, she said. This has hit home health agencies in the South the hardest because they lack the capacity to alter their case mix as agencies in other regions. As a result, beneficiaries in that region may experience more difficulty gaining access to home care services, she said.

Smith also said that as a result of changes made by the BBA, sicker patients are being discharged earlier from all components of the healthcare delivery system. That, in turn, may be leading to a patient population that is "unwanted by everyone." She added that some hospitals may soon abandon the pattern of subsidizing home health agencies that are losing money and that other types of cross-subsidization may also evaporate.

Among the study's other major findings were these items:

• The majority of agencies participating in the study have altered their case mix or practice patterns to conform utilization to reimbursement. Diabetics, particularly complex diabetics, appear to be the most affected by changes in admission practices and reductions in the level of care.

• Chronically ill beneficiaries may experience greater fragmentation of care among providers and more disruptions in care as a result of payment changes.

• Administrative constraints on utilization may affect access by sicker beneficiaries to appropriate levels of home care.

Pyles said the study is the first and only field study that shows the effect the interim payment system (IPS) has had on patients. "It shows that no agency of any auspices are able to treat these sicker patients," he said, adding that the study's most dramatic finding is that certain diagnoses — diabetes patients, congestive heart failure patients, chronic pulmonary disorder patients, multiple sclerosis patients — have largely disappeared from the home health patient mix. "Those patients are not there any more," he asserted. "That is dramatic.

"The fact that staffing at home health agencies between 1994 and 1998 decreased by 76% is also an astonishing finding," he added. "That reduction has occurred almost exclusively in highly specialized areas, such physical therapy and medical social work, which means that now even patients still getting care are not getting specialized care."

The researchers recommend that additional studies be completed to track beneficiaries' ability to obtain home care and to evaluate the effects of changed patterns of care on beneficiary health status. Because of findings indicating that IPS has created distortions in utilization data, the study also warns that the prospective payment system should not rely on utilization data from 1998-1999.

In addition to postponing any further cuts, the study also recommends that the IPS be modified to adequately account for the costs of medically complex patients and that guidelines to fiscal intermediaries and physicians should be clarified to mitigate administrative barriers to beneficiary access to care. ■

PPS

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the system they are working on and planning to propose is far too complex for home health and simply cannot be monitored."

Another industry executive close to the process was even less compromising, describing HCFA's most recent description of its PPS proposal as a "jalopy." Said the executive: "I bet it will come out on time and there will be a general uproar. It is not going to be an acceptable proposal, and reimbursement rates will be woefully inadequate in the eyes of providers."

High on Pyles' list of concerns is the fact that even the agency admits that no insurance program has ever used anything similar to the Outcome and Assessment Information Set (OASIS) as the basis for a reimbursement system. "OASIS was never designed to be a reimbursement tool," argued Pyles, "and therefore the predictability that they have found in OASIS for resource consumption has not been tested when it is used as a reimbursement tool."

Pyles predicts that as soon as the incentives of reimbursement are imposed on it, the predictability will radically change. "We know from every reimbursement system that has ever been in place under Medicare that providers always conform to the incentives of the reimbursement system," he said.

Pyles said he is also concerned that a case mix system that includes 80 often subjectively defined case mix categories will be difficult to implement and impossible to monitor. "The classification of a patient is based on a subjective observation by a nurse at a point in time," he said. "The next day the patient's condition could change and there is no way for the government to go back and audit and see if the nurse was in fact correct."

The agency is scheduled to publish a final rule early next year. ■