Home Health

BUSINESS REPORT

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

National home care associations to hammer out their PPS strategy

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

WASHINGTON – The five national home care associations last week met with senior officials from the **Health Care Financing Administration** (HCFA; Baltimore) who are charged with drafting the final home health prospective payment system (PPS). Home care representatives present at the Feb. 16 meeting report that HCFA is examining several options of dealing with potential cash flow problems and may even yield on the proposed 50%-50% split payment included in the proposed rule for PPS.

"It was a good meeting," said **American Federation of Home Care Providers** (AFHCP; Washington) Ann Howard. "HCFA certainly listened, and I am pleased they appear willing to do what they can under the budget caps that we appear to be stuck with."

But Howard quickly added that she is extremely concerned about access problems for certain categories of patients, such as wound care patients, daily diabetics, and rural patients. She said Tom Hoyer, director of HCFA's Office of Chronic Care Policy, said the agency will not shift money from one group of patients to another to address these shortages in care.

"That says to me that we are not going to have a solution to the problems facing certain groups of patients at risk under this system," she asserted. "If we don't, we are going to have a lot of people disenfranchised from the home health benefit."

Howard also reported that HCFA officials eliminated any hope that periodic interim payment (PIP) system will be resurrected in the final rule. But she said the agency is considering changes to the low utilization payment (LUPA) included in the proposed rule. However, agency officials argued that eliminating LUPA entirely would have the effect of lowering reimbursement for all of the case mix categories.

The meeting represented the first opportunity the

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AAH says top priority in 2000 is eliminating additional HH cuts

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

ALEXANDRIA – The newly established **American Association for Homecare** (AAH; Alexandria, VA) laid out its legislative and regulatory agendas last week. "The first key government relations priority for 2000 is the elimination of additional reductions to the home health benefit," said AAH Board member Joel Mills at a Feb. 16 press conference. That means striking the additional 15% reduction scheduled for Oct. 1, 2001.

Reflecting the diversified composition of the group, AAH also plans to press for examination of the **Health Care Financing Administration**'s (HCFA; Baltimore) competitive bidding demonstration project for durable medical equipment (DME) in Polk County, FL. "The demonstration has the potential to eliminate market competition and harm beneficiary access to quality medical services and equipment and cause irreparable damage," charged Mills.

"Home oxygen equipment cannot be drop-shipped to patients," he added. "It requires therapeutic support that is crucial for a positive health outcome." He argued that when an "artificially low bid" is expected and the provider faces budget pressure, the first thing to go is services.

Mills said the group will also seek "fair and clear" implementation of HCFA's inherent reasonableness authority. He said Congress should remain vigilante overseeing HCFA's use of the tool.

Lastly, Mills said AAH will closely monitor the implementation of the home health PPS. He said Congress should urge HCFA to release PPS rates as soon as possible and closely oversee implementation of PPS.

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Holiday schedule

Because *HHBR*'s offices were closed Monday for President's Day, fax subscribers are receiving this week's issue today, Tuesday, Feb. 22.

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five groups had to press their case for changes in the agency's proposed PPS regulation published last November. AFHCP was joined at the meeting by representatives from the **National Association for Home Care** (Washington), the **Home Care Association of America** (Jacksonville, FL), the **Visiting Nurses Association of America** (Boston), and the **American Association for Homecare** (Alexandria, VA). Also present were representatives from the **American Hospital Association** (Washington) and the **American Association for Homes and Services for the Aging** (Washington).

The seven groups had met a week earlier to hammer out a consensus. The groups identified eight areas of mutual concern: transition to PPS, cash flow issues, physician certification of the case mix placement, case mix adjuster, LUPAs, episode gaps, reimbursement for medical supplies, and outliers.

The associations also agreed to urge Congress to pump additional funds into the Medicare home health benefit. Under PPS, home health spending will be budget neutral, which means it can not exceed what expenditures would have been under the interim payment system.

Unfortunately for the home care industry, the administration's latest budget figures show a steep and unanticipated decline in that spending. In FY99, total Medicare home health outlays were pegged at $9.5 billion, roughly half the $18.4 billion that was originally projected. Remarkably, instead of rising 24% as projected, home health outlays dropped nearly 36%.

Those figures fueled fears that reimbursement under PPS would be less than originally anticipated. "That could in fact happen," said Howard. But she added that agency officials report that they have new data that show that the number of episodes has declined. "That means the two factors could balance each other out," said Howard. "The reduced expenditure levels that put a cap on PPS spending would be offset by the lower number of episodes antici-

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AAH

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"Home health agencies need as much information, including actual rates, to understand the implications of the new system," he argued.

The press conference also covered a range of other areas. AAH Board member Mario LaCute said many providers tend to overlook the fact that certification, which implies a set of compulsory standards, and licensure, which always involves the power of the state to engage in that business activity, are two very different things.

"We obviously support all of these initiatives that will improve the quality of services we provide to beneficiaries in their home," said LaCute. He said AAH will continue to work with HCFA to make these standards part of their ongoing quality improvement process.

AAH board member David Savitsky said the association plans to aggressively educate doctors, managed care organizations, and consumers about the full picture of home health services and medical equipment that are now available. "The opportunities to provide care at home are tremendous," he said. "But not everybody recognizes it."

Moreover, government sanctions have made physicians fearful about referring to home care. "We need to reeducate them about the necessity for it," said Savitsky, "and why institutionalizing their patients is often not the right thing to do." He said that includes having input into the Patients Bill of Rights and making sure that bill gives patients rights in the area of home care.

"The industry has certainly suffered a public relations problem and the idea that there is rampant fraud and abuse in home care is one that we have to work very hard to dispel," he added.

Mills set the new association will reach out to its executive board and board of directors in an attempt to raise money. "They will help us with different fundraisers as they did in the past," he said. "But probably the best way for us to increase our financial war chest is through membership."

He said the immediate membership goal is to double the current 1,000 members this year. ■

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COMPANIES IN THE NEWS

Apria posts higher earnings in FY99

Apria Healthcare Group (Costa Mesa, CA) recorded FY99 ended Dec. 31 total revenues of $940 million, up from FY98 revenues of $933.8 million. The company posted a FY99 net income of $204.1 million, $3.81, compared to a FY98 net loss of $207.9 million, $4.02 per share.

Apria saw 4Q99 revenues of 242.3 million, an increase from the $223.3 million in revenues the company recorded in 4Q98. Apria posted a 4Q99 net income of $151.9 million, $2.83 per share, compared to a 4Q98 net income of $2.3 million, 4 cents per share.

Apria also announced that its board authorized the company to repurchase up to $50 million worth of shares of its outstanding common stock. Apria may repurchase stock from time to time on the open market, depending on market conditions and other considerations, the company said.

Infu-Tech develops platform with InfoSpace.com

Infu-Tech (Carlstadt, NJ) will work jointly, through its **Smartmeds.com** unit, with **InfoSpace.com** to develop a platform for wireless interactive healthcare communications to assist in disease state management and B2B health commerce. The platform, Infu-Tech said, will incorporate InfoSpace.com's Internet and wireless communications technologies to integrate personalized medical content, commerce, and disease management services.

Initially, the platform will perform a variety of tasks central to notifying and monitoring patients' drug compliance with the purpose of enhancing patients' wellness through disease management services and measuring clinical outcomes, the company said.

Lexington's 2Q00 revenues increase

Lexington Healthcare Group (Farmington, CT) reported 2Q00 ended Dec. 31 revenues of $19.5 million, a 1% increase from 2Q99 revenues of $19.3 million. The company posted a net income in 2Q00 of $87,000, 2 cents per share, compared to a 2Q99 net income of $79,000, 2 cents per share.

Revenues in the first six months of FY00, Lexington said, increased largely because of rate increases, principally Medicaid, and increased ancillary revenues, and as a result of a management agreement covering four nursing homes, effective Nov. 1, 1998. As of Sept. 1, 1999, there was a reduction in those management fees when management of two of those facilities was terminated, said Lexington.

Manor Care reports FY99 net loss

Manor Care (Toledo, OH) saw 4Q99 ended Dec. 31 revenues of $536.3 million, compared to revenues in 4Q98 of $555.2 million. The company posted a 4Q99 net loss of $164.7 million, $1.60 per share, down from a 4Q98 net income of $27.7 million, 25 cents per share.

For the year, the company posted revenues of $2.1 billion, compared to FY98 revenues of $2.2 billion. Manor Care saw a net loss in FY99 of $43.7 million, 41 cents per share, compared to a net loss in FY98 of $2.9 million, 3 cents per share.

At year end, a reserve was recorded against the four quarters of dividends accruing from the **Genesis Health Ventures** series G convertible preferred shares held by Manor Care subsidiaries, said Manor Care. Additionally, following an independent valuation analysis of Genesis and the series G shares, the company wrote down its investment of $293 million by $274 million.

Manor Care also exercised warrants for 90% of the common stock of **Heartland Medical Information Services** (HMIS), a start-up medical transcription company, effective at year end. Consistent with this action, the company has recorded strat-up losses of $12.4 million for FY99 for HMIS. Manor Care said that both the effects of the HMIS losses and the Genesis reserve and asset write-down caused the loss for the year.

Nursefinders acquires licensee DSR

Nursefinders (Arlington, TX) has acquired **DSR Medical Management**, one of the company's largest licensees. DSR manages six offices in northern New Jersey and generates $20 million in revenues, said Nursefinders.

The company said the DSR acquisition will serve as a springboard for development of the metropolitan New York City market.

Option Care expects record revenues for FY99

Option Care (Bannockburn, IL) expects to record revenues for 4Q99 of $31 million and for FY99 of $119 million. The company said its earnings per share for 4Q99 is expected to be 12 cents per share, exceeding analysts' estimates.

The 4Q99 reporting period also marks Option Care's fourth consecutive quarter of expanding profitability, the company said, and President/CEO Michael Rusnak said the company will "supplement our organic growth with other initiatives already begun. We have recently launched our specialty pharmacy and E-commerce division, **OptionMed**, and have begun discussions to expand our credit facility to support acquisition activity."

Former Rehabilicare employee sues company

Rehabilicare (New Brighton, MN) has been served a whistleblower suit that was initiated by a former Rehabilicare employee and was intervened by the U.S. government acting as a coplaintiff under the False Claims Act. The suit, served by the U.S. District Court of the Middle District of Florida, has been sealed until recently,

Rehabilicare said, when it was brought to the company's attention by an article in the *Tampa Tribune*.

The suit alleges that **Staodyn** (Longmont, CO), which Rehabilicare acquired in 1998, and **Henley Healthcare**, from which Rehabilicare acquired the assets of its home health division in 1998, improperly filed 500,000 Medicare claims, that they were overpaid more than $120 million on such claims, and that the total statutory amount recoverable under the suit could be $15.6 billion. The suit is based primarily on an allegation that all three companies submitted claims to the government on the basis of certificates of medical necessity faxed from physicians, rather than on signed originals, Rehabilicare said. But it also alleges that the companies altered certificates of medical necessity and overbilled for accessories contained in a standard Medicare kit, Rehabilicare added.

The company reported 2Q00 ended Dec. 31 revenues of $14.8 million, a 36% increase from 2Q99 revenues of $10.9 million. Rehabilicare saw a 2Q00 net income of $1.3 million,12 cents per share, compared to a 2Q99 net income of $774,000, 7 cents per share. Gross margins in 2Q00 improved to 72% from 70% in 2Q99, said Rehabilicare.

PSA's 1Q00 revenues down

Pediatric Services of America (PSA; Norcross, GA) saw 1Q00 ended Dec. 31 total revenues of $48.1 million, compared to 1Q99 total revenues of $56.7 million. PSA posted a 1Q00 net income of $20 million, $3.00 per share, up from a 1Q99 net income of $108,000, 2 cents per share.

PSS' Gulf South unit signs two-year contract

PSS World Medical's (Jacksonville, FL) long term care division, **Gulf South Medical Supply**, signed a two-year contract with **The Evangelical Lutheran Good Samaritan Society** (Sioux Falls, SD). Under the terms of the contract, Gulf South will supply medical supplies to the residents of Good Samaritan's 240 skilled nursing facilities and home care locations. The contract, which is subject to renewal, is expected to generate $25 million over the two-year life of the contract, said PSS. ■

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pated in the first year."

If nothing else changes and HCFA sticks to its original prediction of 8.9 million episodes in the first year of PPS, the budget neutrality factor would plummet. But she added that even if HCFA thought that episodes were going to remain at the same level, it would be difficult to let the budget neutrality factor drop further. "Congress did not eliminate the additional 15% cut just to have home health cut," she argued. "It would be a very bad political move on the part of HCFA if they did not find a way to prevent further cuts from home health." ■

MANAGED CARE REPORT

• **Blue Cross and Blue Shield of South Carolina** (BCBSSC; Columbia, SC) saved the federal government $1 billion in Medicare payments in 1999, reported *The State* of Columbia, SC. According to a BCBSSC report, the savings came from claim reviews that made sure improper Medicare claims were not paid. **Palmetto Government Benefits Administrators**, a BCBSSC subsidiary, is the largest administrator of Medicare claims in the country, *The State* reported. The jump from 1998 to 1999 came primarily from more audits of home health agencies that caught claims for services that Medicare does not cover, Palmetto Government said.

• **UnitedHealth Group** (Minneapolis) has been sued for racketeering in a suit that alleges its recently announced policy of allowing doctors to make the final decision in patient care is only a sham, reported *Reuters English News Service*. The suit also attacks the company for a widely hailed plan announced in November to stop overruling doctors, *Reuters* reported, but it is similar to a rash of other cases accussing HMOs of depriving patients of adequate treatment. The suit is being brought by a group of lawyers who previously sued six other HMOs. United said it has not see the lawsuit yet, but believes, based on recent legal decisions in other HMO cases, that it will be found without merit, *Reuters* reported.

• **Trigon Healthcare** (Richmond, VA) posted a 4Q99 ended Dec. 31 net income of $27.6 million, 70 cents per share, a sharp drop from 4Q98 net income of $48.6 million, $1.13 per share. The decrease is in part from the impact of Trigon's **Mid-South Insurance** unit's withdrawal from the health insurance market. Trigon said its 4Q99 and 4Q98 earnings included unspecified realized investment gains. The company reported revenues of $1.7 billion, an 8.7% increase from 4Q98 revenues of $1.5 billion. During 4Q99, the company repurchased almost 2.3 million of its shares at an average price of $28.55 per share, bringing the total to about 4.1 million shares repurchased as of the end of December.

• **PacifiCare** (Santa Ana, CA) President/CEO Alan Hoops is planning to leave the company, and despite rumors of being forced out by board members, Hoops said the decision to leave is his own. Hoops said that in his 20 years at PacifiCare, he has focused on the company's early entrepreneurial rapid growth phases, but now that it has been built into a $10 billion business and its fundamentals are strong, he said it is time to step aside. Hoops will retire, effective March 2001.

• **Coventry Health Care** (Bethesda, MD) signed a three-year deal with **Healtheon/WebMD Corp**. (Atlanta) in which Healtheon/WebMD will implement Coventry's Internet strategy. Initially, Coventry will use Healtheon/WebMD's Internet

services to manage electronic claims submission and processing of eligibility determination, referrals, and authorisations. The deal will increase the number of physicians who use WebMD Practice, Healtheon/WebMD's professional portal, and increase the number of transactions that the company processes annually.

• **Blue Cross and Blue Shield of Michigan** (Detroit) named Daniel Loepp vice president of governmental affairs. Loepp is the author of the book *Sharing the Balance of Power -- An Examination of Shared Power in the Michigan Legislature 1993-1994* and was previously an associate with **Karoub Associates**, a lobbying and governmental consulting firm.

• **WellPoint Health Networks** (Thousand Oaks, CA) posted a net income for 4Q99 ended Dec. 31 of $80.7 million, $1.20 per share, including the extraordinary gain from early extinguishment of debt, compared to a 4Q98 net income of $67.4 million, 99 cents per share. The company saw total revenues of $2 billion, down from 4Q98 revenues of $1.7 billion.

For the year, the company reported total revenues of $7.5 billion, compared to total revenues in FY98 of $6.5 billion. WellPoint posted a FY99 net income of $278.5 million, up from a FY98 net income of $231.3 million.

• **Mid Atlantic Medical Services** (MAMSI; Rockville, MD) reported a FY99 ended Dec. 31 net income of $26.3 million, 64 cents per share, compared to a FY98 net income, prior to one-time accruals, of $19.3 million, 42 cents per share. MAMSI saw FY99 revenues of $1.3 billion, an increase of $129 million, or 10.9%, over $1.2 billion in FY98. ■

CORPORATE LADDER

• The **Health Industry Distributors Association** (HIDA; Alexandria, VA) named Kevin Murphy vice president of membership, marketing, and communications. In this new position, Murphy will be responsible for the strategic marketing and membership development for the association. In addition, HIDA appointed Karen DeLong director of membership, marketing, and communications. As director, DeLong will provide leadership and tactical operations for marketing all HIDA products. HIDA also promoted Ruth Ann Kaiser to director of government relations.

• Pamela Bataillon was named senior vice president and COO of the **Visiting Nurse Association** in Omaha, NE. Bataillon formerly served the association as vice president of business development.

• Nancy Jakus has been named president and COO of **CNS Home Health** (Carol Stream, IL), a home health and hospice services provider.

• **Coram Healthcare** (Denver) said last week that Sandra Smoley joined the board of directors, effective Feb. 10. Smoley is chairman/CEO of **The Sandy Smoley Group** (Sacramento), a healthcare and local government consulting firm.

• **Jordan Health Systems** (Quincy, MA) named Patricia O'Brien president of **Cura Visiting Nurse Association** and **O'Brien Cranberry Hospice**. O'Brien will also serve as vice president of Jordan Health Systems. ■

REGIONAL DIGEST

• Gov. Paul Cellucci's administration has agreed to release nearly $2.5 million more in state funds for home care services, money that had been withheld because of a delay in passing this years' budget. But Al Norman, executive director of **Massachusetts Home Care**, said the state should have released up to $8 million more. The money will go to provide services for about 900 elderly citizens, Norman said. The state **Office of Elder Affairs** said the FY00 budget for the program was approved at $11.7 million, but only $6.8 million was released since the budget was passed five months late, reported the *Boston Herald*. Advocates, however, said that releasing the full amount could bring hundreds more people into the program. The Office of Elder Affairs said no elders who had been receiving services had seen their services reduced.

• Advocates for the disabled in Arizona have filed a federal lawsuit against the state's indigent healthcare system, alleging that its long term care program is failing to provide required in-home care attendants. As a result, clients of Arizona's long term care system must go without needed daily care or must rely on friends and relatives, according to the suit. The **Arizona Center for Disability Law** filed the suit against the **Arizona Health Care Cost Containment System** and its director, Phyliss Biedess, on behalf of three disabled clients of the program, reported the *Arizona Daily Star*.

• **Community Care of Western New York** (Olean, NY), a non-profit home care agency, is acquiring the assets of **Associated Home Care** (Wellsville, NY). The company anticipates retaining the 11 employees of Associated Home Care, reported the *Buffalo News*. Community Care does business as **Home Health Care of Southwestern New York** and **Comstock Hospice Care Network**.

• The **Georgia Association for Home Care** (GAHC; Marietta, GA) was formally launched recently with the adoption of bylaws and the election of Sheila Gunter as chairman. Financial pressures caused by the interim payment system, and other factors, caused the **Georgia Association of Home Health Agencies** to become insolvent in June, GAHC said. In July, members voted to cease operations and affiliate with the **National Association for Home Care** (Washington) under a joint dues arrangement, said GAHC. ■