

Home Health Care

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Completed by Veronica G. Rodriguez



Home health care agencies offer a variety of services to different types of patients who are recovering from an illness or post-operative procedure. Likewise, these services have become popular with senior citizens choosing to stay in their own homes instead of moving to a nursing home facility. Service providers generally offer both short and long term services and are often more affordable than hospital stays and nursing facility stays. The home health care industry was initially composed of many small independent companies providing services. But, one major trend in the industry signals overall consolidation.

Industry Overview

Although home health care is a viable medical alternative for people of all ages and in various recuperative stages, the industry has been struggling since the Balanced Budget Act of 1997 reduced reimbursable benefits for home health care services. The Act implemented strong reforms including the requirement for providers to obtain surety bonds. A layer of complexity was added because the Centers for Medicare and Medicaid Services (CMS) accept only certain types of surety bonds.¹

Health care organizations offer advantages to those who utilize these services. The first advantage is the cost. Most services offered by home health care providers are less costly than the same services available in other facilities. See chart below.

Comparison of Hospital, SNF, and Home Health Medicare Charges, 2001-2003

	2001	2002	2003
Hospital charges per day	\$3,080	\$3,574	\$3,838
Skilled nursing facility charges per day	463	479	499
Home health charges per visit	105	108	109

Source: *Basic Statistics About Home Care*²

Another advantage is that patients prefer to be treated in their own homes instead of a hospital or nursing home providing that the services are at least comparable. The home health care industry flourished after the enactment of the Medicare program in 1965 which was created, in part, to provide federal funding for chronically ill patients who wanted or needed in-home care. In 1968, there were only 1,100 providers of homecare services. An upswing in the number of agencies established was evident in the ensuing years. According to the National Association of Home Care (NAHC), 20,000 home care providers served 7.6 million people in 2001. In 2003, \$38.3 billion was spent on home health care. Medicare paid most of the costs for home health care with out-of-pocket and private insurance following. See statistics below.

Sources of Payment for Home Health Care, 2002 & 2003

Source of Payment	2002	2002	2003	2003
	Amount (in \$ billions)	Percent of Total	Amount (in \$ billions)	Percent of Total
Total	36.1	100.0	38.3	100.0
Medicare	11.4	31.6	12.2	31.9
Out-of-pocket	6.5	18.0	6.9	18.0
Private Insurance	6.7	18.6	6.9	18.0
State and Local Government	5.7	15.8	6.0	15.7
Medicaid	4.8	13.3	5.1	13.3
Other	1.1	3.0	1.1	2.9

Source: Basic Statistics About Home Care²

Revenue trends indicated that the industry, as a whole, was doing well. However, advances were curtailed by the implementation of the Balanced Budget Act in 1997. The legislated Act reduced Medicare and Medicaid reimbursements to providers to help prevent fraud which plagued the industry and to reduce government spending. No matter what the intent of the Act was, the effects on the industry were clear. Home health care agencies either closed their doors or stopped accepting Medicare patients.

Competition/Business Leaders

Up until the late 1990's, the home health care industry was somewhat fragmented with increasing movement towards consolidation. Currently, there are 38 companies that enjoy a large market share in home healthcare services nationwide. Industry leaders include:

Apria Healthcare Group, Inc.

Created from the merger of Homedco and Abbey Healthcare and formed the nation's largest home health care company. In 2004, the company earned profits of \$114 million dollars and employed 11,000 people.¹

Rotech Healthcare

Rotech offers home medical equipment and has 500 facilities across the nation. In 2004 it reported a net profit of \$38.2 million and had 4,300 employees.¹

Lincare

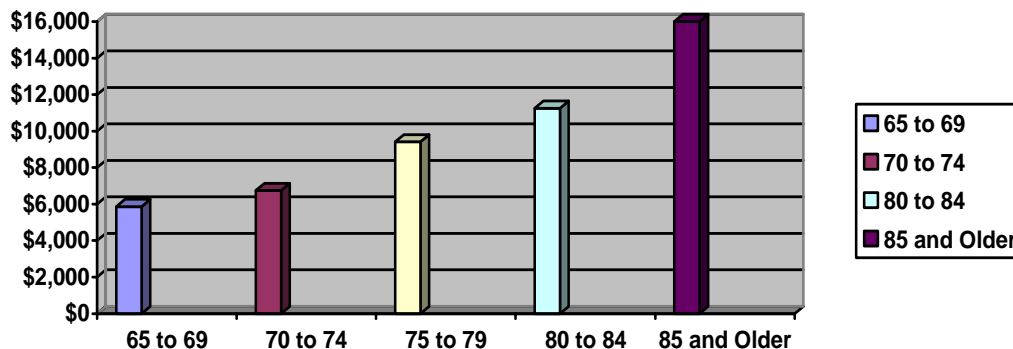
Lincare is one of the nation's largest providers of oxygen and respiratory services. In 2004, it reported a net profit of \$273.4 million dollars, 7,800 employees and 530,000 customers in 47 states.

American HomePatient, Inc.

This is one of the largest home health care companies in the nation. In 1997 it acquired five companies with revenues of \$10.3 million dollars. In 2004, the company reported a net profit of \$13.2 million dollars and employed 3,000 people – down from its 1998 figure of 4,750 people.¹

Demographics

The number of people who use home health care services has risen in the last few years. Naturally, spending on health care in general has risen among older age groups from \$6,000 a year for people 65 to 69 years of age to \$16,000 for people 85 and older.



Source: *Americans 55 & Older: A Changing Market, 2001*³

In 2000, approximately 1 million people, age 65 and older obtained home health care services. An estimated 75% of home health care recipients were aged 65 or older, and half were 75 or older. Almost 2/3 of these patients were women. The popularity of home health care services caused a drop in the number of institutionalized elderly.

Home Health Care Patients by Age, Sex, and Marital Status, 2000

(number and percent distribution of current home health care patients by age at admission, sex, and marital status, 2000)		
	Number	Percent distribution
Total Patients	1,355,300	100.0%
Age		
Under age 45	400,100	29.5
Under 18 years	64,200	4.7
18-44 years	124,400	9.2
45-64 years	211,500	15.6
65 years and over	955,200	70.5
65-69 years	96,200	7.1
70-74 years	138,000	10.2
75-79 years	228,100	16.8
80-84 years	196,500	14.5
85 years and over	296,300	21.9
Sex		
Male	477,400	35.2%
Female	877,900	64.8%

Source: *Current Home Health Care Patients, 2000*⁴

Trends

The home health care industry is a flourishing yet struggling industry. As the nation's largest segment of the population (Baby Boomers) age, the demand for home health care services will continue to expand. On the other hand, the industry has yet to recover from the damage done by the Balanced Budget Act of 1997 which reduced Medicare reimbursements to providers of home healthcare by \$69 billion dollars. This was more than four times the amount intended by Congress. Another reason the industry is struggling is the shortage of registered nurses and home-health aides – along with the high turnover rate for both integral employee groups. In response to these issues, the home healthcare industry is experimenting with telehomecare and telemonitoring – a move designed to provide quality health care while controlling costs. Telehomecare is a way that medical professionals such as nurses, can stay in touch with their patients by telephone or Internet and eliminate having to travel to the patient's home. The U.S. Department of Veterans Affairs tested telemonitoring over a six-month period and found that it effectively reduced emergency room, clinic and home health visits by 20%.

Because the medical device industry continues to make testing equipment simple to use, the home health industry has seen revenues rise. Increased cooperation between hospitals and home health agencies has taken place resulting in reduced number and length of hospital visits. Another emerging trend is for aging parents to live with their children.

There are about 16 million people in this country, more than the population of New England, finding themselves caring for two generations. They are called the "sandwich generation" because they are not only raising their children but also caring for their aging parents at the same time. This trend is growing and the market of those between the ages of 66 and 84 will grow to 60 million within the next 25 years. This population will soon need part-time or full-time care.⁵

Start-up Considerations

With soaring hospital and nursing home costs, more people consider the option of home health care service when they (or a loved one) are recovering from an illness or an operation. This same service can also be utilized when care for an elderly patient becomes necessary. Start-up costs for a home health care provider can range between \$40,000 and \$150,000 depending on the location and size of business, available services, etc. Inflation factors will put the approximate start-up costs anywhere from \$51,600 to \$193,600. Potential earnings for a small, independent home health care agency range between \$50,000 and \$100,000, with typical billing rates at \$40 to \$50 per hour. Start-up advertising costs may range from \$15,000 to \$20,000 and thereafter cost 1.2%⁶ of the budget. A newspaper directed to seniors, direct mail and hospital advertising work well with this type of business. The operation of a home health care agency may require 20 to 30 licensed or registered nurses and some administrative staff to handle billing and insurance claims. One downside of the business is the hidden cost of needed or required liability insurance. This varies from state to state.⁷

Valuable, fundamental skills useful in owning and operating a home health care service are: a solid medical background, good perception of business and the capability to manage people concurrently.

The home health care services industry is growing and the projected trend indicates more rapid expansion in the coming years. This is especially true with the first wave of baby boomers turning 60. As baby boomers become consumers and create a greater demand for home health care services, the industry stands ready to respond.

Associations

National Association for Home Care and Hospice
<http://www.nahc.org/>

American Health Care Association
<http://www.ahca.org/>

Home Health Nurses Association
<http://www.hhna.org/>

Integrated Health Care Association
<http://www.ihc.org/>

National Council on Aging
<http://www.ncoa.org/index.cfm?bType=ie4>

Visiting Nurse Association of America
<http://www.vnaa.org/vnaa/gen/html~home.aspx>

Sources

¹ "Home Health Care Services." Encyclopedia of American Industries. Online Edition. Gale, 2004.

² Basic Statistics About Home Care, National Association for Home Care & Hospice.
<http://www.nahc.org/NAHC/Research/04HC_Stats.pdf>

³ Americans 55 & Older: A Changing Market, 2001.

⁴ Current Home Health Care Patients
<<http://www.cdc.gov/nchs/data/nhhcsd/curhomecare00.pdf>> Date Accessed May 10, 2005.

⁵ The Sandwich Generation, CBS News, CBS Broadcasting
<<http://www.cbsnews.com/stories/2006/05/08/eveningnews/main1600179.shtml>>
Date Accessed May 16, 2006.

⁶ Other Medical & Health Services, US National Industry Profitability Averages
<<http://www.bizstats.com/healthother.htm>> Date Accessed May 17, 2006.

⁷ Jones, Katina, Adams Businesses You Can Start, Adams Media Corporation, 1996.

Federal Reserve Bank of Minneapolis
<<http://minneapolisfed.org/Research/data/us/calc/>> Date Accessed May 17, 2006.

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