

DEEP DIVE

# Insurers see broad market opportunities with end-of-life care

As payers large and small look toward hospice care business models, a number of prominent deals have surfaced.

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**B**lurring lines between payers, providers and other healthcare players and the move toward value-based care are among the factors driving a renewed interest in the end of the life as a business opportunity.

CMS is expanding Medicare reimbursement for hospice and considering integrating managed care programs into the benefit. The move comes as a new crop of start-ups have emerged looking to fill gaps in healthcare for the growing cohort of retirees.

And, although hospice deal trends have slowed overall following five years of furious activity between 2010 and 2014, payers have recently started getting into the act, scooping up end-of-life care companies. Insurance giants Anthem and Humana are among the biggest players in recent months making moves.

"That's where the world's going," said Thomas Scully, former CMS administrator under President George W. Bush, who currently has an 89-year-old mother in hospice. "The players in the thick of it that are going to figure that out and provide good services at a reasonable price are going to make a margin."

For-profit hospices increased considerably between 2000 and 2016. Though the businesses made up 30% of the 2,255 hospices in 2000, that proportion grew to two-thirds of the roughly 4,400 hospices in operation in 2016 according to CMS data.

And chain providers accounted for 32% of the market in 2011, a figure that continues to tick up as the market consolidates. Analysts don't expect a slowdown in growth or M&A any time soon, with recent well-publicized deals spurring industry interest in the multibillion-dollar industry.

Insurance giant Humana, along with private equity firms TPG Capital and Welsh, Carson, Anderson & Stowe acquired home health and hospice giant Kindred last December for \$4.1 billion. Kindred held 5.85% of the national home health market share in 2017 according to Lexis Nexis Risk Solutions, and 3.54% of hospice.

The Humana-private equity consortium doubled down on hospice acquisitions a scant four months later, setting their sights on smaller prey in hospice operator Curo in a \$1.4 billion deal.

Humana intends to merge the Mooresville, North Carolina-based company with Kindred at Home once the transactions close. The two separate deals, both of which are pending regulatory closure and expected to get the OK soon, will make Humana a hospice behemoth: the largest operator in the country with hundreds of locations spanning dozens of states.

Interest is not exclusive to traditional brick and mortar hospice models, however. In May, Anthem acquired palliative care provider Aspire Health, which focuses on in-home, coordinated support for patients with serious or chronic illness.

Aspire's model is "less capital-offensive, more capital-efficient" than its more traditional cousin, according to Leerink

equity analyst Ana Gupte, and will serve Anthem well as it looks to pursue savings in the high-risk, high-cost population.

### **Cross-selling to boomers**

The aging of the baby boomers has somewhat mirrored the growth of hospice.

The number of hospice users flirted with 0% in the early 1980s yet by 2016 more than 50% of Medicare recipients received one day or more of care at a hospice facility. Currently, about 1.5 million beneficiaries receive hospice care per year according to the National Hospice and Palliative Care Organization.

As insurers already have an existing relationship with their elderly customers, it makes it easier to cross-sell overlapping services such as hospice, Gupte said. "There are synergies in particular with their medical underwriting."

And as more and more baby boomers crowd under the umbrella of government insurance, the payer becomes a more profitable fount of reimbursement due to quantity of claims alone — especially since Medicare is increasingly shelling out more for hospice care.

In August, CMS issued a final rule that will grant hospice providers a 1.8% increase in payments for fiscal year 2019: roughly \$340 million overall.

"The reimbursement rates are strong and it's a profitable service to be delivering," noted Dan Mendelson of Avalere Health. "Whenever you have that kind of situation you're going to also have speculative buying and desire to grow these markets."

### **The role of Medicare Advantage**

Regardless of how often staff members visit their patients for routine care, hospice operators collect the same daily flat rate

from Medicare in FY 2018: \$193 for the first 60 days, then \$151 thereafter (plus or minus some small geographic and life expectancy adjustments).

Currently, Medicare Advantage does not cover hospice services. If an MA plan enrollee wants to use hospice, original, fee-for-service Medicare will cover the cost of your care and MA will continue to cover non-hospice benefits.

But that siloing "makes no sense," Mendelson argues. Since the passage of the Affordable Care Act in 2010, MA enrollment has increased by 71% and now a total of one-third of Medicare enrollees are opting into MA.

As regulators and execs continue to embrace managed and value-based care, experts believe CMS may fold hospice care into MA in the near future — if only as a way to cut costs.

"While fee-for-service payment for hospice care has enjoyed really wide support from members of Congress, there is an inevitability that, at some point, either Congress or the administration will take a more careful look" at MA to try to save Medicare some money, Mendelson said.

"I think anytime there's another serious healthcare bill involving Medicare Advantage it'll happen," Scully, who is also a general partner of the private equity group that collaborated with Humana to acquire Curo, told Healthcare Dive.

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*Former CMS Administrator*

While it may seem daunting for a payer to lose lucrative reimbursement from a flurry of FFS curative care, according to analysts, any insurer selling MA plans would benefit if their patients choose hospice. Whatever money it would lose from expensive end-of-life care reimbursements from Medicare, the insurer would likely recoup in hospice revenue.

This MA inclusion, and corresponding transition of profit source, is something Humana may be counting on.

In an earnings call following their Kindred acquisition, Humana CFO Brian Kane expressly cited MA as an "exciting growth area" for the company, and an impetus for the merger. The insurer expects to add anywhere from 150,000 to 180,000 members to its MA plans in 2018.

Humana's forecasted growth mirrors the nation's largest insurers' increasing dependency on Medicare for enrollment, revenue and profit increases, according to a late 2017 Health Affairs report. This increasing reliance on government programs — taken in tandem with the popularity of MA — paints a positive picture for stable program profits moving forward.

## **Ripples in the industry**

After five years of elevated M&A activity in the home health and hospice sectors between 2010 and 2014, the supply of acquisition candidates has been somewhat depleted, according to M&A firm The Braff Group.

Yet valuations for homecare providers including hospice have continued to mount and, for interested parties, a host of hospices are still ripe for the picking.

A few of the large ones still in play? Vitas (4.52% of the national hospice market share in 2017 according to Lexis Nexis), HCR Manorcare (2.31%) and Amedys (1.71%).

Vitas is particularly tempting. The chain is currently owned by the Chemed Corporation (which, tangentially, also manages plumbing business Roto-Rooter). The Miami-based operator has locations in 14 states, as well as D.C., and just acquired Hospice of Citrus and the Nature Coast in August of this year. Vitas is also coming off a great Q2: the operator reported patient revenue of \$296 million (4.2% increase year-over-year) and an admissions increase of 3.4%.

And buyers aren't limited to insurers. Private equity has always been interested in home health and hospice but its involvement has been growing immensely, especially in the last two years.

According to The Braff Group data, private equity posted the greatest number of market-entry platform deals in home health and hospice in 2016, along with a strong showing in 2017 as well.

### **Integration risks**

Despite the potential benefits, profitability of hospices depend on reimbursement rates set by the government, which comes with a unique set of challenges.

Those political risks are trending down, maintains Gupte, with a greater recognition in the space that the U.S. spends disproportionately on end-of-life care.

Another factor is lack of interoperability, Mendelson says. As more hospice services are provided in the managed environment, interoperability is just going to be "an expectation" moving forward, and not a goal.

"As we continue to look at transactions, what IT platform or what electronic medical record they're running is important to us," noted Jet Health CEO Jim Glynn to *HealthcareMandA*.

Finally, payers must be mindful of the history of fraud within the industry.

This particularly important as ultimately "when you acquire an asset you are accountable for the quality of those services," Mendelson said.

Hospice providers have been caught luring in those who are not terminally ill and thus unqualified for hospice, denying necessary care to their patients, misrepresenting their services to entice customers, lying to receive more government reimbursement and more.

A Kaiser Health News investigation last year found that hundreds of America's 4,000-plus hospices failed to meet their patient obligations, sometimes even abandoning them as they neared death.

Kindred and Curo have both found themselves embroiled in accusations (and litigation) of fraud: the former for overbilling Medicare and the latter for kickbacks to physicians and nurses on the condition they referred patients to their business. Kindred shelled out \$3 million to federal officials in 2016 (and closed 18 facilities) to settle the allegations while Curo paid out \$12 million in 2017.

The many lawsuits (including a prominent one involving UnitedHealth Group and its acquired hospice business) may have dissuaded potential buyers from the market.

The HHS inspector general has called on CMS to step up its oversight, although the two bodies have yet to agree on a concrete set of recommendations or quality measures.