# Trading Places: CMS Policy Changes Flip the Script on Home Care Investment Options


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Everyday 10,000 Baby Boomers in the US turn 65. Independent of market movements, demand for care continues to rise as this demographic ages, presenting ripe investment opportunities for corporate buyers and financial sponsors alike to meet this growing wave of demand.

But with a broad healthcare ecosystem supporting aging populations, where should investors deploy their capital?

Patients have always had a proclivity for "aging in place"—being cared for in the comfort and familiarity of their homes and communities. But for providers, bringing consistent, high-quality care to a patient's home, and getting paid for it, has presented challenges.

Now regulatory changes from The Centers for Medicare and Medicaid Services (CMS) are creating new investment opportunities in the home health space. CMS policies have shaken up the home healthcare investment landscape, shifting the focus of reimbursement for skilled home care and breathing new life into unskilled home care and telehealth.

## NEW PRIORITIES FOR SKILLED HOME HEALTH

As the healthcare industry continues to nudge toward value-based care, new CMS policies around the Patient-Driven Groupings Model going into effect in 2020 represent a major recalibration of the payment paradigm for the industry. The new payment model will be based on each patients' clinical condition, functional level and individual care needs, rather than the therapeutic intensity of the care provided. Historically, skilled home health agencies were compensated in a way that penalized certain providers serving patients with complex care needs and rewarded agencies that used higher volumes of therapy services.

With the revenue model being revamped beginning on the first day of 2020, investors are understandably adopting a more cautious approach to deals until the impact of these changes can be empirically measured. However, strategic deals are still occurring, notably Encompass Health's recent $217.5 million purchase of Alacare. Lincoln also expects that some skilled nursing companies may not experience dramatic changes to their revenues or margins as a result of PDGM, which will allow for M&A activity to continue for certain deals.

As investors take a momentary pause on skilled home nursing care opportunities, industry players can cast their eyes on two areas primed for growth: non-medical home care and telehealth.

***Lincoln International sees a resurgence in the consolidation between the skilled and unskilled home care markets as companies like Amedisys, Kindred at Home and Elara Caring build a continuum of care from post-acute to sub-acute home and community-based capabilities. In fact, large private equity funds like Welsh, Carson, Anderson & Stowe and KKR have already made investments in home and community-based care in anticipation of the tremendous future growth opportunities.***

## A BOON FOR NON-MEDICAL HOME CARE

Last April, CMS rolled out a disruptive and monumental change, announcing that beginning in the 2019 plan year it would allow private Medicare insurers to cover non-medical in-home care as a supplemental benefit for Medicare Advantage plans. For the first-time, aging Americans would be able purchase a Medicare Advantage policy that would cover bringing a home health aide to their house to help them with the support they may need for daily living – from getting dressed to bathing, tidying up, cooking and combating senior loneliness.

However, with such a short runway, few insurers managed to incorporate non-medical in-home care in time for the 2019 plan year. In fact, according to an AARP analysis, only a meagre three percent of Medicare Advantage plans offered these services in 2019.

But Lincoln International expects massive growth in this space in the next several years. Essentially, this policy change creates a new paradigm for the non-medical in-home care industry—expanding the addressable market by the more than 20 million seniors enrolled in Medicare Advantage plans.

Meanwhile, just as this favorable regulatory climate draws attention to the non-medical home care space, the evidence demonstrating the interplay between social determinants of health and health outcomes is shedding new light on the sector. Regulators, payers, providers and employers are rethinking the role that social programs, like Personal Assistance Services, (i.e. non-medical home care delivered by an attendant or aide) play in cost containment, outcomes-based care, and patient satisfaction.

## TELEHEALTH FINDS ITS FUNDING

The second growth area fueled by policy change lies in telehealth, which has been around for decades keeping employers' and certain commercial plan's healthcare costs lower. The challenge for Medicare, Medicaid and the providers that serve these populations has always been getting paid for the use of tech-enabled services like video consultations, Personal Emergency Response Systems (PERS), or remote vitals monitoring.

All of this changed in April 2019, when CMS approved a final rule which gives Medicare Advantage plans more flexibility to cover telehealth services in the home setting—even for patients in urban areas, where there is rarely a dearth of quality providers. Historically, CMS had only allowed telehealth reimbursement in situations where patients were managing a clinical condition in a rural area without ready access to care.

The convenience and affordability of telehealth solutions resonates with patients and their families.  Physicians and other clinicians benefit from the enhanced visibility they gain into their patients in real-time, as well as the stronger patient engagement that results from these tech-enabled tools. The majority of Medicare Advantage members would change plans in order to procure access to telehealth services, according to Deft Research's 2019 Medicare Shopping and Switching Study.

Lincoln International expects this policy change will bode well for investment in the telehealth space— from acute care established players to ongoing wellness management startups placing quality care in the palm of patients' hands.

## LINCOLN PERSPECTIVE

For private equity and industry players looking to gain from CMS policy changes shaking up the landscape, here are three key takeaways to keep in mind:

**Industry Consolidation is Afoot**

As awareness builds around the importance of social determinants of health, more companies are looking to expand their menu of services to help provide seniors with everything from human companionship, to nutritious food, community transportation, and quality care. With virtually unlimited need and the need to keep healthcare affordable, technology-backed solutions will be essential to delivering quality, integrated care to the most people. As new business models tied to social determinants of health emerge, we anticipate greater industry consolidation. Providers will want to ensure they can improve patient outcomes from all angles. We anticipate that in the future managed care organizations will work with fewer, larger, tech-enabled vendors. This presents a buying opportunity for corporates and private equity investors alike in the non-medical home care and telehealth spaces.

**Private Equity Investors Need to Rethink the Mousetrap in an Era of Managed Medicare And Medicaid**

PE sponsors will want to consider investing in provider businesses with the technology and infrastructure to collect and synthesize patient-level data in real-time, which has become the new paradigm for growing referrals from commercial and government managed care organizations.

**Keep Your Eyes on Capitol Hill and State Governments**

Regulatory changes can be a strong indicator of what areas of the healthcare space will see growth in the years ahead. Policy shifts such as the recent CMS announcements, Medicaid expansion, and the debate in Washington around the future of Medicare all have the power to impact which parts of the healthcare ecosystem will grow or contract in the years to come. Regulatory reimbursement model refinements will continue to impact the acute and post-acute provider landscape and ultimately ripple into the commercial insurance market.