ANALYSIS OF HOME HEALTH AGENCY PROFITABILITY AND UTILIZATION

In November, 2005, SMA Informatics/Casemix Consulting, LLC completed the first in a series of planned studies of the home health care industry.

We analyzed 230 home health services organizations (HHAs): 117 subsidiaries of Amedisys, Inc. (AMED) and Gentiva Health Services, Inc. (GTIV), two publicly traded, for-profit HHAs and 113 not-for-profit HHAs (NFPs) competing in 12 states in the southeast/southwest US.

We investigated the variations in profitability, utilization patterns, and casemix by home health provider. The study was based on 4.6 million episodes in the HHA Standard Analytic File obtained from the Centers for Medicare and Medicaid Services (CMS), using CY 2003 data. We created metrics to "explain" the profitability (gross margin) of AMED, GTIV, and NFPs. The analysis was performed at the individual HHA level, using settled Medicare Cost Reports.

We calculated metrics of interest to clinicians and financial managers: the HHAs' casemix index, average number of visits per episode, average number of episodes per patient, percent outliers, percent of revenue from Medicare Part A, percent episodes with "professional therapy," percent patients with >5 episodes/year, percent of all patients sent by top 5 referring MDs, and percent of low utilization episodes.

After adjusting for casemix and other utilization variables, GTIV HHAs had a 16.2% higher profit margin than NFPs; AMED HHAs had an 11.6% higher profit margin than NFPs. Our casemix adjustments were made using CMS' Home Health Resource Groups (HHRGs).

We will conduct several additional studies of HHA profitability, utilization patterns, and casemix for home health industry executives, equity analysts, hedge fund managers, and policy analysts. Our clients are interested in many different aspects of the home health care industry:

- Location of service: urban vs. suburban vs. rural
- Large vs. small HHAs
- Caseload: percent Medicare vs. non-Medicare
- Regional variations in home health services; HHA profitability in specific regions of the U.S.
- "Competition Index": competitive vs. non-competitive markets for home health care services
- Estimating the impact of enhanced information system implementations
- Provider specific comparisons:
    a. Private, for-profit HHAs
    b. Visiting Nurses Association HHAs
    c. Option Care (OPTN), Apria (AHG)
    d. For-profit vs. not-for-profit hospices

We have already expanded the metrics of HHAs beyond those we used in our initial research, to include:

- Number of doctors that account for 25% of the HHA's episodes
- Casemix index by quarter
- Highest revenue-producing HHRGs
- Casemix-adjusted average episodes per patient
- Diagnosis-based analyses
- Enhanced statistical methods: weighted least squares, kurtosis and skewness adjustments

For more information on our results, research methodology, or to request tailored studies, please contact Henry G. Dove, Ph.D. at (203) 281-5094 or henry_g_dove@sbcglobal.net.