

Valuation of Home Health Agencies: Competition

As of 2020, nearly 11,500 Medicare-certified home health agencies (HHAs) were operating in the U.S.¹ As the Baby Boomer cohort ages, competition among HHAs (and other entities that provide similar services) may increase due to a growing patient pool requiring chronic disease management.² This competition for patients, in addition to a shift in patient preference for home-based care over institutional care, may create a gap between the demand for home healthcare services and the supply of adequate personnel to meet that demand.³ The fourth installment of this home health valuation series will discuss the competitive environment in which HHAs operate by examining the supply of, and demand for, home health services, competitive forces, and the future outlook for the industry.

To qualify for the Medicare home healthcare benefit, beneficiaries must need “intermittent” or part-time skilled care, totaling fewer than eight hours per day.⁴ In 2020, approximately 3.1 million Medicare beneficiaries received home healthcare services, resulting in Medicare spending approximately \$17.1 billion on these services (an average of \$5,591 per patient).⁵

Demand for home healthcare services revolves around the need for five types of healthcare services: (1) skilled nursing; (2) therapy services such as physical therapy, occupational therapy, and speech language pathology; (3) home health aide services; (4) medical social services; and, (5) the use of medical supplies, such as wound dressings.⁶ In 2020, 50% of all (in-person) home healthcare visits included skilled nursing services; 42% of visits utilized various therapy services; 6% utilized home health aide services; and, 1% utilized medical social services.⁷ However, when the COVID-19 pandemic resulted in cancelled elective procedures and moving care out of the hospital and into patients’ homes, physicians (who must prescribe home health services in order to trigger an episode of care) and patients both became more comfortable with home healthcare, resulting in what one HHA executive characterized as “pent-up demand” for home health services.⁸ While demand is increasing, it started out fairly low, with “[o]nly about 15% of frail older adults receiv[ing] medical care at home.”⁹ This indicates that there is a large number of patients not currently receiving home health services that could receive them in the future. Further, the number of overall people who may need care is increasing, with the number of Americans over the age of 65 totaling approximately 81 million by 2040.¹⁰

©HEALTH CAPITAL CONSULTANTS

While demand may increase for home health services, patient access to home healthcare is reportedly quite high currently. Over 99% of Medicare FFS beneficiaries live in a county served by at least one HHA, and 87.9% live in a county served by 5+ HHAs.¹¹ However, other anecdotal reports indicate that there is already a shortage of home healthcare services, with providers across the country turning away patients because of insufficient staff.¹² This shortage will only become more critical as the Baby Boomers continue to age, resulting in an estimated national workforce shortage of 151,000 by 2030 and 355,000 by 2040.¹³

The home healthcare industry is quite fragmented, with the three largest HHAs only generating 10% of total industry revenue in 2021.¹⁴ Further, the large majority of HHAs operate as sole proprietorships.¹⁵ The supply of HHAs has been steadily decreasing since 2013 (at a rate of approximately 1.7% per year), although the decrease in the number of HHAs was lower between 2019 and 2020 compared to other years. This indicates that the COVID-19 pandemic and the implementation of a new reimbursement model did not affect the overall HHA industry as predicted.¹⁶ The concentration of HHAs varies widely by state. For example, New Jersey had less than 1 HHA per 10,000 Medicare fee-for-service (FFS) beneficiaries, while Texas had 8.4 per 10,000, in 2020.¹⁷

Supply for home health services is also driven by the number of providers rendering those services, principally home health aides, personal care aides, and registered nurses (RNs). Consequently, an adequate supply of labor to provide home healthcare services, in particular home health aides, is essential to meet a growing preference for home healthcare services. Over the past 12 years, the size of the home health workforce more than doubled, with over 2.4 million home health workers in 2020.¹⁸ Home health aides are expected to be one of the fastest-growing professions over the next 10 years, with the number of job openings expected to grow nearly 33% between 2020 and 2030, with over 1.23 million jobs projected to be added to the industry.¹⁹ However, likely due to the relatively low annual wages for home health aides (\$29,430 per year),²⁰ it is challenging to fill these roles and keep them filled. Evidence suggests that staffing shortages may be ameliorated by sidelined workers returning to work and/or travel nurses who are looking for a more permanent position.²¹

(Continued on next page)

Competition among home healthcare providers is largely variable, due to the wide spectrum in the scope of services that may be provided by a given HHA. For example, HHAs may provide services that require a licensed provider, such as home infusion therapy; respiratory care; physical, occupational, and speech therapy; behavioral care; and, skilled nursing services, or may provide services that do not require a licensed provider, such as those provided by a home healthcare aide. In addition to competition from other HHAs, providers of home healthcare services face external competition from hospital outpatient departments (HOPDs), skilled nursing facilities (SNFs), and hospices.²² In 2020, approximately 3.1 million Medicare beneficiaries received care from an HHA, while

approximately 1.2 million beneficiaries experienced a SNF stay.²³ However, patients utilizing home healthcare services may also utilize (concurrently or consecutively) institutional-based post-acute care services, such as SNFs, as both home healthcare services and institutional-based post-acute care services can assist patients with activities of daily living, such as bathing and dressing, while recovering from an injury or illness.²⁴

The competition among HHAs will continue to rise as the industry grows and the widespread adoption of telehealth allow for more potential patients and visits. The final installment in this home health valuation series will discuss: the technological environment in which HHAs operate.

- 1 "Chapter 8: Home health care services" in "Report to the Congress: Medicare Payment Policy" Medicare Payment Advisory Commission, March 2022, https://www.medpac.gov/wp-content/uploads/2022/03/Mar22_MedPAC_ReportToCongress_Ch8_SEC.pdf (Accessed 4/15/22), p. 279.
- 2 "The Future of Home Health Care: Workshop Summary" Institute of Medicine, Washington, D.C.: National Academy of Sciences, 2015, p. 60.
- 3 *Ibid.*
- 4 "Medicare Payment Policy" Medicare Payment Advisory Commission, Report to the Congress, March 15, 2021, https://www.medpac.gov/wp-content/uploads/import_data/scrape_files/docs/default-source/reports/mar21_medpac_report_to_the_congress_sec.pdf (Accessed 1/25/22).
- 5 Medicare Payment Advisory Commission, March 2022, p. 280.
- 6 "Medicare and Home Health Care" Centers for Medicare and Medicaid Services, September 2020, <https://www.medicare.gov/Pubs/pdf/10969-Medicare-and-Home-Health-Care.pdf> (Accessed 1/25/22), p. 7-9.
- 7 Medicare Payment Advisory Commission, March 2022, p. 286.
- 8 "Encompass Health CEO: There's Pent-Up Demand for Home Health Services" By Andrew Donlan, Home Health Care News, May 13, 2021, <https://homehealthcarenews.com/2021/05/encompass-health-ceo-theres-pent-up-demand-for-home-health-services/> (Accessed 5/23/22).
- 9 "Growth in Home Care Failing to Keep Up With Surging Demand" UVA Health, April 15, 2021, <https://newsroom.uvahealth.com/2021/04/15/growth-in-home-care-failing-to-keep-up-with-demand/> (Accessed 5/23/22).
- 10 "Home Care Workforce Action Alliance Formed as Providers Hit All-Time Case-Decline Highs" By Joyce Famakinwa, Home Health Care News, May 18, 2022, <https://homehealthcarenews.com/2022/05/home-care-workforce-action-alliance-formed-as-providers-hit-all-time-case-decline-highs/> (Accessed 5/23/22).
- 11 Medicare Payment Advisory Commission, March 2022, p. 279.
- 12 Home Health Care News, May 18, 2022.
- 13 *Ibid.*
- 14 "IBISWorld Industry Report 62161: Home Care Providers in the US" By Dmitry Diment, IBIS World, August 2021, p. 22.
- 15 *Ibid.*
- 16 For more information, see "Valuation of Home Health Agencies: Reimbursement Environment" Health Capital Topics, Vol. 15, Issue 4 (April 2022), https://www.healthcapital.com/hcc/newsletter/04_22/HTML/HO-MEHEALTH/convert_valuation-of-home-health---reimbursement-environment-4.21.22.php (Accessed 5/23/22).
- 17 Medicare Payment Advisory Commission, March 2022, p. 279
- 18 Home Health Care News, September 7, 2021.
- 19 "Occupations with the most job growth" U.S. Bureau of Labor Statistics, <https://www.bls.gov/emp/tables/occupations-most-job-growth.htm> (Accessed 5/23/22).
- 20 *Ibid.*
- 21 "Home-Based Care Providers See Staffing Tailwinds from Inflation, Travel Nursing Decrease" By Andrew Donlan, May 18, 2022, https://homehealthcarenews.com/2022/05/home-based-care-providers-see-staffing-tailwinds-from-inflation-travel-nursing-decrease/?itm_source=parsely-api (Accessed 5/23/22).
- 22 Medicare Payment Advisory Commission, March 2021, p. 268
- 23 "Report to the Congress: Medicare Payment Policy" Medicare Payment Advisory Commission, March 2022, https://www.medpac.gov/wp-content/uploads/2022/03/Mar22_MedPAC_ReportToCongress_SEC.pdf (Accessed 4/18/22), p. 237, 275.
- 24 "Long-Term Care Services in the United States: 2013 Overview" Centers for Disease Control and Prevention, December 2013, http://www.cdc.gov/nchs/data/nsltcp/long_term_care_services_2013.pdf (Accessed 1/25/22), p. 35.



(800)FYI - VALU

*Providing Solutions
in the Era of
Healthcare Reform*

Founded in 1993, HCC is a nationally recognized healthcare economic financial consulting firm

- [HCC Home](#)
- [Firm Profile](#)
- [HCC Services](#)
- [HCC Experts](#)
- [Clients & Projects](#)
- [HCC News](#)
- [Upcoming Events](#)
- [Contact Us](#)
- [Email Us](#)

HCC Services

- [Valuation Consulting](#)
- [Commercial Reasonableness Opinions](#)
- [Commercial Payor Reimbursement Benchmarking](#)
- [Litigation Support & Expert Witness](#)
- [Financial Feasibility Analysis & Modeling](#)
- [Intermediary Services](#)
- [Certificate of Need](#)
- [ACO Value Metrics & Capital Formation](#)
- [Strategic Consulting](#)
- [Industry Research Services](#)



[Todd A. Zigrang](#), MBA, MHA, CVA, ASA, FACHE, is the President of HEALTH CAPITAL CONSULTANTS (HCC), where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 25 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 2,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of "[The Adviser's Guide to Healthcare – 2nd Edition](#)" [2015 – AICPA], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Accountant's Business Manual* (AICPA); *Valuing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies; Business Appraisal Practice*; and, *NACVA QuickRead*. In addition to his contributions as an author, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); American Health Lawyers Associate (AHLA); the American Bar Association (ABA); the National Association of Certified Valuators and Analysts (NACVA); Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.

Mr. Zigrang holds a Master of Science in Health Administration (MHA) and a Master of Business Administration (MBA) from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives (FACHE) and holds the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers, where he has served as President of the St. Louis Chapter, and is current Chair of the ASA Healthcare Special Interest Group (HSIG).



[Jessica L. Bailey-Wheaton](#), Esq., is Senior Vice President and General Counsel of HCC. Her work focuses on the areas of Certificate of Need (CON) preparation and consulting, as well as project management and consulting services related to the impact of both federal and state regulations on healthcare transactions. In that role, Ms. Bailey-Wheaton provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services.

Additionally, Ms. Bailey-Wheaton heads HCC's CON and regulatory consulting service line. In this role, she prepares CON applications, including providing services such as: health planning; researching, developing, documenting, and reporting the market utilization demand and "need" for the proposed services in the subject market service area(s); researching and assisting legal counsel in meeting regulatory requirements relating to licensing and CON application development; and, providing any requested support services required in litigation challenging rules or decisions promulgated by a state agency. Ms. Bailey-Wheaton has also been engaged by both state government agencies and CON applicants to conduct an independent review of one or more CON applications and provide opinions on a variety of areas related to healthcare planning. She has been certified as an expert in healthcare planning in the State of Alabama.

Ms. Bailey-Wheaton is the co-author of numerous peer-reviewed and industry articles in publications such as: *The Health Lawyer*; *Physician Leadership Journal*; *The Journal of Vascular Surgery*; *St. Louis Metropolitan Medicine*; *Chicago Medicine*; *The Value Examiner*; and *QuickRead*. She has previously presented before the ABA, the NACVA, and the NSCHBC. She serves on the editorial boards of NACVA's *QuickRead* and AHLA's *Journal of Health & Life Sciences Law*.



[Janvi R. Shah](#), MBA, MSF, serves as Senior Financial Analyst of HCC. Mrs. Shah holds a M.S. in Finance from Washington University Saint Louis. She develops fair market value and commercial reasonableness opinions related to healthcare enterprises, assets, and services. In addition she prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services and applies utilization demand and reimbursement trends to project professional medical revenue streams and ancillary services and technical component (ASTC) revenue streams.