

# Want to Start a DME Business?

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## The Factors You Must Consider

Since January 1 of 2012, between 8,000 and 10,000 people turn 65 every day and will do so for the next 18 years. This well-publicized information about the aging of the “Baby Boomers” in the United States is the subject of many business seminars. Speakers point to the business opportunities available to market to this group and that these Baby Boomers are going to need health care services from Medicare and Medicaid in a demand unlike anything in previous years. This may be very true, but one very important factor is usually left out of the discussion- the financial solvency of Medicare and the funding of Medicaid.

Just because there is a need for services doesn't mean that Medicare and Medicaid are happily going to pay for them. As the government struggles with budget deficits and the need to cut expenses, Medicare and Medicaid are no exception. As the Baby Boomers move out of the work force, their payroll contributions to Medicare disappear, their need for Medicare services begins and the costs of healthcare rise every year. And as more and more people struggle with unemployment, the enrollees in Medicaid increase every year as well.

***Medicare and Medicaid do not necessarily want to have hundreds and hundreds of agencies in each state, so they don't make it very easy to open a new agency. It is costly and time-consuming and there is no guarantee that everyone will be successful and be able to operate.***

Additionally, because of current funding problems, Medicare and Medicaid are looking for every way possible to recover monies spent. One way this is happening is through the aggressive audit activity occurring. Agencies currently in business are struggling under unprecedented Medicare and Medicaid audits, where Medicare and Medicaid go back, sometimes up to 6 years, and re-review claims that were paid. They determine that payment should not have been made and demand that these “overpayments” be returned from the provider immediately. In February of this year, Liberty Medical filed for bankruptcy as they are struggling with repaying the “overpayments” identified in a recently conducted Medicare audit of diabetic supply claims which has them paying the government **3.2 million dollars per month** as they await a date for a court hearing to dispute these charges—with no court date in sight.

Throughout the years, Capital Healthcare Group has assisted successful start-up home health agencies across the country. Although many who contact us have well thought-out plans for agency start-up, statistics show that only 10% have projected out the realistic costs. The remaining 90% have given less consideration to the cost of starting a home health agency and the time involved. Even if they have spent hours planning, often they have grossly underestimated the revenues needed for the first year of operation. Additionally, few have conducted a thorough market analysis to determine how they will obtain quality referrals. They think the referrals will just “come”. This couldn't be further from the truth.

## Competition

You have many current competitors vying for this business in every area of the country; urban, rural and everywhere in between. This is a business that can be very difficult and full of risk as you work with the elderly, family dynamics, personalities and unexpected health outcomes. There are so many challenges and they are too numerous to mention in this article, but understand that this is not an “easy” business. Some challenges to consider: it can be very hard to find and retain quality staff; in a Medicare-Certified agency, Medicare requires that you have an Administrator or a Director of Nursing who has high-level of Medicare home care experience-- a nurse who has been working in the field is not necessarily appropriate for a management position such as this; you have to have a nurse on call 24 hours a day, 7 days a week for the life of your business. If one of your business partners is not a nurse with the proper home care experience, this requirement could be problematic forever.

Many providers who own a private pay business or a non-Medicare agency think it will be easy for them to open a Medicare Certified agency because they already have a physical office, some staff and some administrative processes in place. Just because some of these agencies have patients who often need to be referred to certified agencies for skilled care, they shouldn't think that those referrals will automatically come to them if only they had a certified agency. Ultimately it is the patient's choice which agency they use, but it is a very competitive world out there, where patients don't normally get much of a chance to select their provider. A Non-Medicare agency may be getting the referrals they get because they are not in competition for the Medicare business that goes elsewhere. Becoming certified often has a negative effect on the current type of referrals seen in a Non-Medicare agency and, as in life, there are no guarantees.

In a Medicare-Certified agency, you must employ staff as W-2 employees, not independent contractors. You are responsible for their payroll taxes and any benefits provided. You can only use Independent Contractors who are true companies, such as ones you might contract with for therapists. Those companies, who you will have a very detailed contract with, are responsible to conduct proper hiring and training activities with their staff before they can contract their staff to you as needed. You can not treat your own staff as contractors.

Every hospital, nursing home and facility already has a relationship with one or more home care agencies now, and many health care systems own their agencies. Unless you know a facility is very unhappy with their current providers, you will find that this business is extremely competitive. There are always facility-owned companies and well as large national and regional home care providers in every major metropolitan area. Do not think that if you have a few physicians who will refer business to you that you are going to be extremely successful.

Most Medicare home care patients are referred for home care following a stay in an acute care facility (hospital), a sub-acute or rehabilitation facility (nursing home or rehab unit). They can also come from ambulatory surgery centers, emergency rooms and other types of facilities following surgery or treatment. Very few referrals are made directly from a physician's office for home care services and, in fact, Medicare currently views these types of referrals as potentially fraudulent and they are very suspect of community-based referrals. We recommend that agencies accept these types of referrals on a very limited basis due to the Medicare and Medicaid scrutiny involved.

In Medicare certified care, agencies must make sure their paperwork is properly coded with the correct ICD-9 codes and that the codes are in the correct order for payment. The best way to do this is to hire a certified home care coder, or contract out to a coding company—which can be very expensive. Medicare and Medicaid do not give the provider the benefit of the doubt, or consider incorrect documentation or coding a mistake—**they consider it fraud.** Medicare monitors the types of cases you provide care to, who the physicians are referring the patients to you and many other items looking for the potential of fraud. It is imperative that you always employ people who know this business well, keep your operation running smoothly and can ensure that you always remain compliant with the litany of ever-changing Medicare requirements.

## **Start up Costs**

The costs of start up for a home care agency vary by state, as well as by the type of agency that an individual may wish to start. There are three types of home care agencies:

Private Pay Agencies

Licensed, Skilled, Non-Medicare Agencies

Licensed, Skilled Medicare-Certified Agencies

### ***Private Pay***

The least expensive to start is the non-skilled private pay home care agency. This type of service is one where the client in the community contracts with the agency for privately-paid (cash) services such as that of a live-in, chore aide or companion. Due to the potential for abusing the elderly, most states have requirements that these businesses are registered in some way, mostly by licensure. These services are never reimbursed by insurance providers. In most states, there is a licensure requirement for this type of agency, but it is a relatively straight forward process. Usually, the applicant completes an application and submits the requested policies and procedures needed, along with the applicable fees and any other permits required (occupancy, sales, etc.) to the state for review. This type of licensure does not permit the agency to offer any additional services, such as nursing, beyond those that they are currently licensed to perform. In many states, agencies who wish to provide supplemental staffing to facilities must have this or a similar type of license. These agencies usually have an on-site visit conducted (announced or unannounced) by the licensure board before they can be licensed and then again on a renewal basis, such as every three to five years.

### ***Licensed, Skilled Non-Medicare Agencies***

The next type of agency that follows a private pay agency in terms of start-up cost is a Licensed Skilled Non-Medicare Home Care Agency. Typically these agencies become licensed and can contract with the state to provide non-skilled Medicaid services, such as Personal Care Aides. These agencies need nurses to supervise and train the aides. Their nurses also perform skilled care that may be paid by some payers (sometimes long-term care insurance companies, Medicaid and others) who do not require that these services are performed by a Medicare-Certified agency. In New York State, this type of agency is referred to as a “**LCSA**”. These agencies often have an unannounced site visit by the licensure board before they are permitted to begin services and are then subject to unannounced return visits by the board every three to five years or more frequently if there have been complaints received about the agency.

### ***Licensed, Medicare-Certified, Skilled Care Agency***

The most expensive startup is a Medicare-Certified Home Health Agency and this is the type of agency almost everyone who contacts us wants to start. Skilled care is care that is provided by an individual who is trained and licensed and provides care that requires a nurse or therapist, not simply care that a patient or caregiver do not wish to perform. The Medicare-Certified agencies offer skilled nursing, physical therapy, occupational therapy, speech therapy and medical social work. Home health aide services can be provided only when there is a qualifying skilled service being provided. In New York State, this type of agency is referred to as a “**CHA**”. Certified agencies receive initial visits by the state surveyors, or from their accreditor if it is required or if they have opted for “deemed status” (the visit and monitoring activities by the chosen accreditor that takes the place of the state performing these duties). All visits to the agency are unannounced and can occur at any time by the accreditor and/or the state to follow up on a complaint or concern or simply as a random follow-up visit. Renewals of certification occur every three years and return unannounced visits occur at the time of re-certification.

## Financial Considerations

One of the major reasons new home care businesses fail is because of lack of working capital for start up. The average estimated cost start-up costs for the three types of agencies should be:

Private Pay Agency-- \$40,000 to \$80,000

Licensed Non-Medicare Agency-- \$60,000 to \$100,000

Medicare-Certified Agency-- \$150,000 to \$350,000 (depending on the state)

Many the initial costs incurred include licensing expenses, the administrative work involved and the expenses of the staff providing the care. Many states require that new Medicare start up agencies go through an accreditation organization, which also adds cost and time.

Additional costs that are hard to estimate exactly include the purchase of computer software and hardware, training and consulting (if desired) expenses and the costs of the commercial office space needed. The length of time that the business will operate until the state (or accreditor) comes out for the unannounced, on-site survey is the most expensive cost—these are the costs incurred to provide the patient care that is paid to staff and is not reimbursed by Medicare.

Medicare requires that all new agency applicants have an active patient census of at least 10 skilled patients, consisting of every type of service the agency wished to be certified to provide when the unannounced, on-site survey is conducted. This would include nursing, therapy (physical, occupational and speech) as well as social work and home health aide services. The care provided to these patients is not reimbursed by Medicare during this start-up period- it is done at the business owner's expense. Under Medicare rules, patients must be discharged from agency services when they no longer require skilled care or are not homebound. It is not easy to keep patients on service for long periods of time while a census builds. Thus, an agency can have dozens of discharged patients before they can maintain a census of at least 10 or more active cases, notify the state (or accreditor) that they are ready for survey, and then wait, sometimes up to 6 - 8 weeks, before the surveyor comes on-site to conduct the unannounced survey. All of the expenses incurred during this time will never be recovered as the agency cannot bill Medicare until their on-site visit is complete and successful and they have been notified of their accreditation date and provider billing number. This process can easily take at least six months or much longer.

Anyone considering starting a home care agency must develop a working budget for the three years, which your surveyor will review. There are some basic costs that all home care start-ups share in the first year, depending on the type of agency they start:

Name and logo development

Policy and procedure development (if needing a licensed or applying for Medicare)

Computer software and hardware

Sales and marketing materials/staff

Staff recruitment, training and retention

Office space rental, furniture, supplies, equipment, and telephones

Direct personnel salaries and expenses- administrative and field staff

In addition, Medicare and the states will require a specified amount of start-up cash available and bank lines of credit to justify the financial viability of a new organization. One last budget item that should be considered is payment to the owner. The time and energy invested in starting up a home care agency is considerable and this item is often overlooked.

I am not in the business of talking people out of starting an agency, but you can not do it without knowing what you are getting into. No business involving healthcare is "easy" and the days of unregulated services are gone. Please make an informed decision and let us know if we can help.