

For-profit groups begin to dominate end-of-life care

By Getahn Ward
THE TENNESSEAN

Cathy Bastoky has experienced a sea change in her life since her terminally ill husband, Jay, began receiving end-of-life care in their Smyrna home earlier this year.

Six days a week, someone from a team that includes a nurse, hospice aide, social worker and chaplain sent by Avalon Hospice comes to provide services such as checking Jay's vital signs, brushing his teeth or just being there to listen.

"It's helped me mentally and physically," said Cathy, caregiver to the former biomedical engineer who began losing mobility as the result of a brain tumor 17 years ago. "I've been able to get out more, spend more time with friends," Bastoky said.

For Avalon's Brentwood-based owner, Regency Healthcare Group, and other providers, offering comfort care to people given six months or less to live — and support to their relatives — has become big business.

Half of the corporate players in the field are now for-profit companies, transforming hospice care from a cottage industry once dominated by mom-and-pop operators and nonprofits into a sophisticated market in which more than \$13 billion is spent each year on end-of-life services.

Regency and the fellow Brentwood-based company now known as Hospice Compassus have grown largely through acquiring hospice programs across the country. Last week, Regency acquired nonprofit organiza-

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John Morris, CEO of Regency Healthcare Group, right, talks with Berry Somervell during a meeting Tuesday at Avalon Hospice in Nashville. Regency has grown by acquiring hospice programs across the country.

COMPANY PROFILES

Hospice Compassus

Formerly CLP Healthcare Services Inc. d/b/a Cloverleaf Partners

Headquarters: Brentwood

Business: Provides hospice care in patients' homes and other settings

CEO: James A. Deal

Founded: 2006

Employees: 1,250

Revenues: \$120 million a year

Financial backers: Thoma Cressey Equity Partners, James A. Deal

Markets: 47 cities across 15 states

Regency Healthcare Group

Headquarters: Brentwood

Business: Hospice care through local offices, in patients' homes, hospitals and nursing homes

CEO: John E. Morris

Founded: 2005

Employees: 440

Revenues: \$50 million to \$60 million a year

Financial backers: Include EDG Partners LLC, BH1, Enhanced Equity Fund LP and Fulcrum Venture Partners Inc.

Markets: 22 offices in Alabama, Florida, Georgia, Missouri, South Carolina, Tennessee; awaiting approval of three more in the Florida Panhandle

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More for-profits join growing hospice care industry

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tion Faith and Grace Hospice to expand its presence in Alabama even as it prepares for a statewide push in Tennessee. It absorbed three programs, including in Nashville and Chattanooga, as part of a transaction at year-end that gave it a statewide license.

Growth of the two chains and others like them reflect greater acceptance of palliative care, which aims to relieve suffering and improve quality of life for patients with complex illnesses. At times in the past, the Southeast had lagged in the use of such services because of what some saw as a lack of understanding about its benefits, said Dr. James Powers, director of the Vanderbilt-Reynolds Geriatrics Education Center here.

"It was once viewed as outside of the mainstream," said John E. Morris, chief executive of Regency. "It's now become part of the continuum of care."

A solution to rising costs

The industry today matter-of-factly pitches itself as one part of the solution to rising health-care costs. James A. Deal, chief executive officer of Hospice Compassus, cites how 28 percent of health-care costs for Medicare beneficiaries occur in patients' final year of life. "The alternatives are you go to the hospital at \$3,000 a day — or whatever the hospital costs are these days — or you die at home with your family around you for \$130 a day," Deal said.

Morris, meanwhile, cites a 2007 study out of Duke University that showed average savings of \$2,309 a person during a Medicare patient's last year of life with hospice services. Still, Medicare,

which pays nearly 90 percent of all billings for hospice services, has been trying to rein in what it sees as rising costs of the benefit as the number of people using it has more than doubled in the past decade.

Soon, officials are expected to announce plans to phase out a special adjustment that has added to hospice payments over the past decade, a change providers expect will mean a smaller increase in reimbursements. A related piece of legislation that was due to go into effect last year was delayed but takes effect this October. "We're trying to bring hospice payments in line with what we believe are the resources required to care for this population," said Mary Kahn, spokeswoman for the Centers for Medicare and Medicaid Services, overseer of Medicare, the health insurance program for people 65 and older.

The pay cut combined with a tougher environment for getting charitable donations probably will hurt smaller hospice programs and nonprofit groups more than for-profit companies, experts said. That could mean more opportunities for providers such as Regency and Hospice Compassus to grow their portfolio of programs through acquisitions.

For small nonprofit providers such as Faith and Grace of Montgomery, Ala., joining a larger company has benefits. Margaret Thompson, executive director of Faith and Grace, said by joining Regency, her 11 employees will get benefits such as contributions to a 401(k) plan and can draw from a deeper level of expertise.

Acquisitions provide an easier path to expansion, especially in Tennessee and 10 other states that require state approval for a new hospice program. Factors consid-

ered include population in the counties where the program seeks to serve patients.

Hospice Compassus is focused on expanding in states where it can have a significant presence, which it sees as opening four to 10 office locations. Over the past three years, it has opened 11 offices and inherited 36 through acquisitions.



Hospice Compassus' Deal: Home care saves money.

Deal said an increase in regulations has lengthened the time it generally takes to open an office from between four to five months to as much as 12 or 14 months. At times, some states also have placed moratoriums on new programs to control growth.

Some hospice providers aren't eager to sell out because they believe their programs are worth more than they're valued in the current market, Deal said.

For potential buyers it's more expensive to borrow money for deals, too. "We're just focused on running our business better, looking for the right opportunities. And when the right opportunity comes along at the right price I'm confident we can put together the financing we need to make something happen," Deal said.

Regency, which operates through 22 hospice offices primarily across the Southeast, plans to focus on opening new offices in Tennessee while pursuing acquisitions east of the Mississippi River. It hopes to focus particularly on states where the market isn't as saturated because state

approval is required to open new offices. A new \$25 million credit facility from GE Capital provided money for acquisitions and for opening new offices in addition to allowing the company to refinance its debt, officials said.

Factors that Morris expects to drive consolidation in the industry include owners seeking to sell out ahead of a potential increase in taxes on capital gains after next year.

Both companies are profitable, with Regency bringing in \$50 million to \$60 million of revenues each year and Hospice Compassus more than \$120 million a year.

Alive Hospice dominates

In Davidson County, Alive Hospice dominates the hospice market. The nonprofit organization was the choice of more than half of all hospice patients in 2007. It also was the top player in Cheatham, Williamson and Wilson counties.

Theo Egbujor, CEO of Nashville-based Friendship Home Healthcare Inc., attributes his decision two years ago to sell one of his businesses — Friendship Hospice of Nashville — largely to Alive's dominance here. "Every time somebody mentions hospice, evidently the name they would think of is Alive," he said. "So competing with Alive in that business is an uphill battle."

Interest among new hospice providers, however, remains steady. Five applications to begin hospice services in the state have been approved and one denied since December 2006, according to the Health Services and Development Agency.

One application that's expected to be heard in June was filed by a Chicago-based provider seeking to operate here as A Touch of

Grace Hospice of Nashville. In its application, CEO Jennifer Moore said that it plans to focus on under-served populations, including African-Americans, a group that makes up less than 10 percent of hospice patients nationally, according to a recent analysis of Medicare data.

Doctors are generally the top source of referrals to hospice care, but consumers have become savvier in researching options on their own, providers said. As part of its direct-to-consumer marketing efforts, Regency has a monthly e-newsletter called *Insight for Caregivers* that includes care-giving tips, while Hospice Compassus just launched a quarterly publication of its own dubbed *Everyday Compassion*.

The Bastoky family of Smyrna was referred to hospice care by Jay Bastoky's neurologist. To qualify under Medicare, two physicians have to determine that a patient's life expectancy is six months or less if his terminal illness ran its normal course. Patients, however, often live longer.

Cathy, Jay's wife, considers the current hospice services much better than what her husband had received under home care previously.

"I just always felt there was no one out there to help. I just felt alone," she said. "It's hard to take care of someone 24/7. I just needed help to relieve me."

Jay said he wasn't sure what to expect, but he's been pleased with the service so far. "They've been very good — a lot of people with lots of different backgrounds," he said. "They do their little thing very well."

Galele Ward covers the business of health care. He can be reached at 615-726-5968 or gward@tennessean.com.