



OCT 2019

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**MICHIGAN**

**HOME CARE  
MARKET ASSESSMENT**

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## Introduction

Mirroring national trends, demand for home care services in Michigan is high and growing. Caregiver supply is insufficient to meet demand and given low job quality not enough new caregivers are entering the field or staying there. Reimbursement rates for publicly supported home based care are low in the state (even lower than the national average) making it especially challenging to start and operate a public pay home care agency. In contrast, given the higher reimbursement rate found in the private pay market, competition for private pay clients in the state is high. New agencies continue to enter the private pay market, particularly franchises and national chains, which continue to drive consolidation through acquisitions of local independent agencies.

Despite this challenging landscape, opportunity exists for individuals and organizations looking to start cooperative home care agencies in the state. As worker-centered businesses, home care cooperatives prioritize improved working conditions including better training, higher wages, and job supports. This results in increased worker satisfaction and decreased turnover, and ultimately higher quality, consistent care for clients. This "cooperative difference" is a competitive advantage, and those that can successfully launch and operate financially sustainable home care cooperatives can make a meaningful difference in the lives of both home care workers and consumers in the state.

The following market assessment provides an in-depth look at the home care market in Michigan across several key dimensions including market demand, labor supply, the regulatory environment, and other state specific findings. With this data, individuals and organizations interested in starting a home care cooperative in the state will get a complete picture of the home care industry in Michigan, and the conditions that will affect start-up home care cooperative initiatives in the state. Finally, the report will discuss potential strategies for growing and nurturing home care cooperatives in the state.

# Key Takeaways

- **Demand for home care services in the state is high and growing.**
  - As of 2018, over 770,000 Michigan residents were categorized as “frail elderly,” “self-care disabled,” or “independent living disabled,” and likely needing home care services.<sup>1</sup>
  - Mirroring national trends, Michigan's senior population is increasing rapidly. By 2026, Michigan's 65+ age group is expected to grow nearly 50% adding nearly 400,000 additional individuals to the potential pool of home care clients in the state.<sup>2</sup>
  - Demand is particularly high and unmet in Michigan's rural areas.
- **Michigan has an insufficient supply of caregivers to meet demand.**
  - In 2018, Michigan had 11 potential home care clients for every employed caregiver in the state; a grossly inadequate supply. This is compared to the national average of 7-1 and the lowest national rate of 3-1 in New York.<sup>3</sup>
  - In total, there are just over 70,000 people working in the home care industry in Michigan, including job titles of Home Health Aides, Nursing Assistants, and Personal Care Aides. It is estimated that Michigan needs an additional 105,000 caregivers by 2026 to meet demand.<sup>4,5</sup>
- **Home care workers are underpaid, a key factor driving the insufficient supply of caregivers in the state.**
  - Between 2018 and 2028, Home Health Aide and Personal Care Aide are projected as the 3<sup>rd</sup> and 4<sup>th</sup> fastest growing jobs nationally, respectively. Of the top ten fastest growing jobs nationwide they are also the lowest paid.<sup>6</sup>
  - In Michigan, the average wage of direct caregivers is \$11.97 per hour. This is comparable to the rate retail and food services workers earn in the state, making recruiting and retaining caregivers even more difficult as they have employment options outside of the home care industry that are often more stable and less emotionally and physically demanding.<sup>7</sup>

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1 United States Census population estimates

2 United States Census population estimates

3 While national consensus does not exist on what an adequate supply is, the best ratios in the country hover around 3:1.

4 Bureau of Labor and Statistics

5 Not accounting for industry turnover

6 Bureau of Labor and Statistics Employment Projections 2018-2028

7 Bureau of Labor and Statistics

- **Michigan does not require any formal training or certification of personal care aides.**
  - While this eases entry into the field, it creates a market in which home care workers are inadequately prepared for the demands of the job, likely exacerbating turnover in the state.
- **While demand for publicly supported home care services is high in the state, reimbursement rates are extremely low.**
  - The average per hour Medicaid reimbursement rate for non-medical home care services in Michigan is \$14.14.<sup>8</sup> This is significantly lower than the national average of \$19.01 per hour.<sup>9</sup> Out of this amount agencies must pay caregiver salaries and cover all overhead expenses, making it difficult to run a financially sustainable or profitable home care agency in the public pay market without significant scale.
  - The top 5 largest home care agencies in the state all service Medicaid clients.<sup>10,11</sup> This speaks both to the larger market opportunity in public pay and the need for scale to sustainably service the public pay market.
- **The average per hour rate for private pay (out-of-pocket) home care services in Michigan is \$22 per hour<sup>12</sup>, making it a more attractive market for home care operators, but also a more competitive one.**
  - Given the significantly higher private pay rates in the state, competition among home care agencies for private pay dollars is high, and new entrants continue to enter the field (particularly franchises and national chains). However, because the largest five agencies in the state control only 33% of the market, Michigan is still considered a competitive market.<sup>13</sup> Local markets, especially in rural areas, may be more concentrated.
  - Given the higher rates present in the private pay market, it is more financially feasible for new entrants, including home care cooperatives, to launch and operate at a smaller scale.

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<sup>8</sup> This rate is an average of fee-for-service costs; managed care organizations negotiate for care costs and price information is confidential

<sup>9</sup> Watts & Musumeci: Medicaid Home and Community-Based Services Report

<sup>10</sup> Center for Medicaid and Medicare Services

<sup>11</sup> National Establishment Time-Series (NETS) Dun and Bradstreet (n.d.).

<sup>12</sup> Genworth Cost of Care Survey 2019

<sup>13</sup> National Establishment Time-Series (NETS) Dun and Bradstreet (n.d.).

- However, at a yearly average cost of 99% to 130% of median income for residents, out-of-pocket home care is expensive and unaffordable over the long term for most households.<sup>14</sup>
- **Regulatory barriers to entry are low in the state**
  - Currently, there are no licensing requirements for private pay home care or home health care agencies wishing to start in the state, making it easy to launch. This likely explains the large number of small operators in the state:
    - Of the 217 home care agencies in the state for which there is available revenue data, the majority, or 51% agencies, have revenue between \$250,000 and \$500,000 per year, while 10% have annual revenues below \$250,000.
  - Currently, Michigan does not require licensing for any home health agency because they are not categorized as a facility. Home health agencies wishing to participate in the public market must register with the Centers for Medicare and Medicaid Services (CMS).<sup>15</sup>

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14 Genworth Cost of Care Survey 2019

15 Michigan Department of Licensing and Regulatory Affairs

# Market Overview

## Clients

As of 2018, just over 770,000 Michigan residents were categorized as "frail elderly," "self-care disabled," or "independent living disabled," and likely needing home care services. Given growth projections for individuals 65+, by 2026, this group is expected to add an estimated 400,000 "frail elderly" individuals to the potential pool of home care clients.<sup>17</sup> Overall, Michigan has a higher percentage of persons 65+ and individuals with disabilities than the national averages, a favorable condition for home care agencies.

Home Care Client Pool: Percent of Total Population		
	Michigan	National
65+ Population	17.2%	15.93%
Individuals with Disabilities	14.3%	12.6%
Home Care Subset <sup>16</sup>	7.72%	6.4%

Median home care costs (as an average of medical and nonmedical services) are \$53,025 per year in the state for full time care.<sup>18</sup> Michigan's median household income is \$52,668, while the median income of the population 65 years and older is only \$40,784. At a yearly average cost of 99% to 130% of median income for residents, home care costs are a formidable expense for households in Michigan. High home care costs reduce the potential number of customers in the private pay marketplace and over the long-term pushes many home care clients into the Medicaid market as their assets are spent down.

## Providers

Data collected from the National Established Time Series (NETS) provided a list of 841 home care agencies that were in operation in Michigan in 2014; this data includes individual locations of home care franchises. The state of Michigan maintains a list of agencies registered with the Center for Medicaid and Medicare Services, but cannot provide a complete list of all home care agencies operating in the state due to the absence of licensing and registration requirements for agencies that operate exclusively in the private pay market. As of 2019, the CMS list includes 500 home care agencies that are certified to provide Medicaid home care services. From these

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<sup>16</sup> Home Care Subset includes 20% of 65+ population and disabled populations potentially needing home care supports.  
<sup>17</sup> Projections for individuals living with disabilities is not provided  
<sup>18</sup> Calculated at 44 hours per week at 52 weeks per year

two resources we were able to compile revenue data on 217 home care companies. This list excludes agencies operating exclusively in the private pay market.

The five largest home care firms in the state, all of which are Medicaid certified, control 33%<sup>19</sup> of the market, meaning Michigan remains a relatively competitive market, with space available for new agencies to enter. As is true in most states, the largest players are concentrated in specific geographic areas with high client density, such as urban centers.<sup>20</sup>

	Revenue Range	Number of Agencies
Excluded from the CMS list of home care agencies are two prominent franchises in Michigan: Right at Home and Bright Star. <sup>21,22</sup> Right at Home has 27 offices located in lower Michigan, with a concentration around the southern part of the	<\$250,000	18
	\$250,000-\$500,000	117
	\$500,000-\$1Million	34
	\$1Million-\$5 Million	33
	>\$5 Million	15

state. Bright Star has four offices, servicing metropolitan Detroit’s northern suburbs. Both franchises provide non-medical and medical home care services with specialized care for clients with Alzheimer’s and dementia. Because both agencies are excluded from the state list of Medicaid certified providers, it is likely that they receive most or all of their revenue from the private pay market.

Similar to the national home care market, and likely exacerbated by Michigan's lack of licensing requirements, home care in Michigan has a large number of small local operators. Based on the data we collected from the NETS and CMS registry, just over one third of all sales revenue for home care in the state goes to the top five largest operators, leaving just under 67% of a total of \$198,690,732 sales revenue going to the remaining companies.<sup>23</sup> The national median sales for home care companies is \$1,835,000, which is lower than the Great Lakes median of \$2,015,000<sup>24</sup>. Using compiled revenue data from the 217 home care companies where revenue data was available, we calculated Michigan’s mean sales revenue as \$1,645,829, and median

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19 Calculated using National Establishment Time Series Data Set

20 Industries in which the top five firms control 60% or more of the market are generally considered non-competitive.

21 Right at Home. Retrieved from <https://www.rightathome.net/>

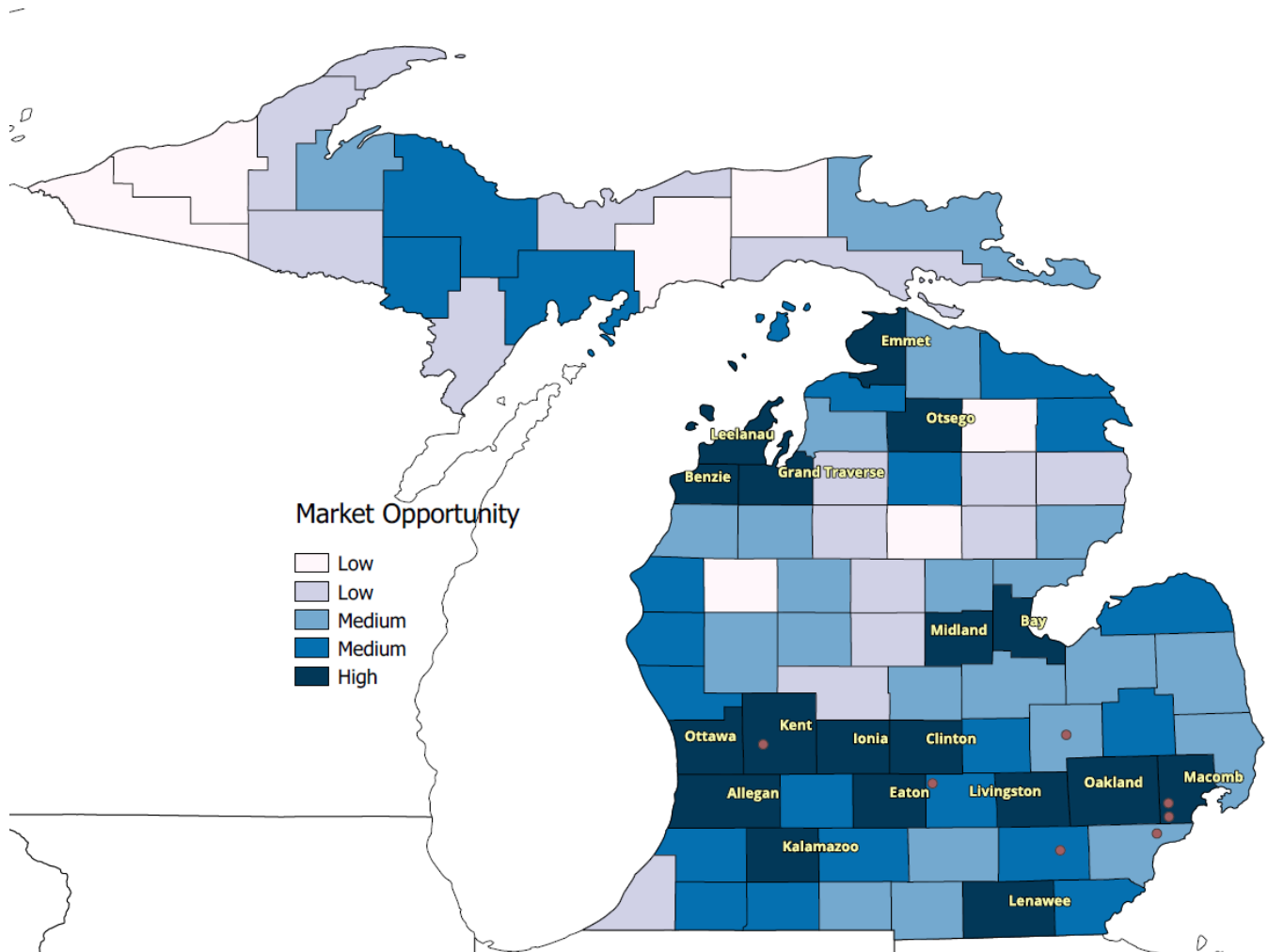
22 BrightStar Care. Retrieved from <https://www.brightstarcare.com/>

23 Privately operated homecare agencies, and agencies headquartered outside of MI but operating within MI, were not included in the calculations.

24 Pulse Benchmark Survey Spring 2018



sales revenue as \$373,800, suggesting that the larger home care companies operate at a far greater scale than the state's smaller operators. Supporting this, our data shows that 51% of agencies have revenue between \$250,000 and \$500,000 per year<sup>25</sup>, and 10% of home care agencies in Michigan have annual revenues below \$250,000.



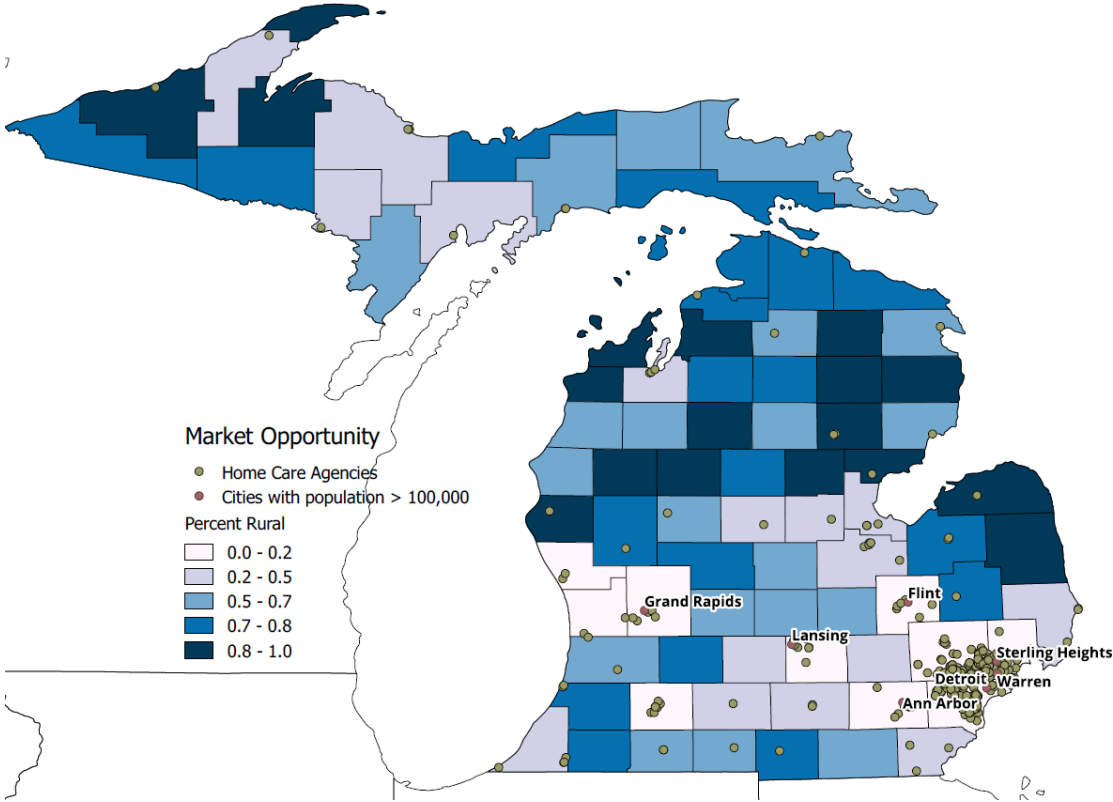
*Market opportunity is defined by counties that are in the highest percentiles for client to caregiver ratio, number of home care clients, and median income. Counties in Michigan with the most favorable home care markets are labeled on the map.*

<sup>25</sup>National Establishment Time-Series (NETS) Dun and Bradstreet (n.d.).

# Rural vs. Urban Conditions

As is true nationally, home care companies in Michigan operate at different scales in rural versus urban counties. Despite having a higher percentage of older residents, there are few agencies headquartered in rural areas (8 compared to 203 in urban areas and 7 in suburban areas, based on available data), and agencies headquartered in and/or servicing rural areas are significantly larger. It can be assumed that the lower gross margins of rurally located/focused agencies are due to increased variable expenses such as travel to cover larger geographic areas, increased operating expenses from caregiver recruitment efforts and/or greater administrative costs from managing higher percentages of Medicaid clients. These higher costs result in lower margins that must be overcome by

Median Sales and Number of Agencies <sup>26, 27</sup>		
	Number of Known Agencies	Median Agency Sales
Urban Areas	203	\$3,256,005
Rural	8	\$5,836,050



<sup>26</sup> Agencies know from available NETS data set  
<sup>27</sup> 6 Suburban agencies not included

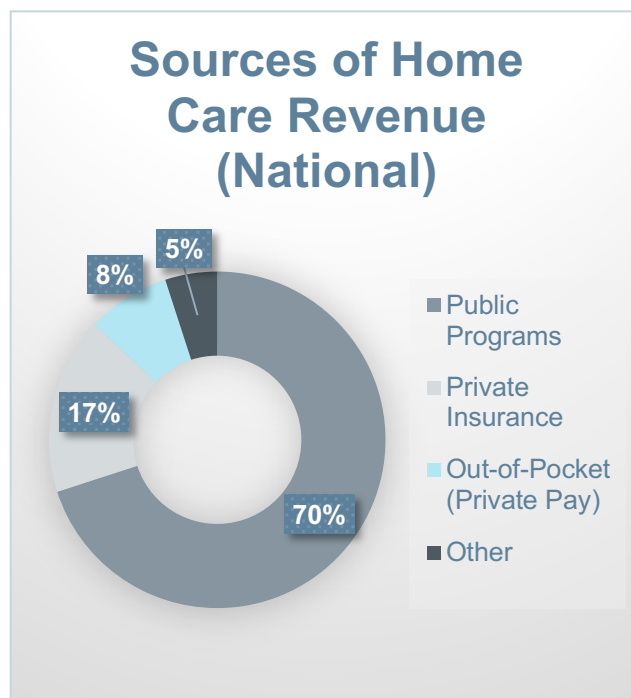
generating higher sales revenue through scale. Therefore, while there is unmet demand for home care in rural Michigan, the above factors do not present a favorable market for start-up agencies.

## Payers

Homecare industry revenue comes from two primary sources. The first is from public payers, typically state distributed Medicaid, and the second is from private payers including clients who pay out of pocket and clients who have purchased long-term care insurance. The public pay market is much larger than the private pay market both nationally and within Michigan, but often includes barriers such as:

- Low reimbursement rates
- Licensing requirements
- State specific regulations

The challenges experienced from operating within the public pay market means that a private pay strategy is more feasible for many agencies, including small-scale agencies and start-ups. It is crucial for a home care agency to understand the size and scope of both markets in order to match their business strategy to both the correct payers and clients for that business. See *Appendix 2 Medicaid Overview for a detailed explanation of Medicaid Home Care.*



## Public Pay Market

In Michigan, in fiscal year 2018, the state allocated a total of \$16.4 billion to the state's Medicaid program to provide medical services to the state's 2.2 million Medicaid beneficiaries. Similar to national trends a higher percentage of Medicaid spending was allocated for Managed Care Organizations (60%), than Fee-For-Service Long Term Programs (32.6%). In 2018, Michigan allocated \$2.6 billion (16%) of its total Medicaid spending to registered home care agencies that provide care and assistance to qualified Medicaid beneficiaries inside their home.

While some states have fully transitioned to systems of managed care, many others, like Michigan, continue to operate both Fee-For-Service (FFS) and Managed Care Medicaid systems (via Managed Care Organizations, MCOs), while continuing the transition. Currently, Michigan runs three managed care long-term service and supports programs: Michigan Choice, Michigan Health Link, and the Program of All-Inclusive Care for the Elderly (PACE). Michigan has recently experienced an overall rise in managed care enrollment. In particular, the largest growth is with the MCO MI Health Link, the primary provider that accepts Home and Community Based Service (HCBS) waivers.

Michigan Medicaid Homecare Programs <sup>28</sup>				
<i>Program</i>	<i>MCO or FFS</i>	<i>Enrollees FY17</i>	<i>Avg Annual % Change 2015-2017</i>	<i>Avg Annual % Change FY 17</i>
Home Help Program	FFS	51,862	5%	-4%
Health Link	MCO	37,478	-5%	118%
MI Choice	MCO	11,841	-2%	4%
PACE	MCO	1,961	2%	27%

The state's fee-for-service programs include both higher cost nursing facilities and traditional medical services. Of the 77,459 residents enrolled in FFS programs, 51,862 residents receive their care outside of nursing facilities through the Home Help Program. *See Appendix 3 for a more robust explanation of Medicaid in Michigan.*

The average reimbursement rate for home care agencies participating in Michigan's FFS Home Help Program is a staggeringly low \$14.25 per hour—out of which agencies must pay caregivers and cover all overhead costs. The rate for independent providers (direct service caregivers) is even lower at \$9.52 per hour. As of 2016, the average Medicaid reimbursement rate nationally for personal care services was calculated at \$19.01 per hour, with the range spanning \$9.78 in Nebraska, and \$25.24 per hour in South Dakota<sup>29</sup>, showing the difference in how states distribute and value work done inside the home.<sup>30</sup> These low rates create large financial and

<sup>28</sup> Michigan Medicaid Long-Term Services and Supports Final Report

<sup>29</sup> 20 states did not offer data on reimbursement rates for personal care services

<sup>30</sup> (2018) Medicaid Home and Community-Based Services: Results from a 50-state survey of enrollment, spending, and program policies; Kaiser Family Foundation, pg. 47.

operational hurdles for anyone hoping to provide services to Medicaid home care recipients in the state. For managed care, home care agencies negotiate directly with MCO's to set their reimbursement rates (within ranges set by the capitated payments); rates vary between providers and are typically not made publicly available. For home care cooperatives in Michigan that elect to service the public pay market, contracting with MCO's will be a necessity as well as negotiating adequate rates to cover costs. Additionally, given rate trends in the state, adequate scale will be necessary for financial sustainability.

## Private Pay Market

While there is a significant amount of data available on the size of the public pay market, it is more difficult to estimate the size of the private pay market. Using data available from the August 2017 IBIS World report on the national home care provider industry, and our estimate of the size of the home care client population, we can approximate the number of potential private pay home care clients in the state. First, we estimated that as of 2018, the combined frail elderly, independent disabled, and self-care disabled population of Michigan to be just over 770,000 people. This number was then multiplied by 20.4%--IBIS World's estimate of the private pay market's contribution to the national home care industry--including out-of-pocket and private insurance. Using this method, we estimate the size of the Michigan private pay home care potential client pool to be about 152,000 people. Survey estimates conclude that the average hourly cost for home maker and home health aide services can cost \$23-\$23.50 an hour in the state of Michigan.<sup>31</sup>

## Labor Overview

### Current Labor Trends

On average, there is 1 caregiver for every 7 people needing home care the United States. In Michigan, that ratio is higher with 1 caregiver for every 11 people needing care; showing significant demand but also unfavorable conditions for caregiver recruitment. With low pay, few benefits, and inconsistent hours, the national caregiver turnover rate is high (82% annually on average) and increasing year over year<sup>32</sup>. Similarly, not enough new caregivers are entering the

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<sup>31</sup> Genworth Cost of Care Survey 2019

<sup>32</sup> 2018 Home Care Pulse Benchmarking Survey

field. These two trends have combined to create a national caregiver crisis, which is even more pronounced in Michigan.

Nationally, caregiving wages are on par with retail and food service jobs, highlighting the ability of caregivers to move laterally amongst low paying jobs such as food service or retail. While arguable not as fulfilling, comparable jobs in these industries typically offer more and consistent hours, safer, less physically demanding and isolating work environments, and often better opportunities for job advancement. Conditions in Michigan are similar. Michigan caregivers on average receive \$.03 less per hour than the state's retail and food service employees. While caregiver wages are currently higher than the state's \$9.45 minimum wage, with the state's gradual plan to increase minimum wage to \$12.05 an hour by 2030<sup>33</sup> the effects on caregiver wages will be important to monitor.

Caregiver and Retail/Food Wage Comparison			
	<i>Direct Care</i>	<i>Retail/Food</i>	<i>Difference</i>
National Average	\$12.17	\$12.27	-\$0.05
Michigan	\$11.97	\$12.00	-\$0.03

Nationally, home care workers struggle with low wages, isolating work environments, lack of benefits, and inconsistent training, not to mention the unique stresses of working in people's homes. Even if a care worker can overcome these challenges, the ongoing challenge of matching caregiver availability with client need means that home care agencies cannot always provide enough hours for caregivers, despite unmet market demand. Additionally, agencies struggle to hire caregivers that have the schedule flexibility and mobility to meet the needs of clients who are scattered across locations. PHI reports that nationally, 55% of home care workers reported working part-time, or for part of the year, lowering annual wages and leaving 1 in 5 caregivers living below the national poverty line and 48% living in low-income households.<sup>34</sup>

## Future Labor Trends

The caregiving workforce is expected to experience rapid growth over the next ten years. Occupational growth data for the caregiving workforce includes the positions of personal care

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<sup>33</sup> Minimum Wage Law to Increase in March 2019 and Beyond. (2019). Retrieved 9 October 2019, from <https://www.michamber.com/michigan-chamber-supports-senate-changes-minimum-wage-law>

<sup>34</sup> U.S. Home Care Workers Key Facts. Paraprofessionals Health Institute, 2019.

aide, home health aide, and 7.14% of certified nursing assistants that work in home care services or with individual family services.<sup>35</sup> Overall, Michigan will need approximately 105,000 additional caregivers between 2016 and 2026 to meet the estimated 38% industry growth rate for the state. A key consideration when looking at future labor trends is that these figures do not factor in the industry turnover rate of 82%. In actuality, the total number of caregivers that are terminated or voluntarily exit the industry need to be replaced in conjunction with the estimated 3.8% annual growth rate, resulting in an even higher demand for caregivers.

Michigan's Home Care Workforce Growth <sup>36</sup>		
	<i>Annual Job Growth Rate</i>	<i>Average Annual Openings</i>
<b>Personal Care Aide</b>	3.8%	8,600
<b>Home Health Aide</b>	4.4%	5,310
<b>Nursing Assistant<sup>37</sup></b>	1.1%	514
<b>Overall Average Growth</b>	3.8%	14,424

## Regulatory Environment

### Licensing Requirements

State licensing is not required to become either a medical or non-medical home care provider in Michigan.<sup>38</sup> However, home health agencies hoping to serve Medicaid or Medicare beneficiaries must apply for certification with CMS in order to receive reimbursement for services. CMS contracts with the MI Department of Licensing and Regulatory Affairs (LARA) to evaluate compliance with the federal regulations by conducting certification surveys and complaint investigations.<sup>39</sup>

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<sup>35</sup> Bureau of Labor Statistics <https://www.bls.gov/oes/current/oes311014.htm#nat>

<sup>36</sup> Projections Central: Long Term Occupational Projections 2016-2026

<sup>37</sup> It is estimated that 7.14% of all Certified Nursing Assistants in the workforce provide in-home care. These numbers reflect that percentage.

<sup>38</sup> Michigan Department of Licensing and Regulatory Affairs

<sup>39</sup> Michigan Department of Licensing and Regulatory Affairs

## Training Requirements

Home Health Aides are federally required to complete a minimum of 75 training hours, and a minimum of 16 clinical hours to receive certification; Michigan does not require any additional training on top of these federal guidelines. HHA's additionally need to maintain their certification with 12 hours of continuing education units (CEU's) every year. Within Michigan there are currently no federally or state mandated training requirements for PCAs who are paid by consumers, private-pay agencies, or under Medicaid programs, unless an agency provides services under MI Choices Waivers.

If an agency or individual accepts payment through Medicaid's MI Choices Waivers, they must have training in four broad topics such as infection control, safety and emergency planning, personal care, transfers and lifting, documentation, communication, CPR, etc. prior to providing services. Most training is conducted by home care agencies.



## Cooperative Opportunity

Mobilizing a marginalized workforce in a high demand industry through the cooperative-ownership model can improve outcomes for both caregivers and clients. By centering workers, cooperatives can:

- Elevate the quality of care clients and families receive by providing better trained, engaged and committed caregivers;
- Increase caregiver engagement and commitment by stabilizing wages and benefits;
- Foster community development and a culture of participation through democratic decision making.

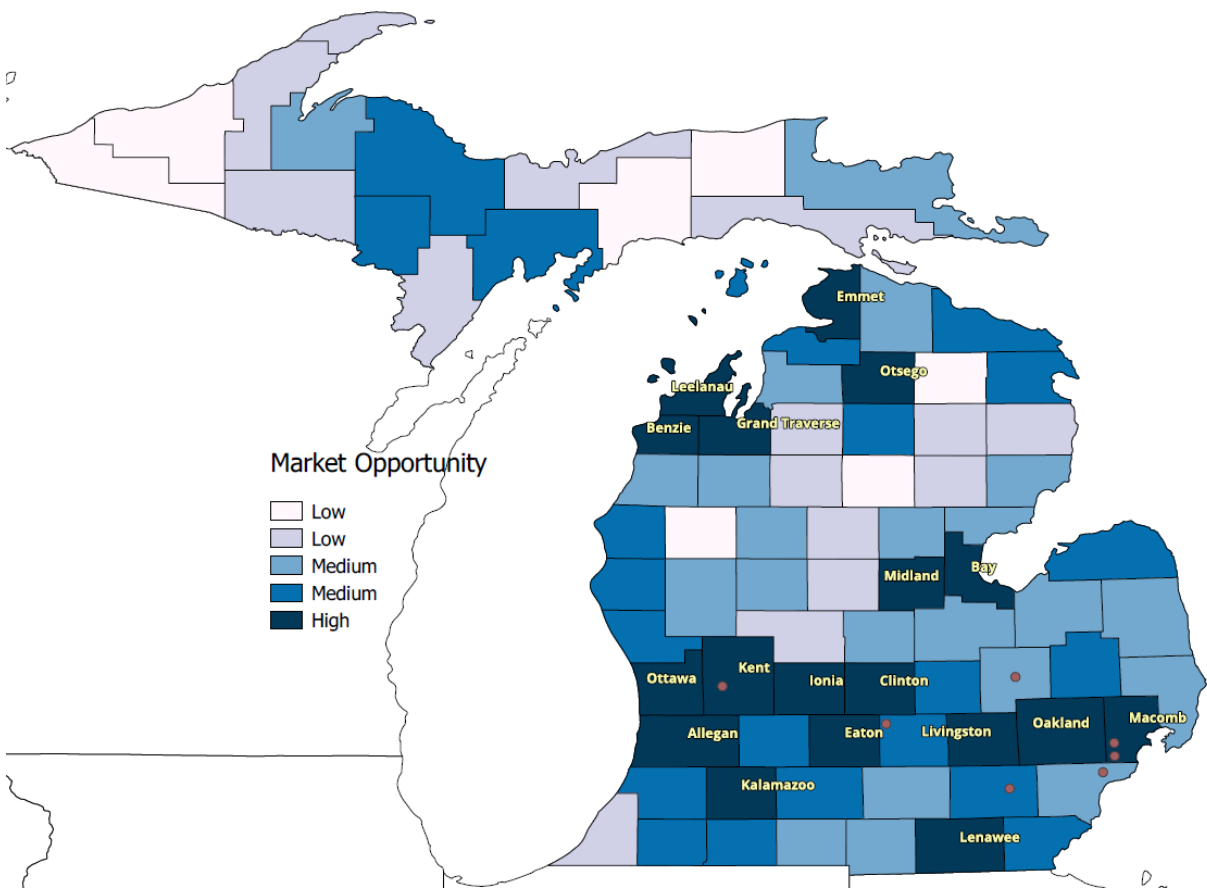
### Opportunities

- Barriers to entering the home care market in Michigan are low since the state does not mandate licensing for home care agencies.
- Michigan's caregiver to client ratio of 1:11 and strong annual elderly population growth, reinforces the demand for high quality, consistent home care.
- As worker-centered businesses, home care cooperatives are positioned to provide better caregiving jobs, increased representation, and occupational growth in an industry that suffers from chronic turnover and job dissatisfaction.
- Nationally the average caregiver turnover rate at home care agencies is 82%, a number that has been increasing year over year, including a 15% increase between 2017 and 2018. Benchmarking research by The ICA Group has found that the average turnover rate across 13 existing home care cooperatives sits at 34% for calendar year 2018. According to research by Home Care Pulse, turnover costs an estimate \$2,600 per caregiver on average. Leveraging the benefits of the cooperative model to retain caregivers offers a significant opportunity for market differentiation, as inconsistency of care is a significant challenge faced by home care clients nationally, and for competitive advantage due to the financial and operational savings from reduced turnover.

### Challenges

- With low barriers to entry the Michigan home care market is highly fragmented with many small service providers as well as several larger more established agencies, creating a highly competitive market for attracting both clients and caregivers

- Given the high level of competition, strong marketing, and the ability to sell the "cooperative difference/value" in home care will be essential. Marketing and sales capacity, plans and funds will need to be identified upfront.
- Given the high cost of home care compared to median incomes in the state, the pool of private pay clients is relatively small. While much larger rates in the public pay market are very low, effectively making it impossible for a start-up entity to launch in the public pay market in the state without subsidy. Conversion of an existing public pay agency to worker ownership is an alternative model worth considering.
- Given the notable shortage of caregivers in Michigan, home care cooperative start-ups will need to provide higher salaries and/or meaningful opportunities for ownership and engagement to attract and retain founding caregiver-members.



### Strategy and Steps

As noted throughout this market assessment, despite high demand and low regulatory barriers, home care cooperative start-up in the public pay market in Michigan would be difficult if not impossible without outside subsidy. Acquisition and conversion of an existing public pay agency

would be a viable path to consider, however, for groups interested in launching in this market. For groups interested and open to launching a cooperative home care agency in the private pay market, entry will be easier but will require identification of localized markets with clients who both need home care services and have the ability to pay for those services out of pocket, as well as a strong marketing and sales plan to get started. Both conversions and start-ups will need to define and maintain competitive differentiators to be successful and survive in the market long term.

As a next step for start-up initiatives, a strong business plan should be developed identifying:

- Viable town/city/county level markets
- Appropriate organizational and legal structures
- Operational needs including staffing and systems
- A caregiver recruitment plan
- Financial needs including start-up and operational costs including working capital and marketing &
- Potential risks and mitigation plans/strategies

For groups interested in acquisition and conversion, partnership with a national organization specializing in conversions to worker ownership is recommended.

## Conclusion

Nationally the trend in the home care industry is towards greater consolidation and/or market saturation in the private pay market. Given the challenges of operating in the public pay market, including most notably Michigan's low reimbursement rates, it is likely that agencies that can successfully operate in the private pay market in the state pursue growth not through expansion into public pay but rather through acquisition of small home care agencies or franchise expansion. As such, anyone looking to establish a new home care agency will need to do a thorough market assessment understanding locations with an optimal client mix and the surrounding competitors.

The cooperative model in home care is a proven model to combat recruitment and retention challenges and ensure high-quality, consistent care to home care clients. While unquestionably a challenging task, launching (or converting) a successful home care cooperative is possible with the right planning and supports. The home care cooperative industry is supported by a dedicated network of organizations from across the country, committed to strengthening and growing worker-ownership in home care and transforming the home care industry for both

caregivers and clients. This network of support is a unique advantage that gives home care cooperatives a competitive edge. While there is more work to be done, home care cooperatives are an immediate, incremental and improved solution to the systemic underinvestment at the state and federal level in home care work. While representing only .1% of the home care market today, at scale, home care cooperatives have the ability to meaningfully impact policies that will transform the livelihoods of caregivers and improve the quality and consistency for home care.

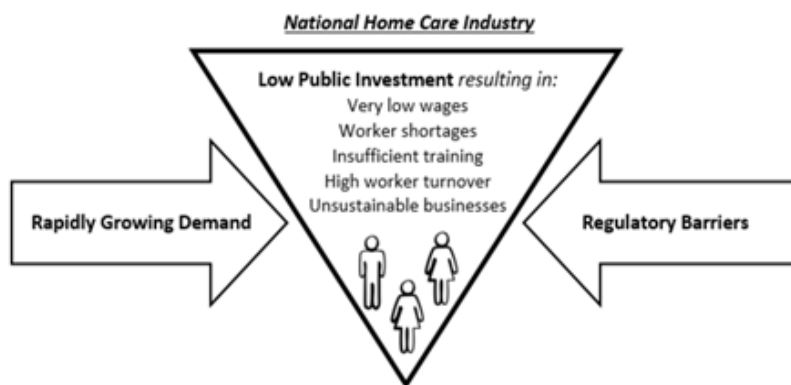
## Appendix

### Appendix 1: National Home Care Industry Overview

Unprecedented growth in the nation's elderly population, paired with a cultural shift towards aging in place, is driving historical growth in the home care sector. According to US Census projections, a quarter of the national population will be 65 and older and by 2060, 19.7% of this group will be 85 or older. Nine in ten seniors want to "age in place" in their current home and community, and an estimated 70 percent will need help with basic daily living activities to do so. Nationally speaking, there are seven<sup>40</sup> clients who need home care for everyone caregiver in the workforce. Many states experience significantly higher shortages.

Accordingly, millions of new home care workers will need to be hired and trained over the next few decades to meet this growing demand. Today, more than three million workers are employed by the home care industry in the U.S., a workforce that has already more than doubled in the last decade. Home Health Aide is the 3rd fastest growing job in the nation, and Personal Care Aide is ranked 4th<sup>41</sup>. Despite unprecedented job growth, the work is low paid, benefits are limited, hours are inconsistent, training is insufficient, career advancement is nearly non-existent, and the job is emotionally and physically taxing. Home care providers have rated caregiver shortages as the number one threat to their businesses for the last three years<sup>42</sup>.

Eighteen percent of home care workers are uninsured, and of those insured, 40% rely on public health care coverage, primarily through Medicaid. Consequently, turnover rates within the home care sector have climbed from 60% in 2017 to 82%<sup>43</sup> in 2019,



<sup>40</sup> In 2017, OES data expanded the scope for "Services for the Elderly and Persons with Disabilities" to include some positions that were previously classified under "Services in Private Households", subsequently increasing the total number of personal care aides employed nationally and decreasing the national caregiver ratio from the previous 8:1.

<sup>41</sup> <https://www.bls.gov/emp/tables/fastest-growing-occupations.htm>

<sup>42</sup> Pulse 2018 Benchmark, page 62

<sup>43</sup> 2019 Spring Home Care Benchmarking Study

contributing to the overall caregiver shortage. Industry wide costs of caregiver turnover was over \$10 billion per year.

Nationally, home care is a \$5B+ quickly expanding, national market, expected to grow at a rate of nearly 7% year-over-year for the next five years.<sup>44</sup> Yet, as a direct result of underinvestment and complex state regulations, the home care industry remains highly fragmented and dominated primarily by small, independent providers. The three largest companies in the industry have a market share of only 8.7%. Industry consolidation through merger and acquisition activity has, however, accelerated in recent years as a response to low reimbursement rates driving down profits. While local, independent providers can arguably be more responsive to consumer needs, small agencies lack the profit margins necessary to increase salaries or invest in internal growth generally.

Public reimbursement rates for home care services are low, driving down wages across the industry. Unlike many other sectors in healthcare, the homecare industry does not have strong political representation and thus has been an easy target for federal cuts. Even though Medicaid Home and Community Based Services (HCBS) enrolled 4.6 million people in 2017, and spent \$82.7 billion for care<sup>45</sup>, that spending is rarely reflected in the wages and employment stability of home care workers. Across the U.S., the hourly median wage for workers in the direct care workforce is \$12.17 per hour, only \$.10 cents more than the median wage for retail and food service workers. Even though homecare is increasingly promoted by healthcare professionals and offers a superior value for clients, this recognition has not yet resulted in increased payments for services. Continued neglect for the home care occupation will continue to result in the growth of recruitment needs and cost and a decrease in available quality care for the country's vulnerable aging population.

## Appendix 2: Medicaid Overview

Representing over 70% of revenue, Medicaid is the largest and most important payer of home care services nationally.<sup>46</sup> Dually funded by the federal government and individual states, Medicaid provides financial support for health care services for low-income individuals, including elderly and disabled individuals requiring long term care. Long term care specifically, accounts for over 60% of Medicaid spending. Under Medicaid, the federal government provides a base

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<sup>44</sup> *IBISWorld Industry Reports: 62161 Home Care Providers in the US*

<sup>45</sup> <https://www.kff.org/medicaid/issue-brief/medicaid-home-and-community-based-services-enrollment-and-spending/>

<sup>46</sup> Medicaid, May 2019 Medicaid & CHIP Enrollment Data Highlights. Retrieved from [www.medicaid.gov](http://www.medicaid.gov)

match of 50% for approved Medicaid provided services, with low income states eligible for higher reimbursement rates. To be eligible for Medicaid benefits, individuals must meet federally mandated means tests.

Beginning in 2014, the Affordable Care Act allowed states the option to expand Medicaid eligibility to all non-elderly adults with income below 138% of the federal poverty line. Under "Medicaid Expansion", the federal government absorbed a larger share of Medicaid costs for new enrollees, covering 100% of costs from 2014 to 2017 and gradually reducing that percentage to 90% from 2017 to 2020. To date, 36 states and the District of Columbia have expanded Medicaid, including Michigan.<sup>47</sup>

Medicaid requires that states provide specific services at a minimum to participate in the program. Required programs include inpatient and outpatient hospital services, physician and laboratory services, nursing home care and home care. Above the minimum required programs, states may elect to cover additional services and/or expand services to individuals outside of the standard eligibility limits set by the Center for Medicaid and Medicare Services (CMS), the federal governing body. Typically, these additional services are provided under approved "waivers".<sup>48</sup> The number and type of waivers in each state varies widely, however common waivers include 1915 waivers, Aged and Disabled Waivers (ADW), and Intellectual Disability Waivers (ID). Home care relevant 1915 waivers include:

- 1915(c) Home and Community-Based Waivers (offered in 47 states and DC)
- 1915(i) State Plan Home and Community Based Waivers
- 1915(j) Self-Directed Personal Assistance Services Under State Plan Waivers
- 1915(k) Community First Choice Waivers 22 (See Appendix A for Waiver Details)

1915 (c) HCBS waivers were first introduced in 1983 as a way for states to transition beneficiaries out of costly institutional care settings, and in 2005, became formal Medicaid State plan options.<sup>49</sup> States can offer as many 1915(c) Home and Community-Based Waivers as they elect, provided they meet the requirements set forth by CMS, and can elect what services to cover under the waivers, however home health aide, personal care aide, and homemaker services are almost always covered under these programs.<sup>50</sup> Understanding where states fall on

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<sup>47</sup> Medicaid Expansion in Michigan, Fact Sheet, Updated January 2016, Kaiser Family Foundation. Accessed at: <http://files.kff.org/attachment/fact-sheet-medicaid-expansion-in-michigan>

<sup>48</sup> Congressional Budget Office, Overview of Medicaid. Retrieved from <https://www.cbo.gov/publication/44588>

<sup>49</sup> Medicaid, Home & Community Based Services Authorities. Retrieved from [www.medicaid.gov](http://www.medicaid.gov).

<sup>50</sup> Medicaid, Home & Community-Based Services 1915(c). Retrieved from [www.medicaid.gov](http://www.medicaid.gov).

the spectrum of HCBS spending for their long-term services and supports (LTSS) programs is an important metric for states overall preference for institutional versus home based care.

From Medicaid's founding in 1965 until the early 1990's, Medicaid operated under a system of "fee-for-service", in which providers were directly reimbursed for services provided, based on the rates set by individual states. In the early 1990's however, Medicaid began a transition towards a system known as "managed care" to better manage costs, utilization, and quality. Under Medicaid managed care, state Medicaid agencies contract with independent for profit or non-profit Managed Care Organizations (MCOs) that accept fixed and standardized payments per member per month for health care services, known as "capitated payments." Because payments are "capitated" MCO's are driven to balance the needs of high-need/high-cost beneficiaries with low-need/low-cost beneficiaries and provide care in the most cost-effective manner possible to avoid cost overruns and ensure company profit.

Early on, managed care was implemented under 1115 Waivers, but in 1997 the Balanced Budget Act gave states more authority to implement managed care programs without waivers.<sup>51</sup> As of July 2018, 11 states did not have Managed Care programs in place.<sup>52</sup> States that have begun transitions to managed care programs are in varying states of transition. 17 states operate almost exclusively under managed care programs (over 90% transitioned),<sup>53, 54</sup> including home and community-based services, while others are just beginning this transition. Understanding where specific states fall on this transition is important, as it is directly correlated to how service rates are set, how money flows, and the importance of strategic partnerships, scale and other factors to home care agency success in a state.

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<sup>51</sup> Kaiser Family Foundation, Five Key Questions and Answers about Section 1115 Medicaid Demonstration Waivers, 2011. Retrieved from <https://www.kff.org>.

<sup>52</sup> Kaiser Family Foundation, Total Medicaid MCOs. Retrieved from <https://www.kff.org>.

<sup>53</sup> The 17 states with over 90% transition to MCOs include Tennessee, Hawaii, Nebraska, Delaware, Kansas, New Jersey, Virginia, Texas, Arizona, Oregon, Iowa, Florida, Washington, Louisiana, Kentucky, Rhode Island, and New Mexico.

<sup>54</sup> Kaiser Family Foundation, Share of Medicaid Population Covered under Different Delivery Systems. Retrieved from <https://www.kff.org>.



## Appendix 3: Michigan Medicaid Overview

### Medicaid Home and Community Based Services (HCBS)

Beginning in 2014, Michigan elected to expand Medicaid through the Healthy Michigan Plan.<sup>55</sup> In addition, Michigan approved Section 1115 waivers to operate their Medicaid expansion programs in ways otherwise prohibited. Medicaid Home and Community Based Service programs allow Medicaid recipients who are age 65+ and those living with physical disabilities to receive support with activities of daily living (ADL's) and instrumental activities of daily living (IADL's) at home or in their community, rather than in institutional settings. Traditionally, HCBS are offered under state waivers, approved by CMS. In Michigan, most Medicaid recipients requiring long term support services at home or in the community are enrolled in Managed Long-Term Care plans, but a few waiver programs remain active.

In Michigan, there are three in-home assistance MCOs funded by Medicaid: Michigan Choice, Michigan Health Link, and PACE,

Home Help Program: Covers individuals requiring assistance with activities of daily living. It enrolls the largest number of residents of the three in-home assistance programs funded by Medicaid. In 2017, the Home Help Program enrolled 51,862 individuals.<sup>56</sup> It is administered through the Michigan Department of Health & Human Services (MDHHS). Individuals must be eligible for Medicaid and require assistance with at least one activity of daily living.

MI Choice: Formerly referred to as the Home and Community Based Services for the Elderly and Disabled (HCBS/ED) program. MI Choice provides support for activities of daily living, such as help with personal care, chore and homemaker services, and respite care at home. Elderly and disabled waiver participants are given the choice of allowing the state to manage their care services or self-directing their own care. Family members can be hired to provide care services; however, spouses and legal guardians are not eligible to be paid through MI Choice for caregiving services to their legal partner. MI

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<sup>55</sup> Healthy Michigan Plan. Retrieved from <https://www.michigan.gov/healthymiplan/>

<sup>56</sup> Michigan Medicaid Long-Term Services and Supports. Retrieved from [Michigan.gov/mdhhs](https://www.michigan.gov/mdhhs) ([https://www.michigan.gov/documents/mdhhs/MLTSS\\_Phase3\\_FinalReport\\_12-14-18\\_Rev\\_3\\_19\\_647943\\_7.pdf](https://www.michigan.gov/documents/mdhhs/MLTSS_Phase3_FinalReport_12-14-18_Rev_3_19_647943_7.pdf))

Choice is approved and authorized by the 1915 (b1), 1914 (b4), and 1915 (c) waivers. In 2017, MI Choice enrolled 11,841 individuals.<sup>57</sup>

Health Link Program: Is designated for persons eligible for both Medicaid and Medicare. The Link supports services that help beneficiaries remain in their homes, including personal care assistance. In 2017, Health Link served 35,604 home-based beneficiaries (an additional 1,874 resided in nursing facilities). In addition, 683 individuals enrolled through the 1915 (c) HCBS waiver.<sup>58</sup> The Link is currently only available for MI residents in several counties including: Barry, Berrien, Branch, Calhoun, Cass, Kalamazoo, Macomb, St. Joseph, Van Buren, Wayne, or any county in the Upper Peninsula.<sup>59</sup> These counties are distributed fairly evenly across rural, suburban, and urban Michigan.

A 2005 state study compared the costs of delivering health care services to Medicaid recipients through different systems. The report found that a capitated managed care program, involving multiple MCOs, was the most cost-effective delivery system for Michigan. As a result, Michigan continued the shift from FFS to MCOs<sup>60</sup>, and as of July 2018, 77.6% of Michigan's population receiving Medicaid benefits were beneficiaries of MCOs. This compared to only 22.4% of Medicaid beneficiaries who received home-based supports under fee-for-service programs or are otherwise not enrolled in MCOs.<sup>61</sup>

## Appendix 4: Key Stakeholders

- **Center for Independent Living:** Centers for Independent Living (CILs) are community-based organizations offering support and advocacy for people living with disabilities. Michigan has 15 CIL offices.
- **Aging & Adult Service Agency:** AASA is Michigan's designated state unit on aging, formed under the Older Michigianians Act of 1981. AASA operates under the authority of the federal Older Americans Act of 1965.

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<sup>57</sup> MDHHS, Michigan Medicaid Long-Term Services and Supports. Retrieved from Michigan.gov/mdhhs ([https://www.michigan.gov/documents/mdhhs/MLTSS\\_Phase3\\_FinalReport\\_12-14-18\\_Rev\\_3\\_19\\_647943\\_7.pdf](https://www.michigan.gov/documents/mdhhs/MLTSS_Phase3_FinalReport_12-14-18_Rev_3_19_647943_7.pdf))

<sup>58</sup> Ibid.

<sup>59</sup> [https://www.michigan.gov/mdhhs/0,5885,7-339-71551\\_2945\\_64077-335615--,00.html](https://www.michigan.gov/mdhhs/0,5885,7-339-71551_2945_64077-335615--,00.html)

<sup>60</sup> Michigan Medicaid: Relative Cost Effectiveness of Alternative Service Delivery Systems,

<sup>61</sup> Kaiser Family Foundation, Share of Medicaid Population Covered under Different Delivery Systems. Retrieved from <https://www.kff.org>.

- **State Advisory Council on Aging:** 40-member State Advisory Council is appointed by the Commission on Services to the Aging to represent the needs and interests of local communities and research issues assigned by the Commission.<sup>62</sup>
- **Michigan Commission on Services to the Aging:** The commission is a 15-member bi-partisan board that advises the Aging and Adult Services Agency (AASA) on issues related to aging policies and programs.<sup>63</sup>
- **Area Agencies on Aging:** As mandated by the Older American's Act, Michigan operates 13 area agencies on aging (AAA), which provide a suite of services to promote independence for persons 60+ with a primary focus on frail, rural and low-income minority individuals. AAA's contract with other agencies to provide services including homemaker services.
- **IMPART Alliance:** Developed by a Michigan State University led research team, IMPART Alliance aims to tackle the gap left by increasing numbers of elderly choosing to stay at home and the shortage of direct care aids in the state, particularly those who are well trained and provide excellent care.
- **Partners in Personal Assistance(PPA):** PPA is the only US multi-stakeholder personal assistance service provider and is based in Ann Arbor, Michigan. Consumer employers have access to screened and trained personal assistants and flexible services, while personal assistants receive comprehensive training, benefits, and competitive wages.

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<sup>62</sup> Michigan Department of Health and Human Services: Annual Report Aging & Adult Services- pg. 7

<sup>63</sup> Michigan Department of Health and Human Services: Annual Report Aging & Adult Services - pg. 5

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