



Home Care in the Wake of COVID-19: A Path Forward for Independent Agencies

For an industry that was operating on the edge before the pandemic, the coronavirus pandemic will have far reaching and lasting impacts. Without swift and innovative solutions, hundreds if not thousands of local and independent home care agencies will be forced to go out of business or will be bought and consolidated. Critical, life-sustaining community services will be lost. As the home care industry has demonstrated time and time again, when there is challenge, there is also opportunity. For independent home care agency owners facing closure or considering retirement, a sale to employees provides an immediate and innovative solution—one that maintains critical services in local communities, improves the quality of home care jobs, and solidifies the legacy of selling agency owners.

Pouring from an Empty Cup

The home care sector, like all care-based sectors, is undervalued, under-resourced, and overburdened. Despite exponential growth of the home care sector over the past several decades¹, reimbursement rates for home care services remain exceptionally low. Nationally, the average Medicaid reimbursement rate for home care services hovers around \$18 per hour. With the cost of providing non-skilled home care services averaging \$23 per hour, agency owners are left with little to sustain their businesses in a highly competitive and fragmented industry. In this context, it is the largest agencies and franchises who wield market power and can benefit from efficiencies of scale that are best positioned to succeed. The market, however, remains dominated by small players. According to recent research by PHI, 80% of the home care industry is represented by small agencies, which employ 50 or fewer workers.² These agencies operate on razor-thin margins, with little room for error. This is particularly true for agencies serving the public pay (primarily Medicaid) market. Agencies that make less than \$1.5 million in net revenue per year, average less than 30 days of cash on hand to run operations.³ With billing cycles that span 30-90 days, chasing cash flow creates a constant and precarious battleground for any ambitious owner.

¹Driven by the unprecedented growth in the aging population paired with a social preference for aging at home.

²Small home care agencies are designated as agencies employing 50 or fewer workers.

³Eugene Goldenberg, managing director at Edgemont Capital Partners, as reported in <https://homehealthcarenews.com/2019/12/home-health-executive-forecast-2020-trends-challenges-and-opportunities/>.

As a result of low margins, home care employees are among the lowest paid workers of all industries, making only \$11.40 per hour on average. Benefits are limited, hours are inconsistent, training is insufficient, career advancement is nearly non-existent, and the job is emotionally and physically taxing. The subsequent result is a severe shortage of caregivers to meet demand and a high caregiver turnover rate.⁴ Unsurprisingly, for the past four years, home care agencies have rated caregiver shortages as the number one threat to their businesses.⁵ During the COVID-19 crisis, caregivers have felt more unsupported, unappreciated, and excluded than ever before.

"Caregivers are some of the least respected workers in our economy. The stigma needs to end."⁶

An Industry in the Shadows

While the coronavirus has wreaked havoc on every sector of the U.S economy, the virus's impact on the home care industry has been particularly devastating. In a survey by *Home Care Pulse*, agency owners noted insufficient supplies of PPE and clients and caregivers contracting COVID-19 as the top two threats to their businesses. For caregivers and agencies serving vulnerable clients every day, this is an unacceptable position.

In many cases, home care workers are the only regular contacts for homebound seniors and people with disabilities, and they are often first responders in an emergency. Despite this, home care workers, and the home care sector have been systematically excluded from the larger health care system. This exclusion has never been more evident. Home care agencies and associations have had to fight tooth and nail to be included in critical discussions and policy responses to the COVID-19 crisis for front-line workers and first responders.

With many clients fearing exposure, many clients cancelled services entirely, put services on an indefinite hold, or relied on family members for care, putting already stretched home care agencies in a constant state of uncertainty. According to a recent COVID-19 survey by *Home Care Pulse*, 76% of agencies ranked "running out of cash due to clients cancelling or putting services on hold" as one of their top three threats. A survey by the Home Care Association of

⁴ According to Home Care Pulse, caregiver turnover averaged 64% in calendar year 2019 and 85% in calendar year 2018. While the industry saw a significant decrease between CY 2018 and CY 2019, 64% turnover means that more than half of all employed caregivers change jobs or leave the industry entirely every year, causing instability for clients and costing the industry millions of dollars.

⁵ Home Care Pulse Annual Benchmarking Surveys 2017, 2018, 2019, 2020.

⁶ April 2020, PHI, COVID-19 Stakeholder Survey. <https://phinational.org/we-surveyed-our-stakeholders-on-covid-19-heres-what-we-learned/>.

America found similar results: 90% of reporting agencies noted experiencing clients cancelling services.

These same challenges are acutely felt by caregivers. In addition to lacking access to adequate PPE and experiencing losses in hours and income, home caregivers face a host of additional challenges, including fear of transmitting COVID-19 to their families, lack of available child care, limited public transportation, death of clients, and a lack of mental health supports. A job which was already grossly undervalued and underpaid now forces caregivers to do potentially life-threatening work with little support and little prospect for reward. **"I work in home care because it's a gift from God. I have to do this job because someone needs me to care for them,"** shared a Memphis, Tennessee home care worker. **"But despite the crucial role we have in keeping our clients safe from the coronavirus, this is the most inhumane, unsafe, and unappreciated line of work."**⁷

These stressors will undoubtedly compound negative impacts on the caregiver crisis, which have already constricted the industry. While some experts in the home care sector speculate that the economic recession may slow movement of the workforce or attract newcomers to the field, without substantial and meaningful systemic change, many caregivers will ultimately elect to leave the industry for safer, more stable, and financially rewarding work. Even worse, those who would have considered entering the field will be dissuaded based on the poor and very public response to COVID-19. The industry's caregiver shortage and turnover crisis will be exacerbated, putting the sector at risk.

For agency owners who had been nearing retirement before the COVID-19 crisis or otherwise contemplating the sale or closure of their agency, the challenges and pressures of rebuilding after the pandemic will likely be too much. Pre-pandemic industry research found that over 50% of independent home care agency owners wish to sell their business in the next five years, yet fewer than 50% of agency owners have an exit plan.⁸ Massive closures, acquisitions, mergers, and further consolidation of the industry is likely to follow the current crisis. For seniors and people with long-term disabilities, this will mean fewer options for home-based care, pushing many into higher-cost and higher-risk long-term care facilities.

Employee-Owned Agencies on the Rise

Employee ownership, the sale of a business to a broad base of employees, provides a different path. Already there are over 450 employee-owned companies in the United States, including thirteen employee-owned home care agencies across eight states, and dozens more under development. A key differentiator, employee-owned home care agencies boast an average turnover rate of only 38%, nearly half the industry average. Across industries, employee-owned firms report higher rates of workforce satisfaction and engagement and invest more in

⁷ April 14, 2020 SEIU Virtual Press Conference, report featured in <https://homehealthcarenews.com/2020/04/i-deserve-to-be-respected-home-care-workers-make-emotional-plea-for-better-treatment/>.

⁸ 2017 Business Succession Survey, Home Care Magazine, in partnership with the ICA Group.



workforce training. Most importantly, they are more likely to survive economic recessions and are half as likely to lay staff off during economic downturns.

Home care cooperatives offer a practical and lasting solution to the recruitment and retention crisis. They are structured to value, support, and reward caregivers. They pay higher than standard wages in the industry, provide advanced training and mentorship, and offer leadership and professional development opportunities—rarely seen in the broader home care sector. Cooperative home care agencies operate independently, but they are linked by a strong and growing network of employee-owned agencies that are pooling knowledge, resources, and power to gain a greater market share.

Some businesses are started as employee-owned cooperatives, but a growing number start out as conventional companies and transition to employee ownership through the sale of the business to its employees. For agency owners who are ready to exit their business, employee ownership provides an opportunity to secure a competitive return, ensure the future of loyal employees, preserve critical community services, and solidify their agency's legacy in the community.

We do not know how long the pandemic will last or its exact impact on the home care sector. But it is already clear that it will be profound. The ICA Group is committed to rebuilding and strengthening the sector with employee-owned businesses that provide quality jobs for home care employees and quality care for clients, while keeping wealth in local communities.

What we can do

In an effort to retain local agencies and the critical services they provide, the ICA Group has launched the [Home Care Legacy Program](#)—which is now accepting applications from independent agencies.

This grant-funded program offers free business valuations and exit planning consultations to home care agency owners looking to share ownership or otherwise exit the industry. Now more than ever, ensuring successful business transitions will be critical to the future of quality home care. An exit plan and business valuation will help owners understand all of their options, including a sale to employees.

If you own or know of a home care agency that is weighing their options, reach out to the ICA Group. We are committed to partnering with owners, and to ensuring the long-term growth and success of the home care industry.