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Private Equity Pursues Profits in Keeping the Elderly at Home

By Sarah Varney

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PACE, a program to help keep older people out of nursing homes, allows Vivian Malveaux, 81, to live at home in Denver. InnovAge, which runs her program, converted to a for-profit company last year.
Nick Cote for The New York Times

DENVER — Inside a senior center here, nestled along a bustling commercial strip, Vivian Malveaux scans her bingo card for a winning number. Her 81-year-old eyes are warm, lively and occasionally set adrift by the dementia plundering her mind.

Dozens of elderly men and women — some in wheelchairs, others whose hands tremble involuntarily — gather excitedly around the game tables. After bingo, there is more entertainment and activities: Yahtzee, tile-painting, beading.

But this is no linoleum-floored community center reeking of bleach. Instead, it's one of eight vanguard centers owned by InnovAge, a company based in Denver with ambitious plans. With the support of private equity money, InnovAge aims to aggressively expand a little-known Medicare program that will pay to keep older and disabled Americans out of nursing homes.

Until recently, only nonprofits were allowed to run programs like these. But a year ago, the government flipped the switch, opening the program to for-profit companies as well, ending one of the last remaining holdouts to commercialism in health care. The hope is that the profit motive will expand the services faster.

Hanging over all the promise, though, is the question of whether for-profit companies are well-suited to this line of work, long the province of nonprofit do-gooders. Critics point out that the business of caring for poor and frail people is marred with abuse. Already, new ideas for lowering the cost of the program have started circulating. In Silicon Valley, for example, some eager entrepreneurs are pushing plans that call for a higher reliance on video calls instead of in-face doctor visits.

The business appeal is simple: A baby boom-propelled surge in government health care spending is coming. Medicare enrollment is expected to grow by 30 million people in the next two decades, and many of those people are potential future clients. Adding to the allure are hefty profit margins for programs like these — as high as 15 percent, compared with an average of 2 percent among nursing homes — and geographic monopolies that are all but guaranteed by state Medicaid agencies to ensure the solvency of providers.

The goal of the program, known as PACE, or the Program of All-Inclusive Care for the Elderly, is to help frail, older Americans live longer and more happily in their own homes, by providing comprehensive medical care and intensive social support. It also promises to save Medicare and Medicaid millions of dollars by keeping those people out of nursing homes.

For decades, though, the program has failed to catch on, with only 40,000 people enrolled as of January of this year.

“PACE is still a secret in the minds of the public,” Andy Slavitt, Medicare’s acting administrator, said at the National PACE Association meeting in April. The challenge, he said, was to make PACE “a clear part of the solution.”

Several private equity firms, venture capitalists and Silicon Valley entrepreneurs have jumped into the niche. F-Prime Capital Partners, a former Fidelity Biosciences group, provided seed funding for a PACE-related start-up, as have well-regarded angel investors like Amir Dan Rubin, the former Stanford Health Care president, and Michael Zubkoff, a Dartmouth health care economist.

And no company has moved with more tenacity than InnovAge. Last year, the company overcame protests from watchdog groups to convert from a nonprofit organization to a for-profit business in Colorado. And in May, InnovAge received $196 million in backing — the largest investment in a PACE business since the rule change was made — from Welsh, Carson, Anderson & Stowe, a private equity firm with $10 billion in assets under management.

“For years we were pariahs, and no one wanted anything to do with us,” said Julie Reiskin, executive director of the Colorado Cross-Disability Coalition, a nonprofit group that advocates for people with disabilities, many of whom are eligible for PACE.

“Now that there’s money involved,” Ms. Reiskin said, “everyone is all interested.”

Even the program’s supporters acknowledge that the movement needs fresh momentum. But they worry that commercial operators will tarnish their image in the same way many for-profits eroded trust in hospice care and nursing homes.

Three decades ago, after Congress authorized Medicare to pay for hospice care, commercial operators displaced the religious and community groups that had championed the movement. As recently as 2014, government inspectors found that for-profit hospice companies cherry-picked patients and stinted on care.

Ms. Malveaux sits down for a meal at the InnovAge center in Denver.

In addition, elderly patients with dementia and chronic ailments have frequently been targets of abuse and neglect at nursing homes, something advocates for the elderly say is correlated with the increased commercialization of that industry.

“I’m not wild about every knucklehead running around trying to do PACE,” said Thomas Scully, former Medicare administrator under President George W. Bush. “I would rather keep it below the radar.”

Not Quite Able

Early last year, Ms. Malveaux was drowning. She lived alone in a tidy red-brick home in a leafy Denver neighborhood that she paid for by working shifts at a Samsonite luggage factory, now closed.
Laundry piled up. Bills went unpaid. Doors were left unlocked. Pans sometimes burned on the stove as her memory failed.
“I had lost my mind,” she recalled, sitting on her couch in a pink velour robe. “I couldn’t keep up my house.”
For Americans who find themselves in this situation, the next stop is often a traditional nursing home. Ms. Malveaux’s son took her instead to visit an InnovAge day center.

The $9 million building south of downtown Denver is designed to calm people with dementia. It has subdued lighting and winding hallways that encircle the first floor like a running track and discourage “exit-seeking behaviors,” where patients search for ways out of a building.

For the frightened Ms. Malveaux, it seemed like paradise: a flower garden, a beauty salon and day trips to casinos and candy factories. And, most importantly, it had a team of doctors, nurses, psychiatrists, dentists, physical therapists, nutritionists, home health aides and social workers whose purpose was to help her live safely in her beloved brick home.

After joining the center last June 2015, Ms. Malveaux began seeing a psychiatrist and went on medication for depression. A social worker coached her grandson, Jermaine Malveaux, on how to care for someone with dementia. Three days a week, an InnovAge van picks up Ms. Malveaux at home and takes her to the center to share lunch with other older adults and try her luck at bingo and ceramics.

“I make friends easily,” she said with a smile. “And the guys flirt with me.”

The InnovAge center, like other PACE facilities, is inspired by Britain’s much-lauded Day Hospitals, outpatient health care facilities that arose in the 1950s that became a hub of daily life for many older people. In the United States, the earliest incarnation of PACE was started in San Francisco in 1971 by a group of Asian and Italian immigrant families seeking alternatives to the American nursing home.

Federal health officials allowed the group, called On Lok — Cantonese for “peaceful, happy abode” — to test what was then a novel and prophetic approach to health care financing. Instead of physicians billing Medicare each time they treated a patient, the government would pay a fixed amount to the center for each member. On Lok would assume the financial risk, similar to an insurance company. In 1990, Medicare officially sanctioned the model.

In exchange for a capped monthly payment from Medicare and Medicaid, PACE staff members arrange and pay for all of a patient’s doctors’ visits, medications, rehabilitation and hospitalizations. At the same time, they are supposed to pay attention to the patient’s daily needs — meals, bathing, housekeeping and transportation to day centers, where older people can ward off isolation and cognitive decline by socializing. (Studies have found that the intensive caretaking reduces costly hospital stays.)

Comparing the cost effectiveness of PACE against nursing homes is difficult, partly because state Medicaid agencies pay a variety of rates. But all the states are required to keep their rates below what they would pay for nursing home care. In Colorado, for example, that amounts to 7 percent less per patient.

On average, Medicare and Medicaid pay PACE providers $76,728 a person a year, about $5,500 less than the average cost of a nursing home. And the money going to PACE covers all of the person’s health and social needs, unlike nursing home care, which doesn’t include hospitalizations and other expensive medical care.

The flat government payment pushes the organizations to invest in maintaining a patient’s health and safety to avoid big hospital bills. Dentistry — excluded from traditional Medicare coverage — is a crucial focus: Programs invest heavily to fix broken teeth and dentures to avoid costly infections or poor nutrition that can cause cascading health problems.
Providers are also generous with rehabilitation, setting few limits on training sessions that strengthen injured muscles and sturdy patients against falls.

“If you’re neglecting these patients, the odds they’ll call an ambulance and go to the hospital and spend a week there because they’re really sick is pretty high, and that all comes out of the payment,” said Bob Kocher, a former senior health care adviser to President Obama.

Profits are in no way guaranteed, though. The centers still face major financial risk — it just takes a few patients with serious medical conditions to upend the books.

Dan Gray, a PACE financing consultant at Continuum Development Services, said too many trips to the emergency room or an expensive hospital stay can flip fortunes. One organization he advises had $300,000 in hospital medical claims in a month that he refers to as “Black August.”

“I had a nervous twitch,” he said.

High-Tech vs. High-Touch

In January, at the health care industry’s leading matchmaking event, the J.P. Morgan Healthcare Conference in San Francisco, word quickly spread that PACE programs could save states and the federal government up to 20 percent a patient. And suddenly, the program became one of the hottest topics of discussion.

“Every other conversation was, ‘What do you think we should do with PACE?’” said Bill Pomeranz, a managing director at Cain Brothers, who helped finance the nation’s first PACE program in the 1970s.

The message appeared to travel down Highway 101 as well, to the heart of the technology industry. At least eight start-ups have circulated PACE-related pitches to Silicon Valley venture capital firms, hoping to tap into new capital and create technology-enabled versions of the program.

The interest of the tech industry is so far only nascent. But the possibility that Silicon Valley, notoriously aggressive and extremely deep-pocketed, could play a significant role in PACE underscores the changes that may lie ahead.

Building a center requires medical offices, rehabilitation equipment, food service and fleets of handicapped-accessible vans. On average, it takes up to $12 million just to get it off the ground. That is a lot of money for most nonprofits but relatively little in the technology world. Opening new centers may become less of a hurdle.

The tech industry and nonprofit world are driven by different impulses. The early centers were closely tied to local cultures, making them difficult to replicate. An aversion to aggressive marketing among the center's leaders didn't help, either. Tech likes to move as fast as possible.

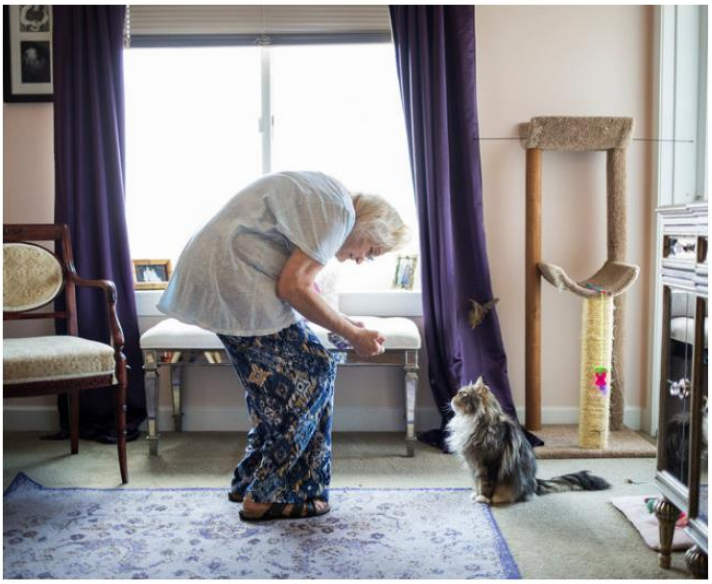
"PACE reminds me of religious orthodoxy," said Mr. Pomeranz, who said he had affection for the program. The movement's leaders come from the world of public health and have a "social work mentality," he added.

The pitches circulating among investors envision technology-enabled programs that would rely, in part, on video visits and sensors. Some studies have found that telemedicine can help patients better control certain chronic conditions and reduce health care spending. But those technologies are largely untested in geriatric care.

"The entrepreneurs coming into this space all believe there are much lower-cost ways to check on patients every day than driving them all to one building," said Mr. Kocher, who is now a partner at the venture capital firm Venrock, which invests in health care companies.

These sorts of pitches, while promising, have not been universally welcomed. They have even been used as evidence that opening PACE up to for-profit companies might lead to unwanted consequences.

Veteran PACE providers, for example, are skeptical of virtual medicine's benefits to seniors, especially those with dementia.



Kathy Baron with Munchkin. Ms. Baron was left disabled by breast cancer and nerve pain. InnovAge has made it possible for her to stay in her home. "I would rather be dead than go into a nursing home," she said.
Nick Cote for The New York Times

"Socialization goes a long way to improve the health of the participants we serve," said Kelly Hopkins, president of Trinity Health PACE, a nonprofit health system that operates PACE centers in eight states. "It's naïve to think you can do it virtually."

Supporters of the change say the necessary safeguards are in place. The for-profit centers were approved, to little fanfare, after the Department of Health and Human Services submitted the results of a pilot study to Congress in June 2015. The demonstration project, in Pennsylvania, showed no difference in quality of care and costs between nonprofit PACE providers and a for-profit allowed to operate there.

The Centers for Medicare and Medicaid Services has vowed to closely track the performance of all PACE operators by measuring emergency room use, falls and vaccination rates, among other metrics. The National PACE

Association, a policy and lobbying group, is also considering peer-reviewed accreditation to help safeguard the program. Oversight is now largely left to state Medicaid agencies.

Maureen Hewitt, InnovAge's chief executive, said, "At the end of the day, we're held to the same quality and care standards."

Dr. Si France, a founder of WelbeHealth, an early-stage company based in Menlo Park, Calif., says start-ups can use technology to improve clinical communication, help caregivers make treatment decisions and monitor patients at home or in a hospital. But he insists even a high-tech PACE program cannot veer from its origins.

"It's not a way to get rich or generate outsize returns," said Dr. France, the former chief executive of GoHealth, a chain of urgent care centers acquired by TPG Capital, a private equity firm. "We think this is an arena for missionaries, not mercenaries."

Will Money Change Things?

Families enrolled in InnovAge's PACE program in Denver appeared to be unaware of its conversion into a for-profit enterprise. The company did not announce the change directly to its participants, but notified a patient advisory group.

Kathy Baron, 68, who lives in subsidized senior housing, was left disabled by breast cancer and debilitating nerve pain. Her daughter, Leah van Zelm, struggled to take care of her. So Ms. Baron, fearful she would be deemed unfit to stay in her apartment, signed up for InnovAge's program.

"I would rather be dead than go into a nursing home," Ms. Baron said.

She says InnovAge has been generous with services, echoing interviews with other patients. Each week, an InnovAge housekeeper changes the sheets on her bed, launders her clothes and cleans her apartment, a service provided to those unable to tidy their own homes. The few times her requests for special equipment or services were denied, Ms. Baron appealed and won.

But she worries new investors will skimp on what outsiders might view as unwarranted services. The company's commercials, promising "Life on Your Terms" and voiced by the actress Susan Sarandon, have reinforced those concerns.

It's a concern echoed by Ms. Malveaux's family. "Anytime you involve money," said Jermaine Malveaux, Ms. Malveaux's grandson, "there's always the concern for greed, especially with the elderly."

At least in the near future, the number of companies getting into PACE programs will be limited. Most states cap enrollment in PACE centers. And each state — as Colorado did, opening the window for InnovAge — likely needs to amend its law to allow the for-profit companies. So far, it appears only California has done so.

Yet there is a growing realization among longtime PACE providers that new competition looms.

In a newsletter to the generally placid PACE community, one adviser warned that providers who failed to become bigger would face new entrants who "will find a way to meet the needs of persons in your community."

Those needs will only grow as the adult children of baby boomers face difficult decisions about how to care for their parents.

In the meantime, for people like Ms. Van Zelm, the anxiety that once pervaded her daily life has diminished.

"When she's stable," Ms. Van Zelm said of her mother, "my daily life stress is reduced."