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Troubling Odyssey

Questions arise about hospice company's patient care, level of Medicare payments

By SANDRA WARD

WHEN A COMPANY is in the business of comforting dying patients, whose care can be costly, and it depends heavily on Medicare for revenues, achieving profit margins of 18%-20% and annual earnings gains of 40% or so would seem too good to be true. Yet those are the kinds of numbers that Dallas-based Odyssey Healthcare, the nation's second-largest for-profit hospice provider, has routinely churned out since issuing shares to the public in October 2001. The nation's first hospice provider to go public has expanded its programs to 68 from the 33 that existed in 2001, mainly through acquisitions. And it's expected to show "same-store sales growth" -- revenue from facilities open more than a year -- of 13%-15% this year. Its average "daily census" -- the number of patients it cares for -- rose to 6,019 in 2003 from 4,407 a year earlier. Its profit margins are more than double those of its competitors.

An impressive performance, indeed. But there are signs the company can't keep up with its heady growth. Higher labor costs -- especially in California, which represents 13%-15% of its revenues -- as well as higher drug costs hurt Odyssey's margins in last year's fourth quarter. In reporting those results on Feb. 23, the company forecast lower-than-expected earnings for this year. Another red flag: Odyssey disclosed that, in its most recent quarter, six of its programs exceeded the amounts they were entitled to receive in Medicare reimbursements, raising questions about whether patients admitted to its programs are truly eligible.

Clint Karlsen/Getty Images
An Odyssey hospice in Las Vegas: Questions are being raised about the second-largest U.S. for-profit company caring for the dying.

There are also suggestions that some of Odyssey's strong growth is the result of providing a level of care and services below the standards set forth under government guidelines, including providing adequate bereavement services for patients' families. A son tells *Barron's* of Odyssey's ignoring calls from a nursing home as the staff sought the assistance of the hospice firm with which he'd contracted. Some former nurses and marketing representatives tell *Barron's* of patients being kicked out of Odyssey programs after 90 days upon being "reevaluated" or because they required hospital care. Former staffers complain about lack of access to supplies and caseloads that are heavier than industry norms. The company's CEO, David Gasmire, says Odyssey follows all federal guidelines.

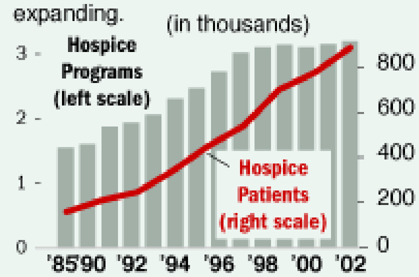
Odyssey is in an industry growing by an estimated 20% a year in the U.S. and where expansion seems assured as the huge baby-boom generation heads toward its twilight years. Hospice care is gaining more acceptance among physicians and families as a way to comfort the terminally ill. The Centers for Medicare and Medicaid Services, which administers the federal Medicare program and also works with states to administer Medicaid, has encouraged physicians to recommend the benefit to patients and has broadened the scope of who is eligible for hospice care beyond cancer patients to those with ailments such as Alzheimer's disease, dementia, chronic obstructive pulmonary disease and congestive heart failure.

As of 2002, the latest date for which figures are available, the number of hospices in this country had more than doubled to 3,200 since 1986, when hospice care became a permanent Medicare benefit, and the number of patients admitted to hospice programs has hit 885,000, 32% of them 75 to 84 years old, according to the National Hospice and Palliative Care Organization. No wonder, then, that Wall Street has grown enamored of Odyssey. Even now, despite a sharp slump on disappointing fourth-quarter earnings news, its shares still trade in the low 20s, triple their initial-public-offering price of 6.67, after adjusting for two splits. In fact, since the IPO, Odyssey has outpaced the major stock indexes by a wide margin, as investors discovered a lot to like about its strategy.

Odyssey's formula for success has consisted of aggressively going after patient referrals, strictly controlling costs and carefully managing its patient base. Cancer patients, for example, who can be particularly expensive to care for, represent only 36% of the total at Odyssey, versus an industry average of 54%. In seeking patients, it concentrates on nursing homes and assisted-living centers, to keep costs down. Hospice services also can be provided in a dying person's home.

RISING DEMAND

While the number of U.S. hospice programs soared from 1985 through 1998, they've plateaued since then. But the patients population is still expanding.



Source: The National Hospice and Palliative Care Organization

Investors have grown more cautious as a result of the disappointments in the recent quarter. In addition to the higher costs and lower forecast, the hospice chain revealed that its cash flow turned negative in the quarter as claims for reimbursement were delayed because of audits and new rules associated with the federal Health Insurance Portability and Accountability Act, or HIPAA.

In a business almost entirely dependent on Medicare reimbursement for revenues, adherence to guidelines is crucial. People familiar with the Medicare system say that exceeding the reimbursement cap is very unusual and is considered a serious breach of accepted practices by the Centers for Medicare and Medicaid Services, as well as by the insurance intermediaries who handle Medicare claims. Such breaches raise red flags about admittance procedures and the possibility that ineligible patients are being accepted into hospice programs, which are supposed to admit only those whom doctors believe have no more than six months to live.

A closer look at one of its California operations sheds some light on the difficulties Odyssey faces.

In September, its San Diego program was found to be in violation of certain standards when the California Department of Health Services conducted a routine recertification survey. A 33-page report detailed numerous instances of patients in severe discomfort and distress being cut from the program inappropriately and without consultation involving all members of the medical team. Drugs, including simple items such as Robitussin cough syrup, weren't immediately available because the hospice hadn't contracted with a pharmacy to pay for them. Volunteer services weren't provided and other treatments and services typically covered were not provided. A lack of communication and documentation led to misguided care, the report alleged. It also found that clinical records were poorly maintained.

All the critical violations were corrected by the end of December, but not without much turmoil in the program. Staffers left or were fired and a large number of patients were discharged. Conversations with former employees and competitors confirm much of what showed up in the report and raise other questions.

Table: Odyssey Healthcare

Care for the Dying

Gasmire, who is president as well as chief executive, told *Barron's* in a phone interview that he was unaware of problems in the San Diego program and knew of no changes in policies there. He defends Odyssey's practices as being within government guidelines. He maintains that caseloads are well within industry averages and in cases of extreme overloads people from other programs would be deployed to help out. He dismissed concerns about "live discharges" -- the patients released after 90-day reevaluations -- as not serious, adding that "live discharges will be a part of any hospice that's out there." He states that they usually occur when patients choose to seek more aggressive treatment or want hospital treatment for which odyssey will pay only if it has a contract with the hospital.

Gasmire acknowledges making changes to its bereavement programs, noting that a low percentage of families actually seek counseling. "There are lots of things we put in the hands of bereaved families," he says. Odyssey, he says, also encourages families to use community programs it supports. Doctors are not restricted from

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prescribing drugs but are encouraged to prescribe the most efficient and inexpensive drugs. Indeed, the company attributed drug-cost overruns in the fourth quarter partly to newly acquired programs where the managers hadn't been adequately trained.

Boosting the number of patients in its programs is Odyssey's No. 1 goal, says Gasmire. "I'd like to see us build an even stronger sales machine." He sees that as the way to keep within Medicare cap limits, though the company expects to exceed them again this year. He cites the company's rapid growth for the cap problem.

Gasmire founded Odyssey in 1996 along with Richard Burnham, who is chairman, after both left Vitas, the nation's biggest hospice company and a subsidiary of Roto Rooter, over disagreements with management about how aggressively to build the business.

But conversations with more than a dozen people around the country who are familiar with company, including five who formerly worked for it, shows Odyssey in a somewhat different light than Gasmire's words do.

Byron "Pat" Connolly hired Odyssey to provide hospice care for his mother, who last summer was a patient in Vista Knoll Specialized Care Facility in Vista, Calif., dying of congestive heart failure. When her condition began deteriorating, Connolly adds, nurses at Vista Knoll said that Odyssey ignored their repeated calls to come and care for the 86-year-old woman.

"We felt she was not getting the care she should be getting," Connolly remembers. "I wasn't mad. I was upset." He says that his mother died within a week of being transferred to another hospice program.

Some former Odyssey nurses and a marketing representative tell of an unusually large number of patients being kicked out of the company's San Diego hospice after being reevaluated within 90 days of admission (such reevaluations are required by the Medicare program) -- raising the possibility that they should never have been in the program in the first place.

The former staffers criticize what they view as overly aggressive patient-referral policies reinforced through bonus programs and achievement awards. They contend Odyssey staffers have only limited ability to deliver proper medications and provide supplies, such as adult diapers. Many former staffers declined to be identified out of fear of jeopardizing their current jobs or their chances of finding employment.

Kym Grey, a social worker and community-resource specialist worked at Odyssey in San Diego for nine months in 2002 before leaving to join the Elizabeth Hospice, a competing outfit in Escondido, Calif.

She was troubled about what she viewed as a lack of resources for support groups and bereavement care. When she asked, "What do I do with these people?" she says she was told, "Just refer them to the Elizabeth Hospice."

Eventually, Grey concluded that she might as well work for that hospice. She was also relieved to give up caseloads that typically included 55 to 60 patients and never fewer than 45. In her new job, she says, her caseload never exceeds 25 to 30 people, a number more in line with industry averages. She also was no longer faced with being asked to help sales reps at Odyssey persuade reluctant patients to enter the hospice program, a practice that made her uncomfortable.

More than a few times, she says, when admissions workers were having difficulty persuading someone to enter the hospice's program, she was asked to visit the patient and make a sales pitch. If the patient still refused, she was asked to go back and try again. She refused. "This was not the way it was supposed to be," she recalls thinking.

Laura Miller, Elizabeth Hospice's CEO, is disturbed that Odyssey sends patients' families to her hospice for bereavement counseling. "I'm going to start sending them a bill," she declares. "We all get the same amount out of Medicare to provide the same services. They're not doing their share."

In a business expanding as fast as the hospice industry and at a company expanding as quickly as Odyssey, growing pains are to be expected. Nonetheless, there is mounting concern within the industry that the quest to show profit growth and stock-price gains can sometimes conflict sharply with the needs of dying patients and their families. Nonprofit hospices increasingly complain that they are shouldering a heavier burden than the forprofits -- caring for a higher proportion of expensive-to-care-for patients and providing services that should be available at all hospices.

Says Dorothy Deremo, president and chief executive of Detroit-based Hospice of Michigan: "For-profit organizations in health care have a different social contract: to deliver a return on investment and improve the equity of their stockholders. The social contract for the not-for-profit is.... to return value to our shareholders who are the patients, the families and the community-at-large."

Looming large in the background of these hospice wars is the memory of a 1996-97 federal probe that resulted in 12 providers being charged with overbilling Medicare by more than $80 million for patients deemed to be ineligible for hospice care. The Centers of Medicare and Medicaid Services never collected the money for fear the hospice providers would seek to make the patients' families pay, but those are still seen as dark days for the industry.

Problems within the hospice industry could draw scrutiny that would have an impact on companies such as VistaCare, the only other publicly held pure-play hospice company, or those that might go public in the future, such as Roto-Rooter's Vitas Corp. or Southern Care Hospice of Birmingham, Ala., in which Morgan Stanley has an equity stake.

A spokeswoman at the U.S. Department of Health and Human Services' Inspector General's Office, the watchdog agency for the Centers for Medicare and Medicaid Services, says there is not currently any investigation into practices within the industry.

When the time comes for patients and families to think about choosing hospice care, they aren't usually in a position to shop around and compare quality. Certainly, the patients don't get a second chance.

Investors have a much better vantage point.

E-mail comments to editors@barrons.com

Trouble in Paradise was a virtual representation of one of Kassandra's genetic memories, relived by Layla Hassan through the Portable Animus HR-8.5. Receiving a plea for help from a woman named Kyra, Kassandra made her way to Mykonos. Upon noticing Kassandra boarding the Adrestia, Barnabas called out to her. Barnabas: Welcome back! There's a message for you on the board. Came from the Delos Islands. One of the Cultists is there, Kassandra. His name is Podarkes. Silver Islands â€“ Side Quests. Trouble in Paradise.Â Discover the unfolding of these events in this part of the Assassinâ€™s Creed Odyssey Walkthrough. Activation: Automatic. Reward: 570 Drachmas + 12100Xp. Troubled Odyssey â€” troubledodyssey: CHOICE. Find this Pin and more on movies and shows by accio draco malfoy. More information. Troubled Odyssey â€” troubledodyssey: CHOICE. Find this Pin and more on movies and shows by accio draco malfoy. Saved from troubledodyssey.tumblr.com. Troubled Odyssey: Photo. Troubled Odyssey â€” troubledodyssey: CHOICE. Saved by accio draco malfoy. 176. Please do not repost ðŸ’– â€¢ The Troubled Odyssey of a Gay Vietnamese Girl â€¢ ðŸ³ï¸â€ðŸŒˆ She/They. Mid 20s.Â @TroubledOdyssey. Black lives matter. Please do not repost â€¢ The Troubled Odyssey of a Gay Vietnamese Girl â€¢ She/They. Mid 20s. troubledodyssey.carrd.co. Assassin's Creed Odyssey â€”Guide and Walkthrough. Log In to add custom notes to this or any other game. Notify me about newÂ Trouble In Paradise. You get a note saying there is a horrible leader ruining Mykonos, and the rebels need help. There are two possible locations for the rebels on Mykonos.