

Elder Health gets \$52.5 million boost

Investment seen as sign Medicare HMOs on rise

By M. William Salganik
Sun Staff



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Elder Health Inc., a Baltimore company providing health coverage to the elderly, announced yesterday that it has received \$52.5 million in new financing - a sign of renewed interest by investors in HMOs and other health plans doing business with the federal Medicare program.

Elder Health will use the cash infusion to finance an expansion designed to triple the size of the company, which currently has annual revenue of about \$100 million, over the next three years.

Medicare HMOs grew rapidly in the late 1990s, with enrollment topping 7 million seniors in 1999. But then the federal government cut the rates it paid the plans for providing health services, and insurers began dropping members. Many eventually pulled out of the market altogether.

The Medicare reform bill passed a year ago increased reimbursement rates, prompting commercial insurers to begin returning to the program. Enrollment, now 5.5 million of the nearly 40 million Medicare-eligible seniors, is beginning to tick up.

"We've stemmed the tide and turned it around," Leslie V. Norwalk, deputy administrator of Centers for Medicare and Medicaid Services (CMS), the Woodlawn-based federal agency that administers Medicare, said yesterday. "What we're trying to do now is show them we are committed, and do what we need to do to get the plans back in."

CMS projects enrollment in HMOs and other private managed-care plans - now about 13 percent of seniors - will grow to 30 percent by 2012. Payments to the private plans, \$39.5 billion this year, are expected to jump to \$142 billion.

Among the changes in the program, now called Medicare Advantage, are extra payments to HMOs that enroll so-called "special needs" seniors - the sicker, frail elderly that Elder Health has made a specialty.

"Elder Health is positioned to capture some of the opportunity coming out of the special needs," said Thomas Carroll, a health analyst at Legg Mason Wood Walker in Baltimore.

Privately held Elder Health, which recently moved its offices to the Brewers Hill neighborhood in East Baltimore, began operations in Baltimore nine years ago. It expanded to Philadelphia in 2001 and now enrolls about 8,500 seniors, including some in nursing homes, in the two markets.

Bolstered by its new financing, the company plans to begin enrolling seniors this month in Washington, and has applied to CMS for permission to operate in Pittsburgh. Beyond that, it is looking at other urban markets for expansion, Kyle Raffaniello, vice president for sales and marketing, said yesterday.

Elder Health has 298 employees, including 222 in Baltimore. It will hire more as it expands but hasn't yet decided how many or when, Raffaniello said.

Its new round of financing comes from several venture capital firms, including Baltimore-based New Enterprise Associates, a founding investor and the company's largest.

Legg Mason's Carroll said publicly traded companies active in Medicare programs have seen a run-up in share prices since President Bush, who is committed to using private plans, won re-election. The most dramatic is California-based PacifiCare Health Systems Inc., whose shares have risen 46 percent since Nov. 2. Its shares closed at \$50.55 yesterday.

So far, however, while investors and CMS are anticipating increased enrollment, actual growth has been small - only about 150,000 over the past year, according to Marsha Gold, a senior fellow at Mathematica Policy Research Inc. in Washington, who studies Medicare managed care plans.

Both the plans and the seniors remember past reimbursement cuts and canceled memberships, she noted. "The experience of the past is going to make everyone a little leery," said Gold. She predicted slow growth over the next year, as insurers and members get used to the latest version of the program.

Under its current structure, Medicare pays participating health plans for each senior they enroll. The health plans, in turn, manage care, paying doctors and hospitals as needed. If they can deliver care for less than they're paid, they make a profit.

Raffaniello said Elder Health is "very high touch," using nurses, visiting homes or calling patients, to make sure patients get the care they need to stay as healthy as possible.

The extra payments for more frail, sicker elderly are being phased in until 2007, so the amount Elder Health collects (currently about \$1,000 per month per senior) is likely to grow quickly.

Elder Health currently offers two HMO plans for seniors. One has no premium for the member (beyond the Medicare Part B premium of \$78 per month) and provides a choice of prescription or transportation benefits not usually provided by Medicare. A second plan charges a \$75-a-month premium, but offers lower out-of-pocket costs.

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