Paid In-Home Care:

OFFERING SUBSTANTIAL ECONOMIC SAVINGS

A WHITE PAPER FROM

Home Instead SENIOR CARE®

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Section I
INTRODUCTION

A nationwide increase in the use of home-health care can save the U.S. billions of dollars in hospital costs, according to the results of a study conducted by Frank Lichtenberg, the Courtney C. Brown Professor of Business at the Columbia University Graduate School of Business and a Research Associate with the National Bureau of Economic Research.

Based on his findings, Professor Lichtenberg estimates that the nation may have saved as much as $25 billion in total hospital payroll costs just in 2008 thanks to the growth of home-health care during the previous 10 years. He said that "it is a reasonable calculation" that further savings will be realized in the years ahead if the use of home care continues to grow.

The findings have major implications for national health-care policy as the U.S. faces a rapidly growing population of senior citizens whose needs will place increasing strains on the health care system in general, and on hospitals in particular.

More Home-Care Personnel...Reduced Hospital Payrolls

Professor Lichtenberg's study found that, "States that had higher home-health-care employment growth during the period 1998-2008 tended to have lower hospital-employment growth, controlling for changes in population. Moreover, states that had higher home-health-care payroll growth tended to have lower hospital-payroll growth."

He said: "The estimates indicate that the reduction in hospital payroll associated with a $1,000 increase in home-health payroll is not less than $1,542, and may be as high as $2,315" (his estimate of a reduction of $25 billion in 2008 is based on the higher number.)

In other words, the more the nation invests in home care, the less it will need to spend on hospitals – where wages run about 50-percent higher than in the home-care industry.

Is Home-Health Care a Substitute for Hospital Care?

Professor Lichtenberg's newly completed study is entitled *Is Home-Health Care a Substitute for Hospital Care?* In it, he notes that some other studies that have examined the question of whether increased home-health care reduces hospital costs found no correlation. He points out, however, that those studies looked at data "from a single time period" while his study was based on "observations of regions in more than one time period." That allowed adjustments for "difficult-to-measure factors (in particular, health status or severity of illness) that are likely to influence both hospital use and home-health use."

And several other studies in the U.S. and abroad have reached the same conclusion as Professor Lichtenberg's. For example, a study in Israel in 1996 found that a home-health program "provided a cost-effective substitute for care in a geriatric or general hospital for Jerusalem's elderly" and estimated the cost-benefit ratio at an impressive 5.7-to-1. A U.S. study in 2009 found that a "greater volume of [Medicaid Home- and Community-Based Services] was associated with lower risk of hospitalization."

In discussing his findings, Professor Lichtenberg noted that the concept that it is less expensive to care for people at home than in a hospital "accords with intuition."

In examining the question of why most states that expanded the use of home care experienced lower growth in hospital payrolls, Professor Lichtenberg tested the hypothesis that hospitals tend to discharge patients sooner when home care is available to take care of their needs. The data confirmed this; the study found that in the 10-year period 1998-2008, the mean length of hospital stays declined by 4.1 percent—from 4.78 days to 4.59 days.

The estimates indicate that this was entirely due to the increase in the fraction of hospital patients discharged to home-health care: 9.9% in 2008, versus 6.4% in 1998. Professor Lichtenberg calculated that in 2008 alone, the shorter hospital stays produced a savings of $14.9 billion.

It is less expensive to care for people at home than in a hospital.

True on Both the State and National Levels

Professor Lichtenberg's analysis of state-by-state spending produced some interesting – even startling – results. Controlling for population growth and age structures, he looked at each state's growth in home-health-care payrolls between 1998 and 2008 in relationship to the growth in hospital payrolls.

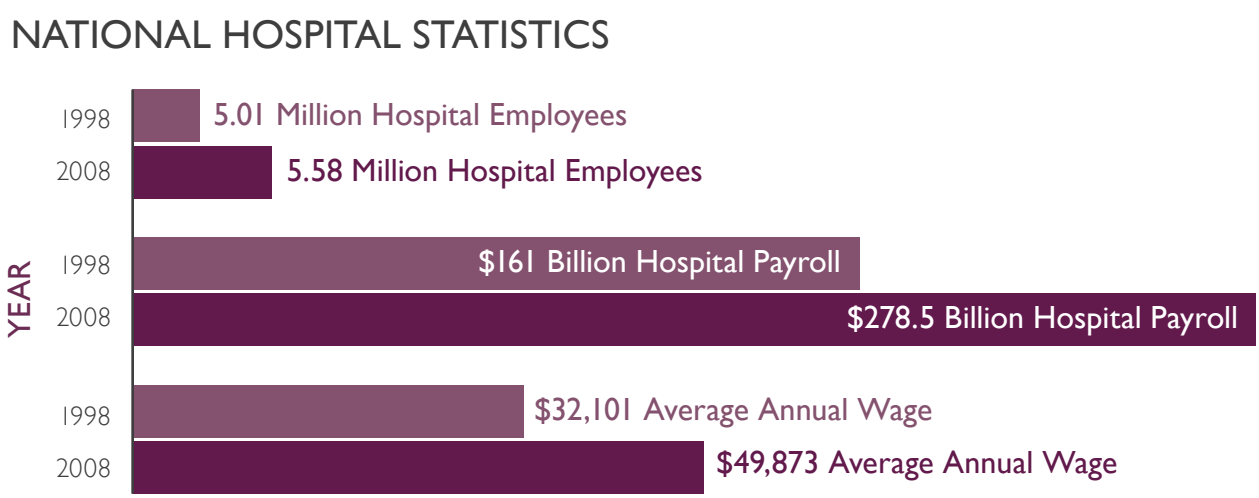
The states that came out best were Alaska and Utah, where increases in the total home-care payrolls were accompanied by actual deceases in hospital payrolls. The states that fared worst were Maine and New Hampshire, where decreases in home-care payrolls were accompanied by significant growth in hospital payrolls.

Looking at national employment data, Professor Lichtenberg found that in 1998, the total number of home-health-care workers was 901,485; the total payroll was $15.2 billion, and the average wage was $16,911.

Ten years later, total home-care employment had increased by just over 133,000 workers, to 1,035,119. The total annual payroll had gone up by about $11 billion, to $26.14 billion. And the average annual wage had increased to $25,252.

The numbers for hospitals were far larger in every respect, which is hardly surprising given the immense demands made on them. The total number of employees in 1998 was just over 5.01 million; total payroll was $161 billion, and the average wage was $32,101.

By 2008, hospital employment had grown by about 574,000, to 5.58 million; total payroll had reached $278.5 billion, and the average annual wage was $49,873.



Significant Prospective Savings

According to Professor Lichtenberg's calculations, the nation's hospital payroll in 2008 would have been nearly $304 billion were it not for the growth in home-health care.

As the nation's population ages – the first of the 78 million baby boomers begin turning 65 in 2011, and by 2025 some 72 million Americans will be seniors – the demands for elder care will increase dramatically. The question for policymakers is whether to let hospitals become the chief institutions for delivering this care – the default safety net – or whether to pursue programs that will expand the use of home care of both the non-medical and medical kind.

Professor Lichtenberg's findings confirm the common-sense conclusion that it is less expensive to provide care for the aging in their own homes than in hospital settings. Home care is also more socially desirable. Surveys have found repeatedly that the overwhelming majority of seniors want to age at home as long as possible; they see home-care services as a practical, affordable way to maintain the quality of their lives there.

Home Care Means Better Care

Moreover, family caregivers who participated in a recent Home Instead Senior Care study confirmed that "home care means better care" when they used a 1-to-5 scale to rate the overall quality of in-home care received by their seniors.

For the older adults whose care "bundles" included paid in-home non-medical services, 78 percent of caregivers rated the overall quality of care at a "4" or "5" level – that is, "very good" or "excellent." In contrast, caregivers for seniors not using paid in-home non-medical care assigned a "4" or "5" for care quality in 70 percent of cases.

With the help of paid in-home non-medical care, seniors can be healthier and happier in the familiar surroundings of their own homes.

Study Sponsor: Home Instead Senior Care

Professor Lichtenberg's study was supported by Home Instead Senior Care, which placed no restrictions or limitations on the data, methods, or conclusions and had no control over the outcome of the research. Home Instead Senior Care is a U.S. based international franchise organization that provides high-quality, non-medical home care to seniors. Its network consists of more than 850 locally owned and operated offices located throughout the U.S. and in Australia, Austria, Canada, Finland, Germany, Ireland, Japan, New Zealand, Portugal, Puerto Rico, South Korea, Switzerland, Taiwan and the United Kingdom.

These Home Instead Senior Care franchise offices employ nearly 65,000 trained CAREGivers℠, who provide millions of hours of service annually to seniors who have reached a point in life when they need some help with daily and weekly routines. The services may include assistance with trips to the doctor; reminders to take the right medication at the right time; meal preparation; light housekeeping; errands; shopping; and even Alzheimer's and dementia care. The result is companionship that allows seniors to feel safe and independent while they age in place in the homes they've lived in for years. In situations in which a client has aging-related medical needs beyond the capabilities of non-medical home-care workers, referrals are made to Home Instead's partners in the healthcare industry.

When the Age Wave Hits

In a White Paper entitled ***When the Age Wave Hits: The State of Senior Caregiving in America***, Home Instead said: "The U.S. lacks a coherent national policy to encourage and support seniors who choose to live at home, with all the benefits this brings to their well-being and to controlling health-care costs."

To address this problem, Home Instead Senior Care has called for the creation of a blue-ribbon commission to recommend policies and programs to foster the growth of home care. Commission members would be chosen jointly by the President and Congress and would include professionals in caring for the aging; physicians; nurses; academics; business leaders; government officials; and, most important, senior citizens who have direct personal experience in the problems of the aging.

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homeinstead.com

13323 California Street
Omaha, NE 68154

888.484.5759
402.575.5962