

Testimony of Phil Kerr
President, Home Medical Express, Elmhurst, IL
House Small Business Subcommittee on Economic Growth, Tax and Capital Access
On
"High Fuel Prices: The Impact on Illinois Small Businesses and Job Creation."
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I would like to thank Chairman Walsh, Ranking Member Schrader, and members of the Small Business Subcommittee on Economic Growth, Tax and Capital Access for the opportunity to provide testimony for the hearing on "High Fuel Prices: The Impact on Illinois Small Businesses and Job Creation."

My name is Phil Kerr and I'm the president of Home Medical Express located in Elmhurst, Illinois and proud member of the American Association for Homecare (AAHomecare). Home Medical Express is a provider of home oxygen, enteral therapy and medical equipment services. Products and services we offer include oxygen concentrators, portable oxygen tank systems, Obstructive sleep apnea therapy, aerosol and suction therapy, feeding pumps, hospital beds and wheelchairs. Home Medical Express sends technicians to bring equipment and provide services to patients in their homes.

AAHomecare is the national trade association for health care providers, equipment manufacturers, and other organizations in the homecare community. AAHomecare members serve the medical needs of Americans who require oxygen equipment and therapy, mobility assistive technologies, medical supplies, inhalation drug therapy, home infusion, and other home medical products, services, and supplies in the home.

I recently read that for each \$10 rise in the price of a barrel of oil translates into a 25-cent increase in gas prices, which tears more than \$25 billion from our economy yearly. High gas prices impact families throughout the United States, forcing them to make difficult choices. Businesses have to make tough choices as well because of rising fuel costs. As a small business owner, I can tell you first-hand how high gas prices negatively impact my business. High gas prices can be particularly difficult for providers of durable medical equipment (DME), also referred to home medical equipment (HME), since a large component of our cost is delivery and service of the equipment. This factor is compounded by the fact that a majority of the patients I serve are enrolled in Medicare or Medicaid, so any additional costs cannot be passed on. As a result, any rise in gas prices significantly increases my cost of business.

High Gas Prices – HME Providers Cannot Pass On Costs to Consumers

I am a 32-year veteran of the home medical equipment industry and have worked for Local, Regional and National Suppliers as a Medical technician, Branch Manager, Region Manager, Regional Vice President, CEO and owner with a responsibility for more than 120 cities in 25 states with annual revenues up to \$125 million during this time.

My two partners and I started Home Medical Express in 2006 in Elmhurst, Illinois and have grown our business from scratch to \$8.5 million in revenues for the year ending 2011. We currently employ approximately 80 employees. We have serviced 50,000 new patients since our inception and currently service approximately 7,000 active patients over a 60-mile radius from Elmhurst. We provide 24-hour service to this area and have a 2-hour service guarantee.

Approximately 70% of our patients are covered under the Medicare and Medicaid government programs and another 25% from private insurance carriers like Blue Cross Blue Shield, etc. These insurance programs pay for our services with a flat fee per item with the understanding that all delivery charges are included in that fee. There are no adjustments for proximity to the patient or for changes in the cost of doing business from fuel charges to wages.

Fuel costs now represent 3% of our revenues, up from 2% in 2009. By itself, that may not seem like much. But in 2009 our annual fuel costs were \$126,000 and reached \$247,000 by 2011, a 95% increase in costs while our business only grew 43%. Had the fuel costs stayed flat, we would have been able to hire four more staff members with health insurance benefits and four more delivery vehicles.

Other industries can simply pass on increased fuel costs to their customers to maintain their profit margins. In our industry, we not only have not been able to increase our fees to offset this cost, but we have incurred a 33% reduction in the fee schedule from the insurance payors including Medicare since 2006.

One alternative that our company has been forced to consider is drop shipping certain supplies to a patient's home and having them brought to their doorstep instead of inside their homes. This would require in 60% of the cases a senior citizen being responsible to carry sometimes heavy supplies themselves.

New Government Program Compounding Problems with High Fuel Costs

High gas prices have compounded a problem HME providers are already having with a new government program, known as the DMEPOS competitive bidding program. This program is "competitive" in name only. The Medicare Modernization Act of 2003 required Medicare to replace the current payment methodology for certain HME items with a selective contracting process. Any provider not awarded a contract is prohibited from providing bidded Medicare items for the length of the contract, typically a three-year period.

The bidding program was implemented on January 1, 2011 in nine cities across the U.S. and began in an additional 91 metropolitan areas this year, including the Chicago area. The Centers for Medicare and Medicaid Services (CMS) originally began implementation of the program in 2007. However, because of fundamental problems with the design of the program, Congress delayed implementation for a period of 18 months in the Medicare Improvements for Patients

and Providers Act of 2008 so that CMS could correct those problems. CMS has re-launched the program with minimal changes and ignored congressional intent.

The Medicare bidding program is a poorly conceived and fundamentally flawed program that is now exhibiting many of the serious breakdowns that were predicted based on its failure to recognize and account for the true nature of the way HME is provided to Medicare beneficiaries. These breakdowns have been evident since the start of the Round One bidding process in early 2007, throughout the bid evaluation process, and right through the awarding of contracts. Design and operational problems in the bidding and contracting phase will seriously compromise beneficiary access and quality of care.

Round 2 of competitive bidding, which includes many areas in Illinois, has already started. The bid window for HME providers closed on March 30, 2012, with 3-year contracts starting July 1, 2013. So HME providers like me who have submitted bids had to factor into those bids a guess about what gas prices will be in 2016. If fuel prices suddenly increase, HME providers who are awarded contracts in bid areas will not receive any adjustments. If a fuel crisis occurs during this period, many HME providers will be forced to close their doors, leaving seniors and people with disabilities without the equipment they need.

Cost Effectiveness of Homecare/Reduction of Providers will Increase Health Care Costs

HME business closures and employee reductions have a direct impact on our nation's economy and overall health care spending. HME offers an efficient and cost-effective way to allow patients to receive care they need at home. The need for HME and HME providers will continue to grow to serve the ever-increasing number of older Americans. Homecare represents a small but cost-effective portion of the more than \$2.3 trillion national health expenditures in the United States, and approximately 15.5 million Medicare beneficiaries require some type of home medical equipment annually, from rather simple bedside commodes for people who have hip replacements to high-tech ventilators for quadriplegics.

Yet, not all products are created equal: some require involvement of licensed or credentialed clinicians to be on staff or cost as much as \$15,000 to purchase. And while Congress and the Office of Inspector General have shed light on HME products they believe to be overpaid, many others are unprofitable for us to provide even before the bidding program. The high cost of fuel, labor, rent and utilities and regulatory compliance associated with billing and collections, HIPAA privacy, identity theft, IT security, Sarbanes-Oxley, waste disposal, beneficiary and employee safety, OSHA, DOT and FDA regulations continue to escalate year after year. Anyone who has ever required HME or had a relative who needed it can attest that our service includes much more than just the equipment.

The more people receive quality equipment and services at home, the less is spent on hospital stays, emergency room visits, and nursing home admissions. Home medical equipment is an important part of the solution to the nation's healthcare funding crisis. The facts bear this statement out as private health care plans have contracted for our services for decades and reaped the cost-savings along the way. Even the current Administration is trying to develop programs to manage chronically ill Medicare patients in the home through new demonstration projects and the Medicare Innovation Center.

Any reduction in the utilization of HME will drive up health care costs for everyone.

Conclusion

Thank you again for the opportunity to provide testimony regarding this important issue. AAHomecare and I look forward to working with the Subcommittee to protect patients' access to homecare, as well as the small businesses that provide the equipment they need.