McGuireWoods

Episode 138: Prescribed Pediatric Care at Scale, With Jeff Soffen

Episode Summary

Three million children in the U.S. could benefit from Prescribed Pediatric Extended Care (PPEC), but most families don't know it exists. Jeffrey Soffen, CEO of Spark Pediatrics, the largest PPEC provider in the country, joins McGuireWoods partner Tim Fry on The Corner Series.

Jeff explains how today's standard of care leaves 40 to 60 percent of skilled nursing hours unfulfilled, forcing medically complex children to remain hospitalized for upward of 500 days. Spark's model places children in community-based centers for skilled nursing, therapies and peer socialization. Tune in for Jeff's perspective on state-by-state legislative expansion, health system partnership and why you can do well by doing good in Medicaid.

Transcript

Voice Over (00:00):

This is The Corner Series, a McGuireWoods series exploring business and legal issues prevalent in today's private equity industry. Tune in with McGuireWoods partner, Geoff Cockrell, as he and specialists share real-world insight to help enhance your knowledge.

Tim Fry (00:19):

Greetings, I'm Tim Fry, a partner at McGuireWoods in the healthcare group and glad to be today's guest host for The Corner Series, where we bring together deal-makers, operators, investors, and thought leaders at the intersection of healthcare, private equity, and the associated industries. Today's conversation is in a corner of healthcare services that is highly specialized. It's mission-driven, it's Medicaid-relevant, and that has to do with specialized pediatric care.

(00:54):

I'm joined today by Jeff Soffen, the CEO of Spark Pediatrics. Spark focuses on children with complex medical needs through Prescribed Pediatric Extended Care, often care called PPEC, kind of a enhanced medical daycare, which Jeff will talk about further. And it's the largest PPEC provider in the entire country with a growing presence, especially in Florida and Texas.

(01:22):

Really, this is a new care continuum for medically complex children. It sits between hospital, home, traditional daycare, therapy, transportation, Medicaid managed care, and a family support system. And this model, I think, is really, really exciting. So Jeff, thank you for joining us. And before we get into Spark further and the model you all have built, a little bit of background about you. You've spent time in healthcare, entrepreneurial circles, vesting, research, scaling companies. How did that path lead you to Spark?

Jeffrey Soffen (01:57):

Yeah. Well, it's great to be here. Appreciate y'all having me. I would say my background began at JP Morgan where I got a first look at what it takes to build companies, and as an investor, getting to see both really good ones and ones that weren't so great and just absorbing like a sponge throughout that journey of understanding how to build great companies. I became personally really excited about the mental health space myself. I grew up with a family member that was and is deeply impacted by mental health themselves.

(02:27):

And we grew up getting ping-ponged through the healthcare system with a lot of uncertainty and a very strong lack of quality and information sharing across that. So I did that for the last 10 years before my journey into Spark and what I'm doing now. So always been very mission-oriented, very purpose-driven in what I'm trying to solve for, but I find healthcare to be something that obviously impacts us all every day.

(02:51):

My north star really changed overnight when I started having kids, but more importantly, when I had my second kid. When he was born, he had shoulder dystocia, which means he effectively got stuck coming out, and as a result, they try to get your kid out as fast as possible. And because of that, oftentimes you have either broken bones, a broken clavicle when you're yanking on the shoulder so much and/or nerve issues. He ended up with the latter, which was good because he didn't have any broken bones, but bad in the sense that nerves are somewhat binary and they heal or they don't heal. And there was a period of uncertainty there that was relatively short, particularly in comparison to some of the things that could have happened, but scary nonetheless.

(03:32):

And it opened my eyes to the what-if scenario. So what happens if my child was born with more severe nerve impact and what that would have looked like for my son? And I started to dig into the data, and when you are a healthcare nerd like I am, you generally go to Milliman as a first step to see where the value is and what's going on. And the issue looked a lot like, and had a lot of the similar attributes to my mental healthcare journey in terms of building and helping to start Quartet in the sense that the market for skilled nursing for children that do have medical complexities is very opaque.

(04:12):

The quality is very hit-or-miss. The hours are hard to get similar to psychiatry. The outcomes are harder to measure because it's such a mom-and-pop and highly fragmented industry similar to mental health. I think the bigger challenge was not only that 40 to 50% of the hours were getting missed, it's that I now have four kids now, but at the time when I had just two, I was like, "Why is my child being stuck at home versus going to a place where they could socialize with other children?" Because I was seeing the power of that and the joy of that in my oldest kid at the time.

(04:47):

And I thought, "Why isn't there the PACE equivalent for children?" If anything, it's almost the antithesis of where healthcare is going, which is to the home. But for kids, for all of those that have a nephew, a kid of their own or somehow are directly involved with a kid that is under the age of five or six, you're like, "Absolutely, they need to be with other kids." And so that really got me on a mission to figure out what could be possible. And so I had this thesis of PACE for kids that I was really going hard after, and that's when I discovered PPECs as an alternative to what is PACE for kids. And I said, "Holy crap, I think that actually exists in the market today. It's just not scaled for whatever reason." And that's what led me eventually to Spark and eventually to taking over as a CEO.

Tim Fry (05:35):

Jeff, it's amazing to hear your journey and I think that sets us up well for what is a PPEC. How does that look a little different, your model versus maybe a traditional care model?

Jeffrey Soffen (05:46):

Yeah. So maybe I'll take a step back to what is the traditional model today. The traditional model today is you have a child that might be born with a complexity and/or they're two, three, four years old, up to 21 years old for what we do and living with that complexity. And the current standard of care for them, or really the only option for care for them in many states is that they have a nurse come to their house, which sounds convenient. The challenge is that, like I mentioned, 40 to 60% of those hours go unfulfilled, which if you play the average game, that sounds inconsistent, but unfortunately life doesn't work like that, which means a child's getting 0% of their hours or they're

getting 100% of their hours and the average is 50, which means one out of two kids essentially is not getting the care that they need.

(06:31):

No one's showing up. And even if they do show up, it's inconsistent because there's such a high demand for the nursing services that you have a child then that is left at home with you and you're unable to care for them and/or get a job yourself and/or have the ability to both care for them and maybe even other children of yours. So it's a really tough situation. We sit, to your point in the intro, as a community organization, somewhat in the middle in the sense that we have centers that are located, generally speaking, within 20 to 30 minutes of the child and we pick them up from their house.

(07:08):

So we have transport vans where we partner with third party transport to pick these children up at their house and then they come to our centers. Our centers, for example, in Texas look like standalone buildings and/or part of retail complexes, generally speaking, around six to 7,000 square feet, these children then can be with up to 40 other kids in those centers where they're not only getting the skilled nursing care from a team of nurses, but they're also getting important therapies that they otherwise wouldn't be normally receiving at home, including physical therapy, speech therapy, occupational therapy.

(07:44):

And while that might seem like a nice-to-have, if you have a child with a feeding tube and they're not getting swallowing therapy, it's going to be quite a challenge for them to get off of their feeding tube. And if you're a toddler and you have a feeding tube, for those of you with toddlers, the first thing they're going to do is try to yank it out when they get upset or just because, and that often ends up in a ER/inpatient visit, which costs the system a lot of money.

(08:08):

And so think about these children coming to our center, and you mentioned medical daycare as a comparison, that is a very easy one to visualize. They go into a center, they're playing with other kids, they're getting their therapies during the day. For that kid, for example, with a feeding tube, they're getting their feeds every two to three hours.

(08:26):

The one thing that I'd impress upon the audience is it's a really happy place. If you've ever been to a daycare and you're okay with a lot of loud noises, it's a really, really fun place to be because the kids are just happy, playing around, asking you to get on the floor and play with them. It does not feel like a skilled nursing facility or something of the like where it's individual rooms. These are generally large open classroom type of environments where kids are running around and having a lot of fun together.

Tim Fry (08:52):

That's great, Jeff. And before we talk about expanding the platform a little bit, give us a sense, give our listeners a sense. I don't want to think of it as a market, but what is the unmet need? There has to be numbers that you view, whether it's in the hundreds of thousands or millions of children across the country that could use model like this. Give some sense of that perspective.

Jeffrey Soffen (09:16):

Yeah, sure. Your point is completely spot-on. There's millions of kids, there's about three million or so kids in the country that would benefit from a PPEC, which is the way we refer to it. So that's the Prescribed Pediatric Extended Care, which is what we do. Generally speaking, the numbers are roughly about 380,000 premature babies are born annually. When you're born premature, you're often going to end up in the NICU and you're going to have some sort of medical complexity associated with that to the point of that level of prematurity.

(09:47):

That's growing 5, 6, 7% because technology's getting better. So we're having more kids born with complexities than not. And then the cost of these children is only going up because the supply and demand economics are upside down in the sense that we have a limited supply of nurses in the country, but we have a growing demand of children that need that nursing. And so you have not only those hours going unfulfilled, like I mentioned, about 40 to 60% of the hours needed go unfulfilled, which means that when a kid's being discharged from the hospital and they say, "Hey, this child needs 24/7 care at home or 12 hours a day of skilled nursing," and they can't fulfill it, not only does that mean that's bad for the cost equation because the nursing hours are only going to get more expensive as they grow more and more in demand, but that child can't leave the hospital until they get those hours solidified.

(10:36):

So the length of stay of these children is getting really, really high to the extent that oftentimes children can be staying upwards of 500 days before they go home, which is terrible for the family. It's terrible for the cost of our system. It's terrible for everybody. And so then you end up with PMPMs for these children that are in the 10 to $15,000 range, and that's not per year, that's per month. And that's really a statement mostly of the fact that skilled nursing costs are so high, that's about 50% of that cost.

(11:04):

And so PPEC serve as an alternative and/or in addition to those skilled nursing hours where we can provide that care at a much better economic cost of care for the state and for the health plans because of the fact that we're in a team-based model. So we have one adult, for every six kids we have one nurse, so we can just scale nursing more effectively while still giving really high quality of care based on the team-based model of delivering that service.

Tim Fry (11:32):

And so what is the limiting factor of expanding the model, Jeff? You've obviously mentioned nurses, including them. I assume we'll talk a little bit about health systems and how you partner with them in many places. Is some of that the primary barrier? Is regulatory a primary barrier? What's challenging the expansion?

Jeffrey Soffen (11:54):

Well, for all the listeners that know about nursing, if I said recruiting nurses was easy, you would know I was lying. So that's definitely not easy, but I would say we have a distinct and unique value proposition for nurses in the sense that I compare working at the hospital to my days at JP Morgan, which I learned a hell of a lot, but did get burnt out at a time and did want to try something different and a smaller scale at that point.

(12:17):

And then the other option for those nurses is to do home-based care, which 44% of nurses feel either unsafe or lonely in that job. And so we offer a very steady team-based, community-oriented, safe environment for these nurses to operate their license and frankly have a really, really longitudinal relationship with these children for many years at times, which is a really cool, unique value prop to recruit nurses. So I wouldn't say that recruiting nurses is our bottleneck. Our bottleneck I would say is twofold. One is we need more states adopting the PPEC legislation.

(12:50):

So for PPECs to be approved in the state, someone from the House and Senate needs to put a bill on the table, get that signed eventually by the respective governor, getting written into code, and find the Medicaid funding for that. And then the health plans normally are the ones that execute against that. And so step one is making sure there's enough states that offer this. Luckily, Florida, Texas, Pennsylvania, Louisiana, Mississippi, a bunch of other states have adopted this and are finding a lot of success with it. We've seen rate increases across the board for the PPEC services, and that's not because of anything other than we're delivering a lot of value to them and they see this as a huge opportunity for them to help these children and help curtail cost.

(13:35):

I'd say the second thing is frankly, why I'm doing this podcast, which is awareness. I think before I met you, Tim, you didn't know what a PPEC was. And before I knew about Spark Pediatrics, I didn't know what a PPEC was. And we've both been in healthcare a long time and I meet people every day at the best children's hospitals in the country that don't know what a PPEC is. So part of this too is just inertia and awareness, because as we build these centers, we obviously want to fill them up with children. And so a big part of that growth is going to be centered on increasing that awareness of what we do.

Tim Fry (14:07):

Jeff, I'm guilty as charged. You're correct. I was really blown away with what y'all have built in this model. It's not obvious that these are out there, but as soon as you hear the pieces come together, the model just makes sense and such an unmet need. So agreed and appreciate you passing that awareness on. You mentioned five, six states that's not 50. Is the politics of things like the state budget challenges and the One Big, Beautiful Bill, is that some of what causes us to not see this expand more broadly? Is it just awareness of state legislatures? What have you seen as the challenge there?

Jeffrey Soffen (14:49):

I think a lot of that is more so noise than a roadblock. Certainly it doesn't help. I think it's more noise than anything else. I think the thing that you have to do, frankly, is find a House representative that's passionate enough that views, therefore, getting PPECs and getting a bill forward as a priority for them. They got a lot of other things that they're trying to do for their constituents, and so it really becomes a priority challenge of just making sure that we explain very clearly what we do and get in front of the right House and Senate representatives to do that.

(15:21):

I'm also trying to work with CMS themselves on figuring out ways to broaden that awareness from a federal level; not telling the states what to do, but just making them aware of it, because I do think there's some, again, going back to the awareness issue here. In terms of why this could get bottlenecked at the state, obviously there's a lot of focus right now on fraud, waste and abuse, which for what it's worth, I'm a big fan of getting after that stuff because I want the best players like ourselves who are doing things in a compliant manner to shine like we should relative to those that don't.

(15:51):

And I think we should always be looking incredibly hard at those things and being very vigilant around best practices. But nonetheless, I think there are probably going to be people in the House and Senate that are saying, "Hey, why are we doing another program for Medicaid when we don't feel like we've solved Medicaid to begin with, at least the challenges that exist today?" I think that's a bit shortsighted relative to the value that we can offer and what we've been able to demonstrate. But noise nonetheless can serve as a bottleneck, but I do think it is noise.

Tim Fry (16:19):

That's interesting, Jeff. One other thing in the policy backdrops is I think based on your move into the market and the website and discussions we've had, seems like in most cases you're partnering with health systems, health plans. Tell us a little bit about either the intentionality or the rationale for

pushing that way and helping health systems maybe save costs, versus standing up everything as freestanding.

Jeffrey Soffen (16:48):

Yeah. Well, I'm a big believer in trust and proximity in healthcare, and the person that you trust the most in healthcare is your physician. And so I thought it was a really important thing from the get-go that we adopted a differentiated go-to-market strategy that was different than what we were doing previously, which is really trying to partner with those providers to talk to these families about what we do.

(17:10):

I also, I think, underappreciated the pain points by which those providers were feeling a dearth of skilled nursing hours. So when I originally came into the company, I was thinking, "Hey, we could partner more deeply in some way, shape or form with the Memorial Hermanns in Texas or the UPMCs in Pennsylvania," let's say. What I didn't appreciate is that when you talk to the providers at those organizations, they're really, really suffering themselves in terms of the impact, for example, on length of stays in the NICU or if they have a complex care clinic, the ability to find reliable, steady care for them, because ultimately it impacts their patients' health most, which is what they, at the end of the day, care most about.

(17:52):

However, there's also that economic impact to them. If you're a children's hospital and you have a child that's been in your NICU for 500 days, well, that's a bed that you can't use for another kid that might need it more, frankly, at that 499th day. And they're oftentimes losing money on that child because the DRG has run out. And then frankly, the hospital's the one that gets hit on the quality measure when that kid goes back to the ER within 30 days, because the skilled nursing doesn't show up because there isn't enough of it. So I think I underappreciated the health system value prop candidly when I came into the business. I thought I was going to be more focused on health plans and the cost savings we can drive from a PMPM perspective because of the simple delta and cost per hour for what we do versus at home care.

(18:38):

But I do think that the health systems are particularly finding value and increasingly will find even more value as pediatric ACOs and things of the like stand up more aggressively, which I think is coming. You always find more and more risk taking for complex populations. It just tends to start with the broader populations first. We saw that with Medicare, then it went into primary care, and now it's shifting more into complexity with IDD and things of the like within those populations, and the same is going to be true here, I believe.

(19:06):

We found really strong partners that want to help build this with us. Shout out to the UPMC, the Memorial Hermanns, the Tampa General Hospital, Memorial Healthcare, other groups that have really helped come into the company to support us and figure this out more importantly. When I ask them to be a partner of ours, it's much more than, "Hey, let's have a conversation once a quarter." It's, "Let's really solution this problem and figure out how we can partner more effectively."

(19:33):

That is the game plan, Tim. So we go into these relatively, let's say, new markets. We don't want to go in without a partner like that who can help ensure our success and their success in doing this. Otherwise, even though there's a limited number of states, there's only, call it, 250 or so PPECs in the country, and 175 of those, roughly speaking, are going to be in Florida, which means you have a huge opportunity in Texas, a huge opportunity in Pennsylvania, Louisiana, Mississippi, Kentucky, other states that already have this benefit but may only have 10 to 15 PPECs themselves. So we just got to go deep where we are and find the right partners to do this with.

Tim Fry (20:10):

That's great. And you were talking a little bit about the changes coming, maybe in the last minute or two, what you're expecting over the next five years and some of the ways Spark will stay at the center of that?

Jeffrey Soffen (20:24):

I think it's generally impossible to think that PPECs are not approved in more states. Whether or not it's a double or a triple, I think it's going to be something in that range. Going from, call it, 10 to 15 states to 30-plus states in the next three to four years, there's no reason why states don't adopt this. We save the system money and kids love it and it's high quality team-based care. It makes a whole lot of sense and I haven't found an argument otherwise against that.

(20:51):

I think a second thing that's happening is generally speaking, risk is shifting more towards providers and the risk that tends to get shifted is going to be on higher and higher complex patients. And so I would envision the patients that we take care of every day are going to be much more in a SIM/pediatric ACO type of model, which is why we've formed partnerships and are working really closely with both children's hospitals themselves, but a lot of the ambulatory players as well to figure out how we can be the best partner to each other and to the states and to the health plans themselves.

(21:28):

So I think that's increasing. And then I think in the states that we're in, it would shock me if there aren't more PPECs. It also is a good business. Even though Medicaid tends to be looked at as a

really hard place to scale a business, I would say you can do well by doing good here. And even though there's no mission without a margin, we can make a margin and make it work in Medicaid.

(21:52):

There's also tremendous opportunity on the commercial side. So my hope is in three to five years, we're not just addressing two-thirds of these kids that have complexities. We're also addressing the other third, which are those with complex care, but we're beginning to find the right strategic capital partners as well that see what we're doing. And we have the unit economics now to show them that when we build a box, we have really good four-wall economics. My hope is that, therefore, in three to five years, you're going to see us be a much, much larger company with many more states and more depth in each of those.

Tim Fry (22:22):

Well, Jeff, I want to thank you for coming on The Corner Series today, really interesting and evolving part of the market. And like you just shared, maybe you see a double or even tripling of the geographic reach here in the very near future for this specialized pediatric care. With things that we're seeing in the market around value-based care and workforce and state regulations, your perspective is really, really interesting and certainly your mission that every child deserves a childhood is powerful and your story of how you arrived here is great. So thank you for giving our listeners a little taste of what that looks like and thanks for joining us.

Jeffrey Soffen (23:04):

Yeah, thanks again for having me.

Voice Over (23:08):

Thank you for joining us on this installment of The Corner Series. To learn more about today's discussion, please email host Geoff Cockrell at gcockrell@mcguirewoods.com. We look forward to hearing from you. This series was recorded and is being made available by McGuireWoods for informational purposes only. By accessing this series, you acknowledge that McGuireWoods makes no warranty, guarantee, or representation as to the accuracy or sufficiency of the information featured in this installment.

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