

Understanding the U.S. Home Care Industry: 2021–2026

How Regulations, Technology, and Economic Pressures Are Reshaping Home Health Care

Executive Summary

The United States home care industry is at a critical turning point as it enters 2026. This report examines how the industry has changed over the past five years by looking at three key time periods: 2021-2022, 2023-2024, and 2025-2026.

Home care agencies help patients recover at home after hospital stays or manage ongoing health conditions. The industry faces two opposing forces: growing demand from an aging population and shrinking payments from Medicare (the federal health insurance program for seniors).

While the number of seniors needing care is expected to grow dramatically—creating a market worth between \$383 billion and \$747 billion by 2030—agencies are getting paid less per patient. The federal government is cutting payment rates to control costs, forcing agencies to do more with less.

To survive, home care agencies must embrace artificial intelligence (AI) and other technologies that reduce costs and improve efficiency. What was once considered a competitive advantage has become essential for survival.

This report explains these changes and provides guidance for agencies navigating the challenging landscape of 2026 and beyond.

Section 1: How We Conducted This Study

Understanding changes in the home care industry requires looking at specific time periods. Unlike fast-moving industries such as technology or slow-moving industries like infrastructure, home care operates on a unique timeline shaped by three main factors.

The Government Payment Cycle

The primary driver of industry change is the Medicare payment system. The Centers for Medicare & Medicaid Services (CMS), the federal agency that manages Medicare, updates payment rules every year. This process follows a predictable pattern:

- Summer (June/July): CMS proposes new payment rules
- Fall: Industry professionals submit feedback
- November: CMS publishes final rules
- January 1: New rules take effect

However, the impact of these rules often takes 2-3 years to fully understand. For example, quality performance measured in one year determines payment adjustments two years later. This is why we need to look at 24-month periods to see the complete picture.

Technology Adoption Timeline

Home care agencies have traditionally been slow to adopt new technology compared to other industries. The shift from paper records to computer systems took 3-5 years. However, the introduction of cloud-based software and AI tools has sped up this timeline to 18-24 months.

Labor Market Changes

The home care workforce is highly sensitive to economic conditions. Factors like inflation, minimum wage changes, and competition from retail jobs (such as Amazon or Walmart warehouses) create constant fluctuations in staffing and turnover. Looking at 24-month trends helps identify real structural changes versus temporary problems.

The Three Time Periods We Examined

Based on these parameters, this analysis examines three specific time periods to understand the industry's trajectory:

Current State (2025-2026): The "Efficiency & Intelligence" period. Agencies are adapting to nationwide quality-based payments, aggressive payment cuts, and widespread adoption of AI tools.

Comparison Period (2023-2024): The "Value-Based Performance" period. This was when quality-based payment programs expanded nationwide and the COVID-19 emergency protections ended, creating a severe staffing crisis.

Baseline Period (2021-2022): The "Post-Crisis Reset" period. This captures the industry immediately after the major payment system change (Patient-Driven Groupings Model) and during the COVID-19 pandemic.

Section 2: The Current State (2025-2026)

Focus: Forced Evolution Through Efficiency and Intelligence

The home care industry in 2025-2026 is experiencing forced evolution. The era of "grow at any cost" is over, replaced by a mandate for "efficient growth." Agencies are no longer debating whether technology is useful or whether payment cuts are fair—they are actively redesigning their business models to survive.

Payment Realities: The 2026 Financial Cliff

The financial landscape for 2026 is shaped by aggressive federal cost-cutting. While CMS provides a small increase to account for inflation (approximately 2.6% to 3.3%), this positive adjustment is wiped out by much larger cuts:

The Permanent Cut: CMS has implemented a permanent reduction of approximately 3.7% to the base payment rate. This cut is based on CMS's analysis showing that agencies changed their practices under the new payment system to maximize revenue. CMS sees this as "correcting" for that behavior.

The Temporary Clawback: Most significantly, 2026 introduces an additional 5.0% temporary cut designed to recoup what CMS considers "overpayments" from 2020-2024. This effectively functions as a tax on current revenue to pay for past payments.

Case-Mix Changes: CMS has also adjusted how different types of patients are valued. Agencies specializing in wound care or high-intensity nursing may experience different financial impacts than those focused on physical therapy.

The net result: despite a headline "increase" to account for inflation, most agencies will receive significantly less per patient than in previous years.

Hospital Transparency Pressure

A related rule requires hospitals to publish detailed pricing information. This forces hospitals to become extremely aware of their costs. As a result, hospitals are pressuring their home care partners to prove they save money by preventing hospital readmissions. Home care agencies must now provide detailed data showing their value or risk losing referral relationships.

Kidney Disease (ESRD) Opportunity

The payment system for home dialysis (End-Stage Renal Disease, or ESRD) has remained relatively stable with a 2.2% increase. This represents a potential diversification opportunity for home care agencies as traditional Medicare margins shrink.

Technology Shift: From "Digital" to "Smart"

In 2025-2026, technology adoption has fundamentally changed. The industry has moved beyond simply converting paper to digital formats. Now, technology actively drives autonomous decisions and actions.

From Hype to Practical Tools

The AI excitement of 2023-2024 has settled into practical implementation. Agencies are no longer seeking abstract "AI transformation." Instead, they are buying specific tools to solve urgent margin problems.

Ambient Documentation: This technology has become standard for retaining nurses. It allows clinicians to record visits via secure audio that automatically transcribes into required documentation formats. This eliminates "pajama time" the after-hours paperwork that drives burnout. This is no longer a "nice to have" but essential for recruiting and retaining staff.

Regulatory Acceptance: The constant flow of regulatory changes has created a state of permanent adaptation. However, 2026 marks a psychological shift where agencies have developed "regulatory resilience." The shock of rate cuts has been replaced by acceptance, leading to a focus on operational efficiency rather than hoping regulations will improve.

Mergers and Acquisitions: The Market Splits in Two

After a slow period, merger and acquisition activity rebounded significantly in 2025-2026, reaching its highest level in two years. However, the type of agencies being bought has changed dramatically.

The Platform Premium: Buyers are prioritizing "platform" agencies, those with integrated technology systems, diverse payment sources, and proven staff retention. These agencies command high prices.

The Distress Discount: Smaller agencies relying on traditional Medicare payments and manual processes are selling at deeply discounted prices. The 5% payment cut is accelerating the exit of these "mom and pop" operations, which are being absorbed by larger entities.

Notable Example: Private equity firm Peak Rock Capital acquired BrightStar Care, signaling continued investment interest in personal care and franchise models that are less exposed to Medicare payment risks.

Hospital-at-Home Programs

The industry is increasingly connected to "Hospital-at-Home" programs, which allow hospitals to treat acute patients in their homes. Despite past uncertainty about federal support, major health systems like Mass General Brigham and University of Chicago Medicine have made significant investments in these programs, cementing their future. Home care agencies are building growth strategies around these high-intensity, higher-paying programs.

Section 3: The Comparison Period (2023-2024)

Focus: The Value-Based Performance Era

The 2023-2024 period was the testing ground for the industry's shift from being paid by volume to being paid by quality. This time was characterized by the nationwide rollout of quality-based payment adjustments and the chaotic end of pandemic protections.

Quality-Based Payment Implementation

The Home Health Value-Based Purchasing (HHVBP) model began nationwide on January 1, 2023. Under this model, agencies can earn up to 5% more or lose up to 5% of their pay based on quality

performance. However, due to the program structure, these payment adjustments don't apply until 2025 based on 2023 performance.

The Lag Year Challenge: Agencies spent 2023-2024 investing in quality improvements (reducing hospital readmissions, improving patient symptoms) without immediate financial feedback. The focus shifted to achieving high scores on a composite metric called the Total Performance Score.

Base Payment Updates: The annual payment updates for 2024 and 2025 were mathematically positive (around 0.5-0.8%) but economically negative when compared to labor cost inflation of 5-7% during this period.

The Post-Pandemic Hangover

The formal end of the COVID-19 Public Health Emergency in May 2023 created complex challenges.

Regulatory Snap-Back: Temporary flexibilities that made operations easier during the pandemic—such as relaxed supervision requirements and broad telehealth allowances—were scrutinized or removed. This created a massive compliance burden as agencies retrained staff on pre-pandemic norms while advocating to keep efficient practices permanent.

The Workforce Crisis Peak: 2023-2024 marked the worst of the staffing crisis. Turnover rates for caregivers reached nearly 80%, and the cost of recruiting each new client soared to \$845. The "Great Resignation" hit home care harder than most industries because retail and logistics companies (Amazon, Walmart) offered similar wages with significantly less physical and emotional demands.

Medicare Advantage Pressure

During this period, more seniors shifted from traditional Medicare to Medicare Advantage (private insurance companies managing Medicare benefits). Medicare Advantage plans often reimbursed home care at rates 20-30% below traditional Medicare. This created a situation where agencies had plenty of referrals, but each referral reduced profit margins. Many agencies began dropping contracts with low-paying Medicare Advantage plans, prioritizing profitability over volume.

Section 4: The Baseline Period (2021-2022)

Focus: The Post-Crisis Reset

The 2021-2022 period provides our historical baseline. It was defined by two major shocks: implementation of the Patient-Driven Groupings Model (PDGM) payment system and ongoing waves of COVID-19.

The Payment System Overhaul

The transition to PDGM fundamentally changed the industry's financial mechanics. The previous system paid for 60-day episodes; the new system pays for 30-day periods. This shift doubled the billing frequency and removed therapy volume as a payment factor.

Visit Threshold Management: Under PDGM, if an agency doesn't provide enough visits (the threshold varies by patient type), the payment is dramatically reduced through something called the Low Utilization Payment Adjustment (LUPA). A single missed visit could convert a profitable episode into a loss. This required operational precision many agencies lacked.

Survival Mode Operations

Patient Complexity: Patients referred to home health during 2021-2022 were significantly sicker than historical norms. Hospitals, desperate to clear beds for COVID patients, discharged people earlier in their recovery. This "acuity creep" meant agencies were doing more work for the same payment.

Disconnected Technology: Technology adoption during this period was purely reactive. Zoom, FaceTime, and consumer-grade tools bridged gaps, but they weren't integrated into electronic health records or care plans. This was the era of "digitization" without "integration," creating fragmented data systems.

Supply Chain Fragility

Operations were heavily dependent on availability of Personal Protective Equipment (PPE) and rapid COVID testing. Operations were frequently delayed due to logistics failures, highlighting fragility in the home-based supply chain that later spurred investments in predictive logistics systems.

Section 5: Measuring Change: Statistical Analysis

This section analyzes the rate of change between the baseline period (2021-2022) and current state (2025-2026) to identify permanent structural shifts rather than temporary fluctuations.

The Revenue-Cost Gap

Comparing 2021 to 2026 reveals a dangerous divergence:

Cost Increases: Inflation and wage pressures have driven the cost of delivering care up by an estimated 15-20% over five years. Specifically, the cost to acquire a new customer has nearly doubled to \$845.

Revenue Decreases: Conversely, cumulative payment rate updates have remained flat or slightly negative when all adjustments are considered. The combined effect of the 3.9% (2023), 2.9% (2024), and 3.7% (2026) permanent cuts have significantly eroded the base payment rate.

Significance: This represents Negative Real Revenue Growth. It's not a temporary dip but a permanent recalibration. Agencies must reduce their Cost Per Visit through technology or staffing changes, there is no alternative.

The Technology Adoption Acceleration

The change in technology adoption represents the most significant positive development:

2021-2022: Approximately 20% adoption of specialized home care platforms; heavy reliance on outdated on-premises software or paper processes.

2025-2026: Over 80% adoption of cloud-based electronic health record systems, with rapid emergence of specialized AI tools.

The Shift: Moving from "system of record" (passive data entry) to "system of intelligence" (active decision support) represents a fundamental change. Technology investment has shifted from "compliance requirement" to "survival tool." Agencies using smart technology report measurable outcomes, such as 56% time savings in operations.

Workforce Trends

While turnover remains high, the nature of the workforce challenge has changed:

2021-2022: Shortage driven by fear of COVID infection and childcare closures.

2025-2026: Shortage driven by fundamental demographics and wage competition from other industries.

The Change: Turnover metrics show signs of stabilizing in 2026 (dropping from 79% toward 75%). However, achieving this stability has become far more expensive. Data shows that employees recruited through internal referrals ("word of mouth") have significantly lower turnover (59%)

compared to the industry average, validating the shift toward referral bonuses rather than expensive job boards.

Section 6: What Happens Next (2026 and beyond)

Based on our analysis, we project three primary trajectories for the home care industry in 2026 and beyond.

Market Bifurcation: The Industry Splits in Two

The market will increasingly divide into two distinct tiers, driven by smaller agencies' inability to absorb the 5% "clawback" and the \$845 customer acquisition cost.

The Large Aggregators: Well-funded entities (insurance companies, health systems, private equity-backed platforms) that can absorb payment shocks through scale and technology. These organizations will continue acquiring failing small agencies at low prices, eliminating their back-office costs and moving them to efficient technological platforms. Merger activity data shows 29 transactions in Q1 2025 alone, supporting this consolidation trend.

The Boutique Concierge Model: Small, specialized agencies that bypass Medicare entirely focus on high-margin private-pay or concierge services for wealthy clients.

Prediction: By the end of 2026, the number of independent Medicare-certified home health agencies will shrink by 8-12% as the "middle market"—agencies are too small to achieve scale but too big to be boutique squeezed out by regulatory payment cuts.

Hospital-at-Home Becomes Permanent

Despite past legislative uncertainty, the trajectory for high-intensity care delivered at home is undeniably upward.

Our Model: We project that by late 2026, "Hospital-at-Home" programs will transition from temporary "waiver" status to a permanent Medicare benefit category. This will rebrand home care from "post-acute" (after hospitalization) to "sub-acute" (hospital-level care at home).

Impact: This creates a new revenue stream for agencies capable of delivering nursing intensity previously reserved for hospital wards. With 23 Florida hospitals and major systems like Mass General Brigham expanding these programs to 10% of their capacity, the operational infrastructure is already too established to dismantle.

The Quality Payment Reckoning

2026 will be the year of financial consequences for the quality-based payment model.

Trajectory: Agencies that invested in quality improvement in 2023-2024 will receive payment bonuses of up to 5%. Those that ignore quality metrics will face penalties. This will worsen the industry split, as high-quality agencies get richer (more revenue to invest in staff and technology) while low-quality agencies enter a "death spiral" of lower revenue leading to lower staffing and subsequently lower quality scores.

Section 7: The Role of Artificial Intelligence (2026 Outlook)

AI in 2026 is not one single thing—it has differentiated into two distinct categories: Administrative Efficiency and Clinical Support.

Administrative AI: The Invisible Infrastructure

In 2025-2026, Administrative AI is becoming standard infrastructure, like how cloud computing became essential in previous years.

Revenue Cycle Management: AI systems now autonomously handle medical billing codes, insurance authorization requests, and payment denial management. Algorithms predict which claims will be denied before submission with over 95% accuracy, reducing the time to receive payment and mitigating the impact of complex regulatory rules.

Predictive Scheduling: "Tetris-style" algorithms match caregivers to patients based not just on location and skills, but on personality compatibility and retention risk. This optimizes driving routes (saving fuel costs) and improves caregiver satisfaction—critical given the \$845 cost of replacing a worker.

Recruitment Automation: With recruitment costs at six-year highs, AI chatbots that screen applicants 24/7 are becoming essential. These tools reduce time-to-hire from weeks to days, securing candidates before competitors can recruit them.

Clinical AI: The Ambient Revolution

Clinical AI is slightly earlier in adoption but has higher transformative potential for 2026.

Ambient Documentation: This is the breakthrough application for 2026. Instead of nurses typing on laptops during visits (which degrades the patient experience), AI-enabled mobile devices "listen" to the visit and automatically generate required documentation.

Impact: Real-world data shows organizations implementing ambient AI documentation save approximately 15,791 hours of documentation time. This returns 1-2 hours per day to clinicians, directly combating burnout and allowing higher visit volumes without increased fatigue.

Predictive Risk Modeling: Moving beyond describing "what happened," AI models now analyze real-time data from Remote Patient Monitoring devices to predict "who will have a medical crisis."

How It Works: An AI might notice slight weight gain combined with decreased mobility (via a wearable device) and alert the agency before a heart failure episode occurs. This directly improves quality-based payment scores by reducing hospital re-admissions. Adoption of these specialized tools increased 7-fold over the previous year.

Accuracy in Medical Coding: Purpose-built AI solutions now deliver up to 95% coding accuracy. Advanced Natural Language Processing technology automatically identifies 97% of patient conditions from clinical notes, ensuring agencies are fully reimbursed for the complexity of patients they serve.

Section 8: Best Practices for 2026 Business Growth

To maintain and accelerate growth facing 2026's regulatory challenges, agencies must adopt a strategy that leverages technology to offset payment declines.

Operational Excellence and Technology-First Retention

Implement Secure AI Now: Don't wait for "perfect" AI. Implement ambient listening tools immediately to reduce documentation burden. This is a stronger retention tool than a small wage increase because it directly improves clinicians' quality of life.

Automate Administrative Tasks: If a human is doing repetitive data entry (such as transcribing intake forms), it's a profit leak. Reallocate administrative staff to patient-facing or care coordination roles. The shift to "smart" technology can drive an average 40% increase in profit by streamlining operations.

Strategic Diversification

Diversify Payment Sources: Limit exposure to traditional Medicare payment volatility. Aggressively pursue "Value-Based" contracts with Medicare Advantage plans where financial risk is shared. If you can prove your AI-driven care reduces hospital re-admissions, demand a share of the savings.

Expand Service Lines: Launch or partner for high-intensity services (Hospital-at-Home, skilled nursing at home). Profit margins in low-intensity personal care are compressing, while margins in complex clinical care are protected by their scarcity. However, ensure strict adherence to new hospital price transparency rules to win referrals.

Explore Adjacent Markets: Investigate the home dialysis market. With ESRD payment updates offering a stable 2.2% increase and simplified quality reporting, this segment offers protection against core home health market volatility.

Data-Driven Quality Management

Monitor Quality Scores in Real-Time: Use predictive analytics to know your quality-based payment score in real-time. Don't wait for the CMS report. If a metric (such as difficulty breathing improvement) is lagging, deploy a clinical improvement sprint to fix it during the performance year.

Leverage Internal Networks: Capitalize on the finding that employees recruited through "word of mouth" have lower turnover (59%). Incentivize staff referrals heavily, effectively turning the workforce into a recruitment engine. This lowers the blended customer acquisition cost and improves culture.

Conclusion

The home care industry in 2026 is defined by a sharp contrast between demographic demand (massive need for services) and economic reality (government cost-cutting). The old approach: slow, steady adaptation—is obsolete. The new cycle is rapid, data-intensive, and unforgiving of inefficiency.

Agencies that view the 2026 payment cuts as a temporary storm to weather will likely face consolidation or closure. The economics of a 5% payment clawback combined with \$845 customer acquisition costs simply don't work for traditional agency models.

Conversely, agencies that view the current environment as a catalyst for digital transformation, embracing AI not just as a tool but as an operating system, will discover that efficiency gains outweigh payment losses.

The future of home care is not just about "care in the home", it's about "intelligence in the home," where technology bridges the gap between infinite demand for care and finite resources available to provide it. The winners of 2026 will be those who successfully transition from being labor-intensive service providers to technology-enabled clinical platforms.

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