

Long Term Care Finance Association

Thursday, October 18, 2018

**Surviving Senior Care:
Key Revenue Issues and Changing Markets
For Skilled Nursing, Assisted Living
and Home Care**

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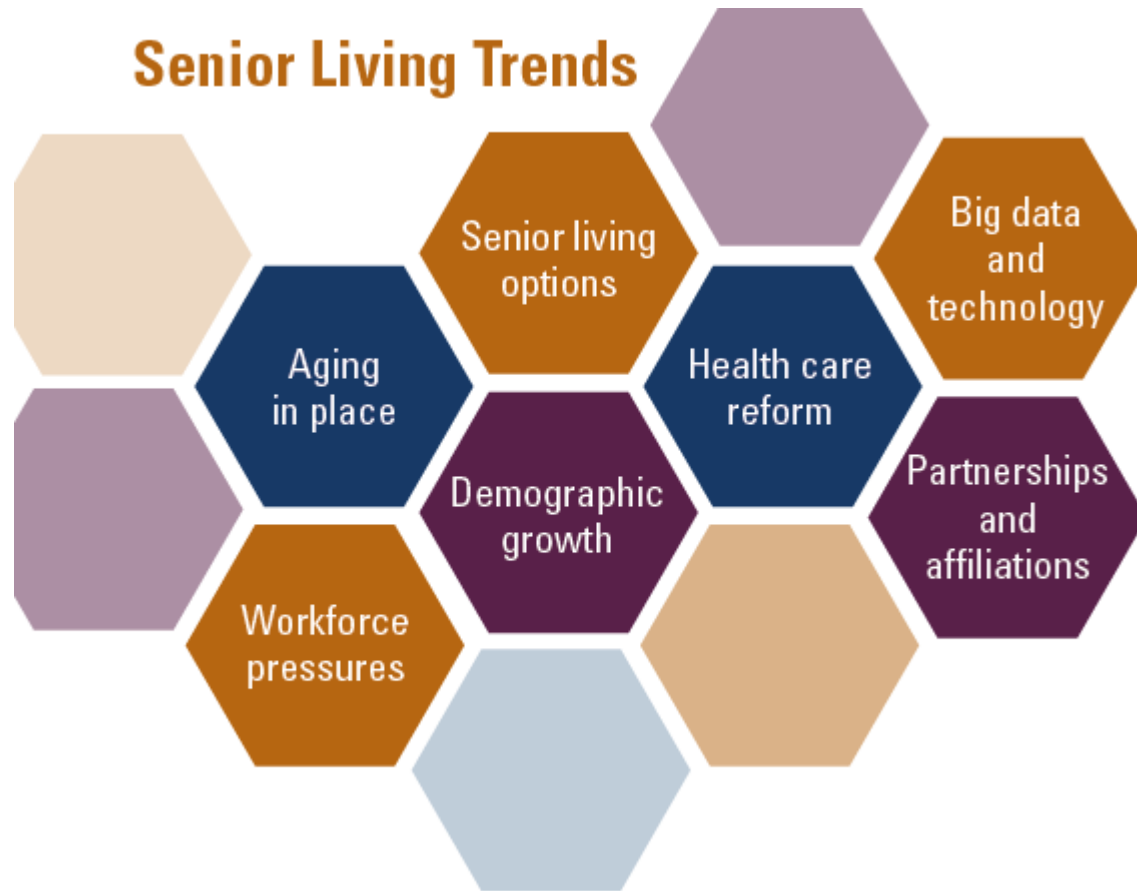
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Index

- Senior Living Trends – Demographics
- Medicare Beneficiaries – Medicare Advantage Enrollment
- Home Health, Hospice, Physicians, SNFs, Retirement Communities (ALFs, CCRCs)



Senior Living Trends



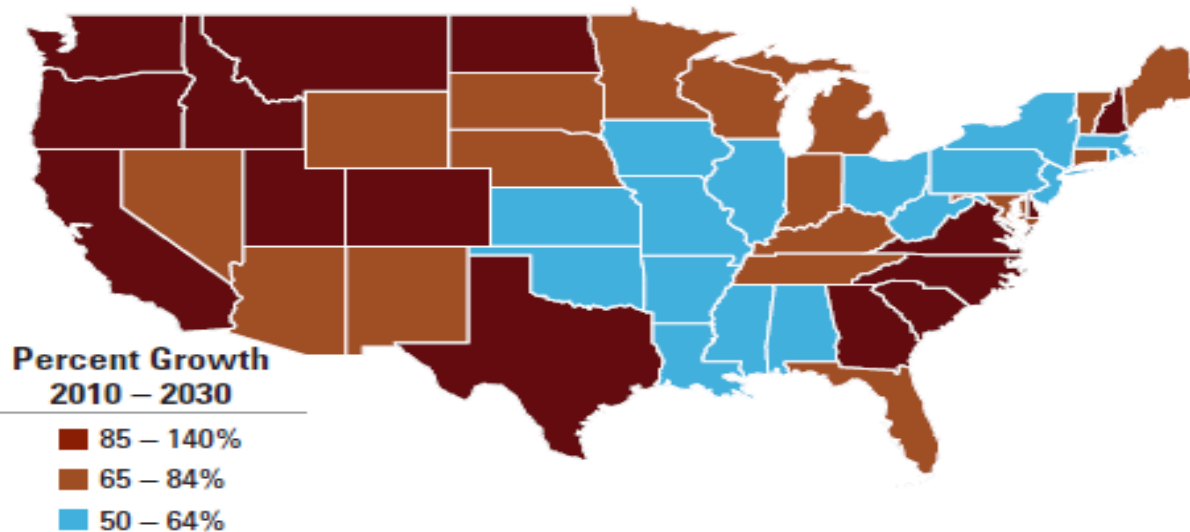
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Demographic Growth: Senior Cohort

The following presents the percent population growth by state from 2010 – 2030:

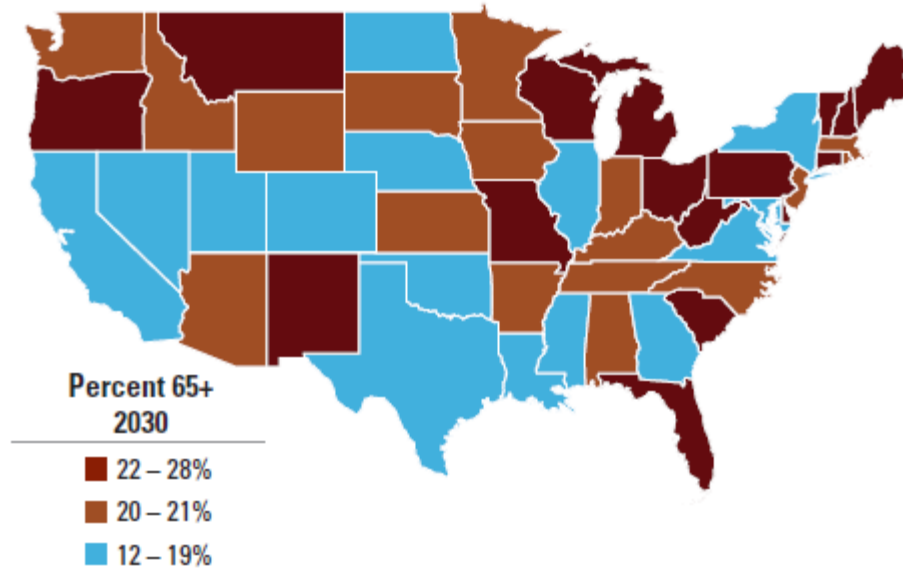


Sources: 2010 – U.S. Census, 2030 - University of Virginia, Weldon Cooper Center for Public Service



How well do you understand the demographics of your local market?

The following presents the proportion of persons aged 65+ by state from 2010 – 2030:



Source: University of Virginia, Weldon Cooper Center for Public Service



- Do you have plans to expand beyond your bricks and mortar?
- How can you develop services that help individuals age independently at home?



In a sense, all other senior living settings are intended to disrupt staying at home. Conversely, the greatest potential to disrupt senior living is to keep people at home as long as possible.





2018 Senior Living Trends

by Mario Mckenzie and Cathy Schweiger

- <https://www.claconnect.com/resources/white-papers/2018/-/media/files/white-papers/2018-senior-living-trends-white-paper-cliftonlarsonallen-llp.pdf>



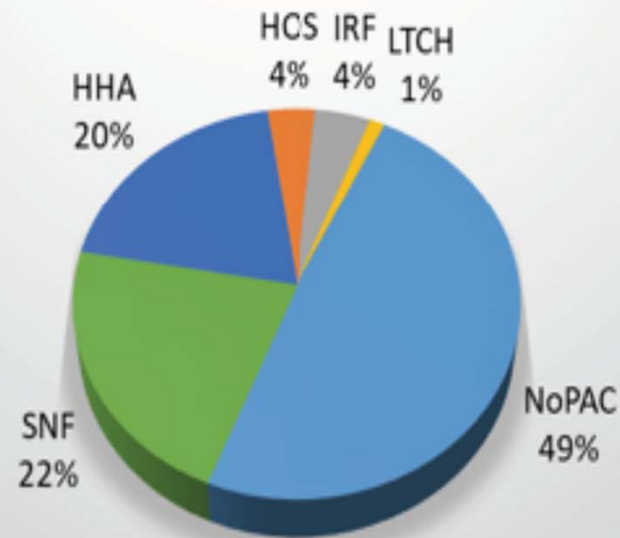
*The complexity and pace of change
will bring opportunities to some
providers and pose significant
threats to others.*





Where are the Post Acute Discharges Going and Why Do Our Costs Vary?

Post Acute Discharge Destinations From Hospital Inpatient Setting



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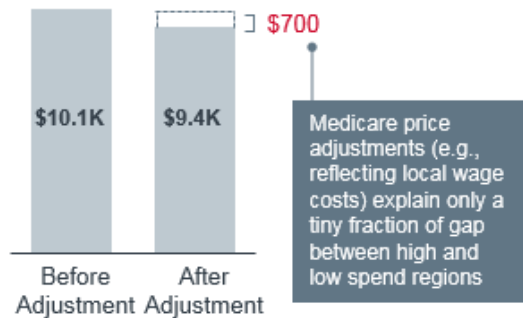
- Medicare FFS Q1 2018
- Almost 50% of all hospital discharges are sent home with no post acute care instructions



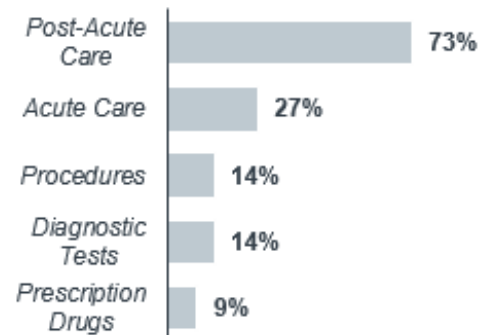
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Post-Acute Utilization is CMS' Greatest Opportunity!

Difference in Per Capita Medicare Spending Between Miami, FL and Salem, OR, Before and After Price Adjustment



Reduction in Total Geographical Medicare Spending Variance if Variance in Each Category Eliminated¹



Source: Newhouse JP, et al., *Variation in Health Care Spending*. Institute of Medicine of the National Academies, 2013; Gottlieb DJ, et al., "Prices Don't Drive Regional Medicare Spending Variations," *Health Affairs*, 29, no. 3 (2010): 537-543; Health Care Advisory Board interviews and analysis.

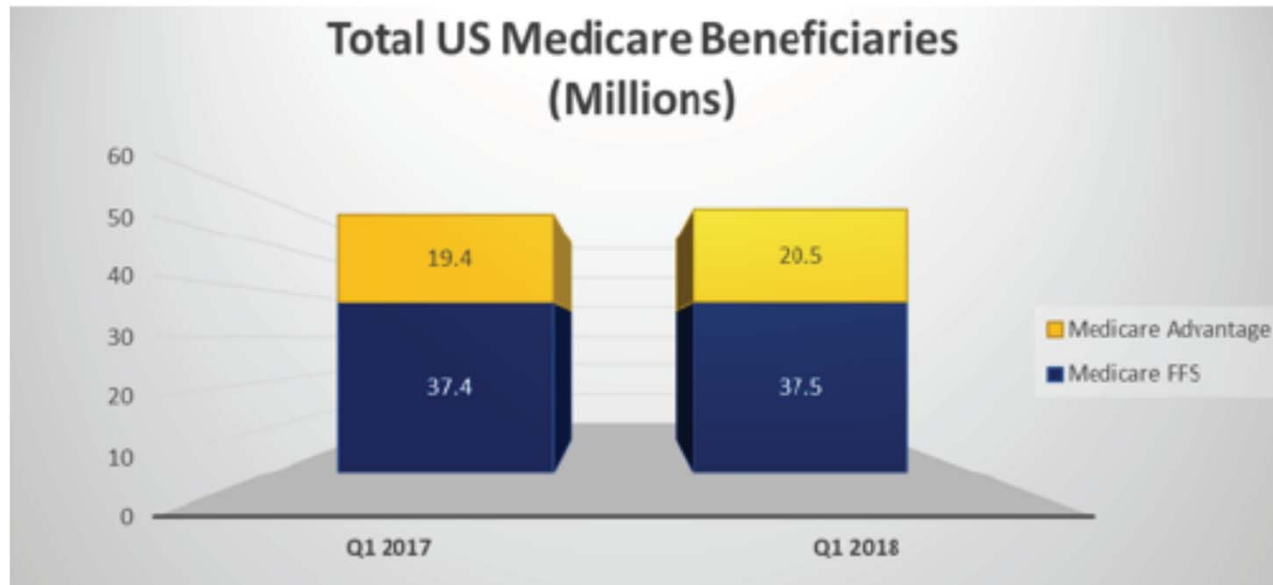




**The Growing Number of
Medicare Beneficiaries**

**The Varying Medicare
Advantage Markets**

**What Does the New England and
National Markets Look Like?**



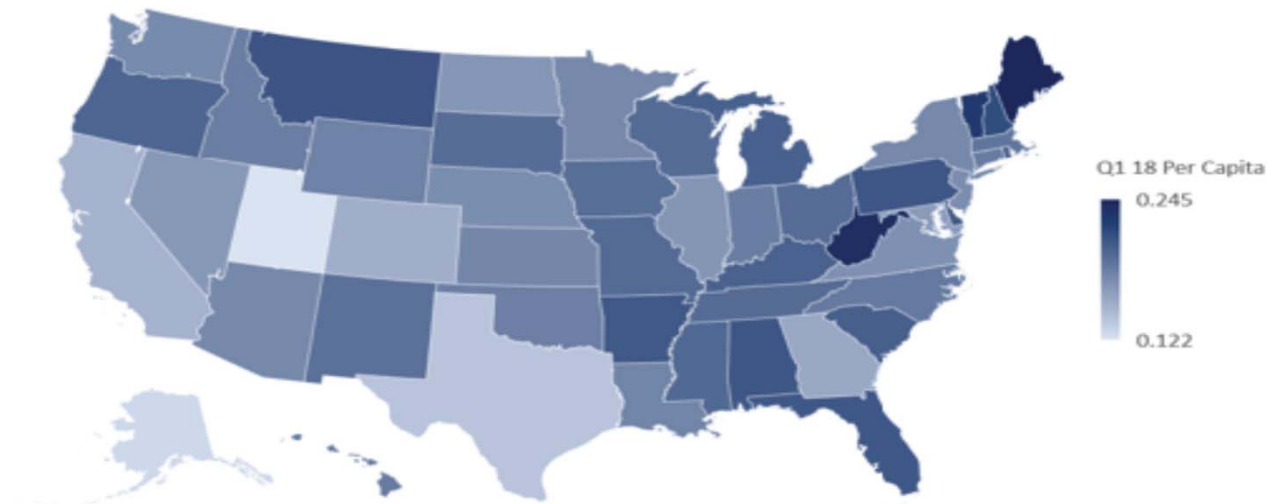
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- 35% of seniors are enrolled in Medicare Advantage and rapidly growing



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Total Medicare Beneficiaries Per Capita



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- Rapidly growing states: ME, VT, NH,



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Total Medicare Beneficiaries National and New England States

	Q1 2018	Q1 18 vs Q1 17	Q1 18 Per Capita	Per Capita Growth	Medicare Advantage
National	58,050,063	2.1%	0.177	1.6%	36%
MA	1,298,987	2.0%	0.189	0.4%	24%
CT	663,269	1.7%	0.185	0.3%	35%
ME	327,076	2.0%	0.245	0.6%	31%
NH	289,334	2.5%	0.215	0.7%	13%
RI	213,489	1.6%	0.201	0.4%	44%
VT	142,289	2.6%	0.228	0.6%	10%

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Medicare Advantage Enrollment as a Percentage of Total Medicare Beneficiaries

MN	58.4%	NV	36.4%	NJ	23.2%
HI	45.8%	UT	36.4%	SD	21.0%
OR	45.4%	LA	35.5%	VA	19.6%
RI	44.3%	CT	35.3%	IA	19.5%
FL	44.2%	NM	34.7%	OK	19.4%
CA	42.7%	NC	34.2%	MS	18.6%
PA	41.8%	MO	33.8%	MT	18.6%
OH	41.7%	ID	32.3%	ND	18.4%
WI	41.3%	WA	32.1%	DC	17.1%
MI	40.2%	WV	31.2%	KS	16.8%
NY	40.2%	ME	31.0%	NE	14.5%
AZ	39.4%	KY	30.6%	DE	13.8%
AL	39.0%	IN	29.4%	NH	12.7%
TN	38.3%	SC	27.5%	MD	12.1%
TX	38.3%	IL	25.4%	VT	10.2%
CO	38.0%	AR	23.9%	WY	3.9%
GA	37.4%	MA	23.6%	AK	1.5%

Source: Kaiser Family Foundation, Q1 2018



Medicare Advantage - Implications

Reduced length
of stay

Reduced
reimbursement

Increased
oversight and
scrutiny

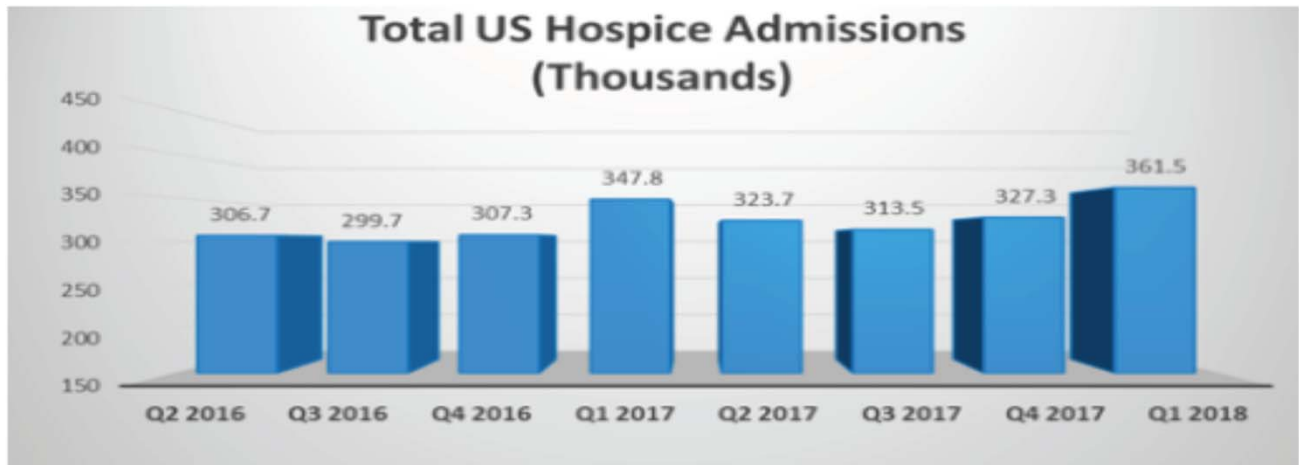
Complicated
revenue cycle





Hospice

- Admissions
- Growth
- Length of Stay



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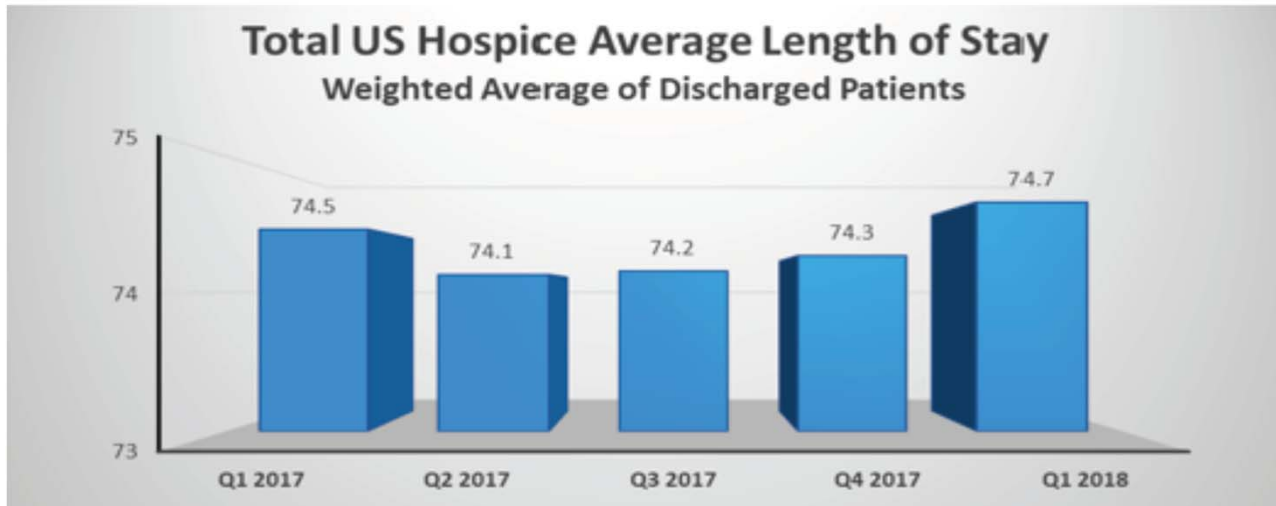
Hospice Admission Growth

Q1 2018 vs Q1 2017

WY	10.3%	IL	4.8%	HI	0.7%
KY	10.3%	AR	4.8%	IA	0.6%
SC	10.0%	NC	4.2%	MA	0.6%
AZ	9.8%	MN	4.1%	ID	0.0%
NV	7.5%	RI	4.1%	MI	-0.1%
KS	7.2%	OK	4.0%	CO	-0.2%
TX	6.9%	NE	3.8%	CT	-0.5%
UT	6.7%	DC	3.7%	NH	-0.9%
MS	6.6%	IN	3.2%	NM	-1.2%
AL	6.3%	OH	3.1%	ME	-1.5%
TN	6.1%	MO	2.8%	SD	-1.6%
CA	5.9%	WV	2.5%	NJ	-2.2%
WI	5.9%	VA	2.4%	WA	-2.8%
FL	5.7%	MT	2.2%	OR	-2.8%
DE	5.3%	MD	1.9%	VT	-3.3%
LA	5.2%	PA	1.8%	ND	-4.9%
GA	4.9%	NY	0.8%	AK	-13.7%

Source: Kaiser Family Foundation, Q1 2018





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- Rolling 2 year weighted ALOS

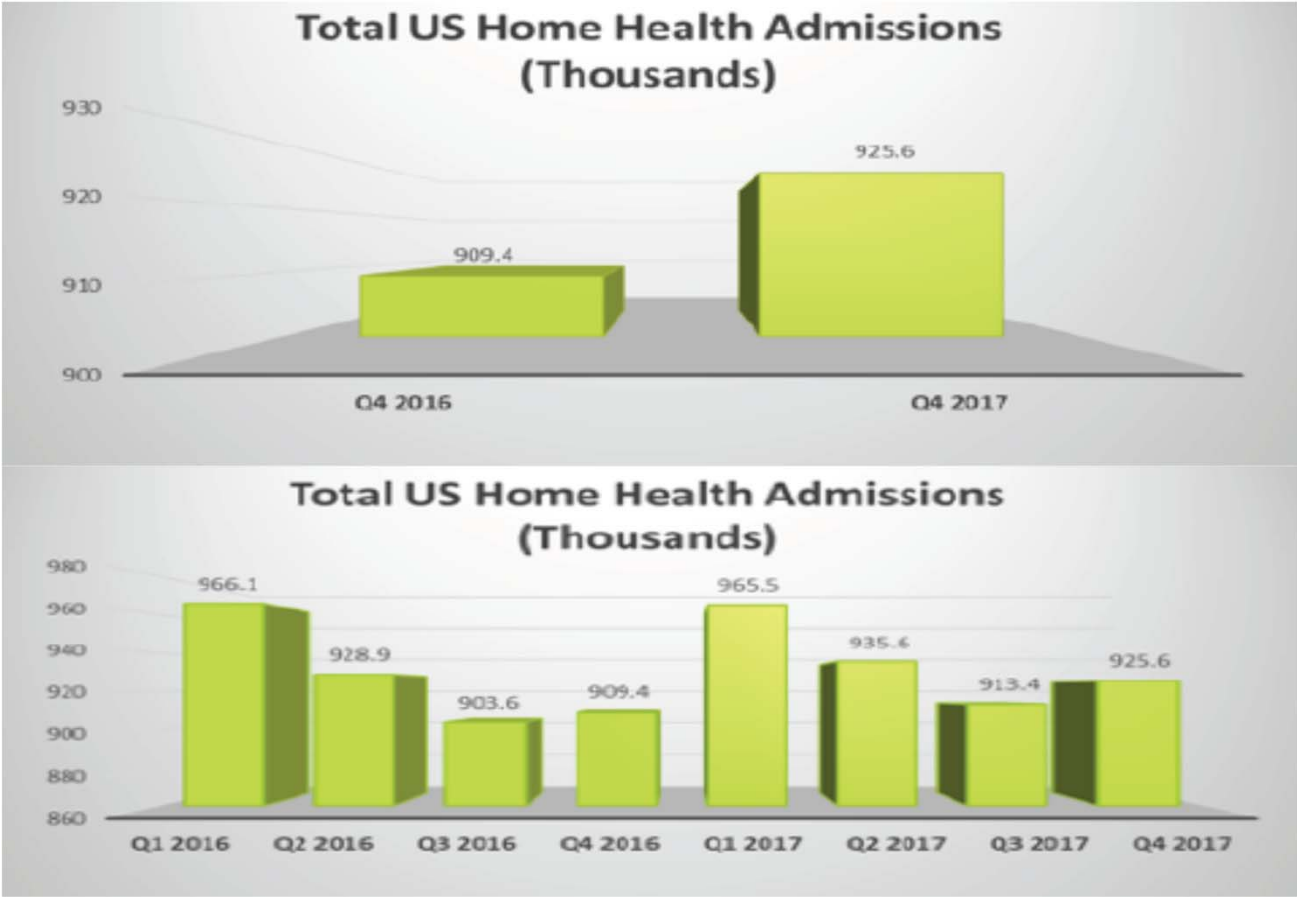


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Home Health

- Admissions
- Growth
- Physician Practice Responses



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Home Health Admissions Growth Q4 2017

AK	14.4%	CO	3.3%	OK	0.6%
SD	9.4%	MA	3.0%	OR	0.4%
NM	8.4%	WI	2.8%	NV	0.1%
CA	6.5%	WY	2.7%	GA	-0.5%
AZ	6.4%	AR	2.3%	ME	-1.0%
VA	6.3%	HI	2.3%	ND	-1.3%
MN	6.2%	IN	2.2%	KY	-1.6%
UT	5.7%	WV	2.1%	NE	-2.6%
WA	5.0%	OH	2.0%	TX	-2.9%
FL	4.9%	NY	1.9%	MI	-3.2%
MD	4.9%	MO	1.6%	NJ	-3.8%
VT	4.8%	TN	1.6%	CT	-3.9%
SC	4.6%	IA	1.4%	RI	-4.3%
IL	4.6%	NC	1.2%	LA	-4.6%
ID	4.3%	MS	1.1%	NH	-4.7%
DE	4.2%	DC	1.1%	MT	-5.3%
KS	3.6%	PA	1.0%	AL	-8.3%

Source: Kaiser Family Foundation, Q1 2018

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Trends in Senior Living – Home Health Impact

- Expansion of Medicare Advantage plans to include non-skilled in home care
- Increased clinical competency
- Chronic Condition Special Needs Plan (C-SNP)
- Risk of Federal regulatory oversight
- Rehab in an ALF setting



Physician Practice Responses Relevant to Home Health and Hospice

1. New payment models are pushing providers to act differently and refer differently
2. The demographics of individual physicians, and the make-up of physician practices is dramatically changing
3. The “power of the pen” can be influenced by home health and hospice in new and unique ways
4. Determine how to engage with key physician referrals or risk irrelevance – there will be winners and losers





Skilled Nursing

- Competitive Landscape**
- Patient Driven Payment Model (PDPM)**
- Institutional Special Needs Plan (ISNP)**
- Value Based Purchasing**

SNF & LTC Industry

Competitive Landscape

- The demand for long-term care services is strong due to rapidly aging populations.
- Profitability of individual nursing facilities depends heavily on efficient operations, as revenue per patient is largely controlled by government insurance programs such as Medicare and Medicaid.
- Much of the industry is struggling with low reimbursements and the shift toward non-institutional care.
- Larger companies have some economies of scale in administration and purchasing, but small operators can compete effectively by offering better service.



Skilled Nursing Facilities

Type of SNF	Facilities	Medicare-covered stays	Medicare spending
Total number	15,080	2,310,753	\$26.4 billion
Freestanding	96%	95%	97%
Hospital based	4	5	3
Urban	72	83	85
Rural	28	17	15
For profit	70	71	74
Nonprofit	23	24	21
Government	6	4	4

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Source: MedPAC



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What is PDPM?

- PDPM removes the use of therapy minutes to assess residents for a reimbursement level.
- PDPM is based on clinical and diagnosis information rather than amount of service needed.
- Creates a separate payment component for NTA services, using resident characteristics to predict utilization.
- Enhances payment accuracy based on clinical aspects of care.



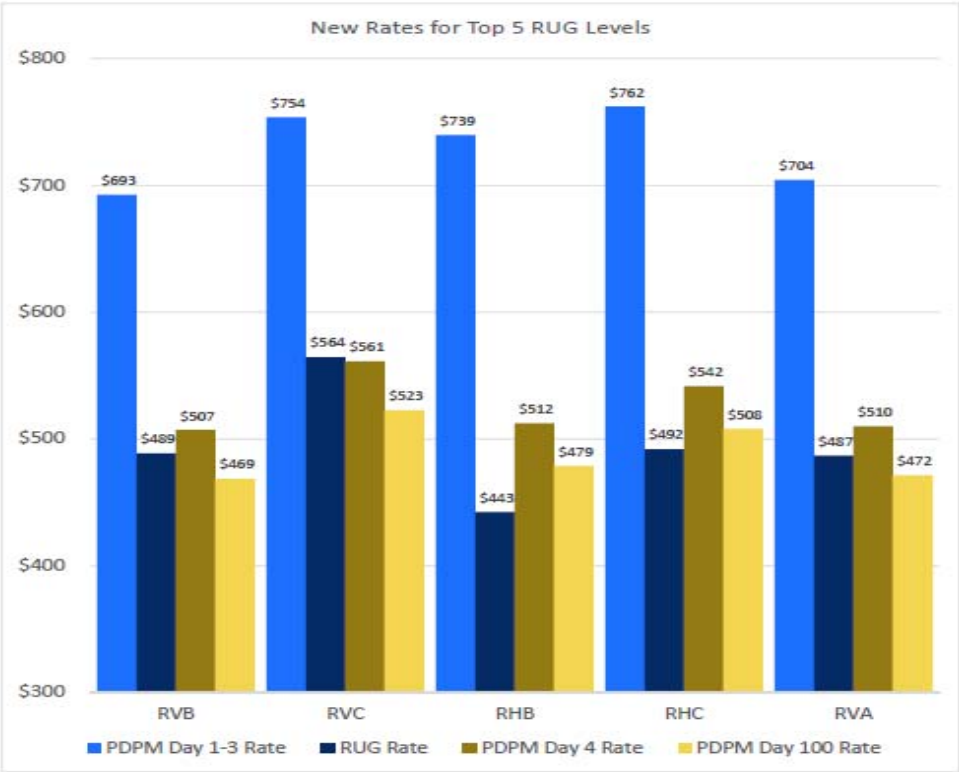
PDPM

Big Change – Variable Payments

- PDPM will result in higher rates at the beginning of a stay and lower rates at the end of a stay.
- CMS determined constant per diem rates do not accurately reflect medical needs and resources used.
- PT+OT reimbursements will initially increase compared to the RUG rates. However, the PT+OT rates will decline steadily starting after the 20th day at 2% for every 7 days.
- NTA reimbursements will decrease after the 3rd day from a case mix index of 3 down to 1.



PDPM – Provider Example



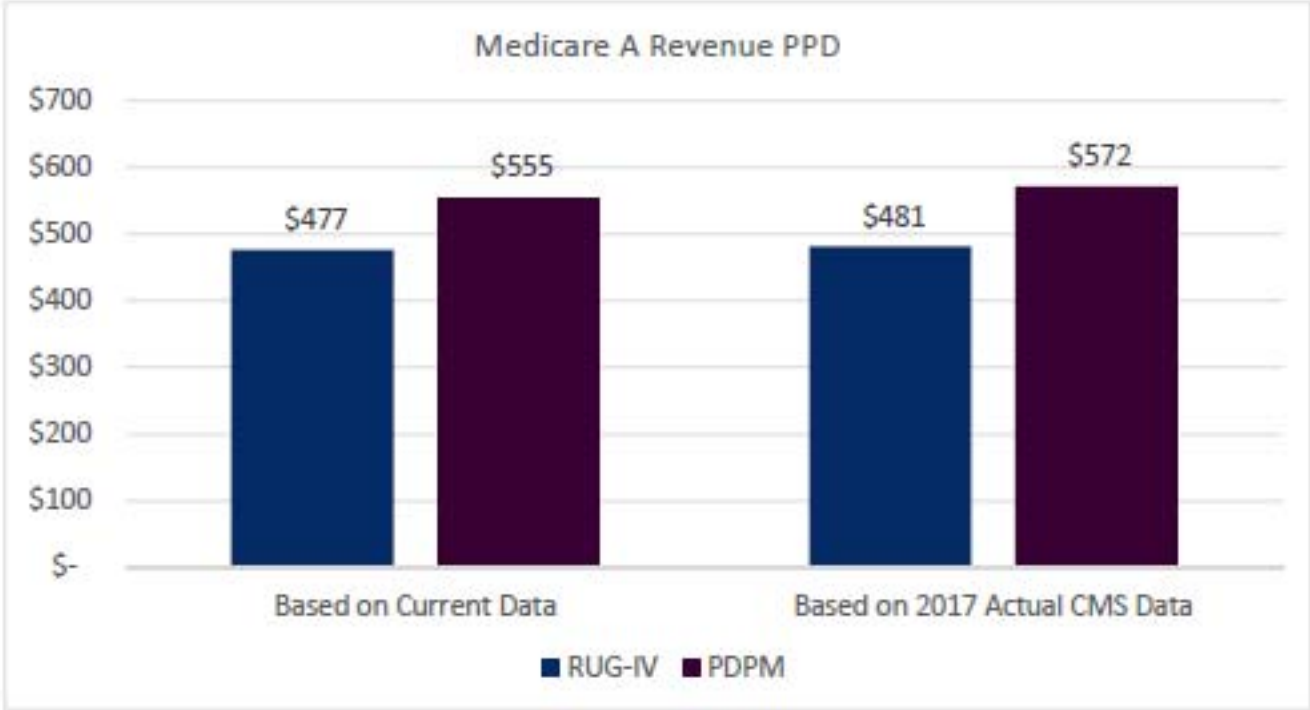
Source: CL A RUG to PDPM Calculator

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PDPM – Provider Example



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Source: CLA RUG to PDPM Calculator



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Institutional Special Needs Plan (ISNP)

- Provider becomes the Medicare Advantage Plan
- Currently only 4% of Medicare population is enrolled in an ISNP
 - 2.4 million beneficiaries
- Enrollment has quadrupled over the last decade
- PMPM rate to cover all Medicare expenditures
 - Inpatient stays
 - Outpatient therapies/procedures

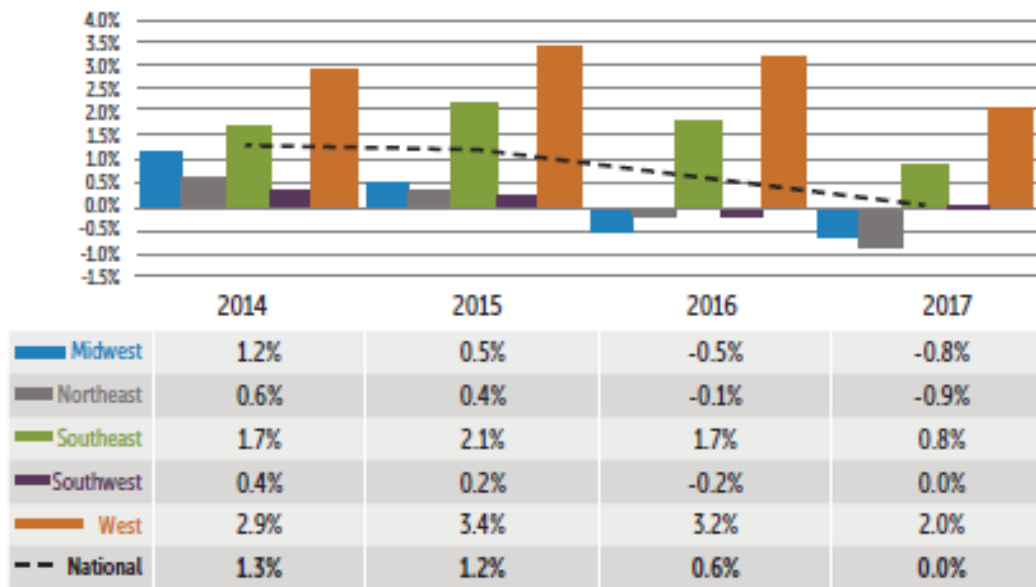


*Skilled Nursing:
Financial Challenges*



Diminishing Financial Results

Median Operating Margin

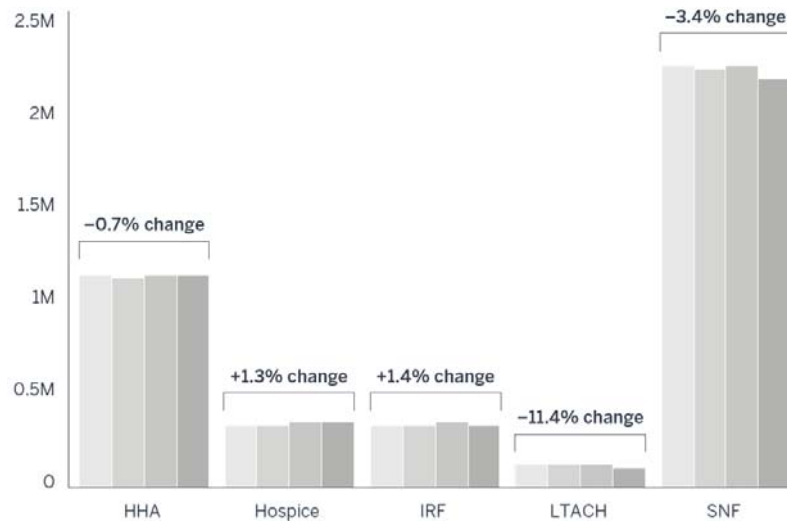


Source: CMS



Where are the Medicare Days Going?

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Changes in hospital discharge patterns from 2013 - 2016

- Reduction in SNF and LTACH is not resulting in a HHA increase

Source: The Advisory Board



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Indirect Downstream Incentives

- Hospital discharges and physician referrals will go to high quality PAC providers
 - Hospital readmission reduction program (HRRP)
 - MACRA
- Cost-focused payment reform programs require different behaviors
 - PAC utilization management for entire populations
 - BPCI/CJR incentivize reduced PAC utilization for certain episodes

Source: Advisory Board



Align With a Variety of Partners



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Source: Advisory Board



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Value Based Purchasing – The Basics

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Withhold

- 2% of Medicare FFS reimbursement (Estimated \$527.4M)
- ~60% redistributed to top performers, 40% retained by CMS
- Bottom 40% of performers lose entire 2% withhold

Measure

- 30 day all-cause, risk-adjusted, unplanned hospital readmission rate



Value Based Purchasing – Case Study

Assumptions

- 111 bed SNF
- 90% occupancy
- 20% Medicare FFS
- \$500/day Medicare Rate

\$3,650,000

Medicare revenue

X 2%

Withhold

\$73,000

Impact



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Value Based Purchasing – Case Study

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Facility	Annual Medicare Revenue	Baseline Period: CY 2015 RSRR %	Estimated 60th percentile	Above/Below 60th percentile	Minimum at risk reimbursement
1	\$ 2,646,413	18.204	19.322	Below	\$ 52,928.26
2	3,612,021	17.470	19.322	Below	72,240
3	2,038,495	19.455	19.322	ABOVE	0
4	4,684,551	21.457	19.322	ABOVE	0
5	1,500,476	17.705	19.322	Below	30,010
6	1,031,373	16.366	19.322	Below	20,627
7	1,594,192	18.615	19.322	Below	31,884
8	1,429,792	17.328	19.322	Below	28,596
9	2,007,686	20.772	19.322	ABOVE	0
10	2,529,704	17.317	19.322	Below	50,594
11	1,269,420	16.817	19.322	Below	25,388
12	1,761,820	19.705	19.322	ABOVE	0
13	519,295	18.860	19.322	Below	10,386
14	1,753,074	17.480	19.322	Below	35,061
15	875,285	17.647	19.322	Below	17,506
	\$ 29,253,597				\$ 375,221
	x .02				
	\$ 585,071.94				

Summary

- 15 SNFs
- \$29.3M Medicare revenues
- \$585k at risk (2% of \$29.3M)
- 11 SNFs below 60th percentile
- \$375k reduction unless sizeable quality improvement in 11 SNFs



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Strategies for Success in a Value Based Ecosystem

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Alternative
Payment Model
experience

Clinical
competency
during SNF stay

Post-discharge
excellence

Identification of
high risk
residents

Quality
measurement
data



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Surge in Private Equity Investment

Market Pressures



Risk-Based Contracting Model Adoption

Public payer pressure to take on new risk models necessitates growth of patient lives, investment in population health management infrastructure



Elevated Quality Reporting Burden

Elevated pressure to invest in resource intensive reporting and improvement initiatives to meet MACRA¹ requirements



Heightened Competition

New competitors are stepping in and commanding market share and providers are facing new competition for inclusion in narrow networks



Rising Practice Costs

Escalating practice expenses drive need for greater economies of scale

Source: The Advisory Board





Retirement Communities
- Assisted Living
- Continuing Care Retirement Communities (CCRCs)

Retirement Communities

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About the Industry

- Independent retirement communities consist of single-family homes, townhouses, condominiums or duplexes in which residents live on their own.
- CCRCs provide independent housing arrangements or assisted living facilities, along with health care services that increase in scope as residents' needs change.

The Market

- Retirement communities are expected to increase due to the 77 million Americans in the baby boomer demographic -- those born between 1946 and 1964.

Trends

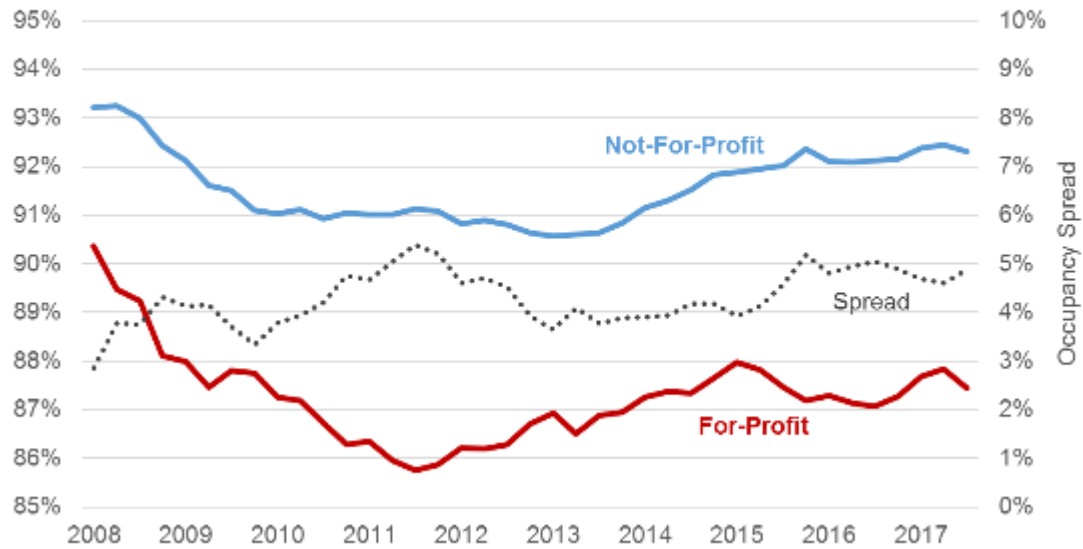
- The trend to move to communities in warm-weather states continues, although people are moving to less-popular states, such as Georgia and Tennessee -- instead of Florida and Arizona -- to keep costs down.

Challenges

- Retirement communities must find ways to appeal to buyers who want an upscale environment and improved services. In addition, more health-conscious baby boomers want to live near golf courses, bodies of water or in walkable communities to stay physically fit. Retirees also want to bring their pets with them.



CCRC All Occupancy
 Primary & Secondary Markets | 1Q08 – 3Q17



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