Key 2022 Health Care Trends and Using Data to Position for the Future

This recording will review key 2022 health care trends and how they continue to cause operational and financial challenges for long-term care facilities, hospitals, and physician practices. From workforce shortages to inflation and the economy, these trends are stressing a health care system still recovering from the pandemic. Using a case study approach, we'll demonstrate how proactively leveraging data, key performance indicators, and benchmarking can position long-term care facilities for the future.

Find additional resources on our event page: https://www.claconnect.com/en/events/2022/key-2022-health-care-trends

Here is a transcription of this session:

Stephen Taylor: Good afternoon. Hope everyone's having a good week so far. So I'm looking forward to this very relevant and exciting discussion with everyone today. One quick housekeeping item is this information is general in nature. For specific questions, please reach out to your CLA advisor. Then moving on to our agenda. So the key of our agenda today will be really three areas. So we'll cover the key healthcare trends in 2022 impacting overall healthcare. And then we'll get into a deeper dive discussion around skilled nursing, long term care, and some of the industry trends there. And then finally, we'll close the discussion of day discussing how industry focused data driven insights can really be a powerful tool to skill nursing and long-term care organizations as they seek to strive for some clarity on both strategic, operational and financial opportunities.

So quick introductions. I'm Stephen Taylor with CliftonLarsonAllen, I'll be joined by my colleagues, Deb Emerson, who is the principal in charge of the reimbursement practice for our senior living and long-term care practice, and Seth Wilson, who is a data analyst manager as well. So we got a lot to cover. We're just going to go ahead and jump right into things.

So to get us started, I'm going to cover the trends affecting overall healthcare in 2022. So you'll see on this slide here, there's seven primary trends impacting healthcare. I feel like just a few years ago, there probably would've been three or four things there, but I think that just goes to show the volatility that we're experiencing in the healthcare market these days. Just to give a quick summary of these and then we'll get into some deeper dive details here in a minute. So labor, as you all have experienced, not only is finding enough labor a challenge, but really is the cost of that labor that is really having a profound impact with a lot of providers, no matter what aspect of healthcare that you operate in.

Behavioral mental health. One of the biggest lingering effects of COVID pandemic is really the impact of behavioral health. We believe that this is really

just the beginning of the long-term trend that we will see, and we'll have a deeper discussion around that in some later slides. The antitrust. The Biden administration has really doubled down with many of the enforcement agencies and there's a significant amount of activity that's taking place in the antitrust area.

The PE influence, despite all the distractions that are going on all around us, PE continues to make investments in healthcare, and that investment is continued to drive impact both in the influence of how healthcare is being delivered, but then also in the activities surrounding that.

Medicare Advantage. Medicare Advantage is the most popular choice [inaudible 00:02:38] in over a generation as evidenced by the significant growth in enrollment. Some studies have even shown that for certain patient populations, Medicare Advantage can actually drive more favorable, positive outcomes compared to fee for service. However, in general terms, Medicare Advantage does cost the federal government more than traditional fee for service. And this is really due to, some call it gaming of the system, related to some coding intensity, and we'll discuss how that all plays out in some later slides as well.

Inflation in the overall economy. I think all of us are watching the monthly announcement for the inflation and watching that very closely, also watching the rate hikes, so we'll have some lively discussion around the impact of the overall economy and inflation as well. And then finally, Capitol Hill. Amidst all these changes that are going on and all the volatility of the overall healthcare market, there certainly are some legislative items that we believe are critical that Congress does need to move forward with, and those will obviously have implications to the overall healthcare sector as well.

So let's go ahead and dive in deeper to our conversation here. So, this graphic does illustrate the trend of employment levels across the ambulatory, hospital and senior living and care organizations. So during the COVID period, all areas of healthcare were negatively impacted, but the ambulatory setting has recovered well and reflects some employment levels actually above the pre-pandemic levels. So hospitals lagged for a considerable amount of time during the pandemic, but in recent months have accounted for the largest portion of the increased hiring in healthcare sector as a whole.

One segment of healthcare that does remain severely challenged is the senior living in care space. This segment continues to reflect employment levels greater than 10% below the pre-pandemic levels. And that trend is continuing in some areas actually getting worse. The Biden administration has actually proposed in legislation that if passed would mandate minimum staffing levels as well. Some of you may have seen our most recent work that we've done with ACA. There was a press release just the other day where we dug into that issue in greater detail, and I believe that my colleague, Deb Emerson will dig into that much deeper in the following sections.

So then this next visual is about the inverse of the previous slide. So this graphic illustrates the trend and the cost of that labor. So as you'll notice, the bar graph in this one is actually going the opposite direction of the previous illustration. So in other words, the greater the downward trend of employment, the steeper the trend of the cost of that labor. So specifically we discussed the senior living in care segment in the previous slide. So what we're seeing in the senior living in care segment is an increase in labor cost greater than 18%. So again, we'll be discussing that in much greater detail in some of these later slides, but that's something to keep in mind in terms of the impact of the overall economy access to labor, and then the affordability of that labor.

This next slide gets in the behavioral and mental health. So the graphic illustrates the emotional toll the pandemic has had on various age groups across the country. So as reflected in the age group of 18 to 24 has had the most severe impact with just over 56% of those surveyed indicating that they were suffering from some signs of depression or anxiety. As a frame of reference, going back to just 2019, only 5% of the population indicated they were suffering from some form of depression or anxiety, compared to 41% post pandemic. And looking at the graphic and the disproportionate impact of younger adults, the illustrates that behavioral health and mental wellness is going to be a long-term issue that will need to be addressed. The question is who's actually going to step up and take part in addressing that issue?

In the near term, we are seeing a significant uptick in investment by PE in the behavioral health space in particular. So as reflected in the graph, during 2020 and 2021, this service area drove a significant amount of activity from PE groups in terms of the number of deals and the dollar value of those deals. Further in recent announced rules of participation by CMS, there included several updates related to behavioral health and particularly related to skilled nursing facilities. We've also seen an increased trend in SNF organizations adding this service line or also investing in the behavioral health space as well. So we certainly see that this is an issue that needs to be addressed. And there's also a lot of innovative groups, private equity, and a lot of fund flow moving in the direction of being part of the solution to this problem.

So now advancing to the antitrust and oversight. So in July 2021, president Biden signed an executive order that outlined enforcement of antitrust legislation was going to be a key policy of his administration. So within the executive order, President Biden specifically singled out healthcare as one of the focus areas for his administration. Further, later in 2021, the FTC chair, Lina Khan actually wrote a memo to staff. And in that memo, she outlined to the agency that we first needed to address the rampant consolidation and the dominance that has enabled across the markets. One of the more significant activities that the agency is performing is a look back of various transactions that have taken place between 2015 and 2020, and have requested information on more than six of these transactions, where insurance companies have merged with physician groups, as they believe that there been some impact to these mergers I've had on market concentration.

The private equity influence. So previously, we discussed private equity's investment and behavioral mental health services, and that's just one of the areas that PE is active in. As healthcare continues to transition, to providing care in lower cost settings, including home-based care, we are seeing more and more private investment in these areas. So private equities investing in fragmented specialties within healthcare, such as home-based care, behavioral health, DSOs, and creating growth opportunities across all of healthcare, PE investments will be one the biggest drivers of transformation in healthcare, we believe. They're going to be forcing competitors in or segments that they operate in to evolve and to really adjust how they're doing their business to be able to be competitive. This recent trend of deal flow is slowed down a bit in 2022 compared to 2021, but as you can see, 2021 was a gang buster year. So even though 2022 activities slowing down a bit, we still think that there's going to be a significant amount of deal flow in the current year.

Some areas in particular that we are monitoring is senior living in care. We're still sustaining high levels of deal flow in the senior living in care space and some smaller declines in some of the areas such as physician groups. There's several factors that are impacting this slow down a bit in deal flow, but overall from all the indications that we see is that there's a lot of dry powder still on the sidelines and this capital needs to be put to work somewhere. Healthcare is a lot of attractive qualities, demographics, innovation, the opportunity to reach consumers through multiple channels. So we certainly believe that private equity is going to continue to have a significant influence in healthcare and investing in healthcare organizations.

One thing I will point out is that the administration, as we spoke about earlier in the antitrust section, the administration's also taken a bit of a focus on private equity within healthcare. So for example, MedPAC has made ownership transparency in the skilled nursing space one of their key objectives or key priorities going forward, which I think is a little interesting considering that only about 10% of skilled nursing organizations are actually owned by private equity groups.

Further, some of us may have seen some of the studies that have come out around private equity ownership and skilled nursing and there's, in my opinion, still very diverging conclusions in those studies that have been presented. So I think the verdict is still out. I think overall, when we talk about private equity, we have to keep grounded in the fact that I think that the term private equity casts a really wide net. So relatively speaking, when you speak about private equity, you're not really always talking about the large multi-billion dollar conglomerates, there's also a ton of family offices with a few million, so there's a wide gap when you address the term of private equity.

There's also a lot of private equity shops out there that are passionate and believe in investing in the transformation of health or population health and are really driving a lot of innovation. So the point that I'm making is that I think private equity is having a significant influence in all segments of healthcare and

the term private equity casts a very wide net. So I think that we have to think about the implications of that and how we operate within our segments, and then how some of these policy changes, things like ownership transparency, what are policy makers really trying to get to, and how is that going to have implications to our sectors?

Medicare Advantage growth. So Medicare Advantage continues to be the number one choice for retiring seniors, and this is related to a host of issues, but I think the primary aspect that's attractive to seniors and electing to be on Medicare Advantage is a lot of the supplemental benefits such as gym memberships, eyeglasses, transportation to physician appointments. So there's a lot of benefits that are added onto Medicare Advantage.

However, Medicare Advantage does draw legislative scrutiny due to what we referred to earlier in the opening section as a coding intensity that does take place. So Medicare Advantage participants are paid on a per member per month amount. And that amount is based off the health conditions of the participant. So Medicare Advantage participants conduct an annual health assessment for their enrolled members, and based off that is what their PMPM rate is set off of.

So really the underlying health conditions is what sets the rate. So there are several cases where the OIG believes that the health conditions are being aggressively overstated, thus driving excessive payments to Medicare Advantage plans. CMS has built in coding intensity adjustment that is designed or intended to offset this issue, but based off of a most recent MedPAC analysis, this coding intensity adjustment has not been aggressive enough and is estimated to have resulted in around 91 billion of excess payments under Medicare Advantage since 2017 and about 15 billion of excess payments to Medicare Advantage participants in 2022 alone.

As healthcare reimbursement environment continues to transition to healthcare management, the overall care coordination, the results of this scrutiny and this litigation and legislation will obviously have some lasting implications. It's also been a significant amount of growth as we noted in Medicare Advantage. So in 2022, about 45% of Medicare beneficiaries are enrolled on Medicare Advantage. And with a lot of expectations that we will see a greater than 50% enrollment by 2030, and some experts are anticipating that we might see that level of penetration by as early as 2025.

And then finally, I'll mention around Medicare Advantages that it's important to note the impact this will have in the skilled nursing sector in particular. So Medicare Advantage plans typically reimburse less compared to traditional Medicare. It really is due to two factors, one being lower per diem rates, and two being shorter length to stay, most notably due to the significant focus on medical utilization. So a lot of trends going on in Medicare Advantage in particular between the coding intensity, the scrutiny over the potential over coding and over payments, then also the deep penetration of Medicare

Advantage, and then the actual impact to us as operators who get reimbursed by Medicare Advantage and dealing with that margin pressure that does create.

So moving on to the economy and inflation, I think this is the number one topic, I think elevator chat nowadays is a transition from weather to the most recent CPI number. Everybody, I think is watching the economy and inflation. It's obviously impacting all of us extremely hard, especially in healthcare where in a lot of our segments, we can't just necessarily pass off the rising cost to the ultimate end consumer.

Powell's testimony last month, and in June was exactly a week after the Fed announced that they were going to do a three quarter point increase in rates, which is the biggest rate hike in nearly three decades to range of 1.5 to 1.75%. With inflation at a 40-year high, Fed policymakers are also forecasting more accelerated pace of rate hikes this year and continuing into next year as well.

So overall, the Fed is trying to cool demand. Runaway inflation is one of the most dangerous things for any economy, and the Fed is trying to pull back that inflation number obviously. What they're trying to do is get us to a soft landing and not push us into a recession or worse. The thing that has us in a bit of a peculiar scenario, based off of historical patterns around this is the labor markets. That really puts us in a curious scenario where we really have a production capacity issue. So we have this rampant inflation, but we also have a production capacity issue, and that's really apparent by the number of job openings that still exist, wage growth that is still increasing. So you're dealing with this increased cost that consumers can in essence weather and stain is being really impacted by the growth in those wages and the number of job openings. So the Fed really has a tough job in front of them right now, but we certainly expect further rate hikes as the year does continue.

And then finally, Capitol Hill and the regulatory agenda. There's a lot to unpack here, and I know I ran through those opening sections very quickly because there's a lot that we also want to cover later on, but overall I think some of the things I'll point out is from at least with the chair that I sit in, I'm a bit disappointed with the lack of continued provider relief support, especially in the senior living in care space. I was really hoping that we were going to continue to see that level of support that we saw back in 2020 and the early parts of 2021. But I guess the verdict is still out if there will be some continued support to a certain degree.

There's also a big question over how much longer will the public health emergency be extended? Obviously, it was most recently extended, but those are only 90-day extensions. The impact there is that there's a lot of operational and financial components that do go along with that such as certain states, having Medicaid reimbursement add-ons that are associated with the continuance of the public health emergency. The point is there's a lot of regulatory changes floating around Capitol Hill, many of which will impact providers in healthcare. These include changes to reimbursement systems,

stepped up enforcement of existing compliance and a variety of other concerns. So providers should definitely continue to monitor the activity as we move through 2022.

I know I ran through those previous sections pretty quickly, but I really wanted to get to the core of some of our discussion where we could take a deeper dive into one of our segments in particular and that's in the skilled nursing space. So I'm going to go ahead and turn it over to my colleague, Deb Emerson, to take us through a discussion around the state of the skilled nursing industry.

Deb Emerson: Great. Thanks Stephen. I appreciate it. And as Stephen said, and as he went through the slides, you can see in just the healthcare industry as a whole, there are a lot of challenges that we're seeing, and we're seeing those in the skilled nursing space as well. And so we really want to talk about what are some of those challenges that we're seeing in skilled nursing?

So skilled nursing is an area or an industry that had heavy reliance on government payment sources even before the pandemic. And so we saw a lot of pressure on operating margins as we were working on some of those, government payment sources not keeping up with the cost of skilled nursing and what it takes to run nursing homes in our country today. But as we got into the pandemic in 2020, we did see some assistance in the form of the Provider Relief Fund, some of the Medicaid add-ons, as Stephen mentioned. And those helped a little bit with the negative financial impacts that we were seeing during the pandemic, but as we continued to move forward and we were looking at the 2020 data, it really became clear that 2020 data didn't really show the whole picture.

So as we started looking at 2021 data as it was becoming available, we really started to see how onerous and persistent these challenges have been in the skilled nursing space. So not just on the operating margins and the revenue that's driving those operating margins, but also looking at the increasing cost of care, we're looking at lost revenue due to occupancy issues and the staffing challenges.

So the first thing that came to light when the pandemic hit was the drop in occupancy. So you can see on the top part of the slide, in 2020, when COVID hit, we saw a significant decrease in the median occupancy in skilled nursing facilities across the country. And then we started seeing that recovery in 2021, but then we keep having these different variants of COVID. And so those as we see increases, and then we get a new variant, those occupancy increases really start to level out, and we're not seeing the big increases in occupancy that we were really hoping that we would see. It's coming back up a little bit, but not quite as much as what we would like to see, and we're definitely not anywhere close to the pre-pandemic levels for occupancy.

On the bottom part, we showed just a few of the states, but when we think about the skilled nursing industry, and we talk a lot about what's happening at

the national level, you can see that it's also very much a local or a state specific issue. So we have some states that have rebounded quite nicely in their occupancy. And we have other states that are still really struggling with recovering their occupancy due to COVID.

The other issue that we are seeing a lot in the data from 2020 and 2021 is around the payer mix. So the public health emergency and some of the waivers that went into place, both on the Medicare and the Medicaid side really highlighted, and you can see that in the data, the mix in payer sources. So we saw an increase in Medicare fee for service, the traditional part A, and a lot of that was driven with the three day stay waiver. So a lot of folks were able to be skilled in place, go on Medicare and receive the services that they need without having to go into the hospital first.

We also saw an increase in Medicaid because of some of those waivers that were put in place and folks were able to go on Medicaid. And again, as Stephen mentioned with the public health emergency being extended, there's still some opportunity for that enhanced Medicaid eligibility to be out there, but that is going to go away when the public health emergency is finally ended, and that will have a significant impact on the number of individuals that are on the Medicaid program, as well as the mix of Medicare as well.

So the biggest thing that we're seeing in the data that's driving some of the financial struggles at the nursing homes is the skilled labor. So when we look at the job losses in the skilled nursing facility workforce, we saw over 238,000 individuals lost from skilled nursing. And that is a big loss, especially when we're looking at the cost of that labor, which I'll get into on the next couple of slides. But when we're looking at that labor, looking at the occupancy piece, part of the occupancy struggle is not so much folks being able to come back to a nursing home because hospitals are now doing elective surgeries, you're getting those referrals from the hospitals, but we're seeing a lot of facilities across the country that are limiting admissions to their facilities because they just don't have the labor to be able to staff the facilities appropriately based off the individuals in the facilities.

And when we think about what CMS has put in the proposed rule, that should be going final yet this month, is they asked for additional information about a proposed staffing mandate. And although that is just information at this point and they're gathering data around what a staffing mandate would look like when we think about the cost of a staffing mandate and where those people are going to come from to be able to staff at a 4.1, for example is the number that they've put out there for hours per patient day, it's going to be very challenging to be able to staff at those appropriate levels, to be able to meet those needs, and that's going to put a challenge on the occupancy as well as the financial margins that we're seeing at facilities.

The other thing is the change to the five star rating as it relates to the staffing component. So CMS issued their notice that effective with the July 2022 refresh,

so this month, they're revising the methodology for calculating the staffing rating. So that, while it doesn't impact the number of staff that are in the facilities, how facilities are staffing and what that impact will be on the five star rating could be very significant, particularly if you've been a four star facility from a staffing perspective, and you've gotten the quality add-on, you're only going to be getting that one point bonus for that staffing, if you're a five star staffing in the future. So all of these things are just creating a lot of noise in the industry and some challenges that facilities are having to work through.

So as Stephen mentioned, it's not just the number of staff that's being challenged, it is the wages that we are seeing having to be paid to the nursing staff and frankly, across all staff. So housekeeping, administrative, all of those folks that are caring for our residents in the facilities are being challenged. But when we look specifically at the nursing, you can see that the growth rate in those average hourly rates went up 8.1% in 2021. And as you break that out by discipline, you can see the RNs, LPNs and aides, the percent of growth of those wages over time from 2018 to 2021 is really significant.

And when you look at the aides and that growth is at 9.7, so think about where facilities are trying to get that labor pool from. So they're competing with folks like McDonald's, and Home Depot, and Target for those hourly rate employees and trying to keep up with some of the retail market that's paying high dollars per hour now, that they weren't necessarily paying before the pandemic. So now we're not only being challenged with finding the appropriate workforce to come into our facilities. We're also challenged with being able to pay them at competitive rates.

The other challenge from the direct care, the nursing pool in skilled nursing is around the contracted or the agency cost. So when the pandemic hit, a lot of facilities had to rely on agency or contracted nursing to fill their needs for staffing, and so we saw a lot of the staffing agencies were increasing their cost per hour that they were charging to the facilities for a variety of reasons that they were looking at that. But we look at that average cost per hour, you can see that they have gone from about 5.3% growth to over 10% growth for aides, 8.1% for other nursing and in total 9% in a post-COVID environment.

So again, when we're looking at staffing, facilities are trying to be very creative in how they can make sure that they're using employed staff rather than contracted agency staff or thinking of other ways that they can control that agency cost and really make sure that they're meeting those staffing hours per patient day that are needed to provide quality care.

Inflation is just another really big challenge as we look at the skilled nursing facility in the market right now. So we look at again, the labor part is a big piece of that. And as we've done some of our studies over the last few months, you can see that even when we did the last report on inflation, we were looking at 6.9% inflation. As we know, and from what Stephen mentioned earlier in the presentation, as of June, we are looking at 9.1% inflation. So it's not just the

labor market. Everything that you can think of from a goods and services perspective is being impacted. So we're looking at energy cost, we're looking at food cost, we're looking at health insurance. All of these things are being impacted by inflation and so facilities are not only having to deal with some of these other challenges, they're now having to deal with the overall inflation.

And as I mentioned earlier, because the skilled nursing industry is so heavily reliant upon government funding sources, it's not possible for nursing facilities, in most cases to change their rate charge, more like other industries can charge more as their own costs go up. So this again puts negative pressure on operating margins at facilities when the costs are going up and they don't have the ability to increase their revenue to correspond with the increase in those costs. So definitely very challenging as we continue to look forward in how we can figure out how to better operate in some of these environments and how we can use some of this information to find operational efficiencies within facilities.

So when we looked at all of these things and really are trying to identify looking at the data, what are some of the key financial performance drivers in the skilled nursing facility industry? I've talked about the occupancy recovery and we've talked about inflation, but the other two drivers, when we think about where senior living is going and what the industry looks like for the rest of 2022 and into 2023, some of the things that are still helping out is the state Medicaid public health emergency funding. So several states have tied additional either add-ons to their rates or lump sum payments around the public health emergency. So as long as we're still under a public health emergency, those additional Medicaid fundings are still in place. So what's going to be challenging is how are we going to address that drop in revenue when the public health emergency actually ends?

The other part that we need to consider is what is the PDPM budget neutrality or parity adjustment that CMS is going to be making with this final rule? So in the proposed rule that came out in April, when we looked at that, and what CMS had proposed in there is a 4.6 cut to the PDPM base rates. So their parity adjustment, because based off CMS's data, they have been overpaying for PDPM rates since the implementation in October 2019. It was a program that was supposed to be budget neutral, and it hasn't been. A lot of factors have played into that. Some of that was COVID related, some of that was the difference in focus from volume of service to actual clinical characteristics. So depending on what actually comes out in the final rule and whether or not we're seeing that 4% cut to the PDPM rates is going to have a significant impact on facilities.

Some of the other items that we saw in the proposed rule that we're looking to see what actually ends up in the final rule is around some of the public health emergencies, reporting measures, patient data. Some of that is now going to be put back into place as well as some new quality measures that will go into place in 2026. And also looking at some of the value based purchasing program and

adding some additional measures to that besides just the readmission measure, that's currently used to calculate the value-based purchasing program.

So when we're looking at skilled nursing facilities and the outlook, it's not pretty, and so we know that it's a challenging industry, we know that there's a lot going on. And when we look at what that outlook is going to be for 2022, and we put together some scenarios earlier in the year on what that might look like. So when we think about that, and we look at the occupancy recovery, so that's going to drive a lot of what we're seeing, but we also factored in whether or not states public health emergency fundings is retained, whether or not CMS was going to make a budget neutrality adjustment and what some of the post-COVID inflation levels are.

So when we look at that and you look in the middle red bar chart there, that's looking at trended occupancy recovery. So when we're looking at that, and we did not factor in any sort of PDPM parity adjustment, we anticipate we anticipated Medicaid funding to continue through 2022, and we're still looking at negative operating margins of 4.8%. That's kind of a scary number and really leads us into what do you do about that? So how are organizations going to look at these numbers? How do you figure out what to look at? How do you look at your own data at your facility? How do you look at your own operations to be able to make changes, to help mitigate some of that loss from an occupancy recovery? So at this point, I'm going to turn it over to Seth Wilson, and he's going to talk about how do we look at that data and look at and create a financial viability plan for your organization and the industry.

Seth Wilson: Thanks a lot, Deb. That transitions really nicely into this section here about this financial viability plan. But before I jump into this section, I want to pause and speak about this slide just for one moment, because here you can see our CLA mascot, the bicycle. And the reason why that's our mascot is because we promise to know and to help our clients to get where they're trying to go and we acknowledge that part of that is finding balance. And here for nursing facilities, we understand that the struggle with balance is mission and margin. We have a great mission. We want to provide great care, good patient experience, quality outcomes for these patients, but no margin, no mission. It has to be financially viable, has to be sustainable. So that balancing act is what motivates me to do what I do each day, staying current on these industry trends that Deb just presented, and analyzing the data to help operators fulfill their mission. So in this final section here, I'm going to share some thoughts on how a financial viability plan is an important part of achieving that balance.

So we just heard about the challenges that the industry is facing, and I'm sure if we were all together in the same room, we'd have seen many heads nodding to indicate that these are challenges that you've experienced directly, or you know others, you have clients that have experienced these things. And our team is pretty passionate, solution oriented, and we acknowledge these challenges, but we believe that you can develop a strategy to succeed. If you look at the trends, there's a combination of things that are outside of your control and things that

you can control. So what we do is we say, "Well, let's set up a few priorities," and number one priority, focus on the fundamentals. What makes a SNF successful?

Leverage both your internal and external data by turning it into actionable insight and when appropriate develop and leverage relationships with trusted partners, other folks to come alongside you that are experiencing similar issues and have different thoughts or ideas, creative solutions on how to navigate them. So these times are challenging, many leaders are reaching out with questions, seeking insights, and looking for a partner to assist them.

So types of questions that we're receiving, if you're on this call, you're a client, you may have asked us one or more of these questions. We will hear clients say, "What do you see working? What are they doing?" They being their peers, competitors, top performers, people that are having still some good positive margins here, despite all of these challenges. Are we focused on the right opportunities? And right is the keyword there because there's only so much time and energy and so focused and prioritization is critical for a good plan here. And my favorite question of these is, is anyone doing well? Because it's so easy with all these challenges to think that there's, "There's no way," but I'll come back to that in a bit in terms of what we are seeing.

So again, number one priority, focus on the fundamentals. That's the first one. And that may seem like a bold thing for me to say. You could say, "Hey, Seth, I've been doing this for 20, 30 years. I've been living and breathing these fundamentals for a very long time. I get them." But they're the fundamentals for a reason. These are the most critical aspects of the organization, your business, the business plan. And it's just what we got to keep doing every single day and really understanding these things. It's easy at a high level at the surface, but if you dive deep, there's a lot of complexities and things in each of these areas that we want to talk about. So when I say fundamentals, I'm referring to those that are in need of care, the caregivers, and the basic economics of the business. So occupancy, revenue, optimization, staffing, and expense efficiency.

The very first one here that I'd like to speak about, because it's really a primary driver of so much about your business and how you operate is occupancy. Occupancy is critical for the financial viability of a nursing facility. It's the first fundamental on our list because it's one of the first decisions made when assessing the feasibility of a facility before it's even constructed, and so depending on the age of your facility and where you're at in your career, you may have been involved with constructing a new facility or a substantial addition or rehab project. Or maybe not, maybe you've just stepped in, but you've heard some stories or no others that have done that. But the questions that you go through, it's what's the demand for the services in the market? How many rooms should the facility have? How many of those will be private or semi-private? What will the payer mix be? What is the average rate for each of those payers?

There's this underlying presumption when constructing a facility and opening the doors from day one that essentially all of those beds and operations will fill over time, and that's what the whole business model and budget was based on is full occupancy. So before anything else, that occupancy is necessary to cover the fixed costs, the cost of the building, the furnishing, the property taxes, insurance, bed tax, the department head salaries and wages. All of these things that are fixed, that if your census goes down, you can't get rid of any of those costs. You need a minimum occupancy just to cover all of those. Then there are numerous non-discretionary costs before even considering direct care and variable costs. So ultimately, we know each empty bed is money skimmed from the top line, which impacts the bottom line. So that's why occupancy here is number one, the economies, the scale is important.

So we can think looking at the five year trend of occupancy, even pre-pandemic, it wasn't as strong as someone would like, depends on your market, depends on the facility. But during the pandemic, as Deb just showed us here and spoke to a moment ago, it really took a turn for the worst, very big hit, and that recovery has been slow. So the conversations that we've been having with clients tie back to the questions outlined earlier. Is anyone doing well? So from your internal data, how your facility has recovered. You know what your journey has looked like.

Many have not fully recovered, and so I encourage clients to consider how your recovery compares with others, because your entire market that you're in may still be down 5%, 10%. But if you've recovered 10% and everyone else in your market has only recovered five, then you may still be hurting, but you've done really well, and that's something that you should celebrate and keep going, but you are the top performer in that case. You have figured out how to recover better than some others have that are really struggling. So that's part of it is thinking about how you've done with that recapture pre-pandemic to now.

And then really understanding what's driving that whether you're you've recovered well, or maybe you haven't, maybe you've dipped and you haven't come back at all and you're really struggling, but it's understanding is it reputational matter? Is it quality? Deb talked about the challenge with workforce and turning away admissions. Is that the case of your facility, where it's really more of a workforce challenge, where those patients are there, but you cannot find the caregivers necessary to be able to provide them the quality care and experience that your organization strives for? Whatever it is, a strategy should be developed and implemented to close the gap between you and your competition.

So the next one here, not necessarily second in order, but I want to close the loop on top line in revenue because revenue is days times rate. We just talked about occupancy, which is your days, but now it's for each of those occupied beds, what are you receiving for reimbursement? So the financial plan is going to look very different if you were building a facility that you said, "We're going to be very mission driven, very high Medicaid mix, long stay," versus if you came

in and you said, "We're going to be a very short stay oriented facility and be funded by Medicare." Two completely different business plans, two different financial models. Whatever it was though, unless you happen to say 100% Medicaid, which sometimes happens, but it's uncommon, I'd say, each year as you do your annual budget, you're probably thinking, "Oh, shoot. Our average rate per patient is not heading in the direction we want." The quality mix is changing. What you're receiving for your reimbursement is changing, especially relative to the pace of cost, as Deb was talking about, inflation. Stephen mentioned CPI. So all of these challenges.

So every dollar that you get per patient day really matters. You don't want to be leaving anything on the table. So having a deep understanding of the rate systems and how to optimize them is really critical for success. On the Medicare side, Deb talked a little bit about PDPM. So we know that was a big change, and it's only been around for a couple years and different folks are at different spots of their journey and understanding how are we doing? Because under rugs, it was pretty easy. You might be able to answer the question, what percentage of your days are rehab days? Or what percentage of those days are ultra high therapy, very high therapy? That was pretty common. And that system was in place for a while where people got to speaking that way.

PDPM is still new, so I wonder for clients how many or can tell me what percentage of their residents have two or more comorbidities? How many patients have a swallowing disorder or something like that? Those are the stats that you want to understand internally about your organization, but you also want to understand how that compares to other peers and competitors, because that may be a way of you finding an opportunity to say, "Well, geez. Our reimbursement, we're getting paid for zero or one comorbidities primarily, but all of our competitors are getting paid for two or three. What's going on there?" So it's understanding those things that are driving reimbursement and optimizing it.

And similar on the Medicaid side, there's a whole lot of different rate models going on because it's at the state level. I reside in Massachusetts, so that's one that I have paid a lot of attention to with what they're doing with the integrated rate model. And they have all sorts of interesting components there that your occupancy, your Medicaid mix, behavioral health, quality, achievement and improvement, those are all components factors that determine what that Medicaid rate is. So whatever state or states you're operating in, if you're in multiple states, really understanding those systems well, and being able to optimize them is critical. That should be part of your planning process is what is our rate, but what could our rate be? What does the opportunity look like?

Stephen Taylor: Except one thing I was thinking about and with the points you're making there with that previous slide is that during the course of the pandemic, we obviously saw a significant reduction in occupancy as you demonstrated there, which I think compounds the effects of what you're speaking about now with optimizing the revenue, because when we saw that occupancy drop, what we didn't see

was a reduction of a lot of our long stay. What we did see was a reduction of our short stay, episodic, Medicare, Medicare Advantage reimbursement. So as we seek to increase that episodic occupancy, these elements that you're speaking to right now are extremely important, because you're not going to be able to win it in the volume game. You're going to be doing it patient by patient, resident by resident, really optimizing that revenue stream, because right now I feel like it's under a microscope in essence, because you have such few amounts of that episodic patient.

So I think it just compounds the importance of what you're talking about, because I think the payer mix in your reimbursement mix has really shifted between your occupancy increasing in one category. So shifting up in your long stay Medicaid, so you're seeing fewer of those revenue streams that you can actually work to optimize.

Seth Wilson: Yeah, absolutely. Great point. Thank you Stephen. So now we'll move on to staffing, which really in my opinion is right up there with occupancy. Occupancy and staffing, there's a lot of linkage between the two. Again, I just wanted to close the loop on the top line revenue side of things. There's so much to talk about here in staffing. So I'm going to I'm just scratching the surface here, I'll dive deeper into this in next month's webinar. But the measures that we're looking at for staffing, which Deb and Stephen have already talked about a bit, we're looking at the hours instead of revenue side days times rates, well now we're talking about hours and rates. But it becomes a bit more complex here because for your hours, is this an employed hour or is this a contract labor agency hour? Each of those have different rates. And then for each of those, what's the mix of nursing by category. Is it a CNA or is it licensed? What's the mix there?

So all of these things contribute to your financial budget and you can approach it different ways. From CMS's perspective, as Deb was describing it a little bit is the primary measures are your total nursing hours per patient day, regardless of category, both for any day of the week and then on your weekends, especially that's now one of the measures that CMS is focusing on that drives your rating, but also on the RN side. So not necessarily licensed overall, but specifically on RNs, those hours per day matter.

So thinking about how your organization is approaching that from a scheduling perspective and what your strategy is, how efficient your direct care team can be for achieving the outcomes that they're striving for is critical, because if you look at the new staffing rating system, for example, it's based on deciles and there's a pretty broad range in terms of what the top 10 percentile looks like and the bottom 10th percentile looks like. And the difference between those from a financial perspective, with the current labor of what's happening with labor and pay rates, it's a huge difference financially. In fact, every decile can be pretty significant financially, whether you're in the 80 to 90th percent or the 90th to 100th percent.

So really understanding what you want to do there is important. That's why here high level getting the math to work requires a bottom-up approach. It's really thinking about what do we need? What are we trying to accomplish? What do we need to accomplish that? And then cranking all the numbers. And it's not just the simple, direct budgeting part that you're probably most familiar with and do every year, but it's also thinking about, for example, what I said for rate optimization, how does this affect my star rating? How does my star rating affect my reimbursement? Do I have a staffing mandate in my state? Well then your hands are kind of tied. That's an external factor you can't control. You think, "Okay, well what's the penalty 2% penalty. Maybe it's cheaper for me to pay the penalty than it is to be able to hit that mandated threshold." There's all sorts of considerations here and it really requires a deep, deep dive.

Other than your direct care nursing staffing, there's your other areas here. Dietary, laundry, housekeeping and plan are some of the general service centers. You're talking 15 to 20% or so of the total cost per patient day. It's not insignificant by any means, so you don't want to leave any stone unturned, so to speak. You want to look at all of those and what of those are your employed costs? What of them are other costs and how you can optimize them? Looking at those ancillary costs then are same thing, specifically therapy and drugs.

But really, something I do with clients here to help them identify these areas of opportunity is look at their internal data and how they're performing, but then pull in that external data in benchmarking and saying for example, if we look at something like occupancy and I used this example earlier, if you're 80% occupancy, but we see that in your market, a bunch of other facilities or 85%, well then that indicates that there's some opportunity. That's suggesting maybe you could increase your occupancy by 5%. And if you increase your occupancy by 5%, how do you measure that opportunity? What is the value? What does that mean for your top line? How much of that can fall to the bottom line? You could perform that type of exercise for any of your metrics. You could perform that same exercise for your Medicare mix, for your nursing hours per patient day, for-

Stephen Taylor: Agency utilization.

Seth Wilson: Agency utilization is a great one. Thank you, Stephen. Absolutely.

Stephen Taylor: I think that's a big one right now, Seth. We're saying, "Look, if we're going to go out and pay 100% premium on our agency, is it for a purpose?" So before we pick up that phone and make that call, is it within our guardrails?

Seth Wilson: Yeah, absolutely. And that's why I love and spend so much time looking at that external data, publicly available data, because it can be really insightful to... I mentioned earlier, one of the priorities is focusing on the right opportunities. So by taking this type of approach, you can see where there's the largest unfavorable gap between where a facility is performing and where others in the market are performing. You could even do an exercise to say, "Hey, here's the

top performer in my market, and if I compare myself to them, what does that show me for opportunities?" And now that you've measured, it's very strategic and focused, you can get the whole team around it to say, "Here's what we're going to focus on for the next three months, six months, the next year. Here's where we can improve our margin to be able to fulfill our mission."

Stephen Taylor: So to that point, I don't think you're insinuating there saying you're just going to compare one to the other and say, "All right, that's what we're going to do," but I think the point you're trying to make is, okay, can we get 50% of that opportunity? Is that a realistic goal? What would we need to do to capture 50% of that?

Seth Wilson: Absolutely. That's right. And so here are the questions that typically we work through with clients when we're trying to figure out how to achieve that plan for financial variability. Number one is, do you have a concise, consistent way of assessing your SNF? How do you assess your SNF and say, "Here's where we're performing well. Here's where we're not"? Are you able to, through that process, feel comfortable and confident that you're identifying the right opportunities? Are you able to do that effectively and efficiently, or is your team having to spend a whole lot of time gathering and organizing the data, so it takes too much time and effort to be able to actually get to those opportunities?

It's always nice to hear what are your opportunities and how those compare with what we think we see. Which ones are most actionable though, that gets to Stephen's point about the size of the opportunity, what you can do. You may see that there's someone that has 10, 15% occupancy. That may not be something that you can do too much about, but you might be able to do 5%, so-

Stephen Taylor: I went to that point though too, Seth, also allowing you to say to your previous example, is there a reason why our occupancy is there? Well, is it because our agency utilization is significantly below where everyone else in the market is? Okay, that makes sense. No, but sometimes it's not necessarily point out that opportunity in terms of that's what you should be doing, but is there a strategic reason why you're not doing that?

Seth Wilson: Exactly. That's right. Yeah. So it is, it's very strategic, very thoughtful. Just understanding the why and making sure that you're getting to true opportunities that make sense that will put your organization in a better place. And then the final question is just thinking about what help is needed to execute? Because Stephen, you and I have had some conversations with folks, it's like some folks just need some additional resources or their board management would just value that third party perspective and someone to help provide confidence that they're going down the right track.

Stephen Taylor: And sometimes, it's just helping to organize, to get focused and saying what KPIs should we be looking at? And why are those relevant in our market, or even nationally?

Seth Wilson: Yeah. All right. That's all I got.

Stephen Taylor: So Seth, I think that tees up our next webinar extremely well, where in our next webinar, being that this was the first of the two or in this first part, we're really going over the industry trends and taking it from as highest possible level down to what's going on in our industry, and then what can we actually do about it? Our next webinar, we're going to be teeing up, I think answers to those questions as far as, okay, how do I size up an opportunity? How do I assess option one versus option two? And things like the final rule will be out by our next webinar. We'll be able do a deeper dive into the impacts of the change in the five star staffing and how you can use those elements to now gauge yourself compared to peers and find opportunities.

So I think those last questions in my mind tee up our next webinar very well, as far as what action items we'll be getting into. So I know we didn't necessarily have time left for questions, but we knew that there was going to be a lot to get through because there was a lot of content here. But hopefully, you all will be tuning up our next webinar, we'll really lean into those last questions there.

I appreciate everybody's time this afternoon. Hopefully this was insightful and impactful. Here are all three of our contact information. If you didn't get a chance to submit a question, but you have a follow-up question, please feel free to reach out. And for those of you, there's a ton of questions in the chat that we did not circle back to, we will certainly be following up with you all and get you all answers. So I appreciate everybody's time. This is a very exciting conversation and look forward to our continuation of this in August. Thank you.