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Key Health Care Trends Using Data

July 21, 2022

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Agenda

- Review key 2022 health care trends and how they continue to cause operational and financial challenges in health care
- Discuss current trends within the skilled nursing/long-term care industry
- Demonstrate how industry-driven data-focused insights can provide skilled nursing/long-term care organizations clarity and information on strategic, operational, and financials actions



Introduction

Stephen M. Taylor, CPA, MBA

Principal – Senior Living & Care Segment Leader

Stephen Taylor is a Principal within the health care group at CLA (CliftonLarsonAllen) and serves as the leader of CLA's Privately Held Senior Living and Care practice. Stephen's primary focus is creating enterprise value for skilled nursing and senior living and care operators and owners.

Deb Emerson, CPA, RAC-CT, RAC-CTA

Principal – Senior Living & Care Reimbursement Leader

Deb Emerson is a principal with the health care group of CLA's specializing in reimbursement and consulting services for senior living facilities, home health and hospice organizations. She has extensive experience handling the distinctive issues facing health care organizations in today's challenging environment.

Seth Wilson, CPA, MST

Data Analyst Manager

Seth is a data analyst manager with CLA's Data Analytics team. He has been with CLA for more than 13 years. Seth began his career as a CPA with a focus on audits, tax, reimbursement, and consulting services before transitioning to data analytics. By pairing his industry and technical accounting knowledge with his passion for data and technology, Seth helps organizations transform data to insights.





2022 Health Care Trends to Monitor



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2022 Trends to Monitor



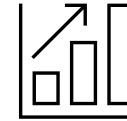
Labor, labor, labor,
labor

Private Equity
Influence



Behavioral and
mental health

Medicare Advantage
Growth



Antitrust and
Oversight

Inflation and
Economic



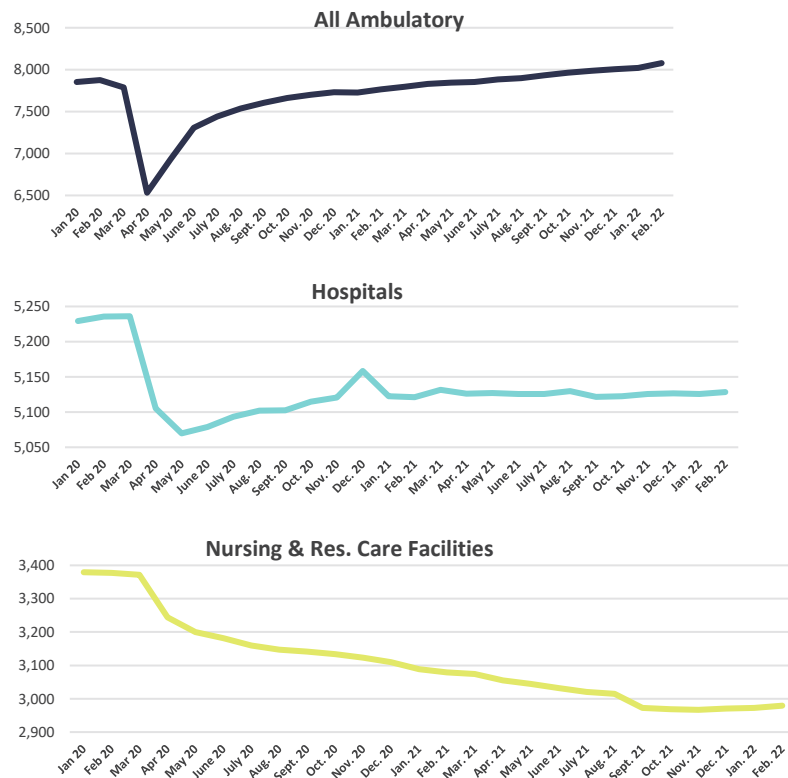
Capitol Hill and
Regulatory Agenda



Labor, labor.....

Employment Trends by Segment

- The industry as a whole has been hit hard by turnover, early retirements and net job losses when compared to pre-pandemic levels.
- The ambulatory setting has demonstrated a stronger rebound, with net overall growth in total employment, while hospitals and nursing/residential care facilities are still lagging.
- The total change during the pandemic time period is as follows:
 - All Ambulatory: **Increase** of 2.8%
 - Hospitals: **Decrease** of 1.9%
 - Nursing & Residential Care Facilities: **Decrease** of 11.8%



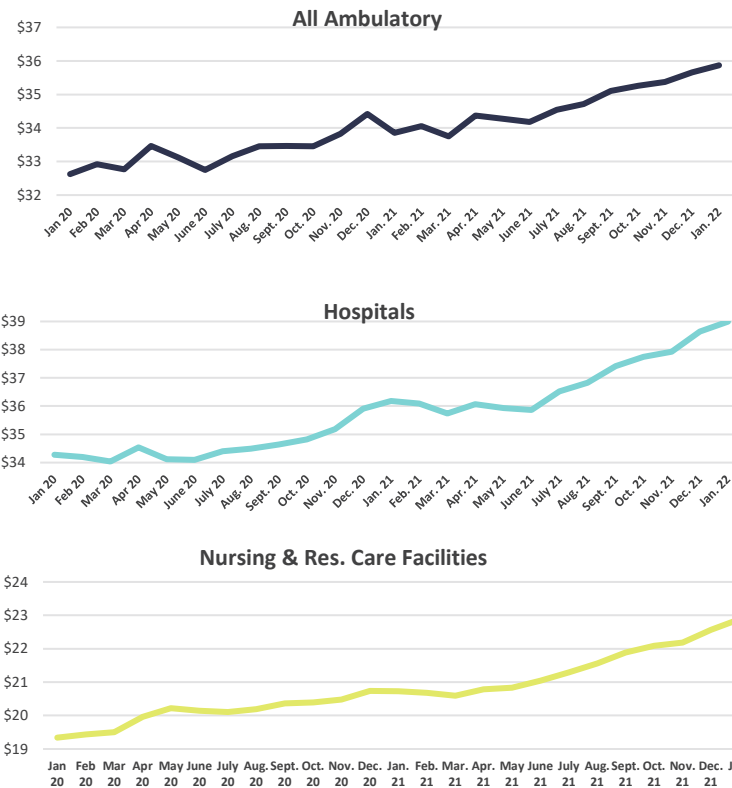
Source: U.S. Bureau of Labor Statistics as of February 2022 "Employment, Hours, and Earnings from Current Employment Statistical Survey (National)"



Labor, labor.....

Hourly Wage Rate Trends by Segment

- Compounding the challenges associated with available labor is the cost for the labor that is available.
- As depicted at right, each segment has experienced significant increases in wage rates during the pandemic time period as follows:
 - All Ambulatory: 9.9%
 - Hospitals: 13.8%
 - Nursing & Residential Care: 18.3%
- Double digit increases in hourly wage rate, along with lack of available labor signals devastating downward pressures on operating margins for the industry as a whole.



Source: U.S. Bureau of Labor Statistics as of February 2022 "Employment, Hours, and Earnings from Current Employment Statistical Survey (National)"

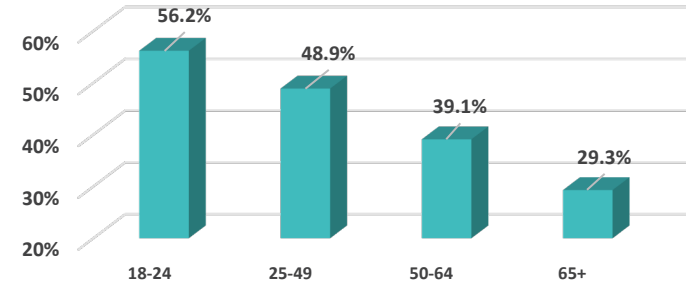


Behavioral and Mental Health

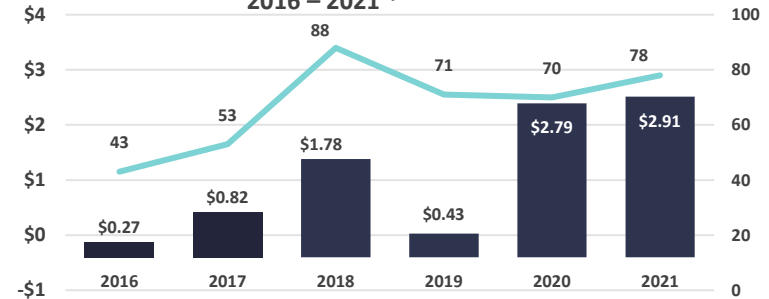
Anxiety, Depression & Burnout on the Rise

- The mental health impact of the pandemic is having a more significant impact on adults aged 18 to 49.
- The significant increase and widespread impact across adults' signals a market need, and a potential opportunity for providers.
- The demand for services coupled with reimbursement changes by CMS to allow for certain services to be provided by telehealth, could be the window of opportunity Private Equity (PE) is seeing.
- As reflected at right, PE deals around Behavioral Health have picked up significantly in both volume and deal value during 2020 and 2021.

Symptoms of Anxiety and/or Depression Among Adults *



Behavioral Health Deal Value/Volume
2016 – 2021 *

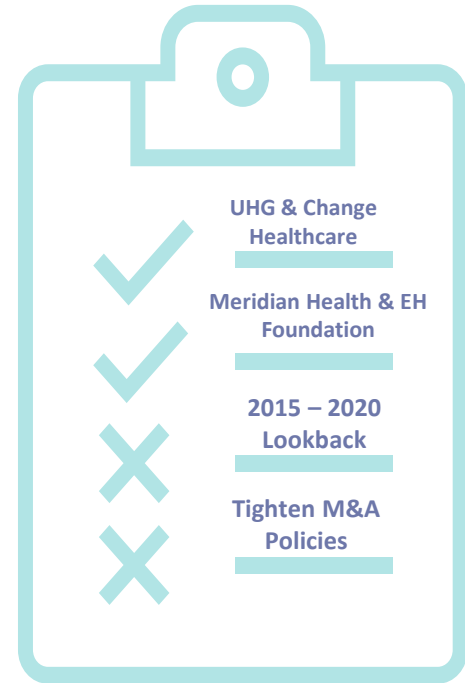


* Sources: CDC Nat'l Center for Health Statistics Interactive Early Release Program (Jan. – Mar. 2019) and U.S. Census Bureau Household Pulse Survey, Wk. 42 (Jan. – Feb. 2022) and Kaiser Family Foundation analysis "The implications of COVID-19 Mental Health and Substance Abuse" dated February 10, 2021. CLA Article "Transaction Trends in Health Care Deal Making" by Jed Cheney, Principal dated March 2022; charts reproduced with permission from Deal Search Online, www.healthcaremanda.com, all rights reserved.



Antitrust and Oversight *

- The FTC checklist doesn't stop at current transactions.
- 2015 – 2020 Lookback
 - In 2020 ordered 6 insurance companies to provide information so FTC can study M&A impact.
 - Specific focus is studying effects of physician groups and healthcare facility mergers and how horizontal mergers have affected provider prices.
 - The study will also examine non-price issues, like health care outcomes and competitive impact on non-inpatient healthcare facilities transactions.
- Tightening M&A Policies
 - FTC is actively updating its policies and regulations impacting various business practices, including M&A transactions.
 - Expect goals policies to be implemented over the course of the next 2 years.
 - There is by-partisan support in Congress to increase funding and legal authority for the FTC.



Source: Research and insights provided by Health Policy Source, Inc.



Private Equity Influence

*“Recent years have seen a **surge of innovation in health care, driven by investments from private equity firms, family offices, and other sources. This elevated interest** – particularly in fragmented specialties, home-based care and behavioral health – is **creating growth opportunities** throughout the health care sector.”*

- Jed Cheney, CLA Principal*

Chart D — Deal Volume 2016 – 2021 by Buyer Type

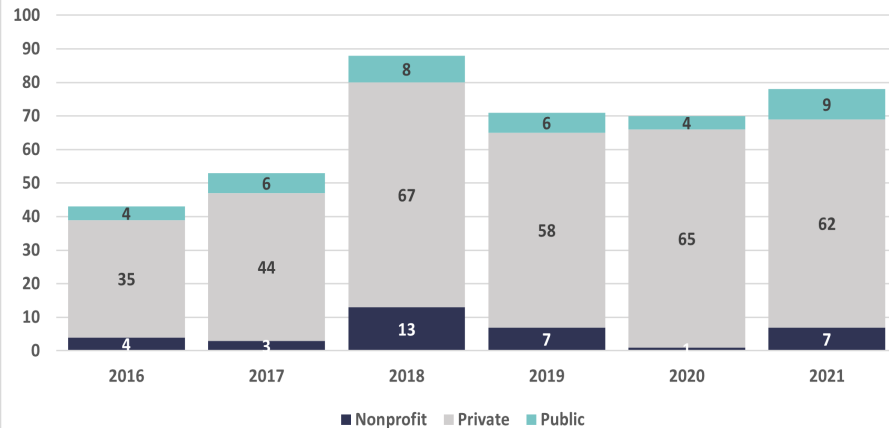
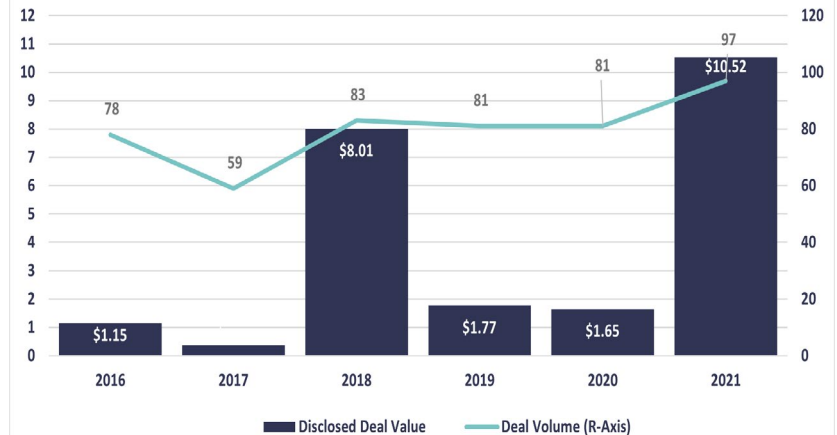


Chart E — Home Health & Hospice Deal Value / Volume 2016 - 2021



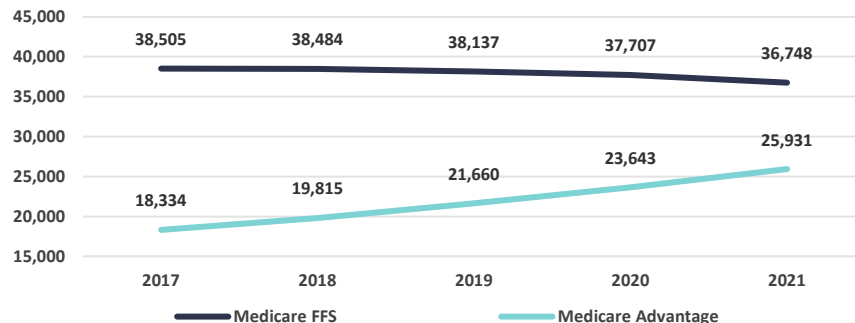
* Source: CLA Article “Transaction Trends in Health Care Deal Making” by Jed Cheney, Principal dated March 2022; charts reproduced with permission from Deal Search Online, www.healthcaremanda.com, all rights reserved.



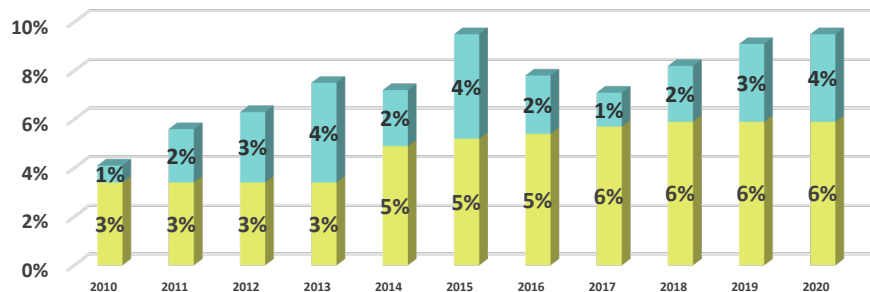
Medicare Advantage Growth and Scrutiny

- Medicare Advantage (MA) has experienced significant growth and is becoming the “more popular option” for seniors.
- However, MA costs the federal government about 104% of Medicare Fee-for-Service (FFS).
- The federal government contracts with commercial insurers to provide MA benefits to beneficiaries, and pays the insurers a per member per month payment (PMPM).
- A critical piece of ensuring this PMPM payment is sufficient is embedded in understanding the health conditions of the enrolled beneficiaries, and ensuring they are reflecting in the coding and documentation of services.
- This “coding intensity” partially contributes to the excess spending and in a March 3, 2022 letter to CMS, MedPAC expressed the following:
 - CMS’s coding intensity adjustment is insufficient resulting in more than \$91 billion in excess payments since 2007.
 - Insufficient coding intensity adjustments plus significant growth will result in > \$15 billion of excess payments in 2022 alone.
 - Across the board coding adjustments results in payment inequity.

Growth in Medicare FFS vs. Medicare Advantage *



Gap in MA Coding Intensity Adj. vs. Actual Coding Impact *



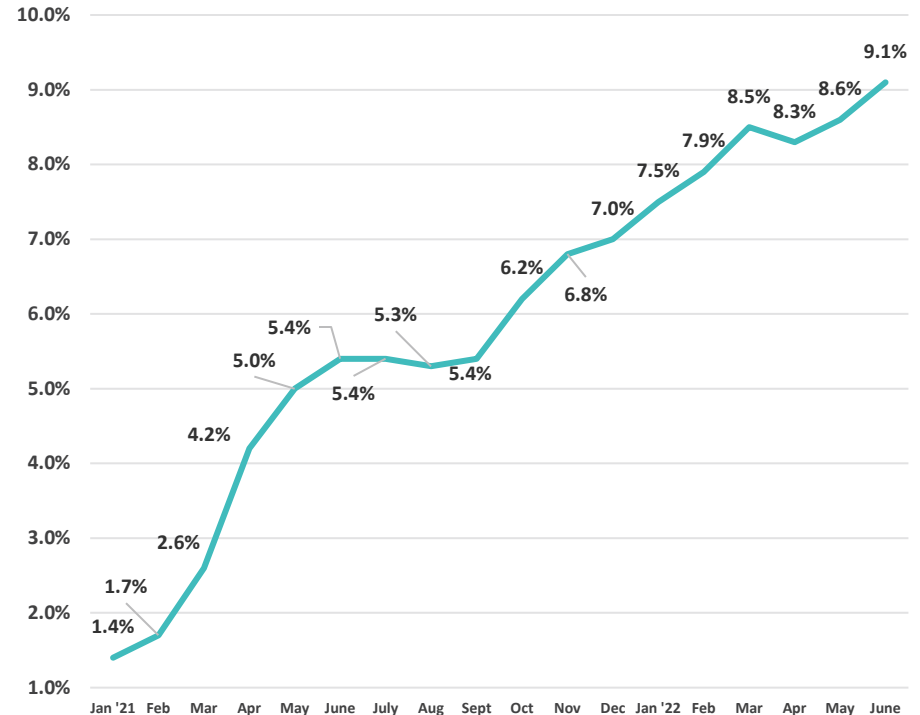
Source: <http://CMS.gov/Research-Statistics-Data-and-Systems-Trends-and-Reports/CMSProgramStatistics/Dashboard>; MedPAC Letter to CMS Administrator Chaquita Brooks-LaSure dated March 3, 2022



Economy and Inflation

- Current economy is more reflective of a roller coaster than it is a smooth sail ship.
- In June of 2022 inflation hit a record high of 9.1%, highest since November 1981 – inflation steadily rising throughout 2021 and 2022
- Fed accelerating pace of rate increases
 - Quarter-point hike in its key short-term rate in March
 - Half-point increase in May
 - Three-quarters of a point in June
 - The biggest increase since 1994
- All signs are pointing to additional interest rate adjustments in 2022 in an attempt to reverse the inflation trend and

All Item Inflation Trend
Jan. '21 – June '22 *



Source: U.S. Bureau of Labor Statistics as of July 2022 Press Release for Consumer Price Index – June 2022, dated July 13, 2022



Capitol Hill and the Regulatory Agenda





State of the Skilled Nursing Industry



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State of Skilled Nursing

For skilled nursing facility (SNF) operators, the current operating environment puts tremendous pressure on operating margins due to the heavy reliance on government payment sources. The added pressures of the COVID-19 pandemic have resulted in ongoing, increased costs and declines in occupancy far beyond historical trends. Temporary funding received through various Public Health Emergency (PHE) sources has, so far, largely offset the negative financial impacts of the challenges.

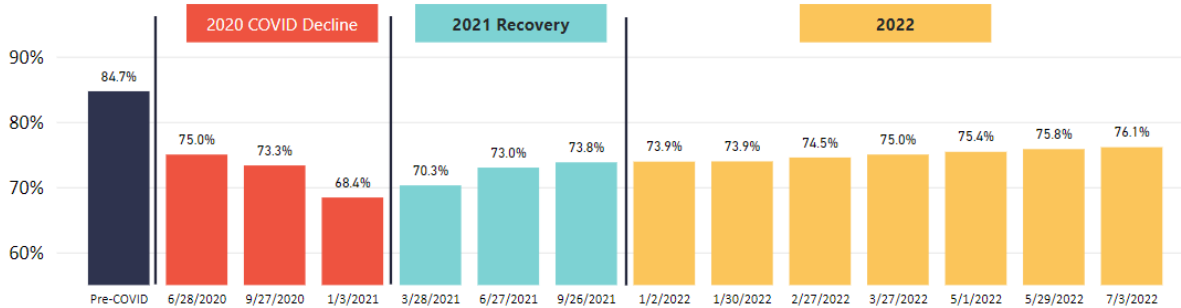
For many SNF stakeholders, the current business challenges are all-consuming — most notably, slow occupancy recapture and workforce challenges. Utilizing available data, we are able to highlight the negative operating margins, increasing cost of care, and contributing factors to revenue loss such as occupancy and staffing challenges incurred by SNFs.

The unprecedented changes in the skilled nursing industry are only partially captured in YE 2020 data and results.

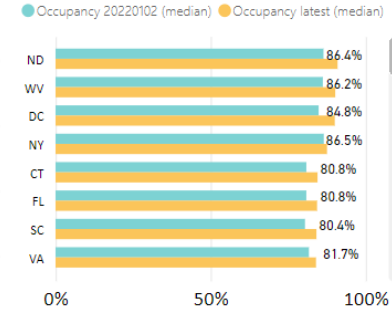
A wholistic view of available 2021 data suggests the changes that began in 2020 may be more persistent and onerous than is suggested in the 2020 data.

Median Occupancy Trend

Median Occupancy

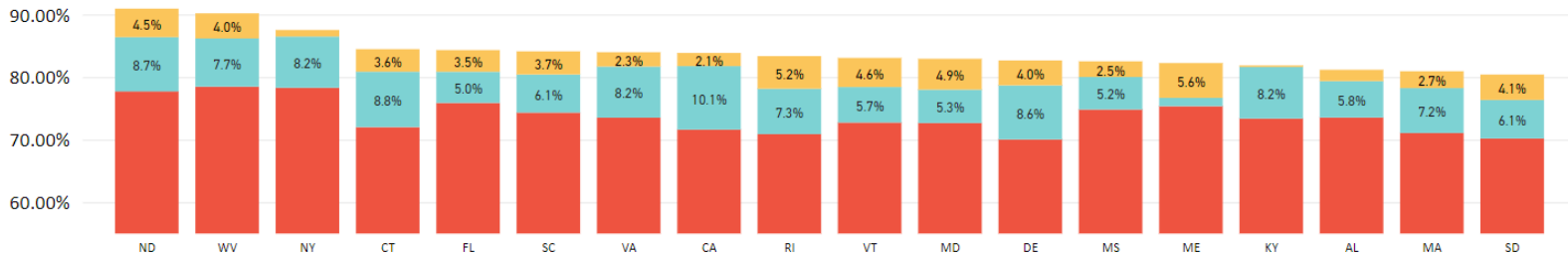


Occupancy Change

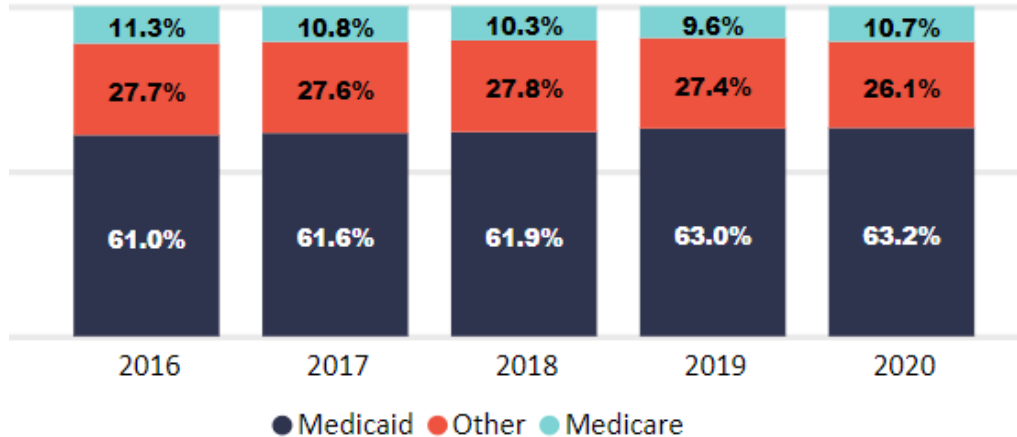


Occupancy Shifts

● Occupancy 20210103 (median) ● Occupancy Shift (2021) ● Occupancy Shift (2022)



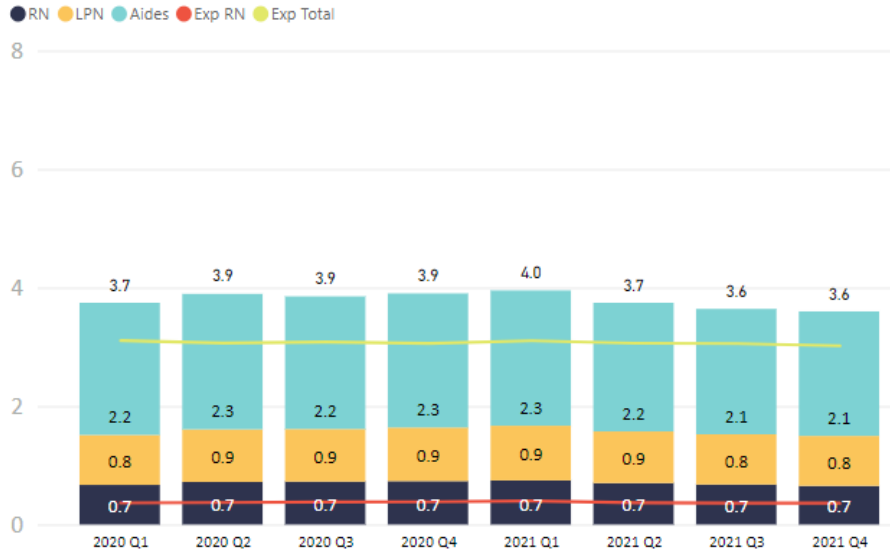
Median Payor Mix



Shifts in occupancy, directly correlates with shift in payor mix and staffing challenges

SNF Labor

National Median Staffing



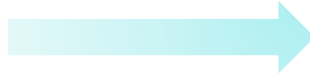
- Lost approximately 238,500 from SNF workforce during pandemic
- Effective with the July 2022 refresh, CMS is completely revising the methodology for calculating the Five Star Staffing rating.



Looking Beyond 2020 Data

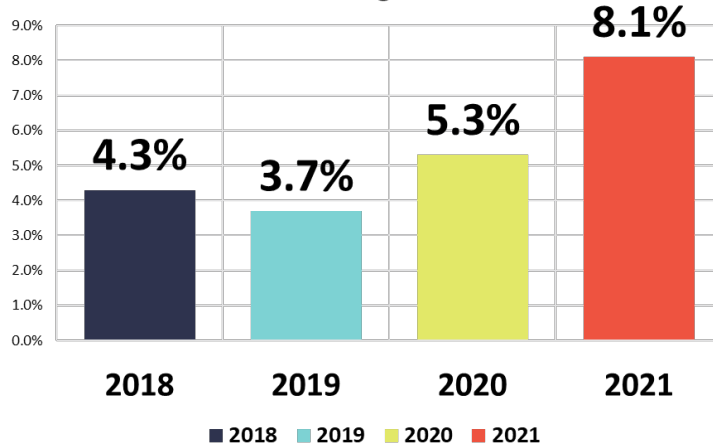
Nursing Average Hourly Wages: 2021 Year Ends*

Overall Nursing

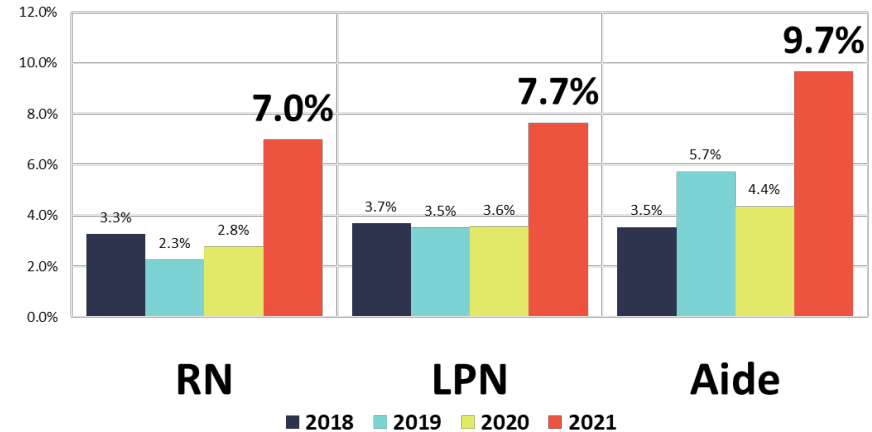


Nursing by Discipline

Growth Rate in Total Average Hourly Nursing Wage



Average Wage per Compensated Hour By Nursing Discipline



* based on public data on FYE 2021 cost reports released by CMS on 1/12/2022.
Includes primarily FYE through June.

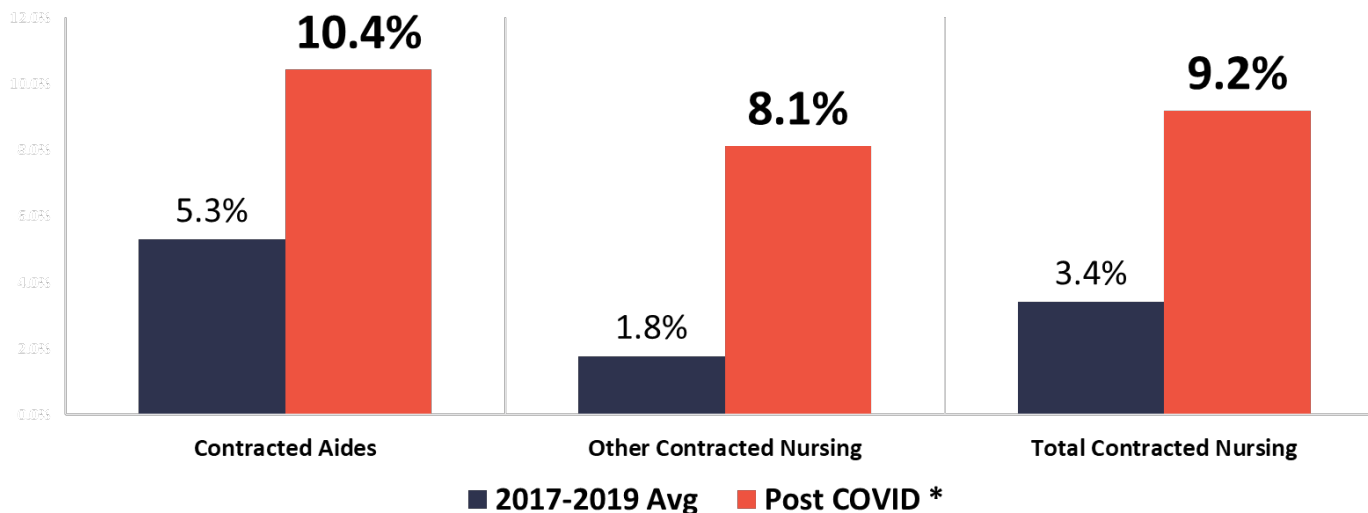
Avg Wage Rate increases at all levels doubled in 2021!



National Skilled Contracted/Agency Nursing Cost Trend

Post COVID, contracted nursing costs per hour have increased 2x to 3x historical levels

Average Contracted Nursing Cost per Hour



* Post COVID includes 2021 (where available) and 2020 data

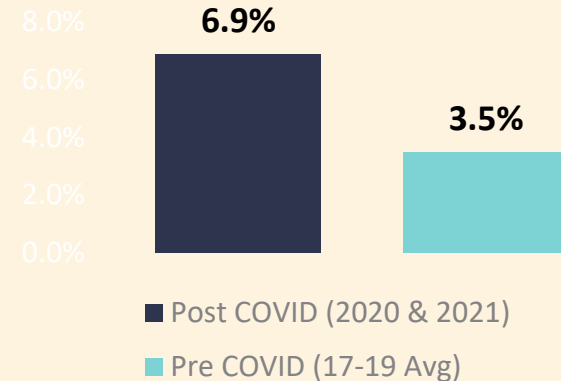


Inflation

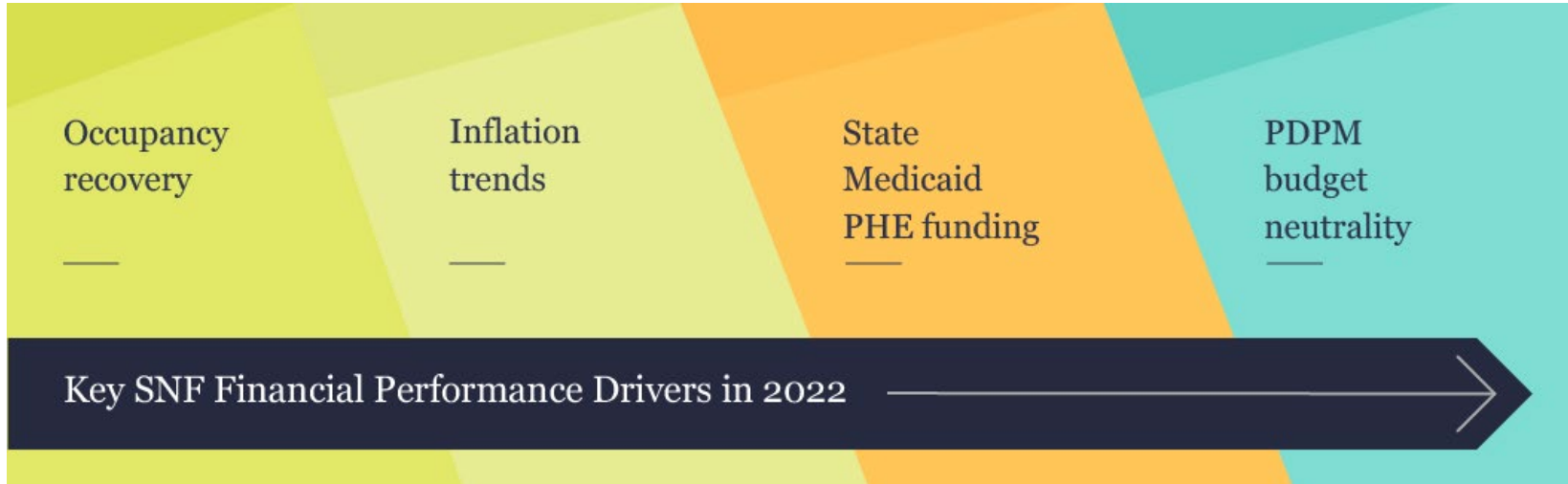
- CLA evaluated market and state level inflation data for the pre-COVID (2017 – 2019 average) and post-COVID (2021 data [where available] or 2020) for several cost categories, including:
 - Avg RN Salaries / Hour
 - Avg LPN Salaries / Hour
 - Avg Aides Salaries / Hour
 - All Other Salaries Avg / Hour
 - Avg Contracted Aide Cost / Hour
 - RN/LPN Avg Contracted Cost / Hour
 - Other Dietary Costs / Meal
- This data indicates that post-COVID overall inflation rates have, in general, doubled from pre COVID levels
- This data also suggests wide variations in post-COVID inflation rates between states, markets, and cost categories
- Additionally, current and trended BLS CPI data was considered. This data suggests that inflation may be accelerating from levels seen in 2020 and early 2021.

Key observation: Overall post COVID inflation trends are significantly higher than historical pre COVID trends. However, these trends are not consistent nationally as the data suggests wide variations in state and market levels of inflation.

Average Pre vs. Post COVID Inflation
Evaluated Cost Categories



Key SNF Financial Performance Drivers



FY 2023 SNF PPS Proposed Rule

- Decrease aggregate SNF payments by \$320 million in FY 2023, relative to FY 2022:
 - An annual payment update of 3.9%, which includes the market basket update and other adjustments
 - Implement 4.6% cut to maintain PDPM budget neutrality
- Resume reporting certain measures and patient data that were delayed due to the COVID-19 public health emergency
- Adopt two new quality measures starting in 2026 and 2027
- Collect input on several potential future quality measures to address health equity and on a future proposed rule pertaining to minimum staffing levels for nursing

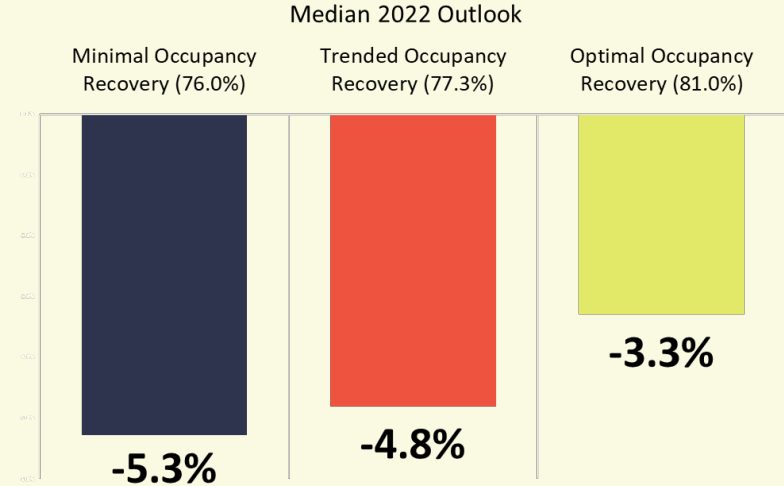


Assessing SNF Outlook

In order to understand the broader outlook of the financial performance of the SNF industry, CLA constructed over 12,800 site level simulations to assess the 2022 outlook utilizing various key driver assumptions.

Looking at potential occupancy recovery in 2022, CLA simulations indicate negative median operating margins in all scenarios due to inflation and continued increases in labor and other costs.

Operating Margin Outlook Occupancy Recovery Scenarios*



* Simulations assume 1) all state PHE funding retained, 2) no budget neutrality adjustments, and 3) post-COVID inflation levels



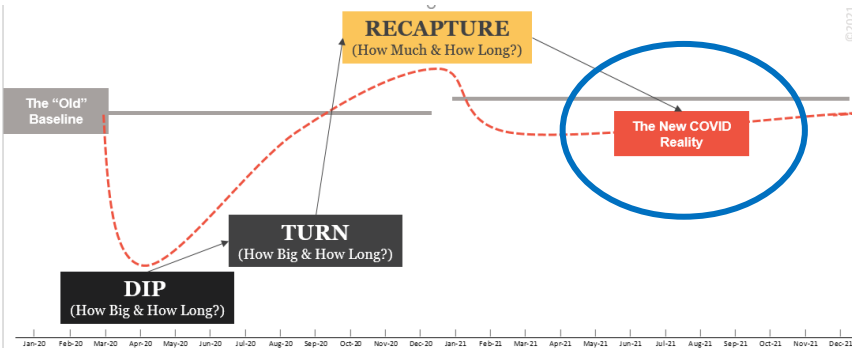
Skilled Nursing Facility Financial Viability Plan



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SNF Financial Viability



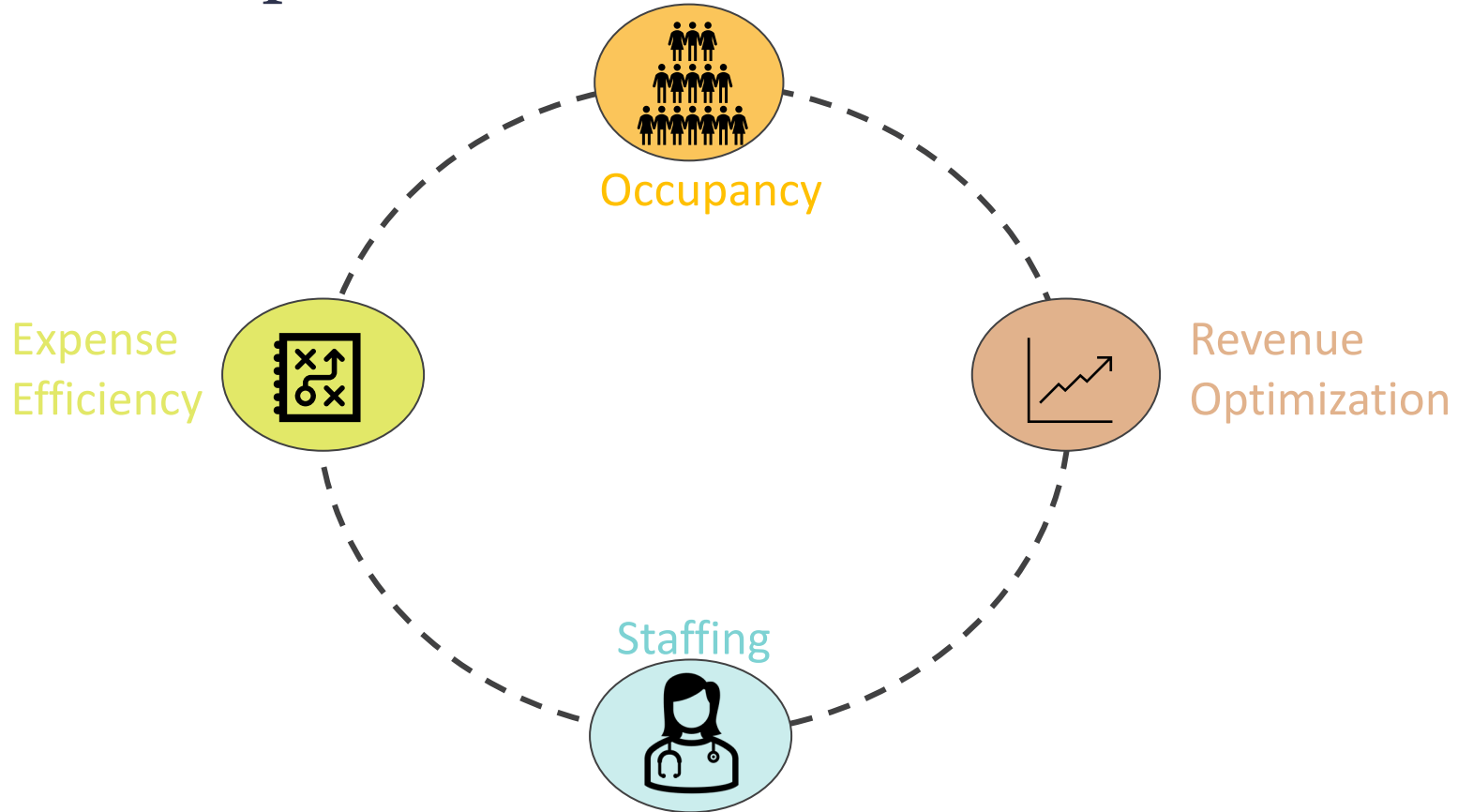
- Within a very compressed window, the market is experiencing a significant amount of pressure and turmoil. There is no denying the operational and financial environment is significantly more challenged, and SNF operators cannot count on continued covid-related funding.
- We believe there is currently a window of time to: assess, identify tangible opportunities and take action – for SNF operators to secure their financial viability, and realize their desired future.
- Priorities:
 - Focus on the fundamentals
 - Actionable data
 - Get help from a trusted partner



Client Questions

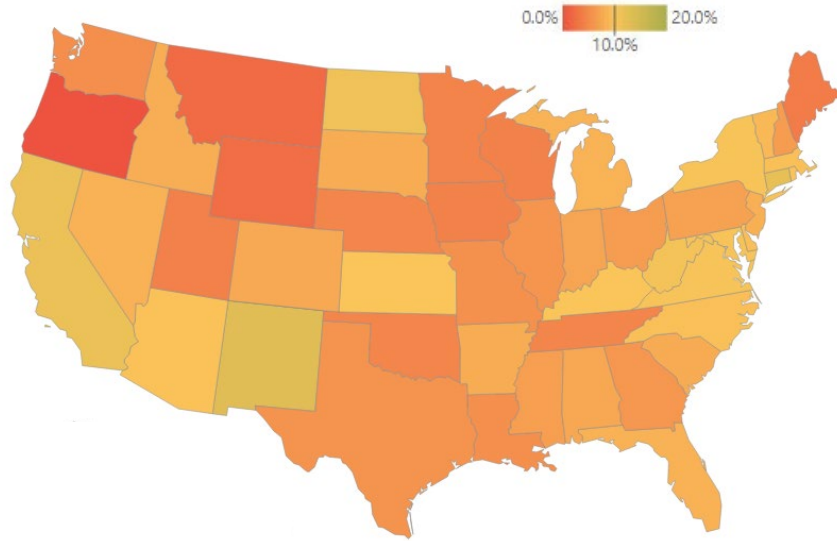


CLA's Response: Focus On The Fundamentals



Focus On The Fundamentals: Occupancy

Change in Median Occupancy by State

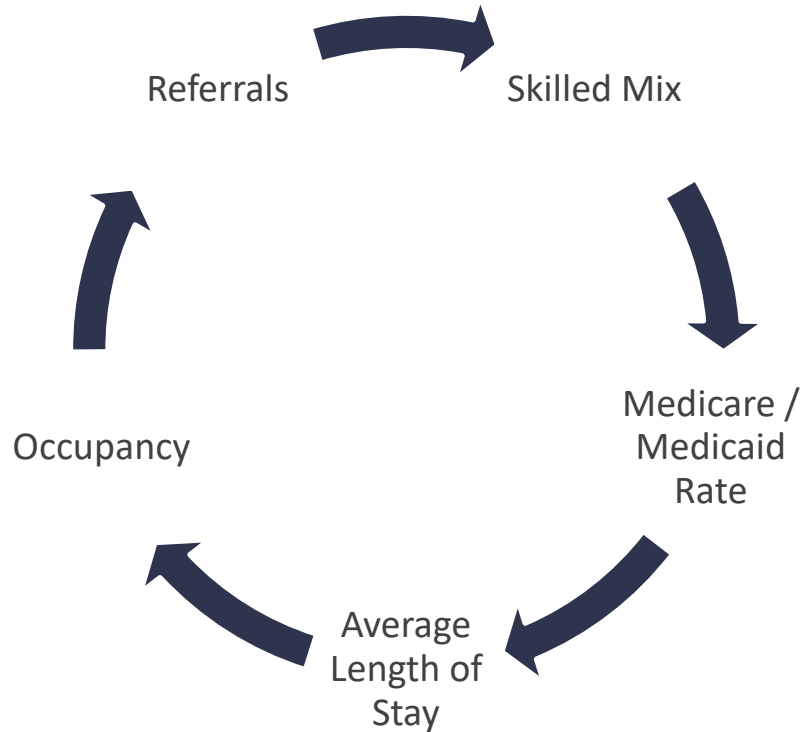


Components of Analyzing Occupancy

- Compared to Peers & Market
 - Pre-pandemic
 - Recapture rate
 - Market potential
- Referral Relationships/Ranking
 - Market
 - Hospitals
- Quality Compared to Peers & Market



Focus On The Fundamentals: Revenue Optimization



Looking for something efficient, effective and low cost that will have a compounding impact on your revenue stream? Compare some key data points to your peers and market to determine if a PDPM/MDS assessment can unlock hidden reimbursement opportunities.

Focus On The Fundamentals: Staffing

Many operators are assessing occupancy recapture and topline revenue growth, based on their access and cost of labor. Getting the math to work, may require a bottom-up approach.

Often the correlation of these data points identify financial and operational opportunities

Pay Rates

Paid Hours PPD

Expected Total Hours per Resident Day

Correlation w/ Occupancy

Correlation w/ Skilled Mix | Payor Mix

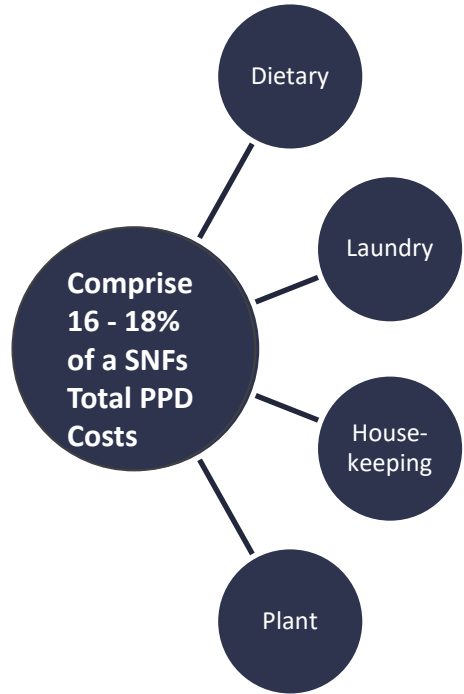
Agency Utilization

CMS Star Rating

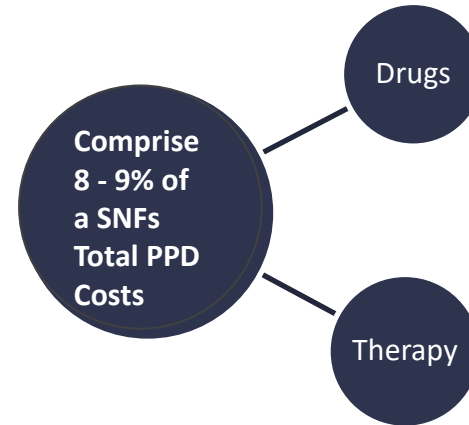


Focus On The Fundamentals: Expense Efficiency

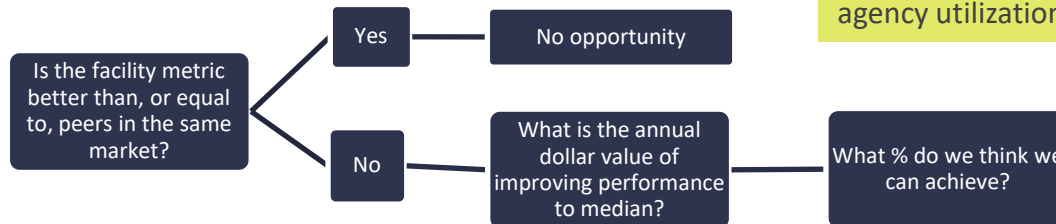
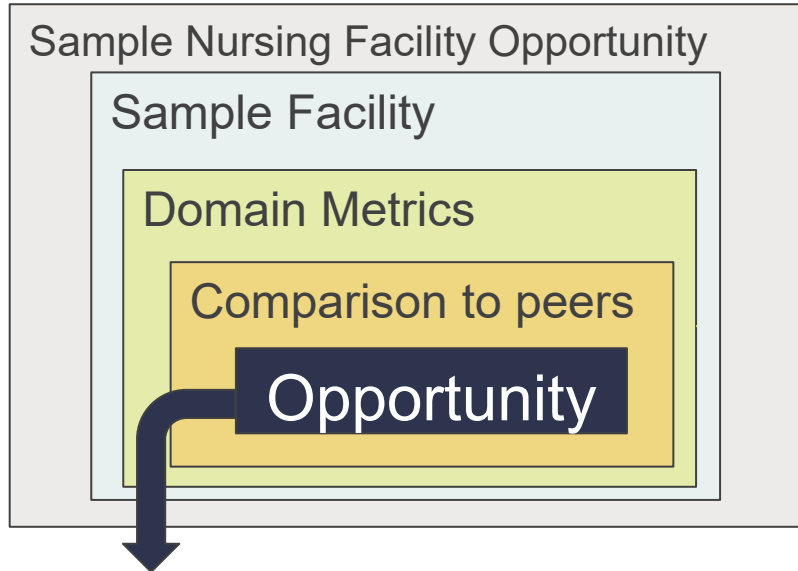
Supportive



Ancillaries



CLA Clarity – Definition of “Opportunity”



Domain Metrics

Revenue	Medicare Rate
	Medicare Mix
Census	Pre-COVID
	Recovery
Cost Control	Nursing*
	Ancillary
	Administrative & support cost centers

*Nursing opportunity considers impact on CMS star rating and agency utilization



Do you have a concise,
consistent, unbiased
approach to assessing
your SNF(s)

Are you spending more
time gathering and
organizing data vs.
identifying
opportunities?

What are your
opportunities?

Which opportunities are
most actionable?

What decisions/actions
will capture the
opportunity?

What help is needed to
execute on the
opportunity?



Questions



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Thank you!

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