39th SNF Cost Comparison and Industry Trends Report

The Great Divergence

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Executive Summary

Between 2019 and 2023, the skilled nursing industry experienced significant disruptions, widening the divide between operators with healthy operating margins and those struggling financially. The COVID-19 pandemic was a primary focus, with skilled nursing facility (SNF) operators dedicating extensive resources to crisis management. This singular focus often deferred attention from other critical industry changes, which are now contributing to a noticeable operational divide.

Key Factors

1 **Medicare Advantage (MA) growth** — The expansion of MA plans, which reimburse at lower rates than traditional Medicare, has reduced SNF revenue. Operators with strong relationships and value-based care capabilities have managed better, while others face tighter margins and increased administrative costs.

2 **Demographic shifts** — The uneven growth of the 85+ population and a caregiver shortage have affected occupancy rates and increased labor costs. Facilities in regions with favorable demographics and better workforce strategies are faring better, while others face declining occupancy and higher costs.

3 **Reductions in SNF beds and facilities** — Industry consolidation has led to reducing bed capacity, benefitting larger, more resilient operators while increasing competition for smaller facilities. This trend has further polarized operators' financial health across the industry.

4 **Workforce and regulatory challenges** — Rising labor costs, compliance with new regulations, and workforce shortages have increased operational costs, squeezing margins. Facilities that effectively manage their workforce and compliance requirements are better positioned to maintain financial stability.

5 **Payer mix and Medicaid reliance** — There's an increasing reliance on Medicaid reimbursement. With Medicaid often being the largest payer, the variability in state Medicaid reimbursement rates is creating further financial disparities. Facilities in states with more favorable Medicaid rates are in a stronger position, while those in states with lower rates are struggling to maintain viable margins.

6 **Quality of care** — Facilities with higher quality care tend to have better occupancy rates, stronger financial performance, and lower reliance on costly contract labor. High-quality care leads to better reputations, stronger referral networks, and the ability to negotiate more favorable payer contracts, all of which contribute to healthier operating margins.

In this complex and evolving environment, it's imperative for SNF operators to understand these trends and strategically navigate them for long-term viability and financial stability. Those who can adapt by managing costs, diversifying revenue streams, and focusing on quality care have maintained healthier margins, while those less prepared face financial strain. The growing reliance on Medicaid reimbursement, amid varying state policies, further underscores the importance of strategic planning and adaptability for success in the skilled nursing sector.

Methodology

This publication provides benchmarks and ratios calculated using annual SNF cost report data released by the Centers for Medicare & Medicaid Services (CMS) as of July 2024.

That release included approximately 11,700 cost reports for fiscal years ended 2023, representing more than two-thirds of Medicare-certified nursing facilities. For purposes of comparability, amounts presented for 2019 through 2022 only include the performance of facilities with a 2023 cost report.

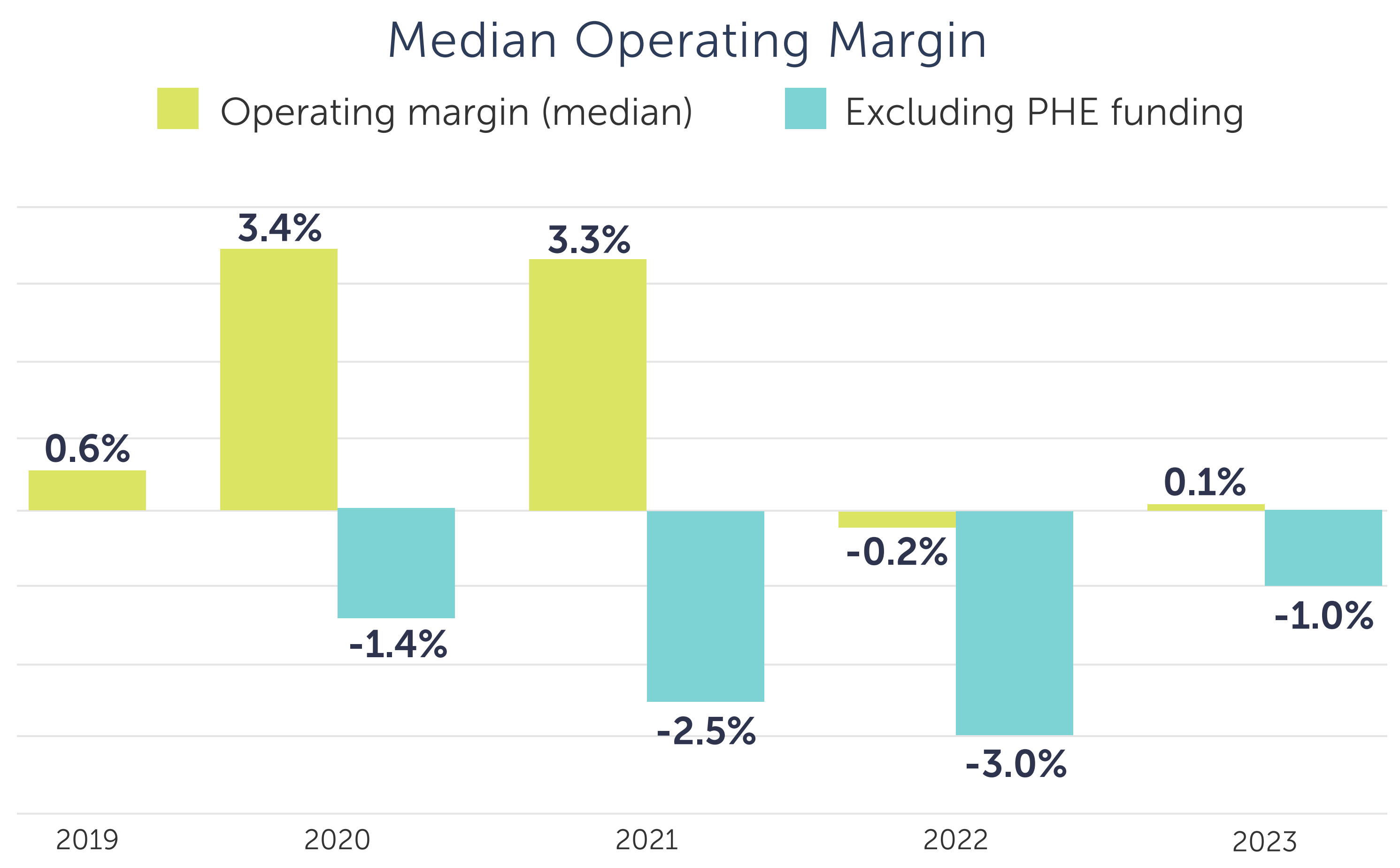
Each SNF's data was ranked numerically and stratified into percentiles. These summary statistics and our perspectives are intended to provide a general understanding of financial and operational trends. This report is not intended to provide any conclusions about correlation and dependence within the data.

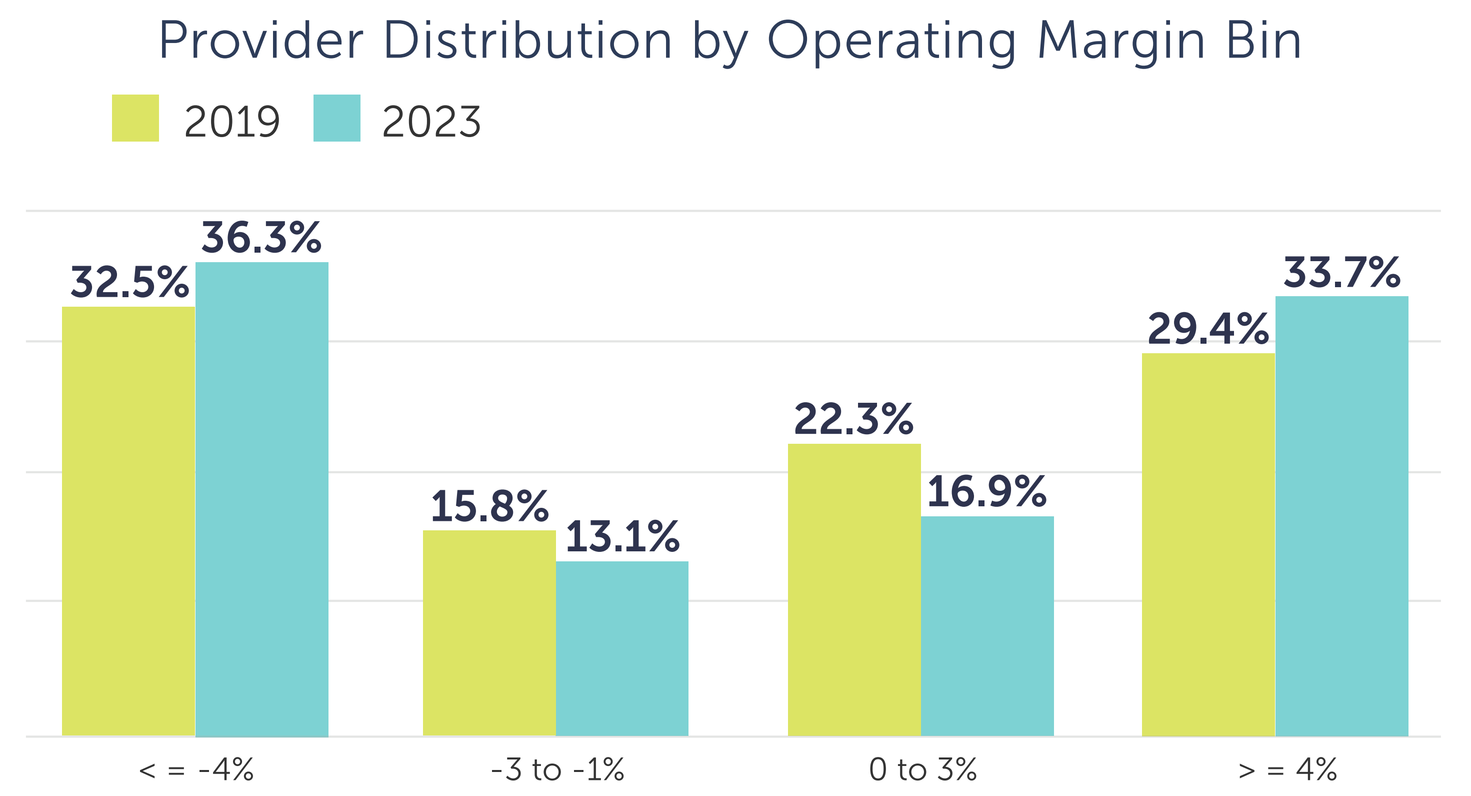
This publication also uses data sources for trending beyond fiscal year 2023, which includes the Payroll Based Journal (PBJ) Nurse Staffing for contract labor utilization and Claritas for population.

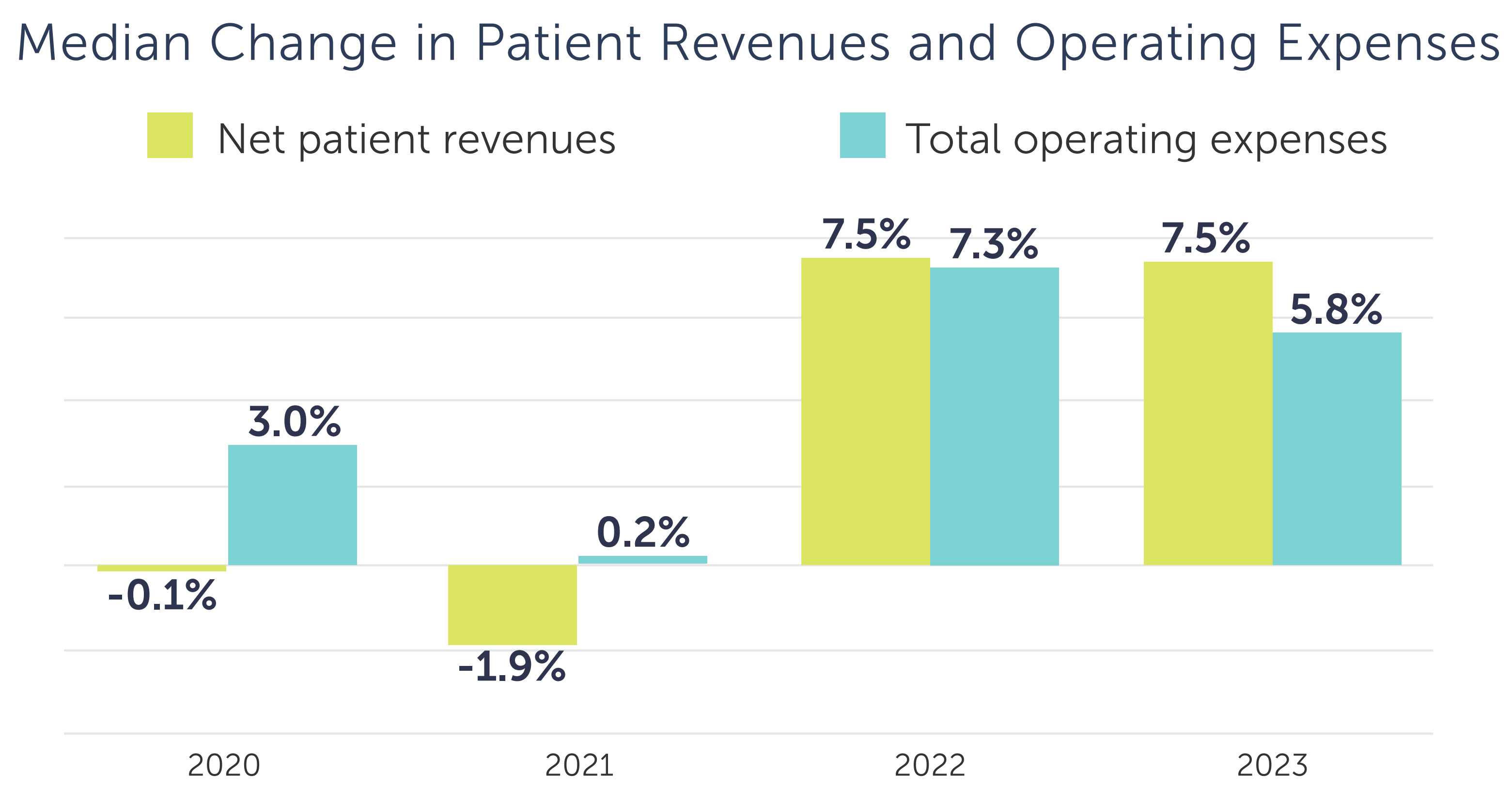
Ratio Analysis

Operating margin

For the first time since 2019, the median operating margin grew. Public health emergency (PHE) funds remain vital for many SNFs to maintain their 2023 budgets with a median margin of 0.1%, including PHE funds. Revenue growth has exceeded expenses, yet it's crucial to acknowledge this figure represents only the national median and that certain segments of the population still face economic difficulties.







Relative to 2019, the 2023 median operating margin is still not ideal.

Analyzing the distribution of providers by their operating margins reveals an expanding disparity between facilities with high and low margins.

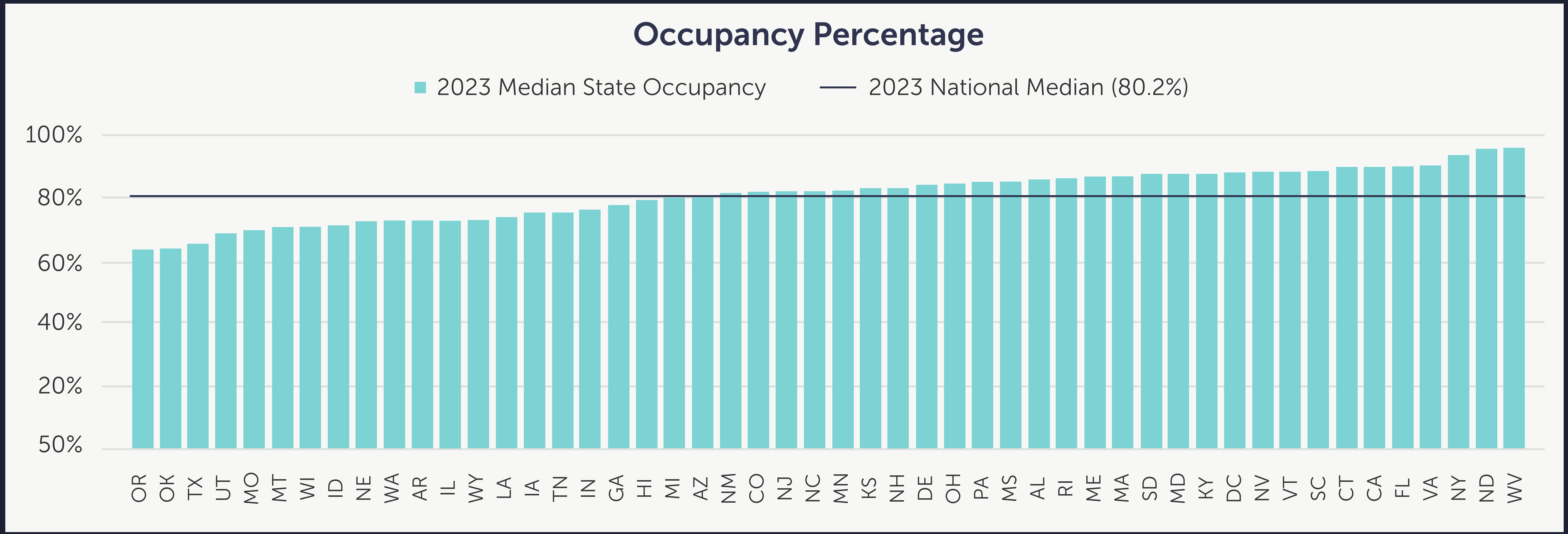
The visual to the left shows 36% of SNFs had margins at or below -4% in 2023, a 3% increase from 2019.

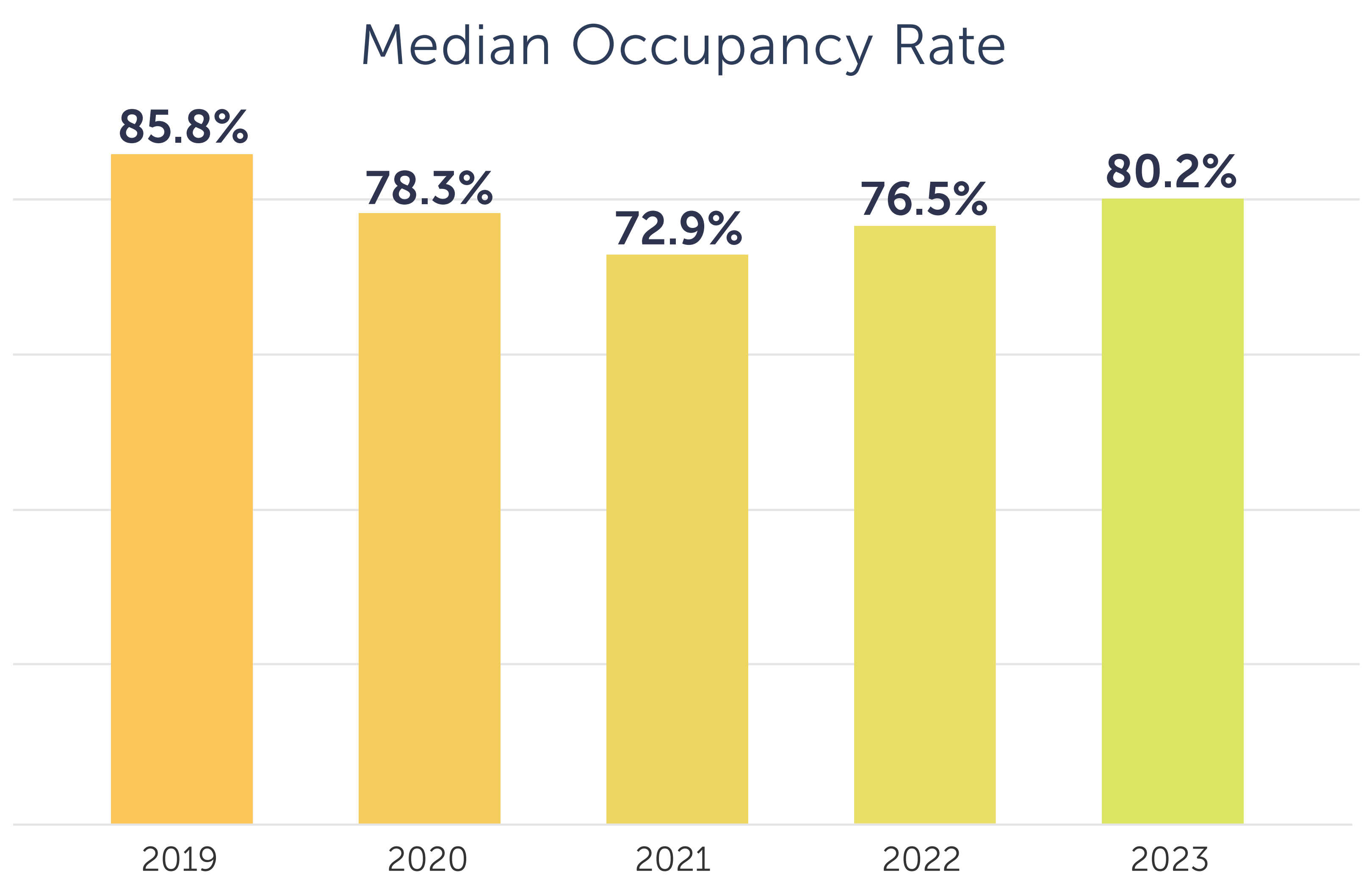
Simultaneously, more than one-third maintained margins of 4% or greater, up from 29% in 2019. This growing divide underscores the varying effects of broad-market trends versus individual operator circumstances.

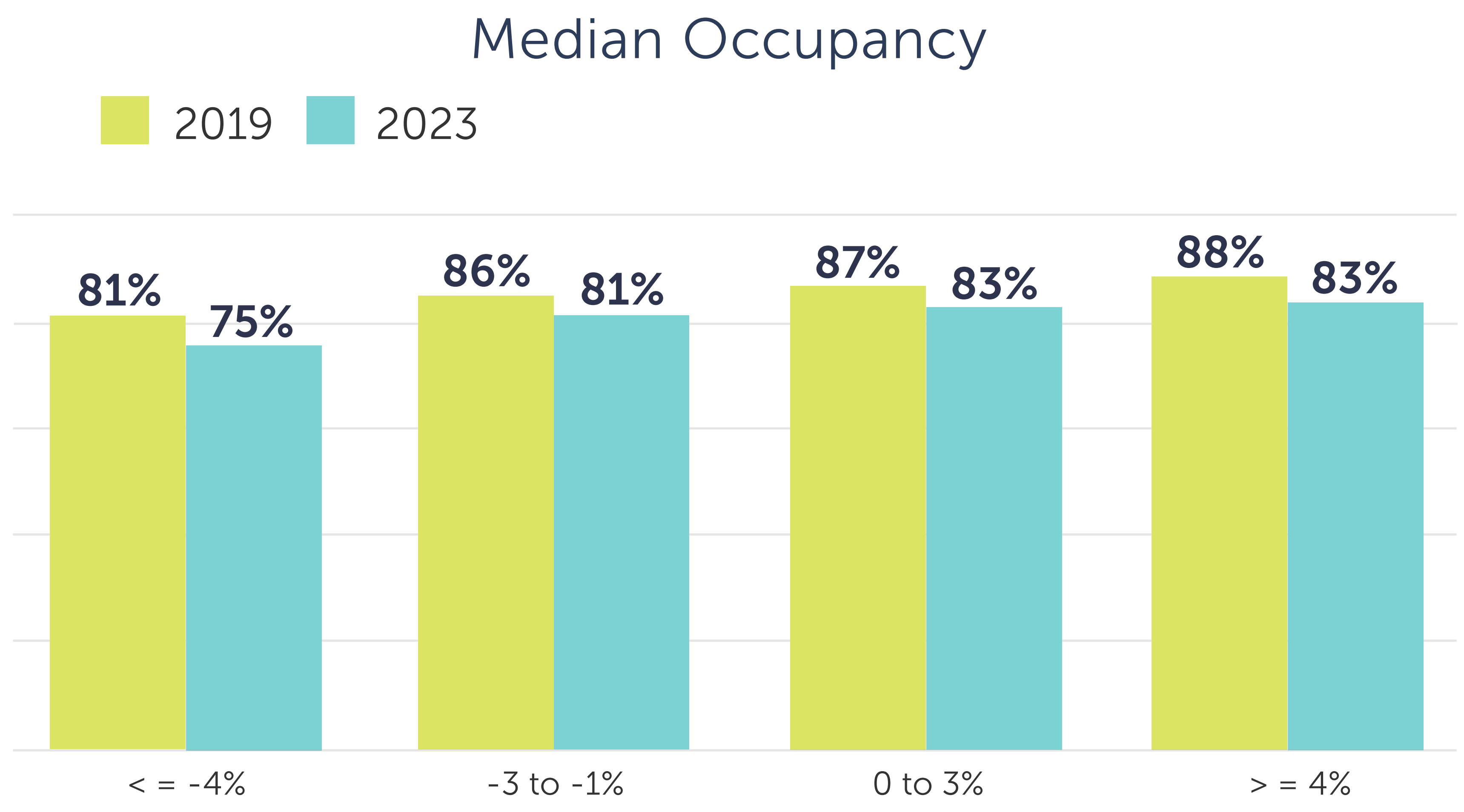
Occupancy

National median occupancy continued to improve throughout 2023 — though there is still opportunity for more in 2024. While the national median of 80% was a nice milestone, approximately one-third of facilities with operating losses of 4% or more lag behind both the 2023 median and their 2019 benchmark by approximately 5%.

Occupancy rates vary significantly across different states and markets, as well as among facilities with different margin levels. Disparity is also market driven, as states like Oklahoma, Texas, and Missouri continue to report occupancy percentages well below the national median, while states like New York, Connecticut, and Florida remain higher than the national median.







RATIO ANALYSIS: OCCUPANCY

The largest gap in occupancy between 2019 and 2023 appears in negative margin groups, indicating while occupancy impacts financial performance, it's not the sole factor. Financial health also relies on payor mix, staffing, and other crucial components.

It's essential to consider who is paying, the rates, and staff composition, along with outcomes. Imbalances between Medicaid reimbursement and actual rates in some states quickly result in negative margins, especially given labor cost discrepancies. High occupancy in 2023 doesn't guarantee profitability, highlighting the need for a multifaceted approach to financial health.

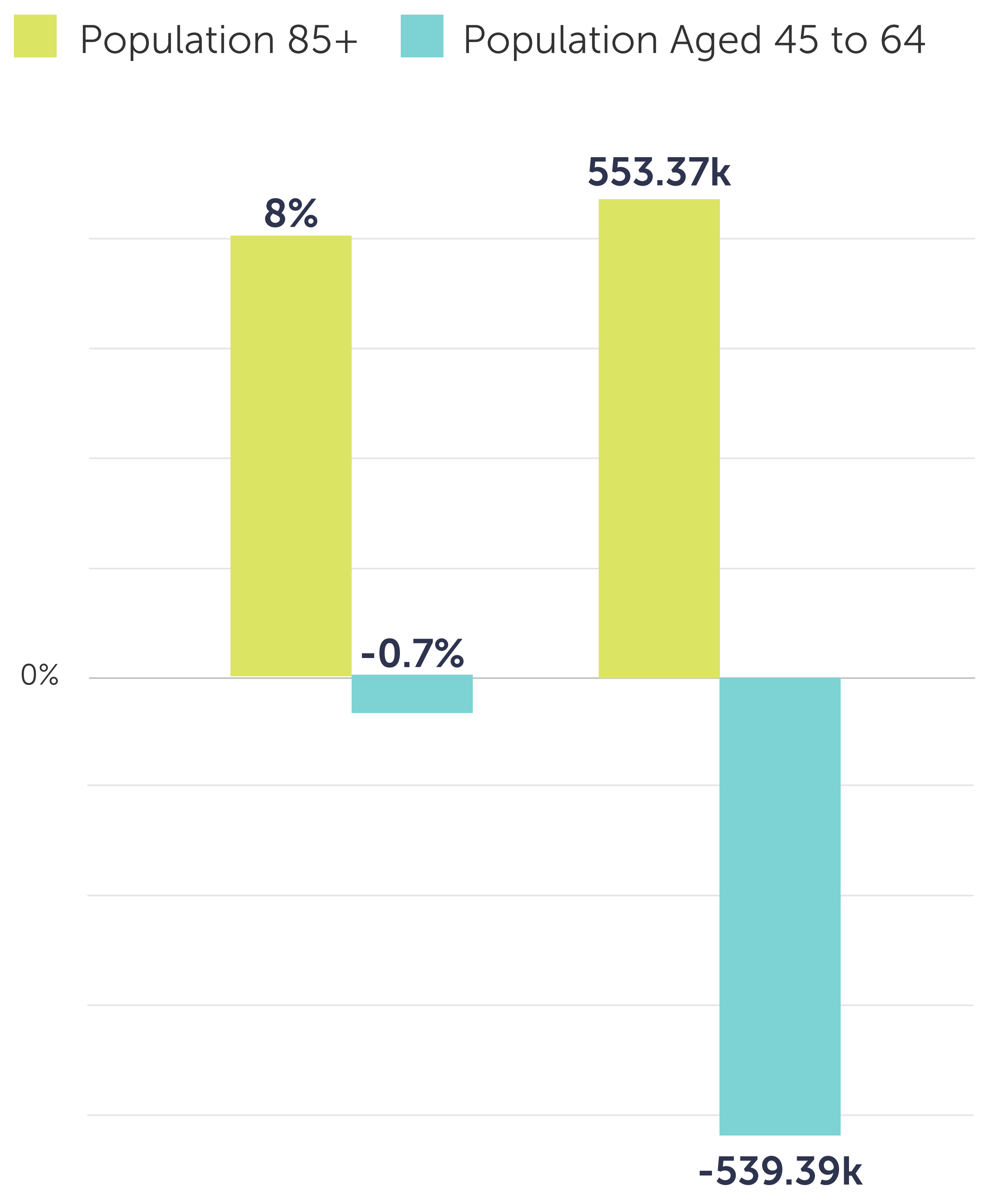
RATIO ANALYSIS: OCCUPANCY

Another factor affecting occupancy is the demographic shift of the elderly population and their adult children. The proportion of the population aged 45-64 to the age 85+ population can influence demand for formalized senior care. Persons aged 45-64 — adult children of the 85+ population — are considered possible caregivers.

A decrease in these possible caregivers may increase the number of seniors considering formalized senior care options, especially as acute care typically rises for those aged 85+. Having access to 24-hour nursing and trained caregivers is vitally important for those with intensive care requirements or requiring access to more services.

On an aggregate number basis, between 2023 and 2029 there is a projected increase in the 85+ population of greater than 550,000 while the number of potential caregivers decreases by almost 540,000 per Claritas' population data.

Estimated Change from 2023 to 2029



RATIO ANALYSIS: OCCUPANCY

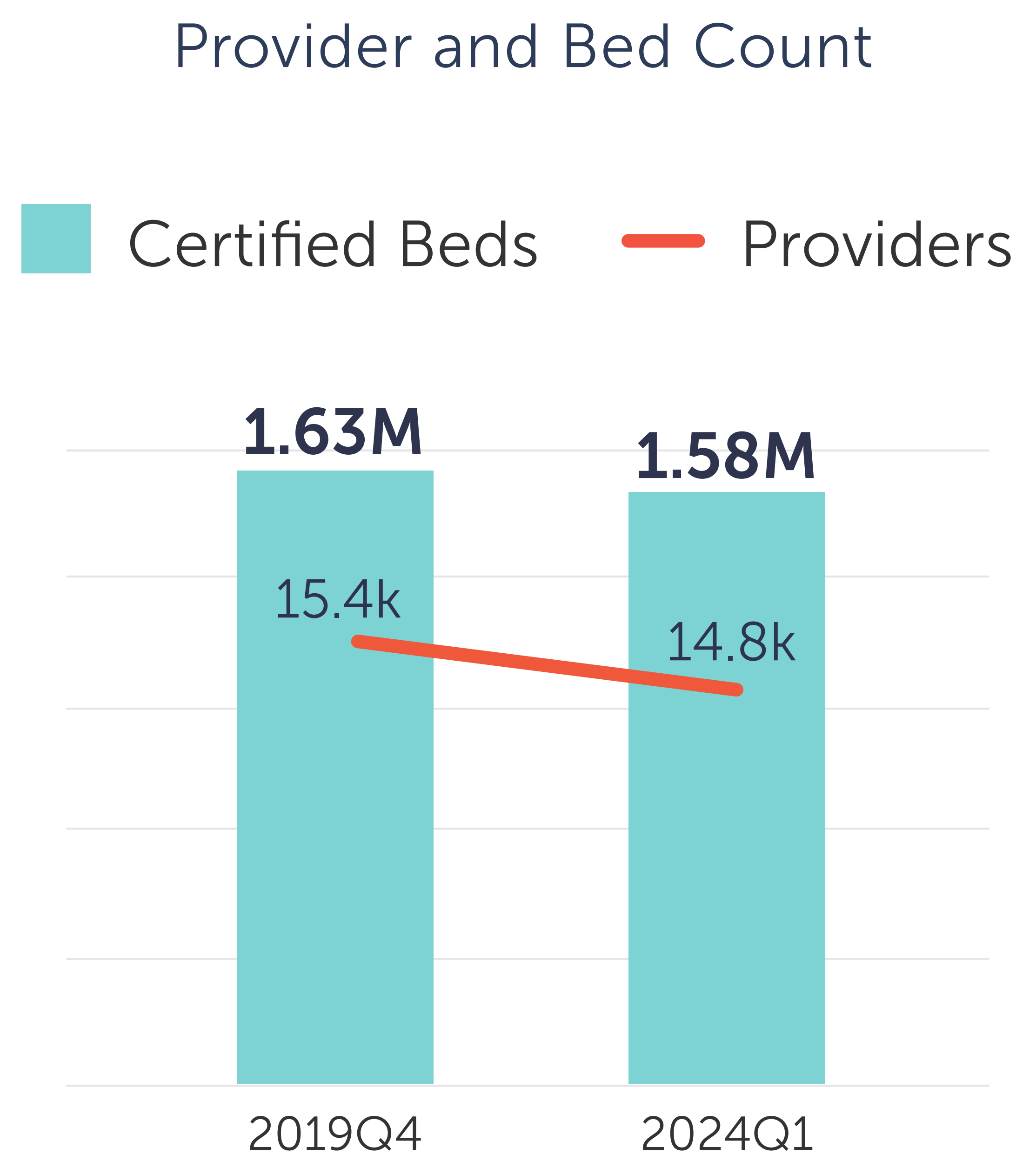
While the population growth of older adults is outpacing potential caregivers, the number of licensed nursing facilities and certified beds has declined.

Although some bed reductions may indicate surplus capacity in select markets, there's a subset representative of the economic challenges of operating a facility providing services to long-stay patients funded primarily by a state's Medicaid program.

As a result, some operators are straining to maintain a SNF and sustain operations on narrow margins or else exit the market altogether. This is leading to greater consolidation in the SNF space, as the gap between the haves and have-nots is widening.

Pressure on labor, reimbursement rates, and a variety of other market and financial factors are contributing to reductions in facilities and beds. **AHCA's recent report noted various factors**, including:

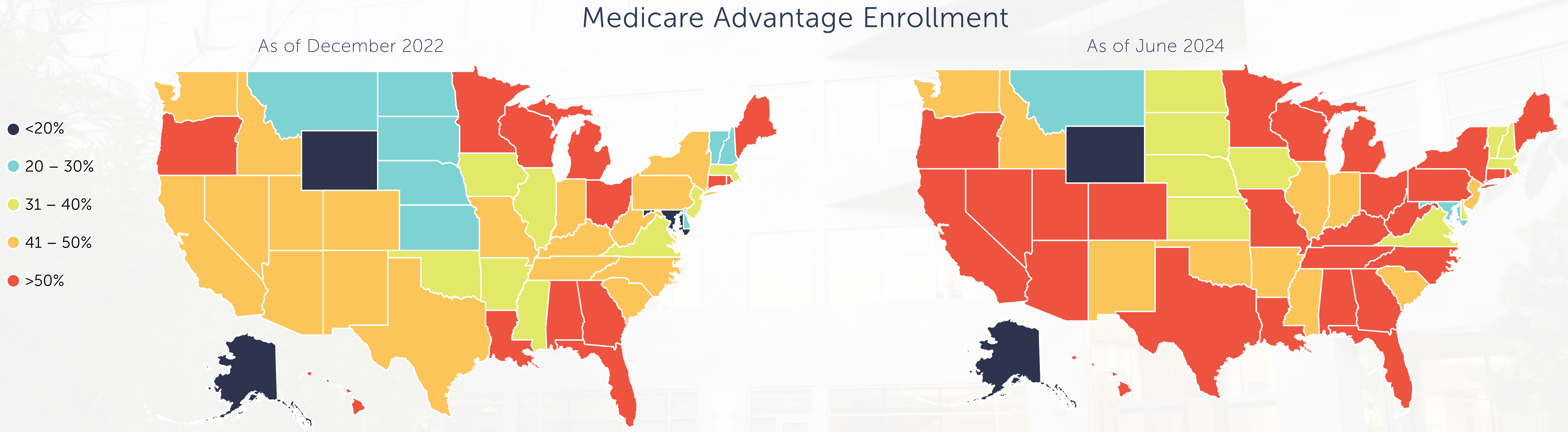
- **Care crisis** — Nursing homes face severe access challenges due to economic pressures, labor shortages, and underfunding.
- **Admissions limited** — 46% of nursing homes limit new admissions; 57% have waiting lists.
- **Closures and downsizing** — Since 2020, 774 nursing homes closed, with 62,567 beds lost and displacing 28,421 residents.



Payor Mix

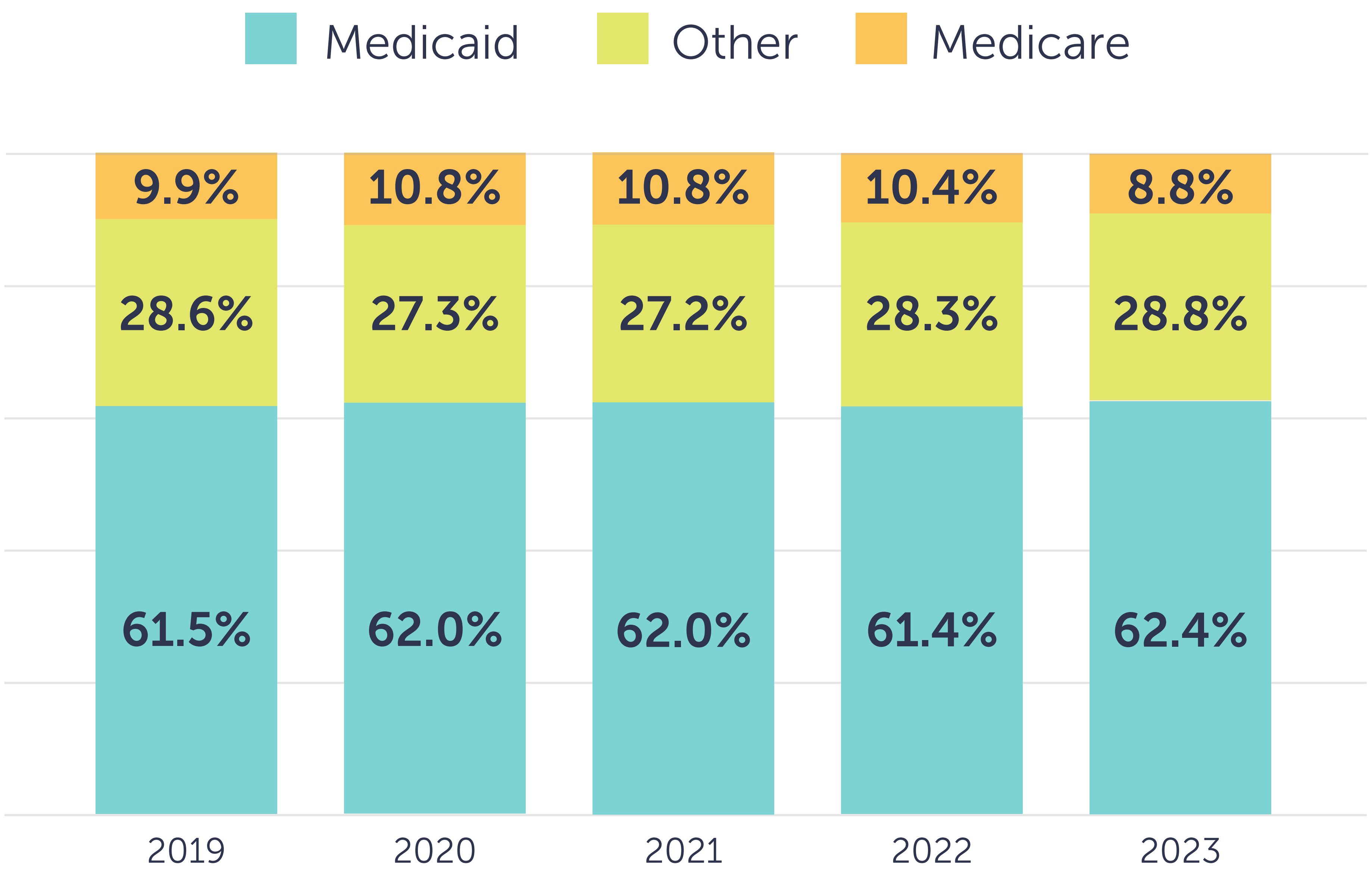
Understanding the reimbursement structure for payor mix is crucial for SNFs, which rely heavily on government-funded programs such as traditional fee-for-service (FFS) Medicare, Medicaid, and Medicare Advantage plans. The average payor mix indicates the proportion of total occupied resident days covered by different payment sources.

Median traditional FFS Medicare mix is the lowest it's been in at least five years, while Medicaid remains steady and Medicare Advantage continues to expand rapidly. In just 18 months, the number of states reporting Medicare Advantage enrollment of 50% or more has doubled, now representing half of the country. States like Washington, New Mexico, and South Carolina are not far behind.

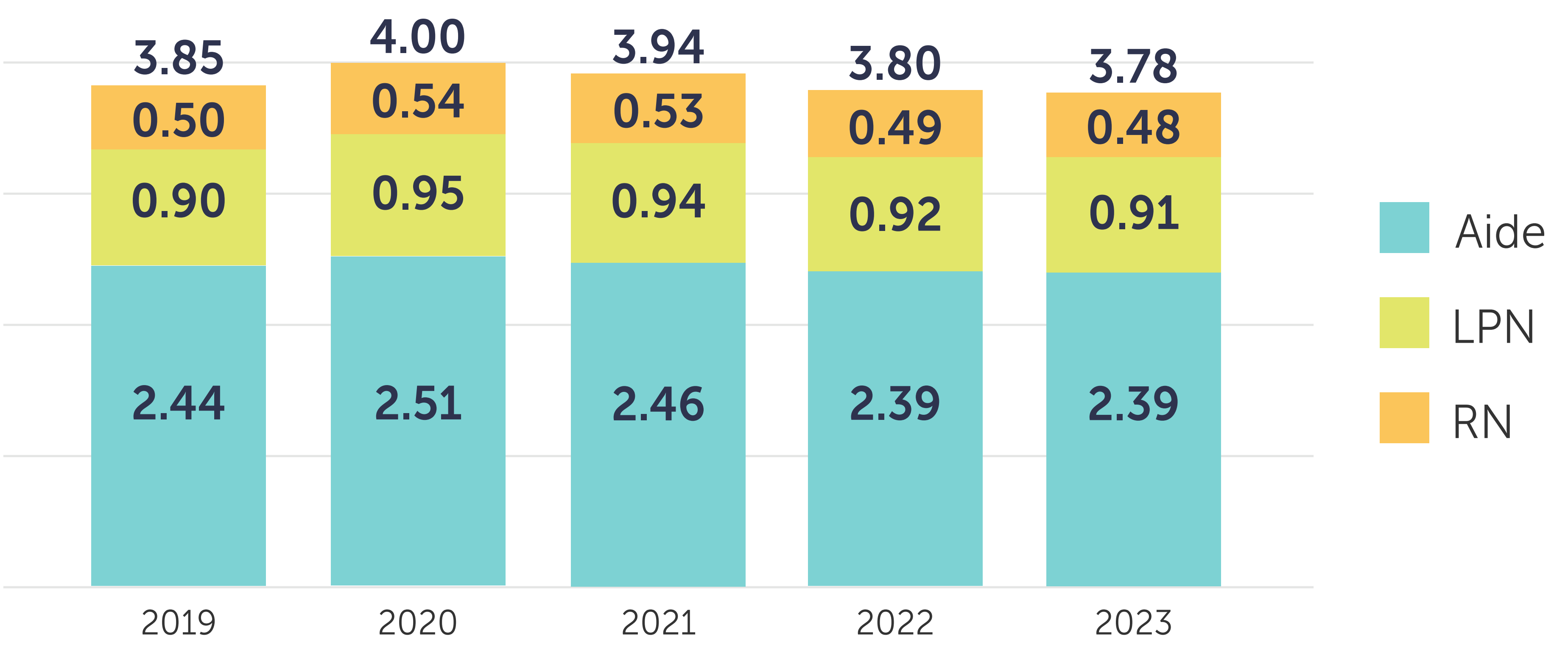


RATIO ANALYSIS: PAYOR MIX

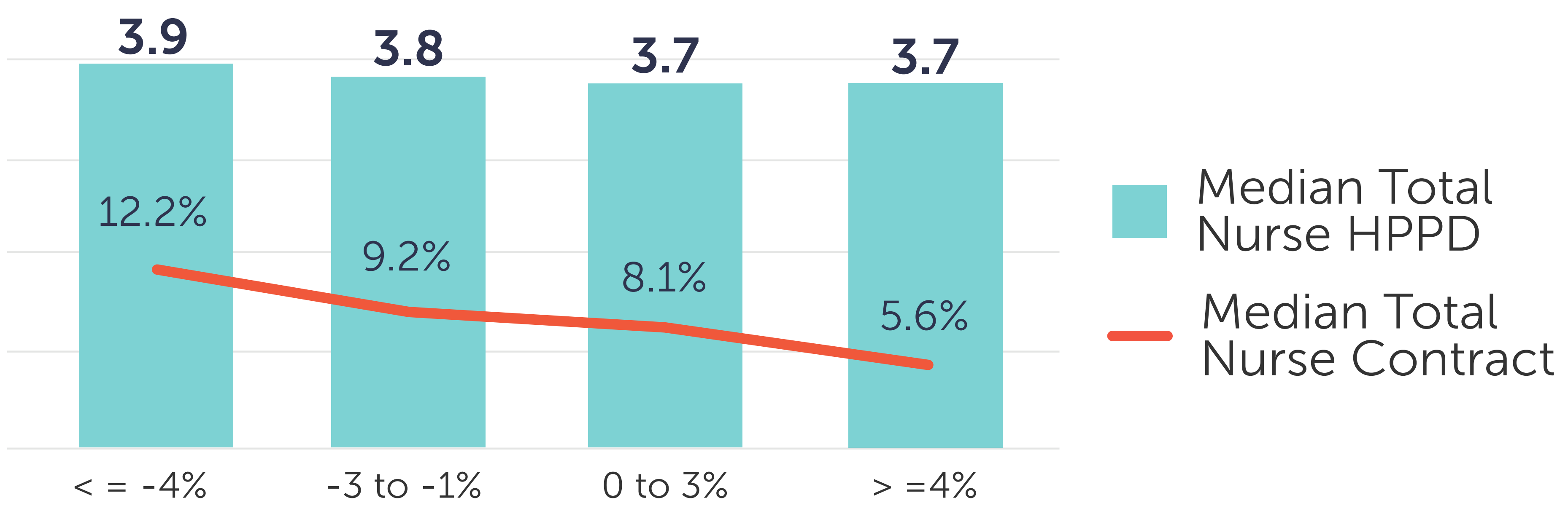
Medicare Advantage often results in lower reimbursements compared to traditional FFS Medicare; however, strong partnerships with Medicare Advantage can lead to higher facility occupancy — thus offering more revenue potential. This is especially true for facilities participating in value-based care models and possessing strong referral networks. Nonetheless, it's critical to concentrate on controlling care costs and delivering quality care — particularly when determining the makeup of direct care nursing staff between contract and employed nurses — along with leveraging direct care nurse staffing. Alignment between the payor and provider is becoming increasingly essential, reinforcing a trend starting in 2019 and showing significant maturity by 2023.



Median Paid Nursing Hours per Resident Day

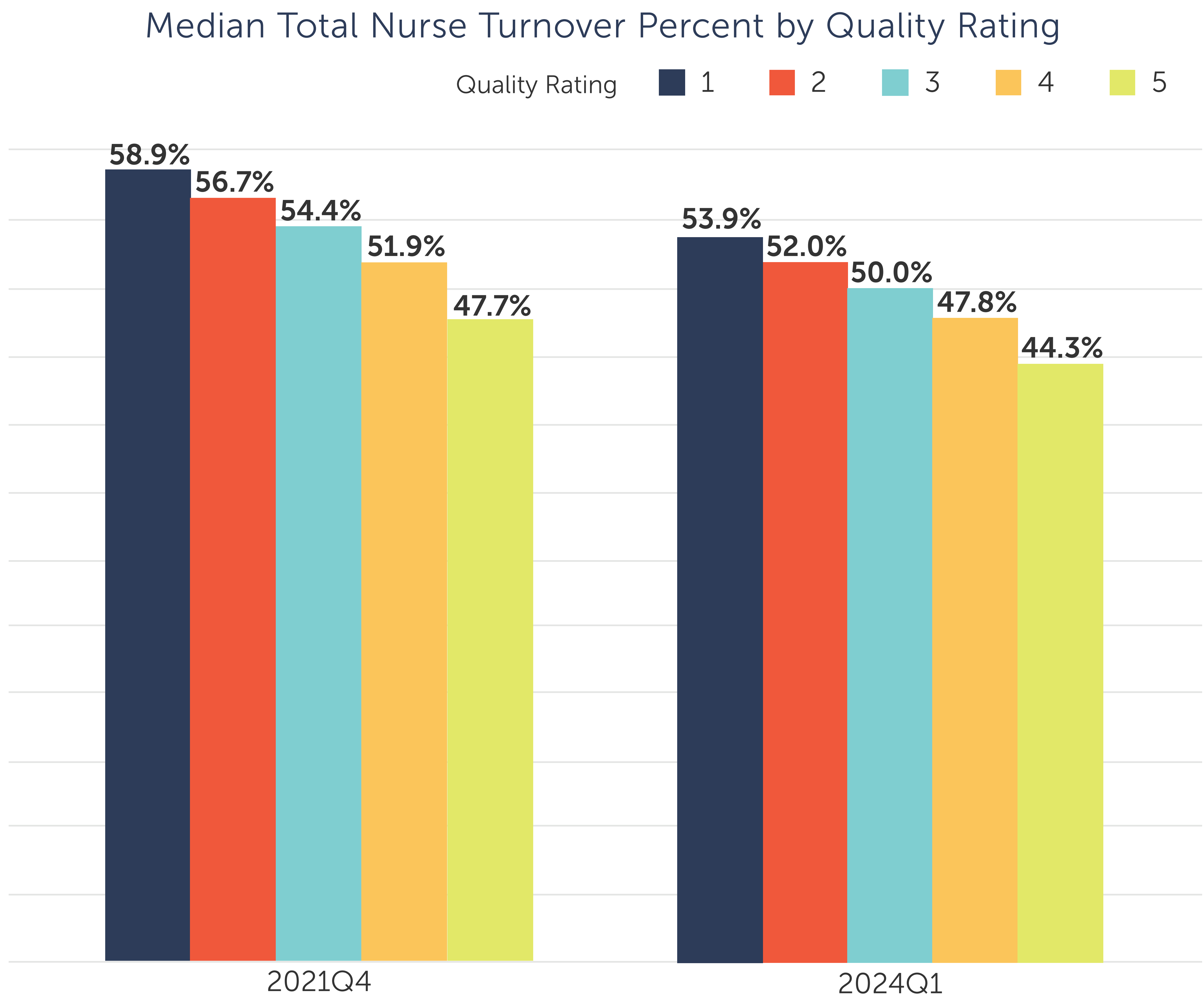


Nursing Utilization by Operating Margin Bin



Labor and workforce

Workforce expenses remain a significant factor affecting SNF operations and financial health. Facilities reporting losses showed higher median nursing hours per resident day and more contract labor use than those with profit margins of 4% or higher. While this observation should not immediately lead to conclusions about using contract labor — which can be an appropriate and necessary approach — it raises considerations regarding the impact of upcoming staffing regulations expected to increase demand for direct care nurses.



RATIO ANALYSIS: LABOR AND WORKFORCE

Turnover is a driver of increased contract labor, as operators must very quickly find direct care nurses to meet operational and regulatory requirements.

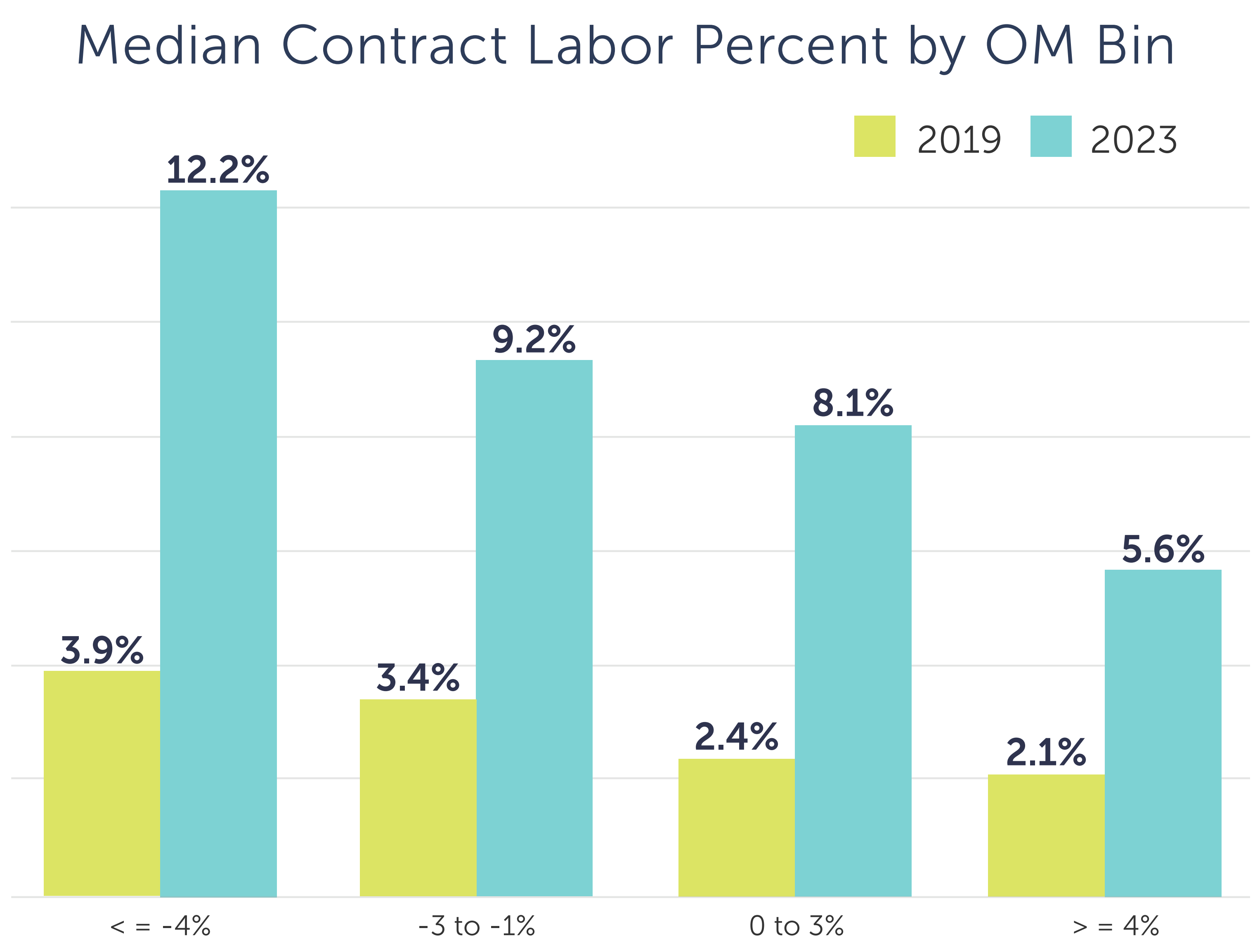
Median total nurse turnover has declined approximately 5% from the fourth quarter of 2021 to the first quarter of 2024, staying at 50% for most facilities.

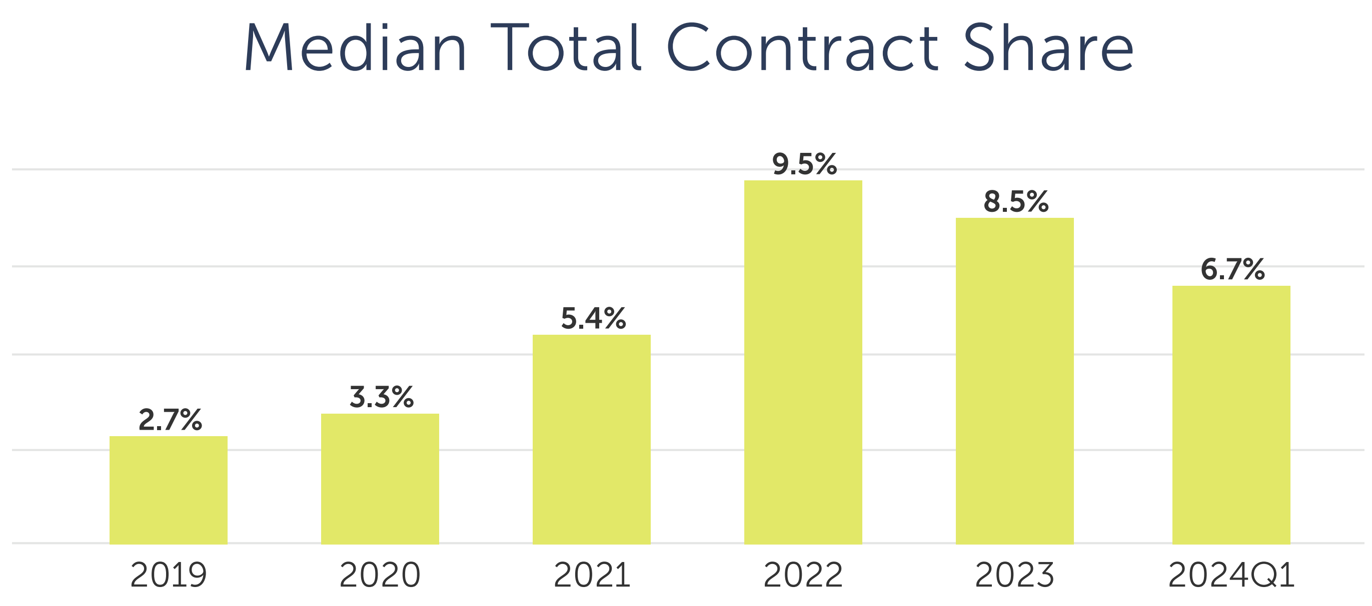
Facilities with a quality rating of 5 have a median turnover about 10% lower than those with a rating of 1, yet still report a median around 48% (Q4 2021) and 44% (Q1 2024).

While total nurse turnover has declined in the quarter shown below, the correlation between higher quality ratings and lower turnover remains, with higher-rated providers experiencing less turnover and lower-rated ones seeing more.

RATIO ANALYSIS: LABOR AND WORKFORCE

Since 2019, there's been an uptick in contract labor across all levels of operating margin, particularly within facilities experiencing losses of 4% or more. SNFs with financially sustainable margins often avoid relying on contract nurses. Further, operators have been actively trying to reduce contract labor, noting higher occupancy rates and less contract labor correlate with better operating margins. This observation coupled with the narrow range of total nurse hours per patient day, 3.9 to 3.7 by operating margin category, indicates the significance of nurse composition — contract versus employed — as it affects profit margins.



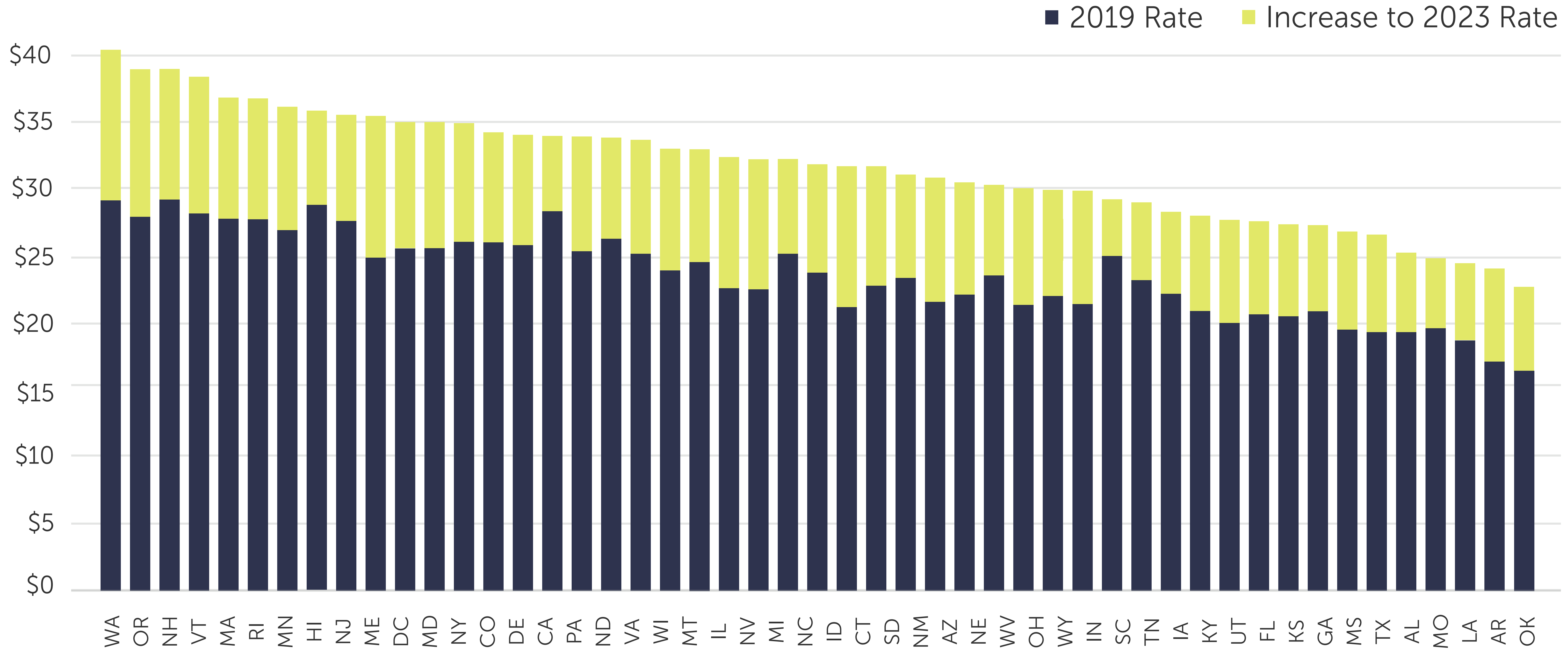


There is a positive outlook for operators looking to recruit and retain employed nurses as contract labor use declined from 2023 to the first quarter of 2024, continuing to trend away from double digits.

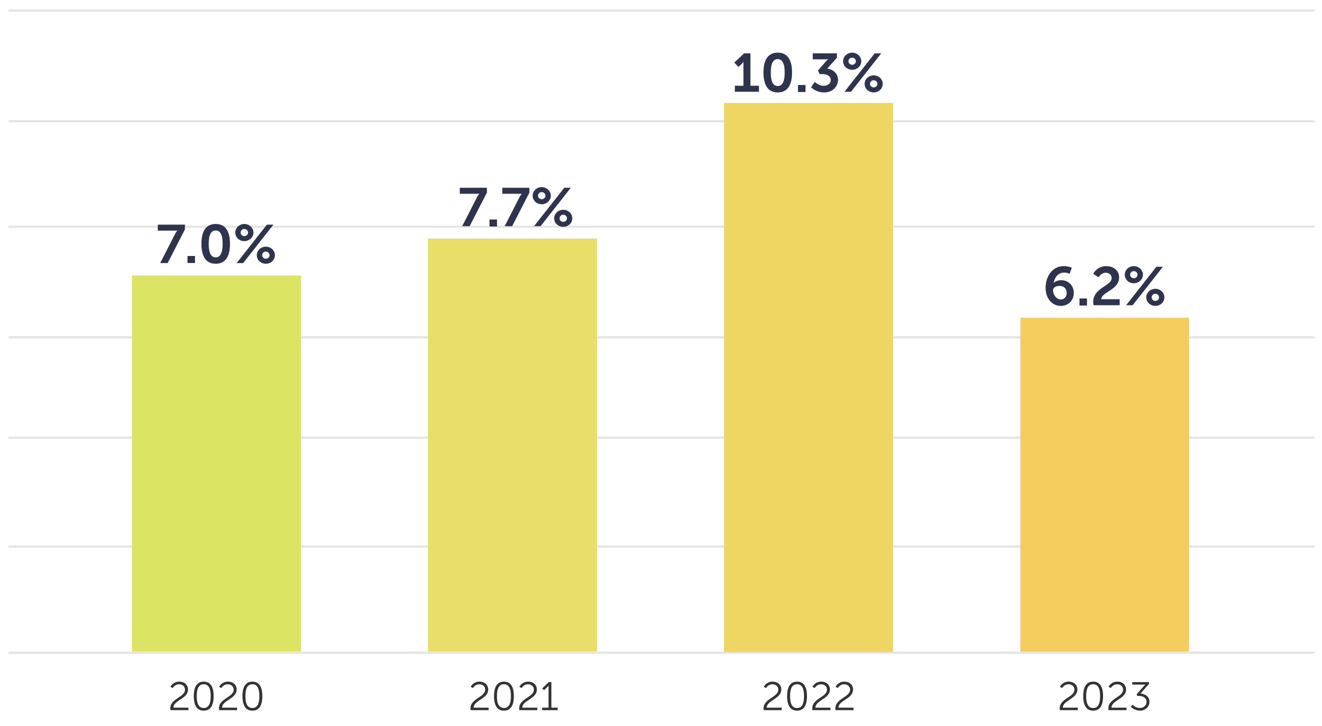
RATIO ANALYSIS: LABOR AND WORKFORCE

Another factor for optimism around labor is wage rate stabilization. Over the past few years, monitoring inflation has been extremely challenging. Since 2019, wages have risen by as much as 30%. Although the economic situation may seem unstable, many operators have adjusted to wage rates and set budgets aligning with the current market.

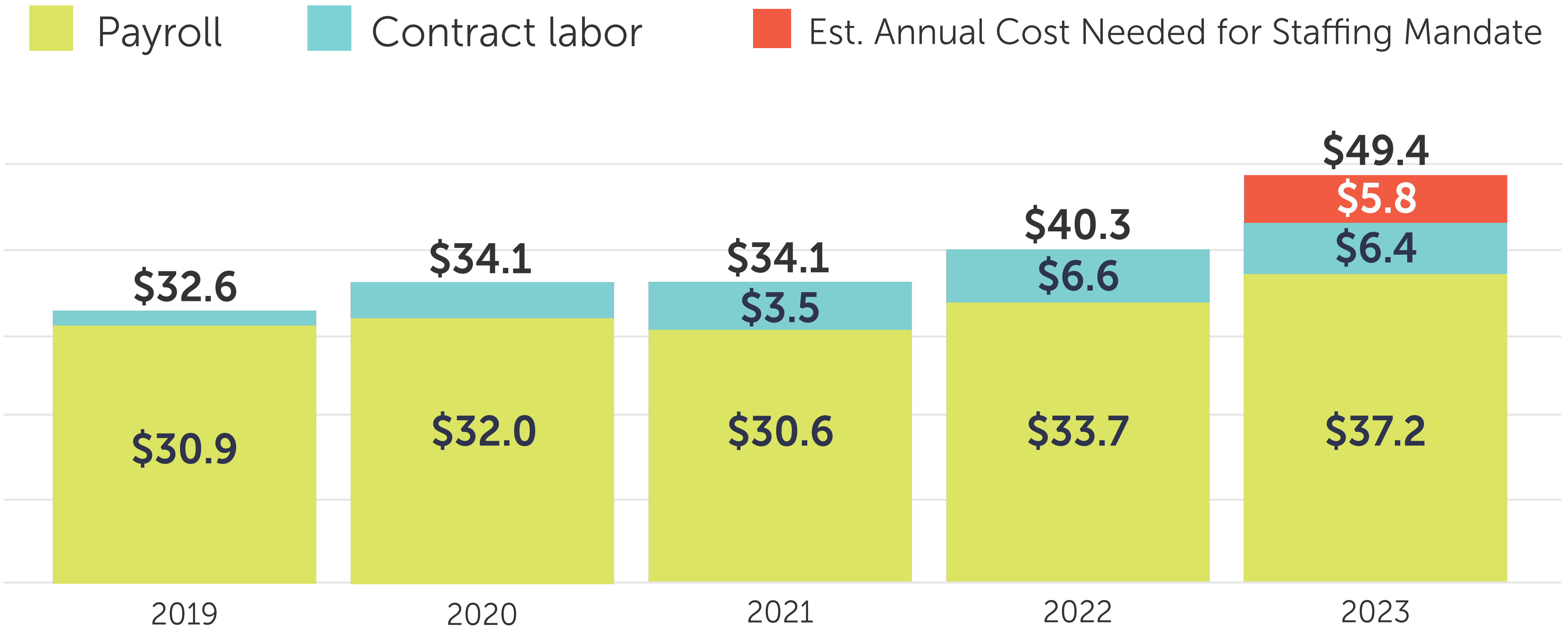
Median 2023 Total Employed Nurse Hourly Wage



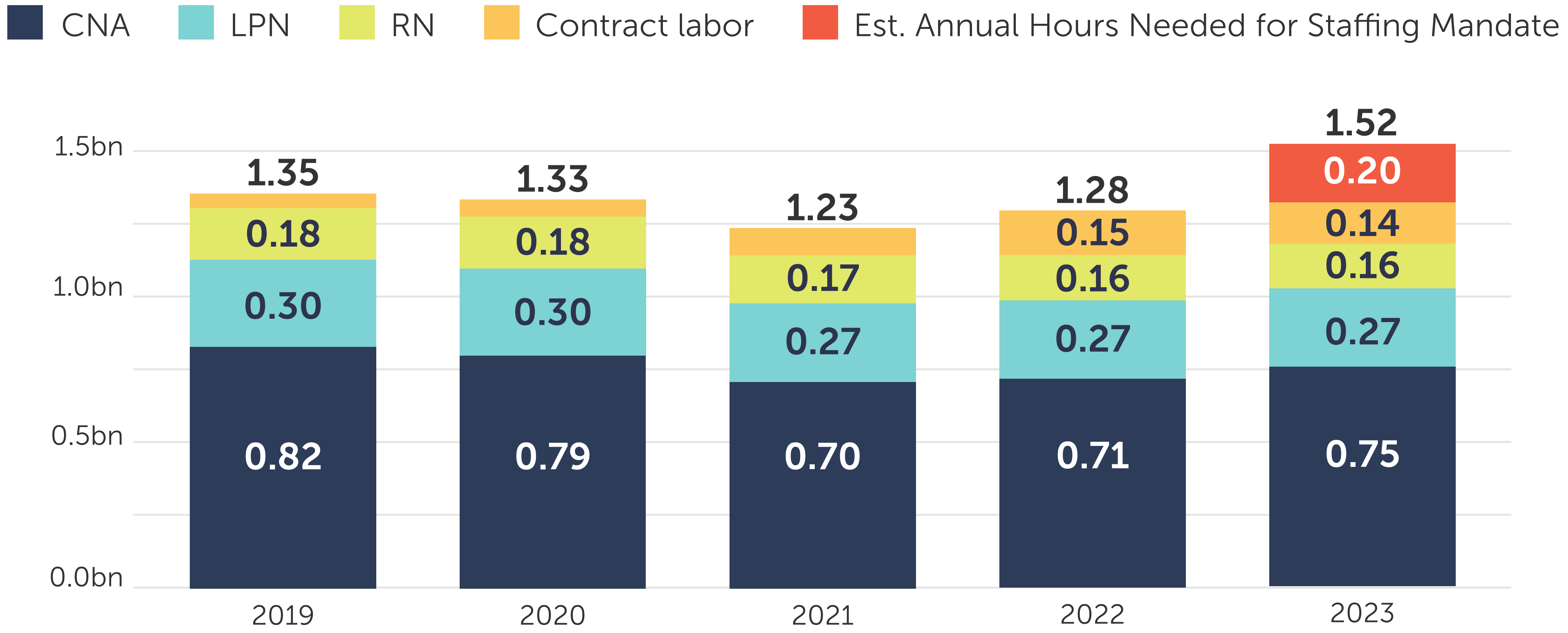
Growth Rate in Average Overall Nursing Hourly Wage



Direct Care Nursing Expense by Source (billions of dollars)



Paid Nursing Hours (in billions)



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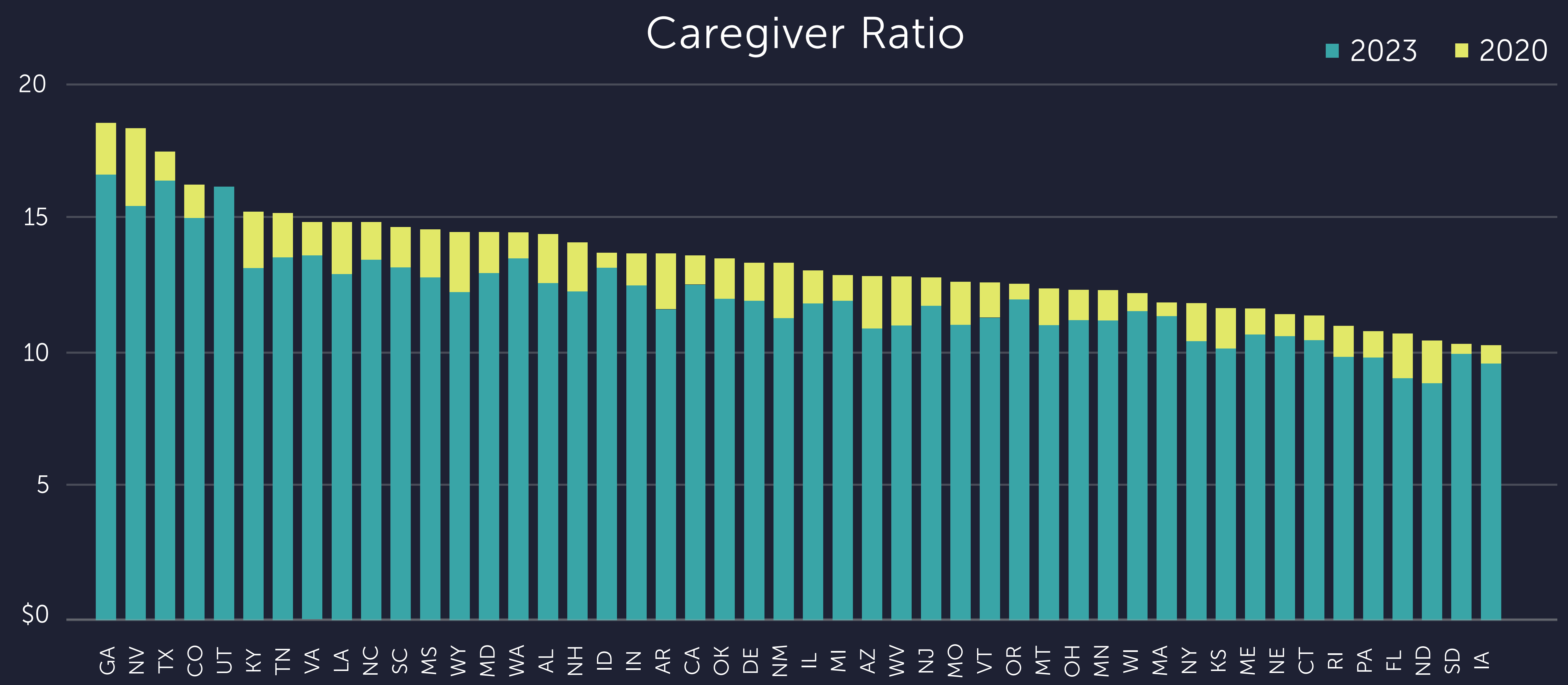
RATIO ANALYSIS: LABOR AND WORKFORCE

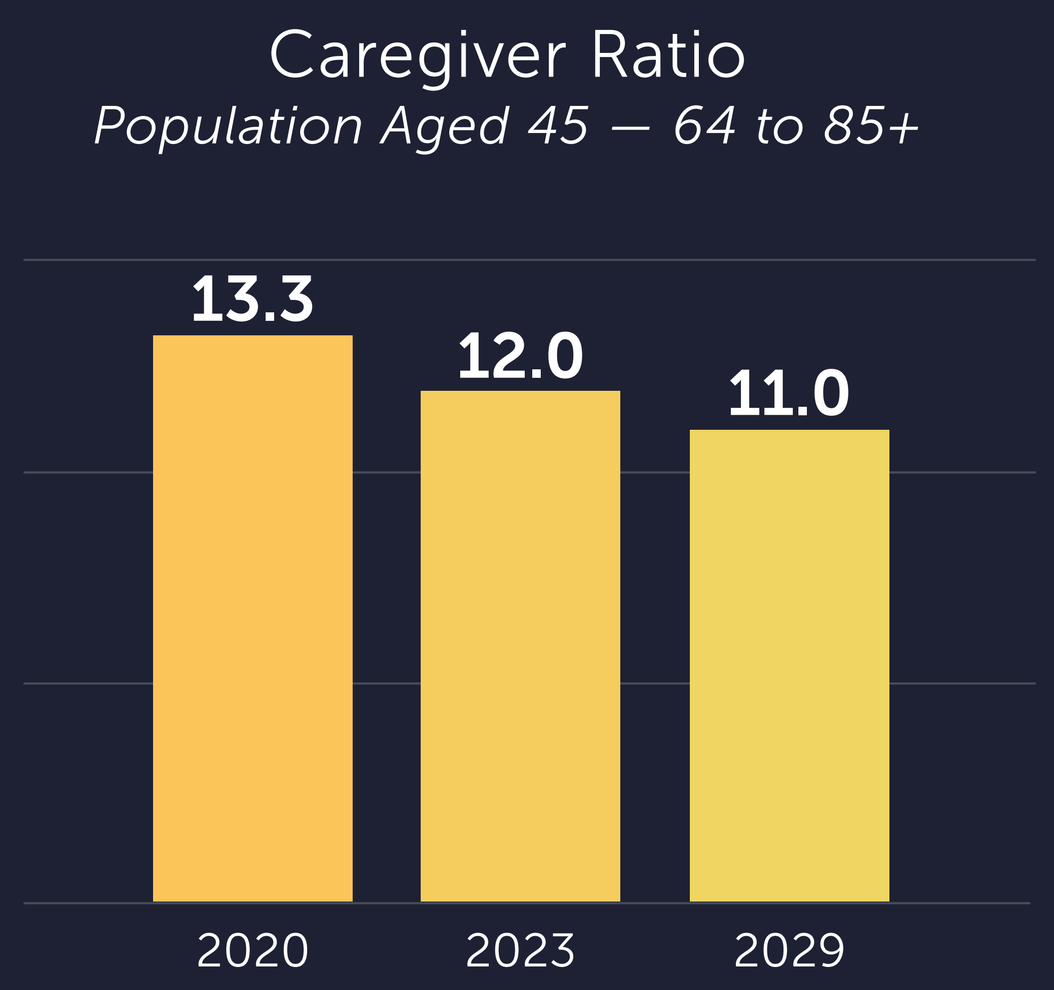
In 2022, the proposed staffing mandate was released. Coincidently, that same year, there was a significant increase in contract labor due to census recovery and facilities struggling to recruit and retain self-imposed staffing levels.

With these trends, direct care nursing expenses are climbing, and with the mandate now finalized, **an additional $5.8 billion labor expense may be looming** for the industry to somehow absorb. This raises a critical question about how facilities can sustain staffing levels in the face of growing census numbers and a limited labor supply.

There are notable disparities in population across different regions and states, especially when comparing caregivers' availability to those in need of care. The balance of supply and demand for SNF services also varies by geography. Effective, well-managed care offering around-the-clock direct assistance and diverse service options will likely become increasingly necessary. As SNFs report margins of less than or equal to -4%, with an associated trend in closing facilities and reducing bed capacity, the current financial trends don't seem to align with the projected long-term needs of the nation. When considering policy implications such as the federal minimum staffing mandate, access to care could become severely problematic in areas experiencing the most significant demographic changes.

While these dynamics differ by region, payer mix, and policy setting, a widening gap is evident between entities with sustainable operating margins and those without. As the caregiver ratio declines, adults aged 85+ could experience greater pressure to find suitable care. With fewer adult children available to provide care, more older adults may need to enter a nursing facility, intensifying the need for direct care nursing staff.





Conclusion

The SNF industry is at a critical juncture where leaders must shift from a crisis-management mindset to a strategic, forward-looking approach. By understanding the current environment, adapting to new realities, and investing in quality and efficiency, SNF operators can navigate this challenging period and emerge stronger. For those still finding their footing, the priority should be assessing the landscape thoroughly, developing a clear strategic direction, and stabilizing and improving financial performance.

During the height of the pandemic, SNFs were overwhelmed with managing the immediate health crisis, staffing shortages, infection control, and rapidly changing regulations. This short-term focus likely diverted attention from broader strategic issues. Many SNFs operated on thin margins pre-COVID, and the pandemic exacerbated financial stress through increased costs (e.g., PPE, testing, and staffing) and fluctuating occupancy rates.

CONCLUSION

The post-pandemic environment for SNFs

The health care landscape has changed significantly due several factors including shifts in payer dynamics (e.g., growth of Medicare Advantage), new regulations, workforce challenges, and changes in patient preferences. Many SNF leaders are now grappling with these changes without the preparation or strategic foresight that might have been possible without the pandemic's disruptions.

Data indicates many SNFs are experiencing tighter margins due to persistent labor costs, lower reimbursements, and occupancy challenges. At the same time, some facilities that adapted well or had favorable market conditions have maintained or even improved their margins. There's a growing disparity between facilities that adapted quickly to the new environment and those still struggling. This disparity is likely to widen as external pressures persist.

Recommendations for SNFs

Comprehensive environmental assessment

Market analysis — Conduct a thorough analysis of the current market conditions, including payer mix changes, demographic trends, and competitive landscape. Understanding where your facility stands relative to these factors is crucial.

Regulatory and policy monitoring — Stay updated on regulatory changes and how they impact operations, particularly in terms of staffing, reimbursement, and quality reporting.

Strategic planning

Long-term vision — Develop a long-term strategic plan addressing current and future challenges. Include scenarios for continued labor shortages, reimbursement shifts, and potential economic downturns.

Diversification — Consider diversifying services, such as adding higher-margin care options (e.g., short-term rehab, memory care), and exploring relationships with other health care providers to create a more resilient revenue model.

Operational efficiency

Cost management — Focus on operational efficiency, including workforce management, technology adoption, and supply chain enhancement. Reducing reliance on expensive contract labor and improving care quality can help stabilize margins.

Quality improvement — Invest in quality improvement initiatives to enhance care outcomes, improve occupancy rates, and strengthen payer relationships. High-quality care facilities often have better financial performance and more negotiating power with payers.

Leadership and workforce development

Leadership training — Equip your leadership team with the skills and knowledge to navigate this complex environment. This includes financial acumen, strategic planning, and change management.

Workforce stability — Invest in your workforce through training, career development, and improving workplace culture to reduce turnover and enhance care quality.

Stakeholder engagement

Investor communication — Provide transparent communication to investors about the challenges and strategies being implemented. This will help maintain confidence and support for necessary changes.

Advocacy — Engage with industry associations and policymakers to advocate for favorable reimbursement policies and regulatory environments supporting the sustainability of SNFs.

CONCLUSION

We are here to help.

- **Digital solutions and data driven insights**
- **Reimbursement advisory** and cost report preparation
- **Patient-driven payment model (PDPM) assessments**
- **Operations and clinical performance improvement**
- **Strategic planning and financial modeling** (CLA Intuition®)
- **Outsourced accounting**
- **Tax strategy** and compliance
- Financial statement **audit** and compliance
- **Strategic planning services for health care providers**

A Deeper Dive — Join Our Complimentary Webinar

Wednesday, November 6 from 11 a.m. – noon CT

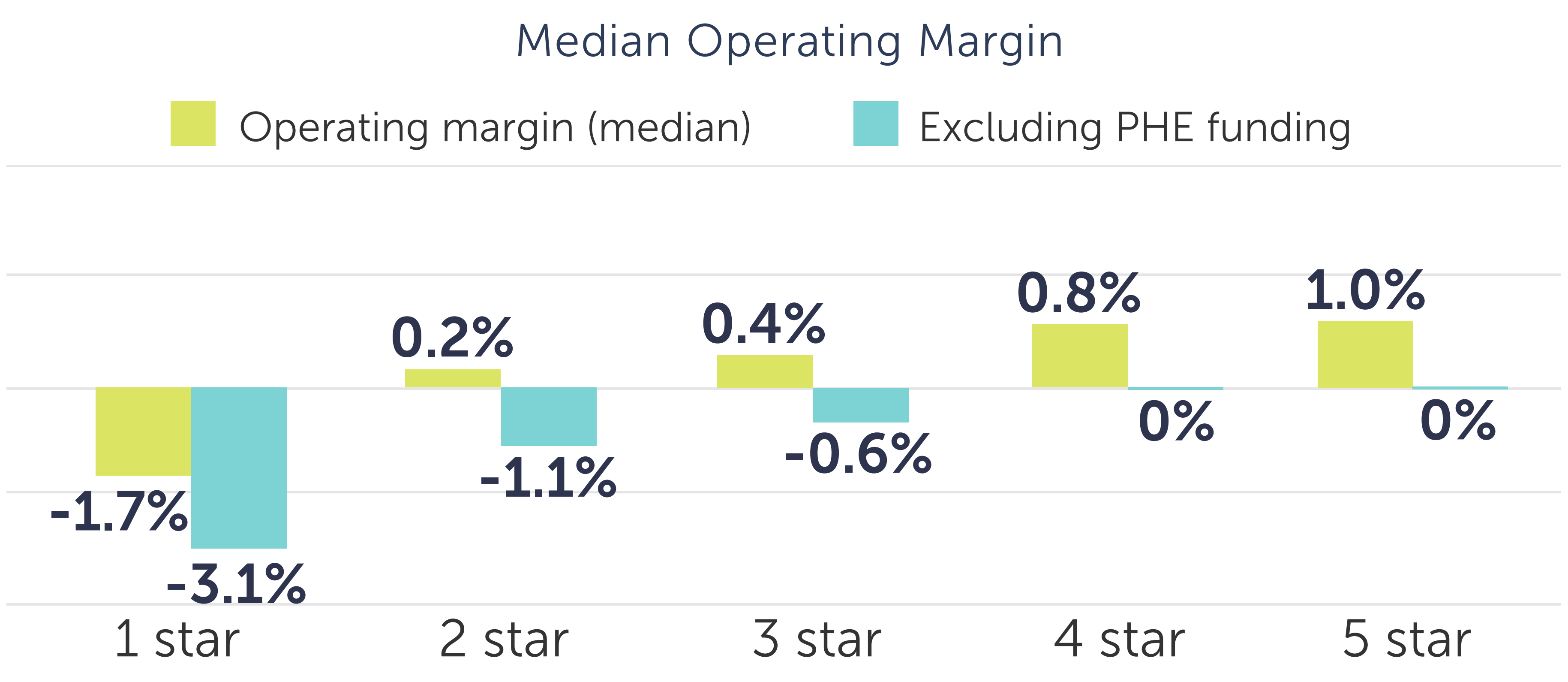
Dig into the trends and strategies outlined in CLA's 39th Annual SNF Report. We'll discuss the key factors impacting operating margins and what we're seeing organizations do to build a strategic path to a financially viable future.

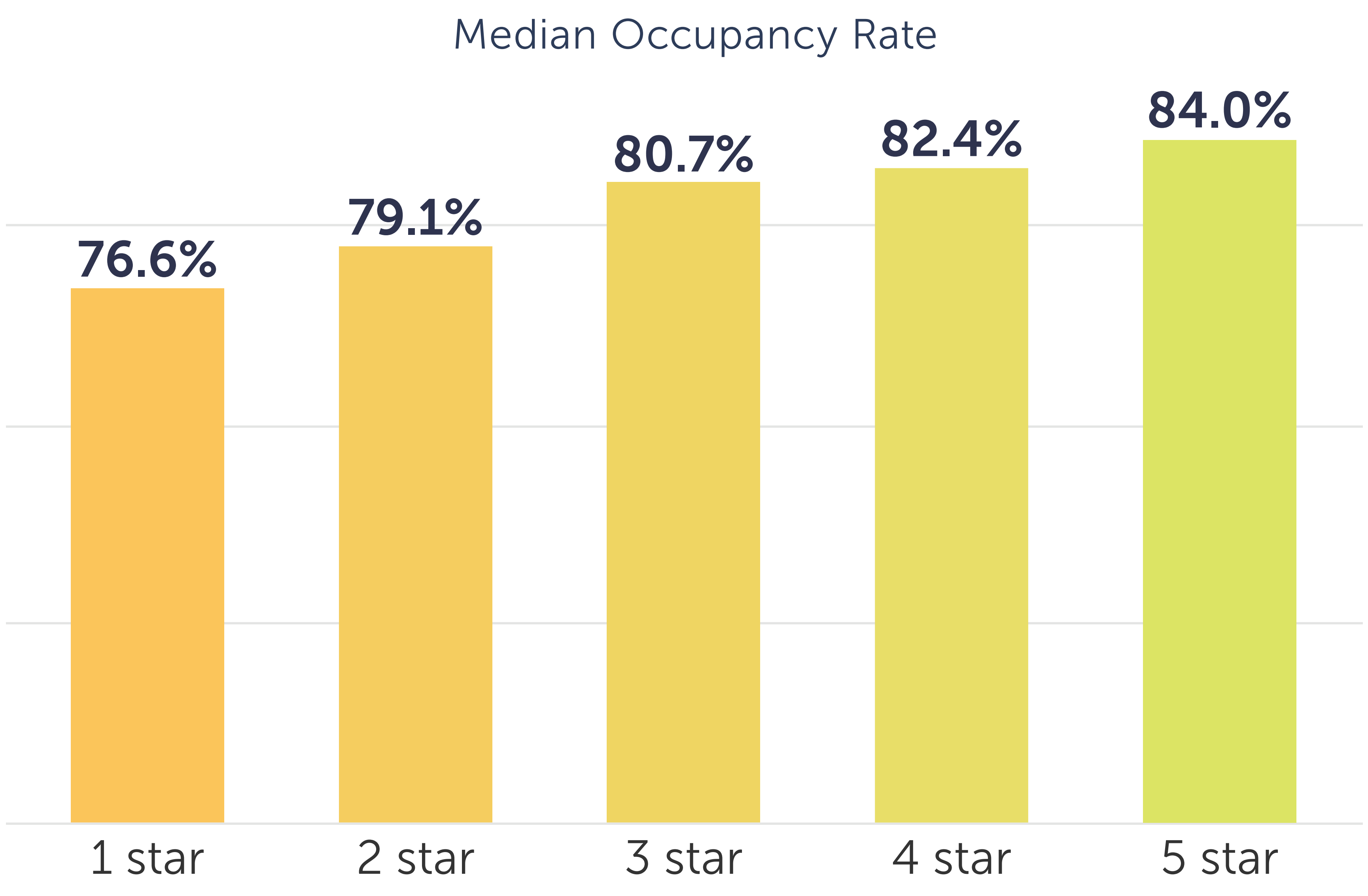
You won't want to miss it! Register by scanning or clicking the QR code.

Appendix

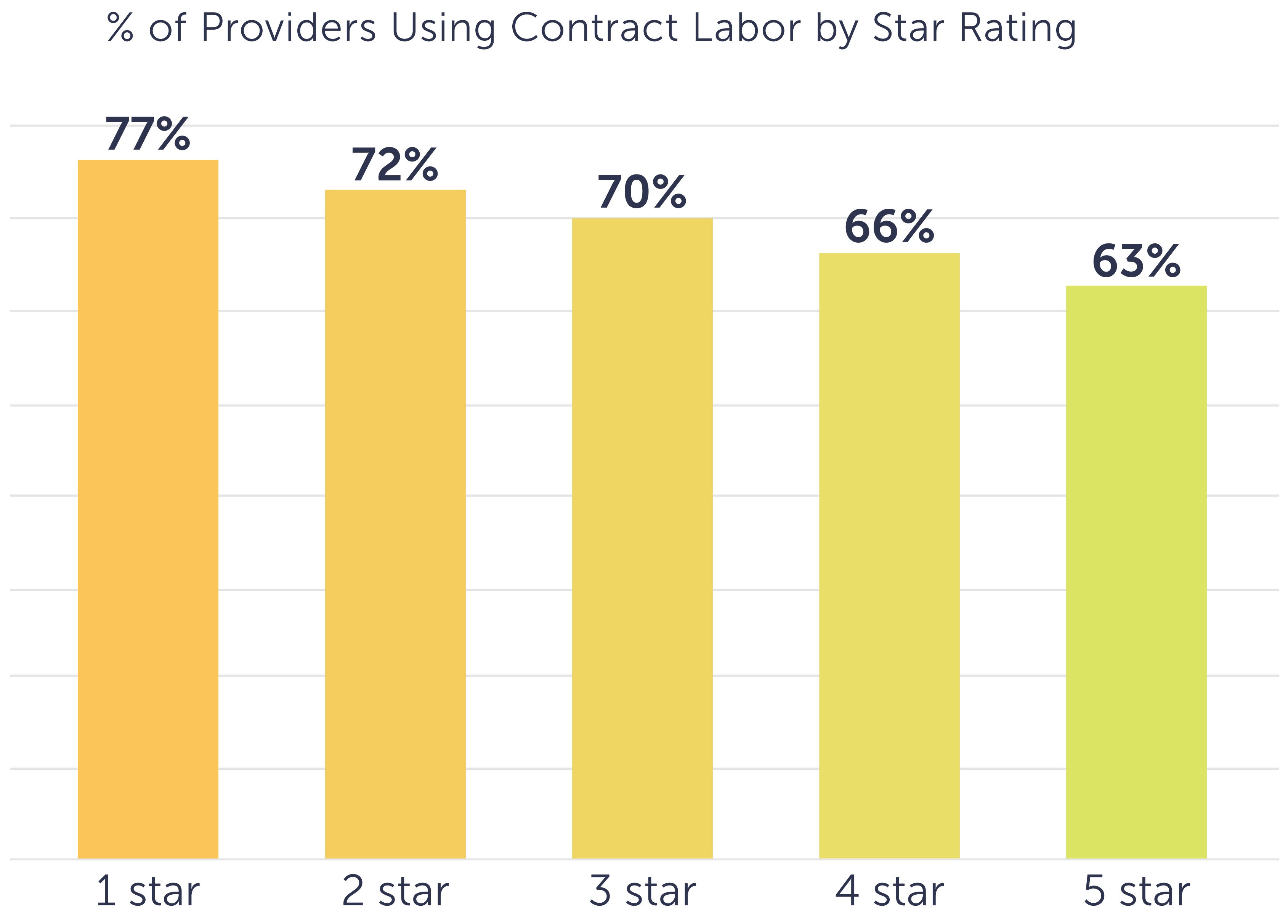
The following graphics display key performance metrics of SNFs grouped by overall star rating.
Across these performance indicators, the higher overall star-rated facilities had better performance.

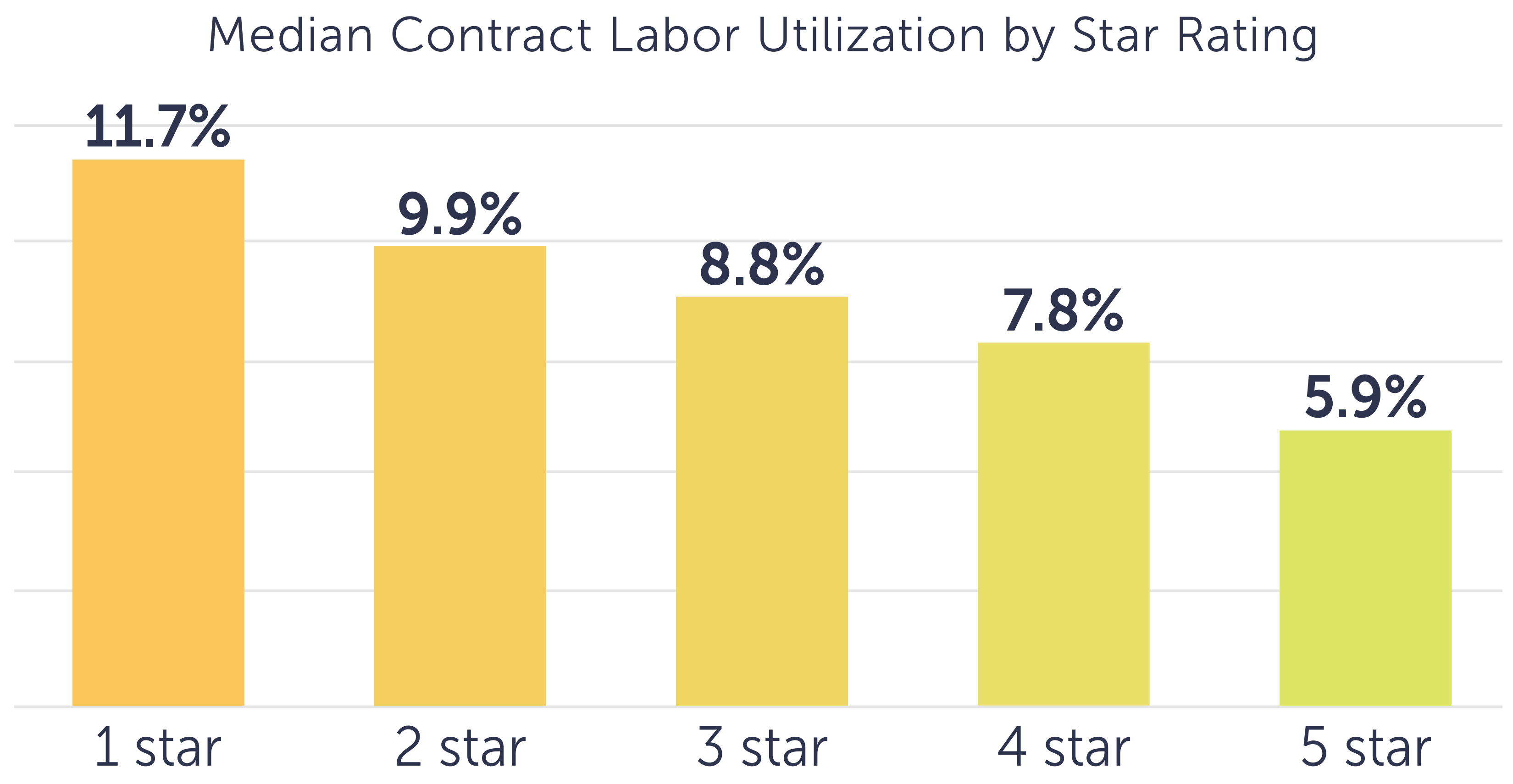
Skilled nursing facility snapshot by star rating

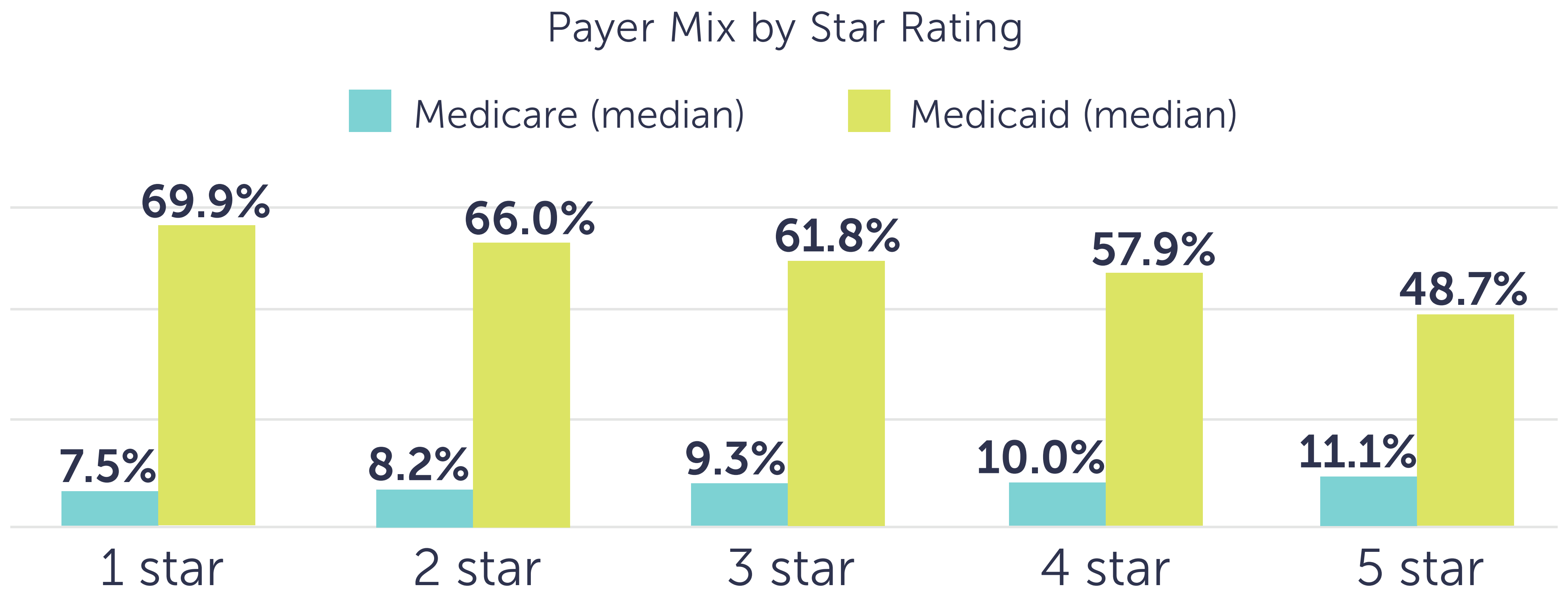




Nursing Contract Labor Utilization by Star Rating

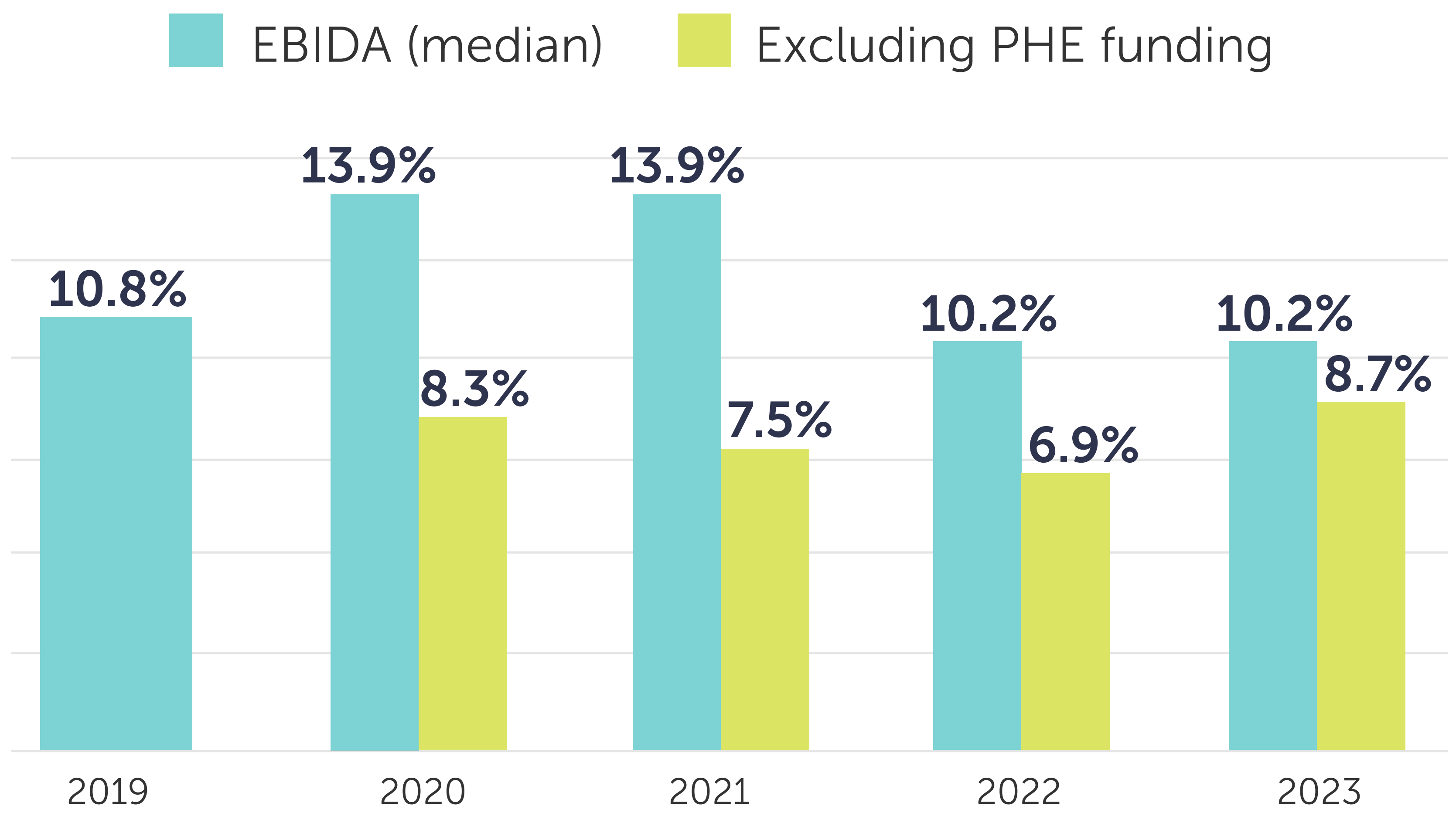






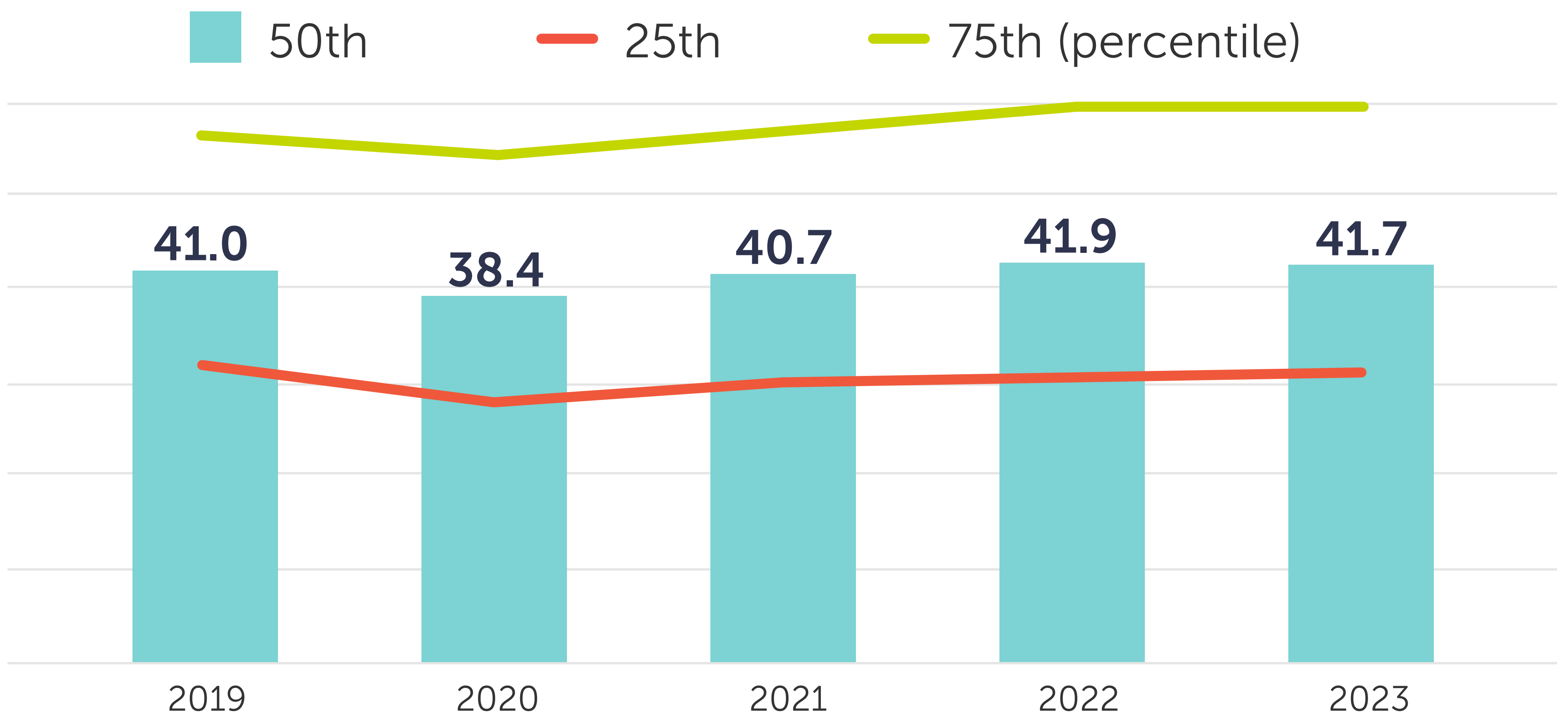
Earnings before interest, depreciation, and amortization (EBIDA)

EBIDA is a commonly used profitability measure because it eliminates capital-related costs. It's a rough measurement of cash flow for skilled nursing operators, so changes measured in this ratio provide a sense for how providers generate cash. The 2020 through 2023 numbers present the EBIDA margin both including and excluding the impact of PHE funding recognized by SNFs.



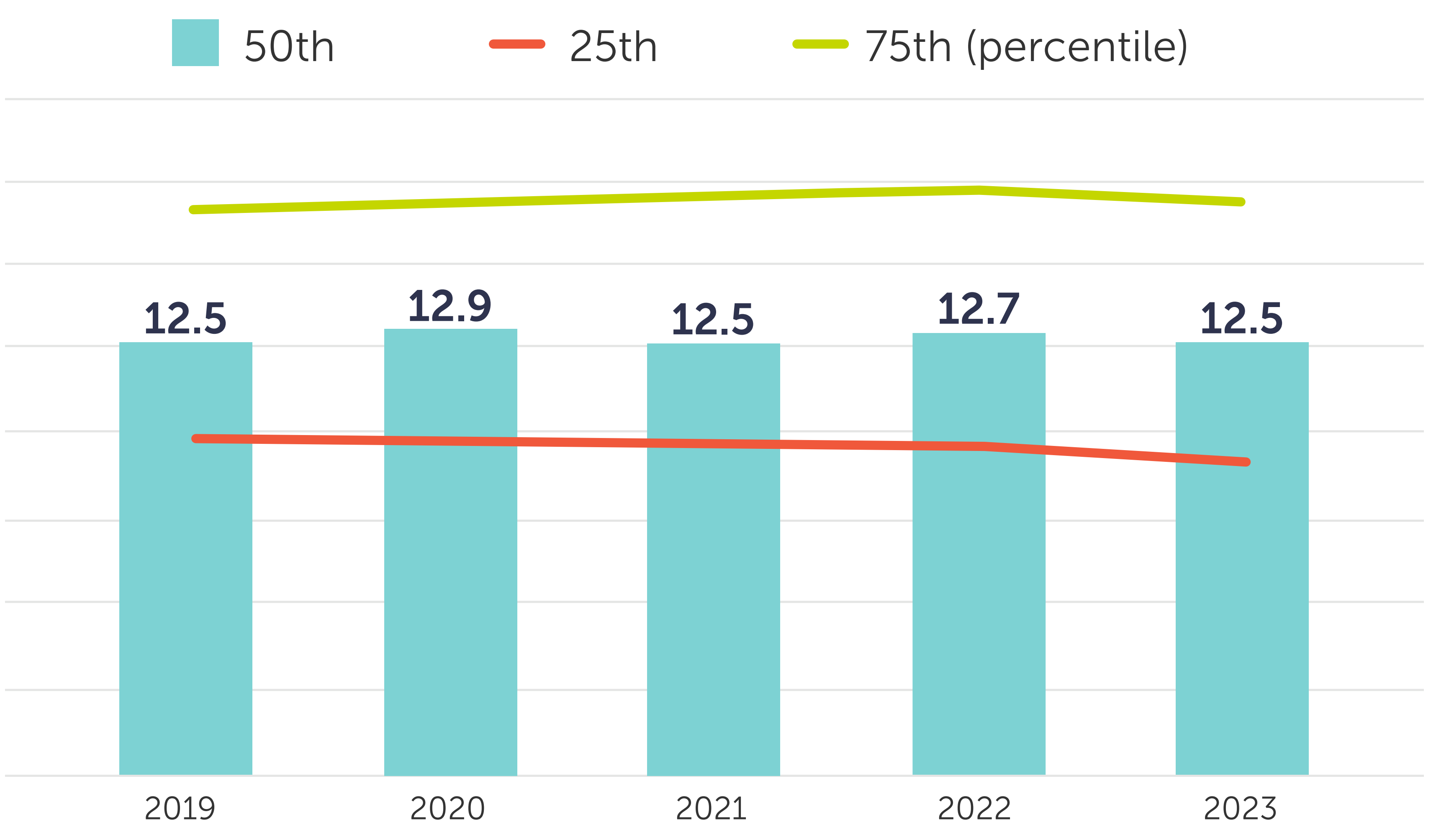
Days revenue in accounts receivable

This ratio calculates the average number of days receivables are outstanding, or how quickly a facility converts receivables to cash. A lower value of days revenue in accounts receivable is desirable, as it indicates a facility takes less time to convert receivables to cash.



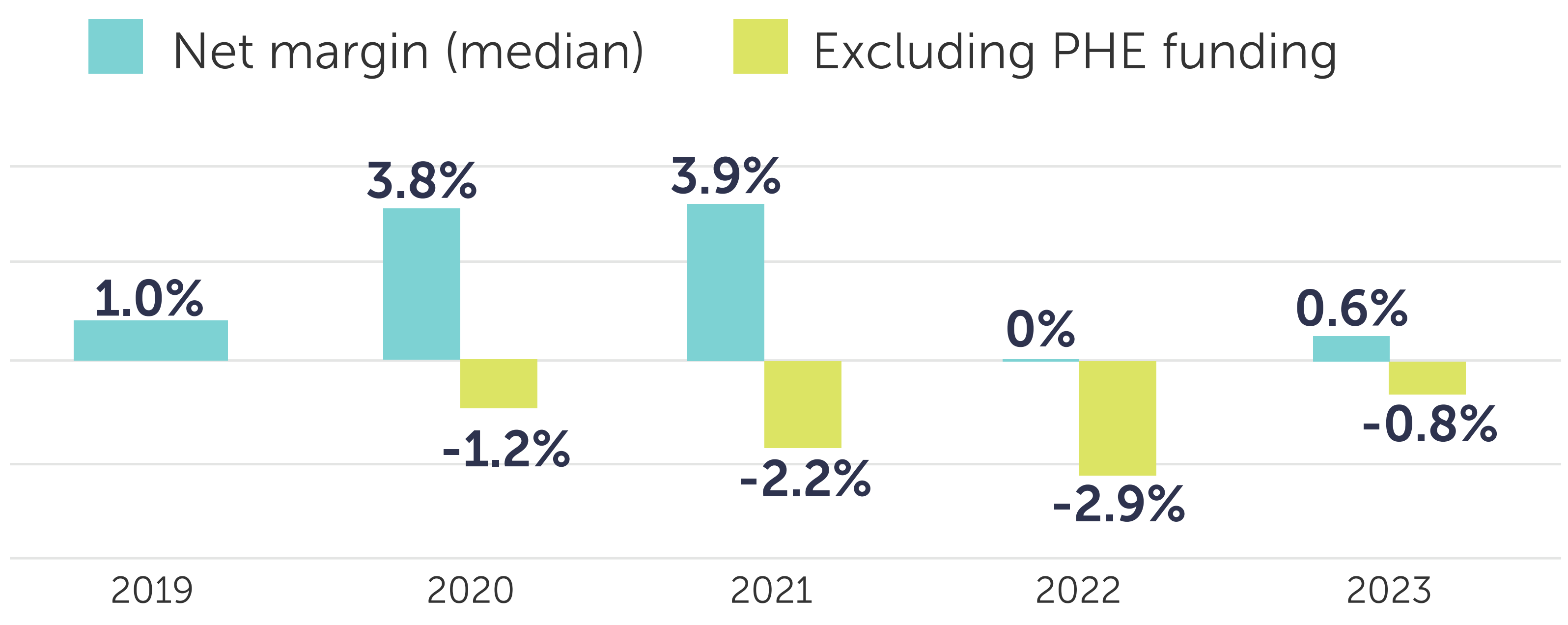
Average age of plant

This ratio measures the average age of a facility by estimating the number of years depreciation has been realized for a facility by dividing accumulated depreciation by depreciation expense.



Net margin ratio

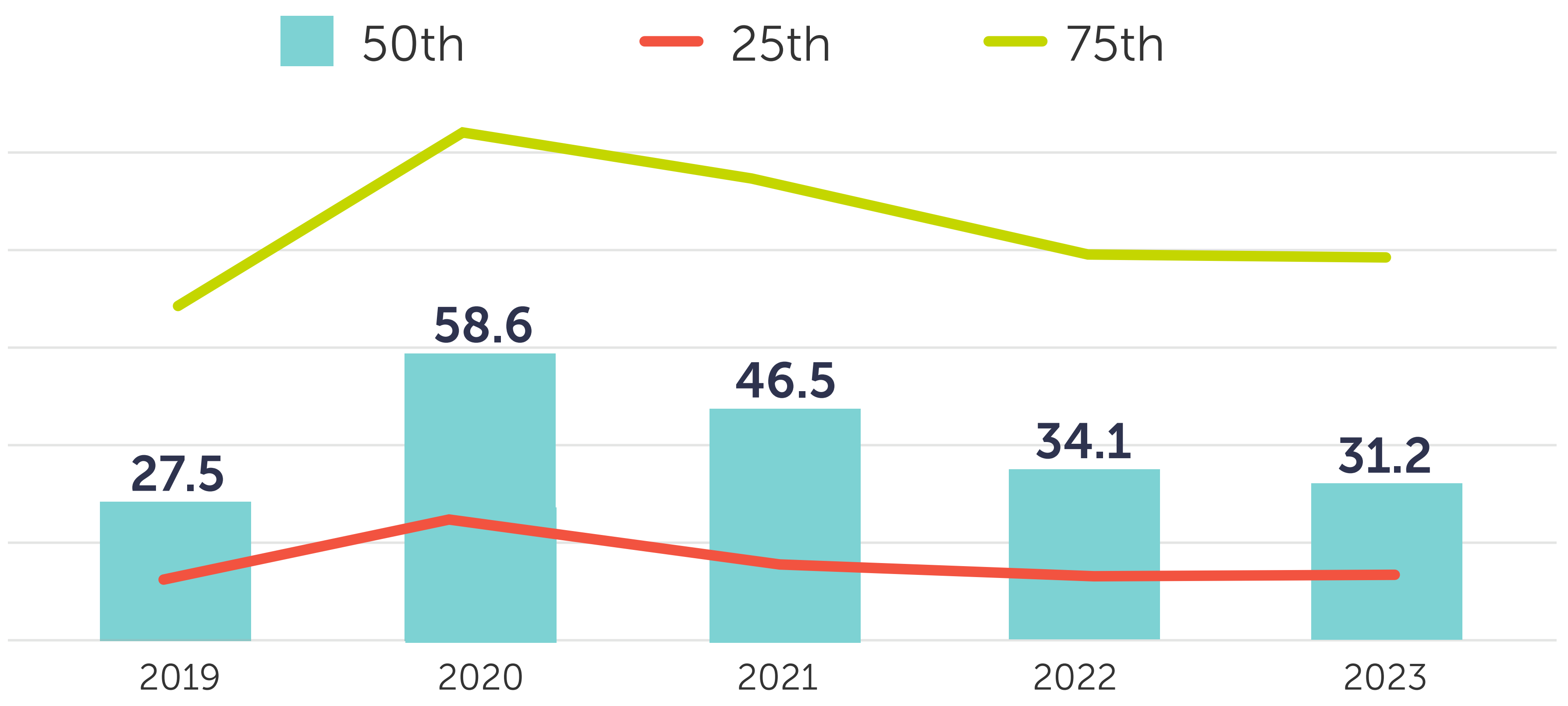
This ratio measures a facility's efficiency in controlling costs, calculated by comparing a facility's net income or loss to its total revenue. An organization's ability to maintain its net margin ratio is vital for long-term sustainability. The 2020 through 2023 numbers present the net margin ratio both including and excluding the impact of PHE funding recognized by SNFs.



Days cash on hand

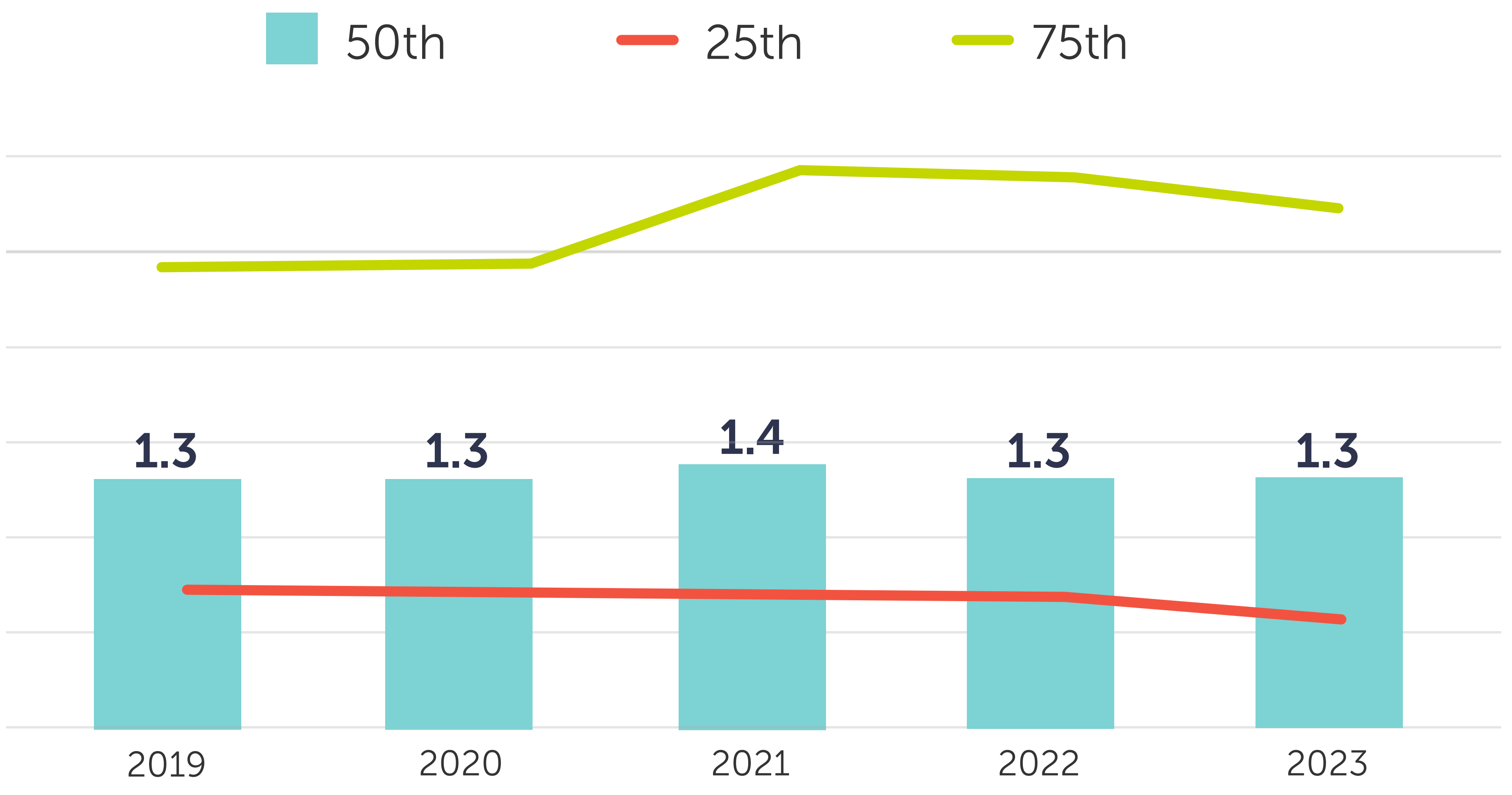
This ratio measures how long an organization's cash on hand will cover average expenses. Like the current ratio (defined below), a high number of days cash on hand is considered favorable. However, an extremely high ratio may indicate a facility could earn a higher rate of return through longer-term investments.

The PHE funding for SNFs provided temporary cash infusions during the pandemic. The continued strain on operations throughout 2021 and 2022 caused SNFs to burn through this one-time cash infusion rather quickly.



Current ratio

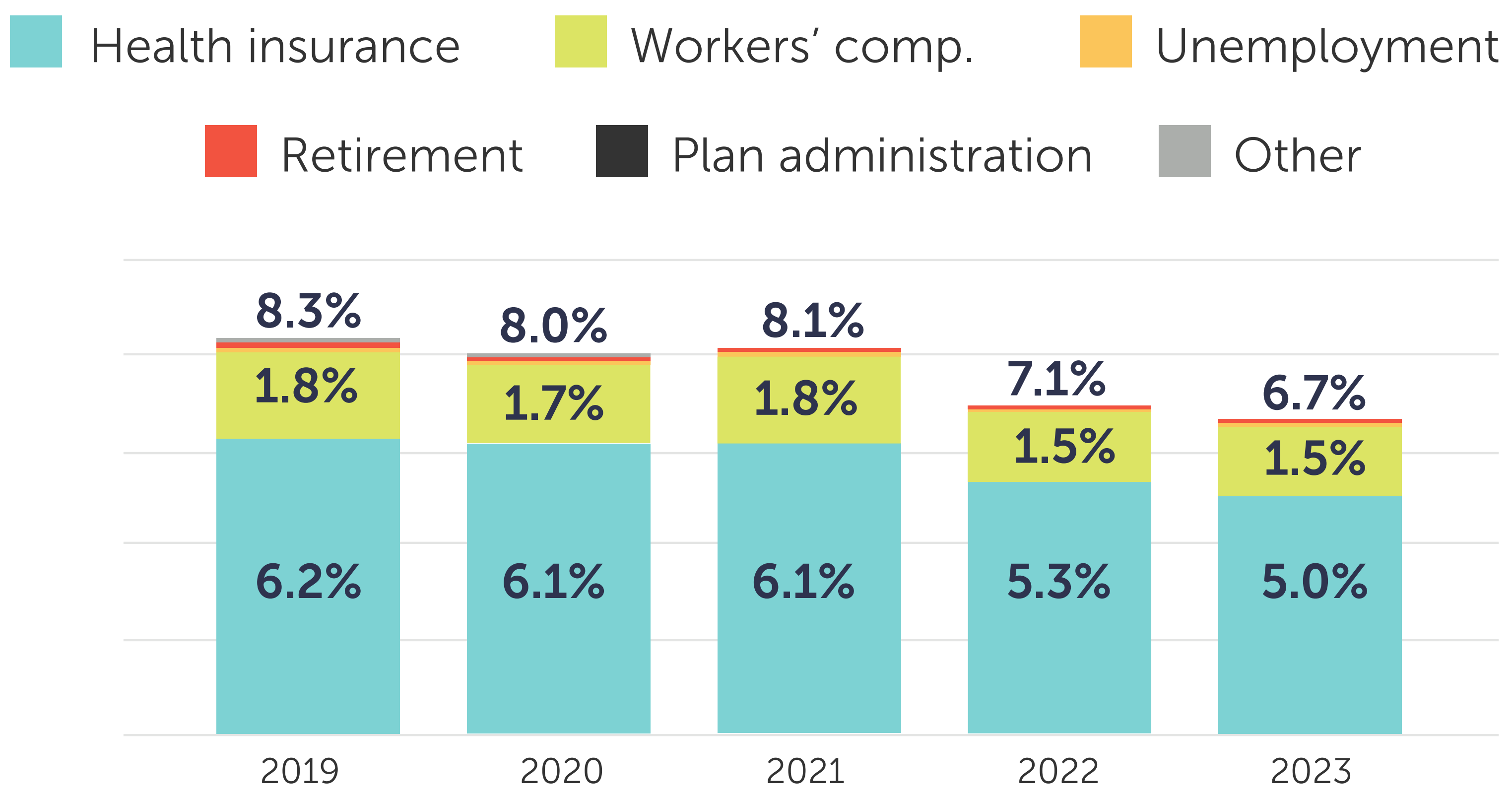
The current ratio measures a facility's liquidity. It demonstrates the degree to which current liabilities are covered by current assets or the ability to pay short-term obligations when due.



Fringe benefits

This ratio measures the relative percentage of fringe benefits. In addition to direct payroll costs, fringe benefits are additional labor costs. Fringe benefits include:

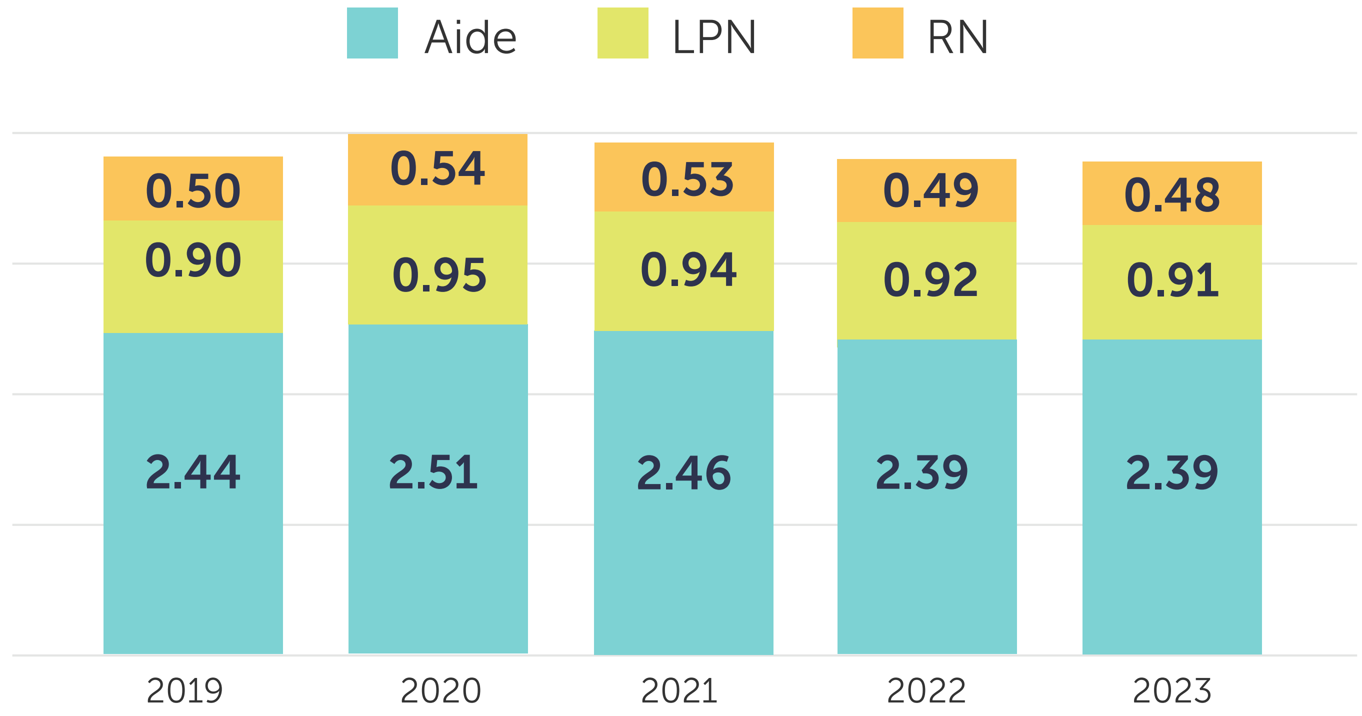
- Medical, life, and other group insurance
- Workers' compensation insurance
- Pension or retirement contribution
- Uniform allowance
- Miscellaneous employee benefits



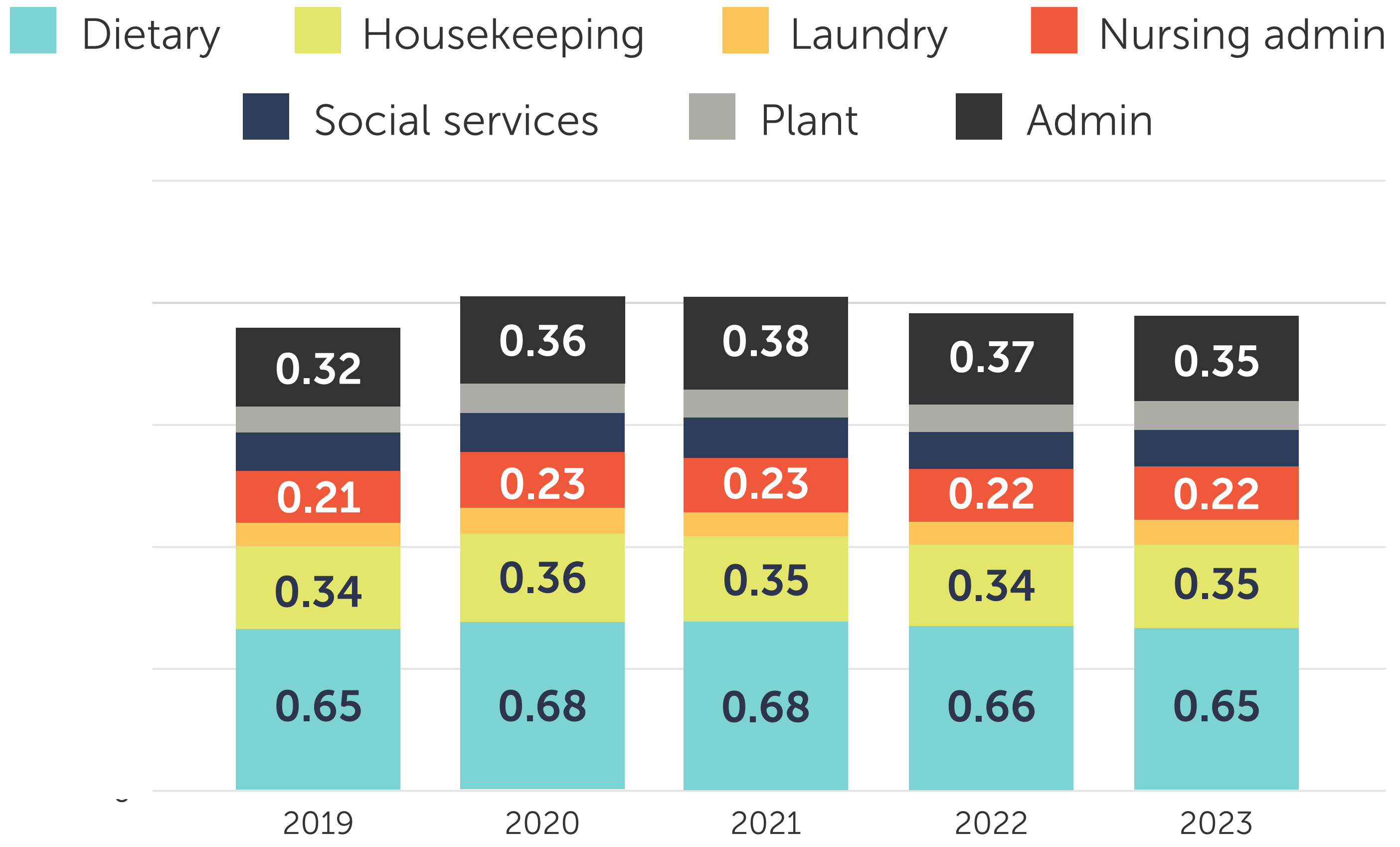
Hours per resident day

This ratio calculates the actual compensated hours paid per resident day.

Median Paid Hours per Resident Day



Median Paid Hours per Resident Day (Excluding Nursing)



APPENDIX

Total costs per resident day

Percentile	Nursing	Social services	Ancillary	Plant	Housekeeping	Laundry	Dietary	Admin	Benefits
25th	$103.48	$2.49	$14.88	$10.76	$5.66	$2.08	$19.83	$44.74	$15.07
50th	$130.13	$4.06	$20.93	$13.53	$7.46	$3.22	$23.60	$59.52	$22.42
75th	$163.74	$6.76	$29.77	$17.26	$9.68	$4.55	$29.11	$76.05	$34.02

Salaries per resident day

Percentile	Nursing	Social services	Ancillary	Plant	Housekeeping	Laundry	Dietary	Admin
25th	$80.87	$2.29	$2.23	$3.17	$0.00	$8.82	$9.64	$107.04
50th	$102.27	$3.87	$3.09	$6.01	$1.46	$12.08	$12.77	$141.55
75th	$130.29	$6.43	$4.56	$8.30	$2.69	$16.30	$18.17	$186.74

Salaries per compensated hour

Percentile	Nursing admin	RN	LPN	Aide	Total nursing	Social services	Plant	Housekeeping	Laundry	Dietary	Admin
25th	$39.02	$41.56	$33.01	$20.00	$25.25	$21.69	$21.09	$13.87	$13.22	$15.76	$28.87
50th	$44.94	$47.65	$38.02	$23.62	$28.55	$25.92	$24.13	$16.11	$15.69	$18.14	$33.77
75th	$52.85	$55.25	$43.67	$27.34	$31.77	$30.86	$27.68	$18.16	$17.86	$20.56	$40.13

About CLA

At CLA, we're experienced in delivering integrated wealth advisory, outsourcing, audit, tax, and consulting services to help you succeed professionally and personally. With a virtual headquarters, our team approach allows us to have professionals conveniently located in communities across the country. For more information visit **CLAconnect.com**.

218k+
clients CLA is helping with what matters most to them

9k
nearly 9,000 people come to work each day to create opportunities

130+
more than 130 locations with global reach through CLA Global

Our dedication to health care and life sciences

CLA has developed one of the nation's largest health care and life sciences practices. Our team includes CPAs and a diverse range of experienced professionals. By working together, we help our clients build enterprise value through strategy, operations, finance, and compliance services. Develop a personal connection with a team of people dedicated exclusively to the senior living and care field. You can benefit from original research, statistics, and techniques developed specifically for senior living and care providers. Committed to helping shape the future of health care and life sciences, our professionals have offered valuable insights to organizations like yours for more than 60 years.

Stay informed
Get help navigating the continuously changing health care landscape. Stay current on new payment models, emerging innovations, and new regulatory and legislative policies.

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Our health care network

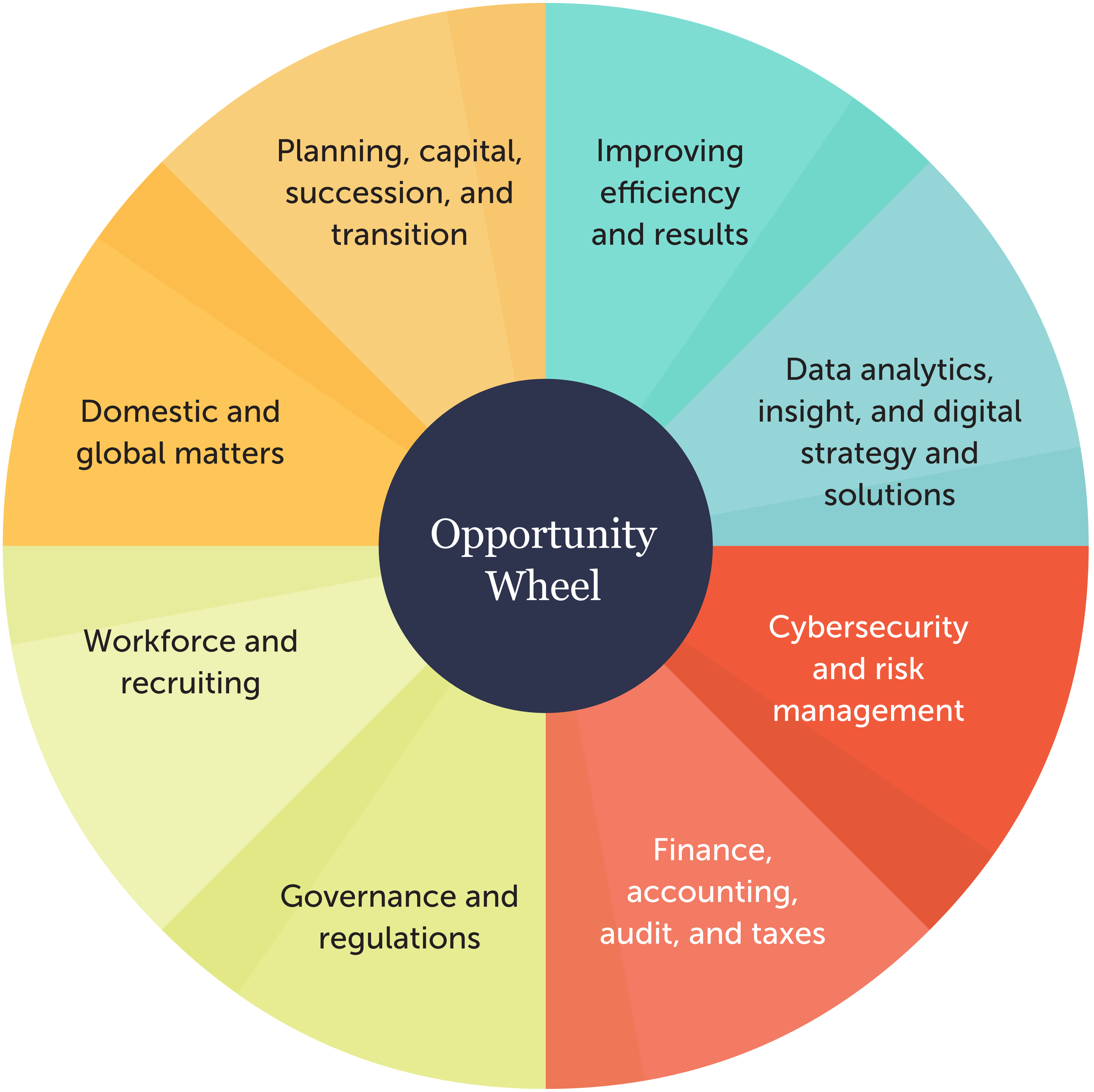
Our practice consists of more than 470+ health care professionals, including over 90 health care principals. We currently serve more than 8,700 health care clients, which includes:

2,200+
aging services providers

210+
home care, hospice, and other community-based providers

620+
hospitals and health systems, including approximately 80 critical access hospitals

5,300+
physicians, dentists, and medical practices



Services for SNF operators and owners

Our customized services support the evolving needs of organizations serving aging adults. We're a premier resource for life sciences and health care providers and offer deep industry specialization and a seamless experience to those we serve. These advantages drive us as we create opportunities, develop relationships, and provide value for skilled nursing facilities while helping our people grow their inspired careers.

Due to escalating operating costs, personnel shortages, and changing reimbursement models, skilled nursing operators and owners are being forced to reexamine the way they do business. CLA understands these challenges require more than ordinary answers; they require forward-thinking and creative approaches to help carry you forward. We proactively identify and analyze industry trends and current and relevant regulatory and operational matters to help position your organization for upcoming challenges and opportunities.

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