
HEALTHCARE MORTGAGEE ADVISORY COUNCIL

Financing Seniors Housing for America

**Elder
Dynamics**

SOLUTIONS FOR AGING SERVICES AND
ELDERCARE ORGANIZATIONS

MINNEAPOLIS, MN

www.elderdynamics.com

Operator Perspective

**Understanding Near and Long-Term Imperatives
and the Altered Landscape**

Healthcare Mortgagee Advisory Council
2022 Annual Conference – Minneapolis, MN

16 June 2022

- **Underlying Mechanics:** trends in population, health, spending, payment, occupancy and direction
- **Operational Realities:** industry environment, operator challenges and focus, and opportunity
- **Interpreting the Near-Term Dynamic:** what smart operators are doing and what are the expanded key performance indicators that point to long-term success



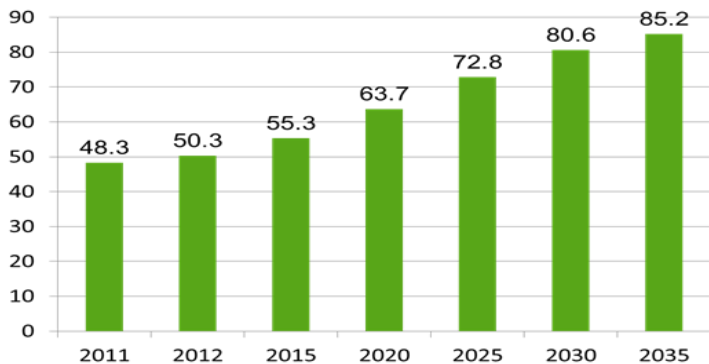
The Underlying Mechanics at Play



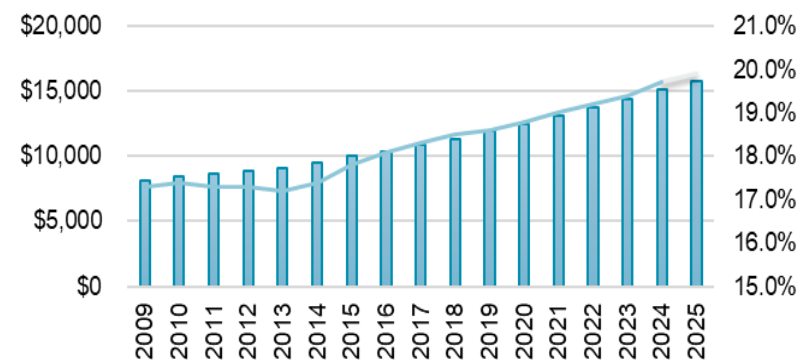
**I used to
sleep at
night.**

- COVID ending...but really?
- Will volumes ever return to normal?
- How do operators stay relevant or essential in their markets?
- What are payers, regulators, and referral partners thinking?
- Does the senior housing business still make sense?
- What's good performance look like?

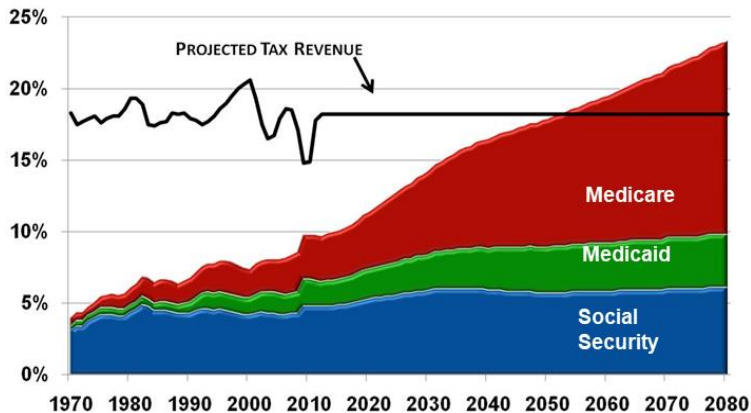
Medicare Enrollment Growing 10,000 Beneficiaries per Day



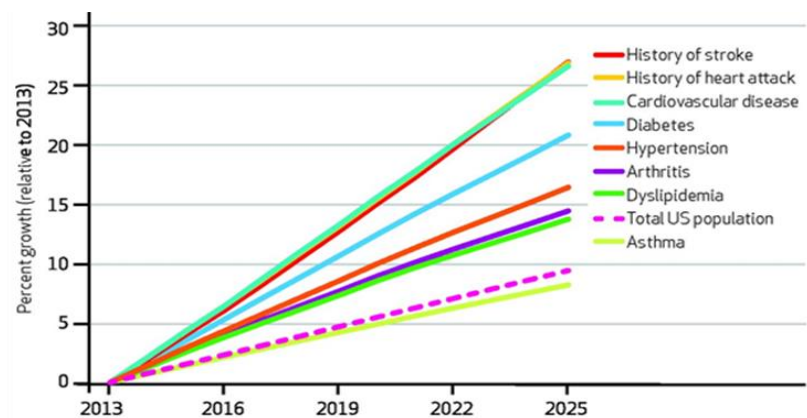
Healthcare Spending: Up 42.5% by 2028 National Health Expenditures per Capita



Fiscal Unsustainability Entitlements Will Eventually Outpace Revenue



Explosion of Chronic Disease Chronic Illness Accounts for 99% of Medicare Spend





Financial Stability Is On Everyone's Mind

Capital partner roles, consolidations, and new arrangements among everyone highlight need for integration, more efficiencies, and how to rationalize and consolidate services



Federal and State Deficit Expansion

FFS for payment cuts are inevitable, Medicare Advantage keeps growing, managed Medicaid is freaking out, and many see risk arrangements as a better way forward overall



Disruption Abounds Across the Board

Health plans are acquiring delivery-side assets (given capital) to control cost and quality while venture-capital and PE organizations are flooding new ideas with cash



Customers Want It Now and at Home

In-home delivery of EVERYTHING is the game – provider must reconsider strategy, delivery, asset allocation, technology alignment and building a new paradigm



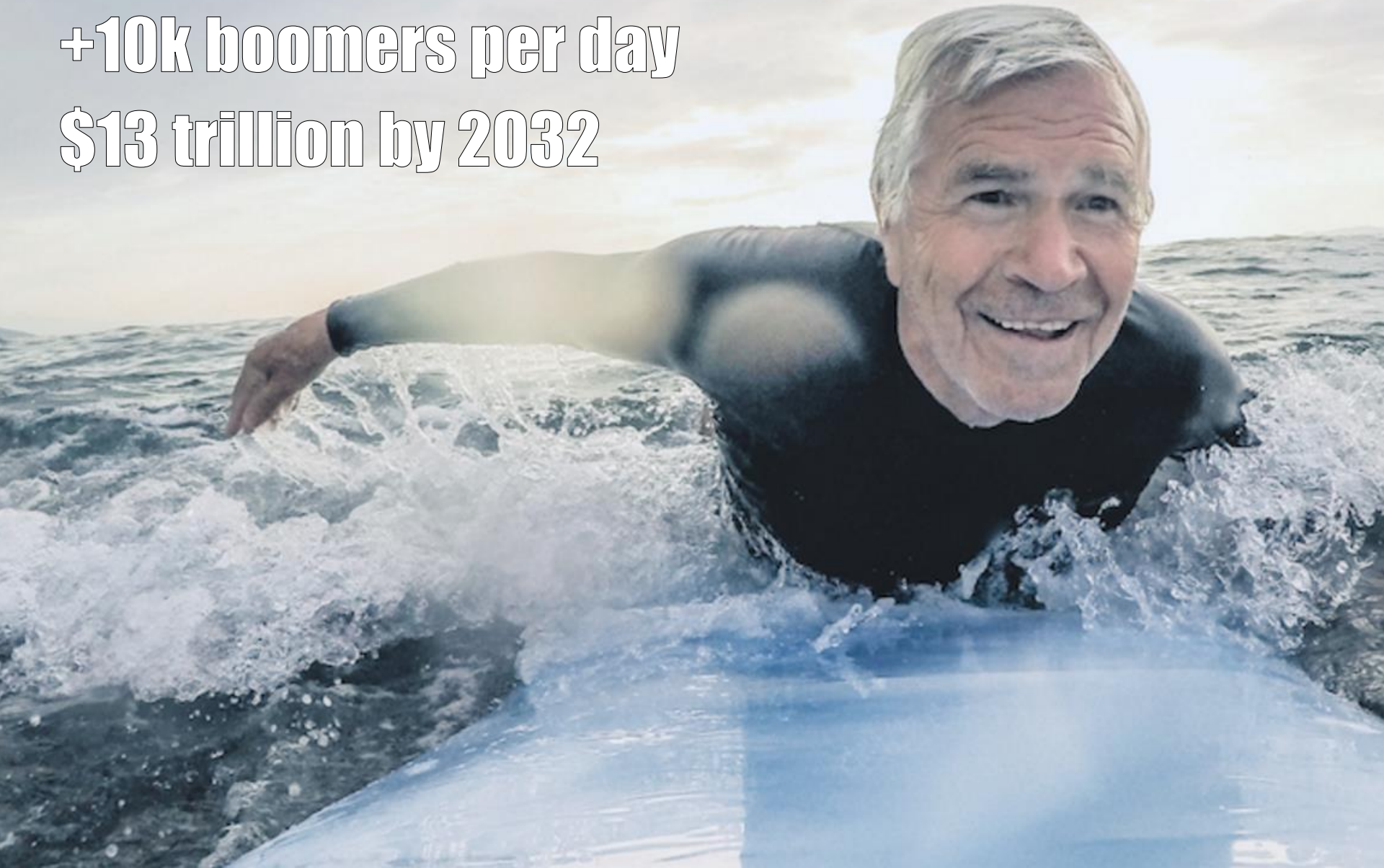
Payer Mix Shift, Health Equity and Unemployment

Intensifying interest around SDOH and behavioral health needs stemming from isolation and unemployment, leading to shift in payers, health equity and need to manage better

The Wave...

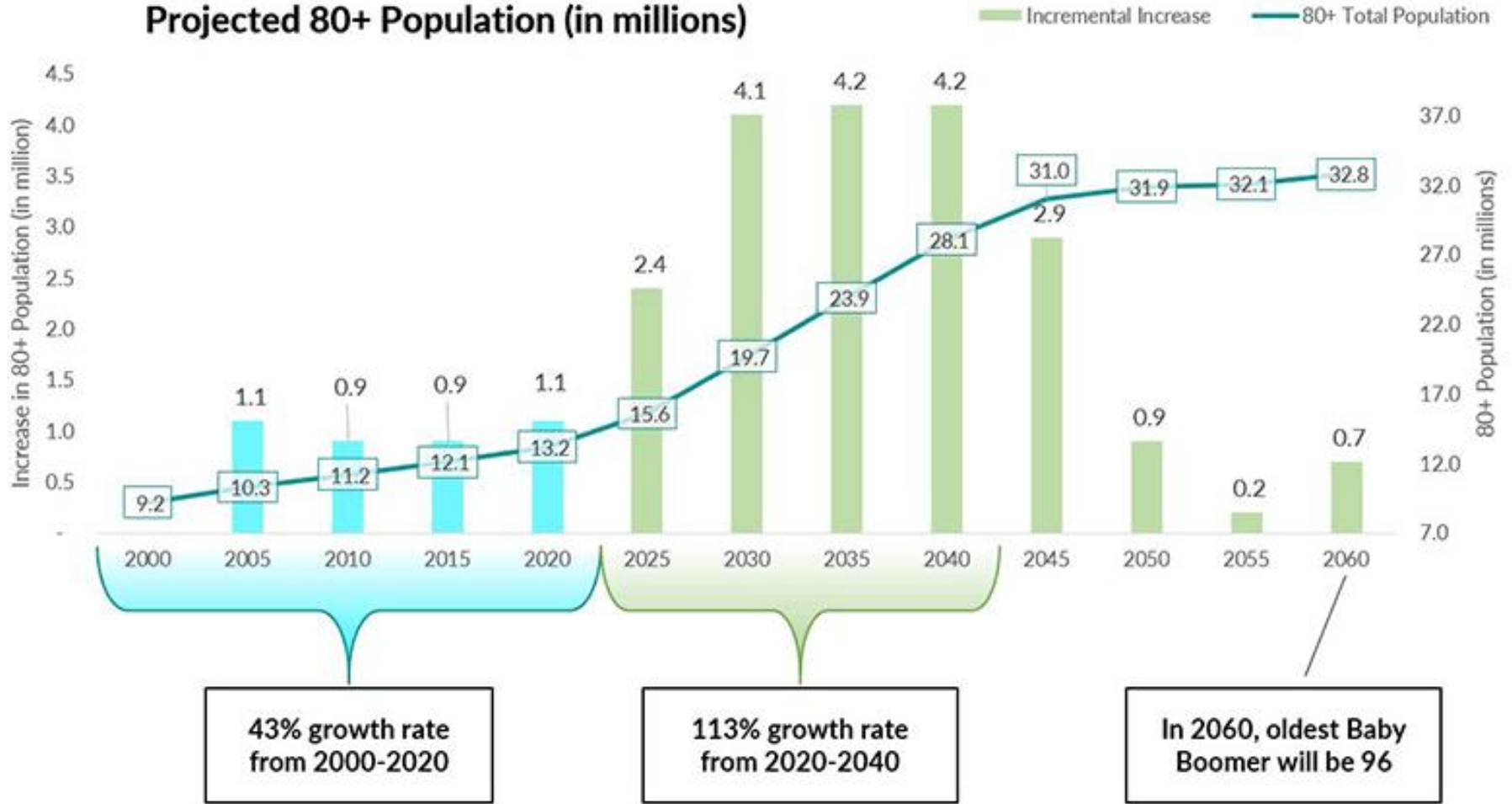
+10k boomers per day

\$13 trillion by 2032



80+ Population About Ready to Explode

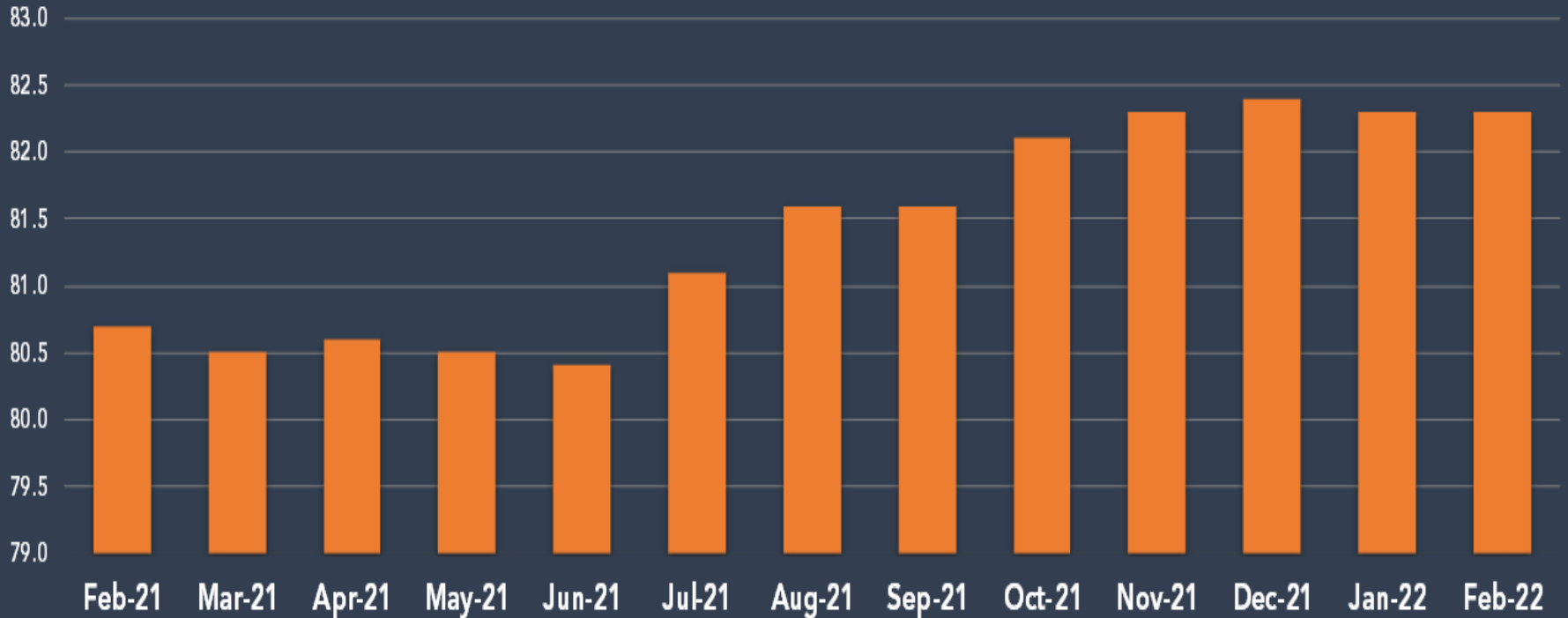
Projected 80+ Population (in millions)





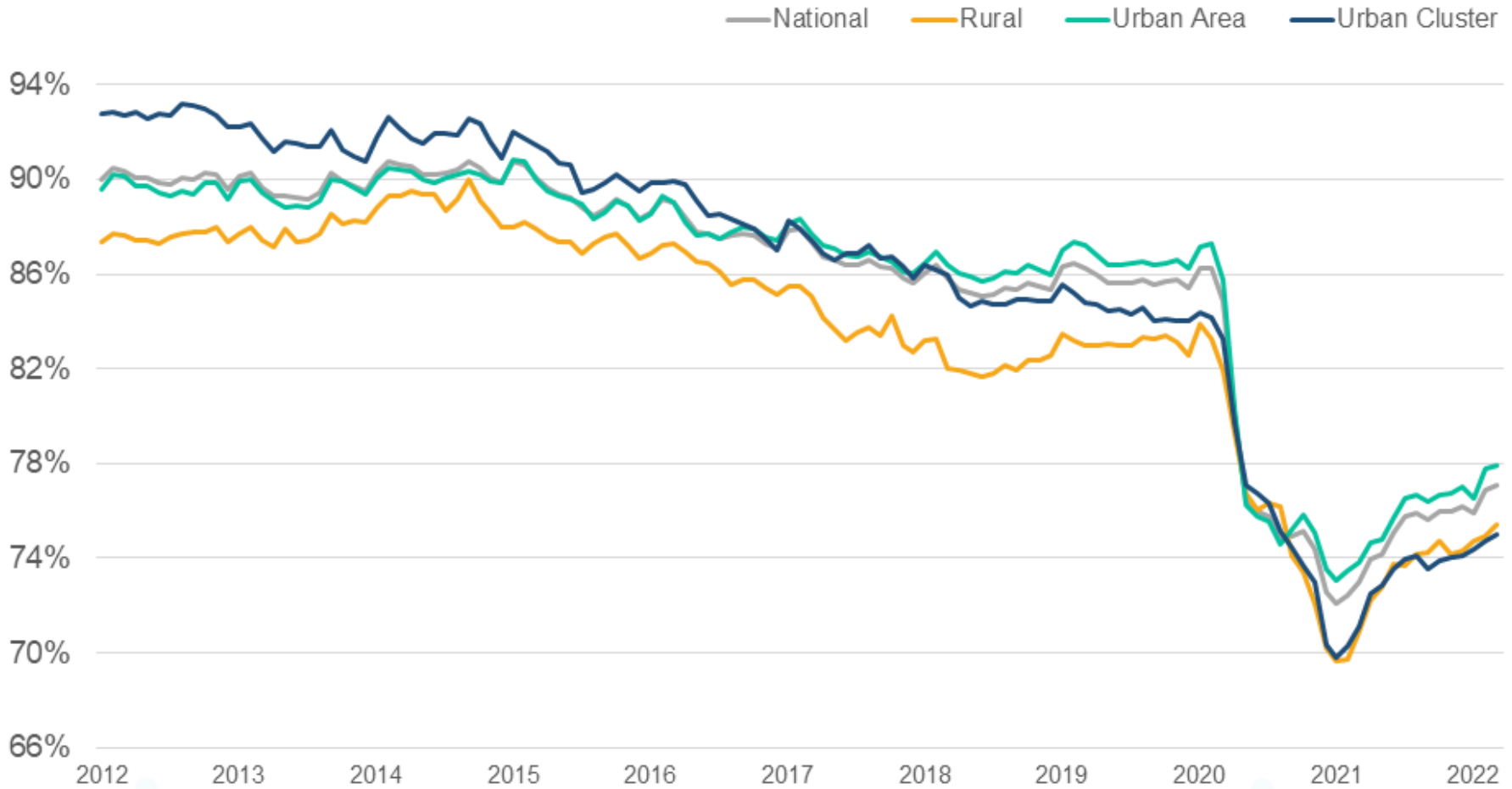
¹Senior Housing Intra-Quarterly ²Stabilized Occupancy (%)
NIC MAP Primary Markets | February 2021 - February 2022

■ Senior Housing



Aggregate majority independent living and assisted living trending upward.

Skilled Nursing Occupancy: January 2012 – March 2022



Occupancy?

Senior housing occupancy keeps trending upward

- Three consecutive quarters of growth across IL & AL
- Weak inventory and construction slowdowns are contributing
- Nearly 60% of units returned to inventory since Q2-2021 have been reoccupied

Recovery?

9.2% drop and 2.5% recovery leaves 6.7% to go

- AL is the best recovery thus far – up 3.7%
- IL has only gained 1.4 but moving up
- SNF has re-gained roughly 30% of its 12.5% drop
- **Where is the finish line?**

Market?

Considerable variation across geographies

- Both east and west coasts are performing better than central US



A Growing American Crisis: Who Will Care for the Baby Boomers?

America is not prepared for this coming shortage. Congress and the White House have kicked the can down the road, effectively waiting for the issue to become a crisis before they deal with it. But caring for America's elders is the single most expensive domestic priority on the horizon, breaking the projected budgets of both **Medicare** and Medicaid, all 50 states and **most of the middle class**, and the truth is, no one is truly prepared for what is to come.

TIME

**HOME
IS WHERE
THE \$\$\$ IS.**





**GREAT
OPPORTUNITY
AHEAD**

Operational Realities

Workforce Is a Mess



And no one has a good answer

Nationally, the SNF industry remains under tremendous pressure to maintain margins and perform under increasing expectations

Occupancy Sliding Fast

- **Not Good:** Mid to low 70s – slightly improved over pandemic low of 69.8%
- Still oversupplied, and pundits are retrenching thoughts about the pace and rate of market consolidation

Utilization Still Declining

- Shifting inpatient and home health use driving SNF utilization decline – down 20% since 2014
- Medicare is the BEST payer for SNFs – its decline is imperiling

COVID Spells Likely Doom

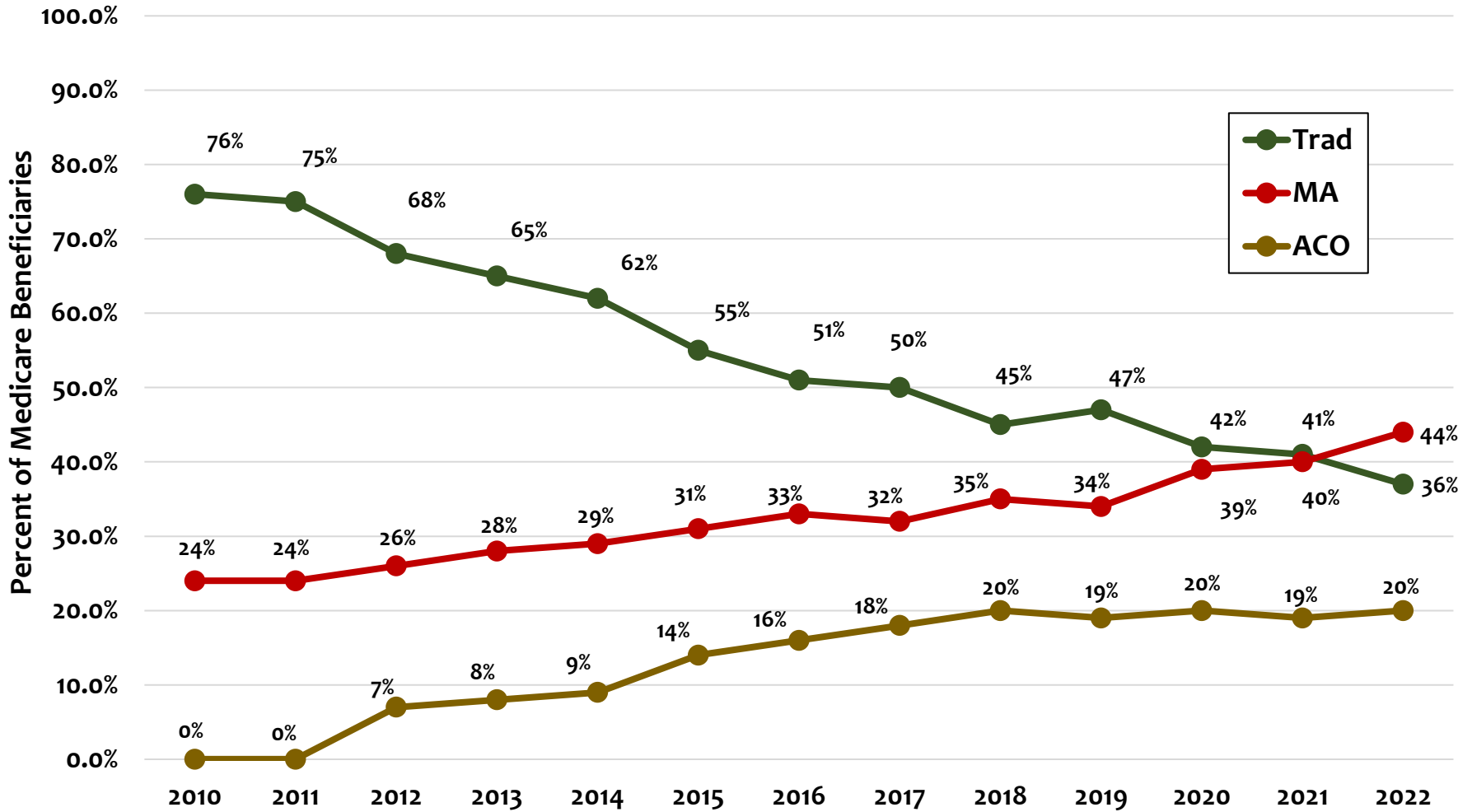
- COVID has eviscerated SNFs nationwide – public perception, staffing challenges and referrals
- Industry experts estimate 10-20% of providers will fail in the next 3-5 years

Payment System Has Shifted

- Moved from RUG-IV to PDPM (2019)
- Shifts payment emphasis away from volume towards clinical relevance and medical complexity
- Proposed rule rebases in FY2023

Increased scrutiny is anticipated in the future, given Biden administration comments regarding regulatory intensity

Medicare: Shifting Payor Mix Is Significant

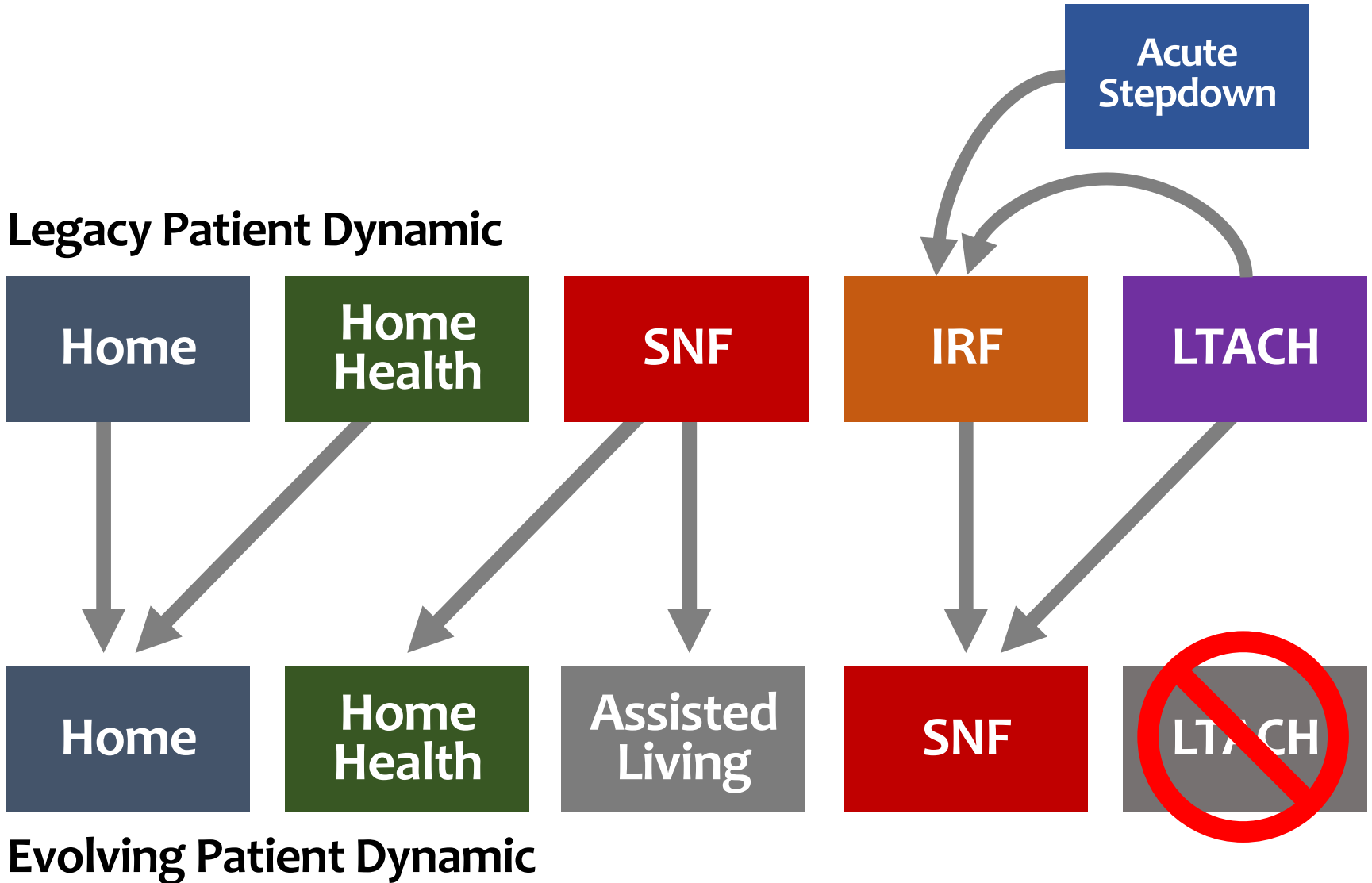


Source: data.cms.gov

Declining rehabilitative care; increasing complex care

- The future trend for nursing homes is increasing medically complex patients with multiple co-morbidities and chronic disease, resulting in the need for care specialization
- Traditional LTC delivery will keep shifting out of the nursing home into home and community-based options – expanding HCBS programs also will continue driving down long-stay occupancy rates
- Future success for most SNFs will be determined on the basis of increasing clinical management skills and securing preferred provider relationships and/or participation with ACOs, health systems and managed care organizations.





- Given private-pay reliance, **both IL and AL performance are directly tied to larger social and economic trends**
- **Misunderstanding of long-term care** and senior care options unfairly groups “assisted living” as just a different kind of nursing home
- **FEAR** of Covid exposure for AL (given close quarters), isolation, and lockdowns did not help public perception
- **As national mindset about Covid recovers, so will occupancy** – especially for memory-care assisted living
- **AL operators should reposition brand or perception, market aggressively, and develop operational capabilities for an increasingly complex resident**



Broadening capabilities to attract and retain residents

- Originally conceived as a residential-care setting, AL communities today look more like nursing homes of the late 1990s and early 2000s
- Continued evolution of clinical and health management capabilities in AL is likely to accelerate – given population growth and further secession of traditional LTC by nursing homes
- Leading AL organizations are driving alignment with expanded, on-site primary care supports, skilled service alignment via home health and positioning for short-term recovery care with MA and other payers



Post-COVID: Financial Position and Market Presence Must Lead Thinking



→ Tier 1 Provider

Organizational Position

- **Large regional provider or multi-site organization with an expansive geographic footprint**
- Owns or has formal arrangements with providers across the entire continuum of care
- Healthy cash reserves on-hand
- Familiar with or evolving toward value-based/risk-sharing payment model(s)

Strategic Focus

- Pursue risk payment models at an expedited pace
- Partner with innovative technology companies
- Expand telehealth and virtual capabilities
- **Acquire other providers** across the continuum



→ Tier 2 Provider

- **Community-based provider organization with some scale**
- Modest to strong presence within a local market
- Few or no formal arrangements across the continuum of care
- Financial position and ability to take on more debt has been compromised
- Modest cash reserves on-hand
- Fee-for-service business with limited value-based payment model(s)

- **Look for capital partners** through acquisitions (i.e. other providers of similar type, health system, or for-profit operator)
- If able to remain independent, shore up financial position through operational restructuring and well-executed strategic growth



→ Tier 3 Provider

- **Stand-alone entity**
- Limited presence within local market
- Limited service line offering
- No formal arrangements across the continuum of care
- No cash reserves on-hand – likely at highest risk of closure
- Fee-for-service business with high Medicaid payer mix

- **Look for partner or “savior”** (i.e. merge or acquire partner)
- If partners are not interested, evaluate long-term efficacy of current business, prioritize opportunities, and potential exits
- If partners or investors are interested, look at feasibility to revalue, repurpose, or reposition

Looking FORWARD, organizations need to adapt accordingly:

Achieve scale
through
partnership

Deliver more
services in the
home

Consolidate
around best
opportunity

Shed non-
performing lines
of business

Continued staffing challenges, increasing costs overall, and industry trends will drive reimbursement further towards value-based thinking and risk (both one- and two-sided) and capitation looms evermore

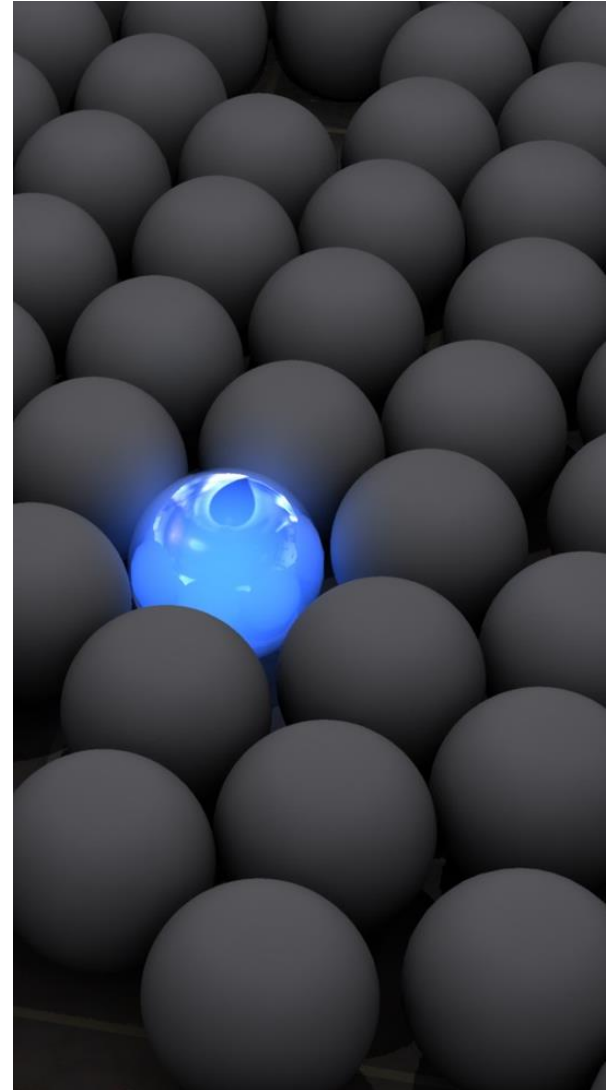
Across the board, providers and payers will both increasingly seek the financial certainty of prospective payment and, in turn, push that risk downward

Scale is essential to survival

Interpreting the Near-Term Dynamic



- Leading edge **clinical/programmatic alignment with hospitals and payers**
- Demonstrated **infection control management** and outcomes
- Optimized use and **capabilities around telemedicine**
- Low/near zero hospital readmissions and best-in-class approaches to **post-SNF transitions of care**
- High patient satisfaction (>90%)
- Robust **continuous quality improvement with documented results**
- **Cost of care is lowest** in comparison to peers with comparable or better quality



Implementing programs to retain existing and attract new staff

- Improved pay rates overall
- Stay-based incentives
- Leveraging tech when/where ideal
- Scheduling flexibility

Aggressive expansion of marketing, outreach and sales development efforts

- Re-engaging with prospective residents
- Adapting the senior buyer and adult child value proposition
- Increasing capacity for complexity management
- Aligning externally for innovation and brand association

Consumer perspective about senior housing is generally positive:

- **74%** of prospective residents indicated their **time frame for moving in was not changed** due to the pandemic
- **86%** of residents were **glad they moved** to their community
- **93%** of residents felt their **community took all precautions** to keep them safe
- **61%** of residents said they **felt safer living in the community** through the pandemic than in their home

Staffing

- Turnover and retention
- Operational and programmatic efforts to address staffing – EOC programs, incentives, bonuses
- **Rate of recovery – before, during, and now**

Quality

- **Moving beyond aggregate star or state-based quality ratings**
- Claims-based measures around spend, quality, and efficiency
- Discrete clinical indicators – falls, UTI, pharma interventions
- Capabilities across medical and clinical management
- **Customer experience of care & service**

Alignment

- Preferred provider relationships or alignment with hospitals, ACOs, and major volume drivers
- Managed care and Medicare Advantage contracting
- Denial rate and related management

Financial

Payer mix, occupancy (and pace of recovery), margin, operating ratio, cash, DSC

For some...it's a possibility

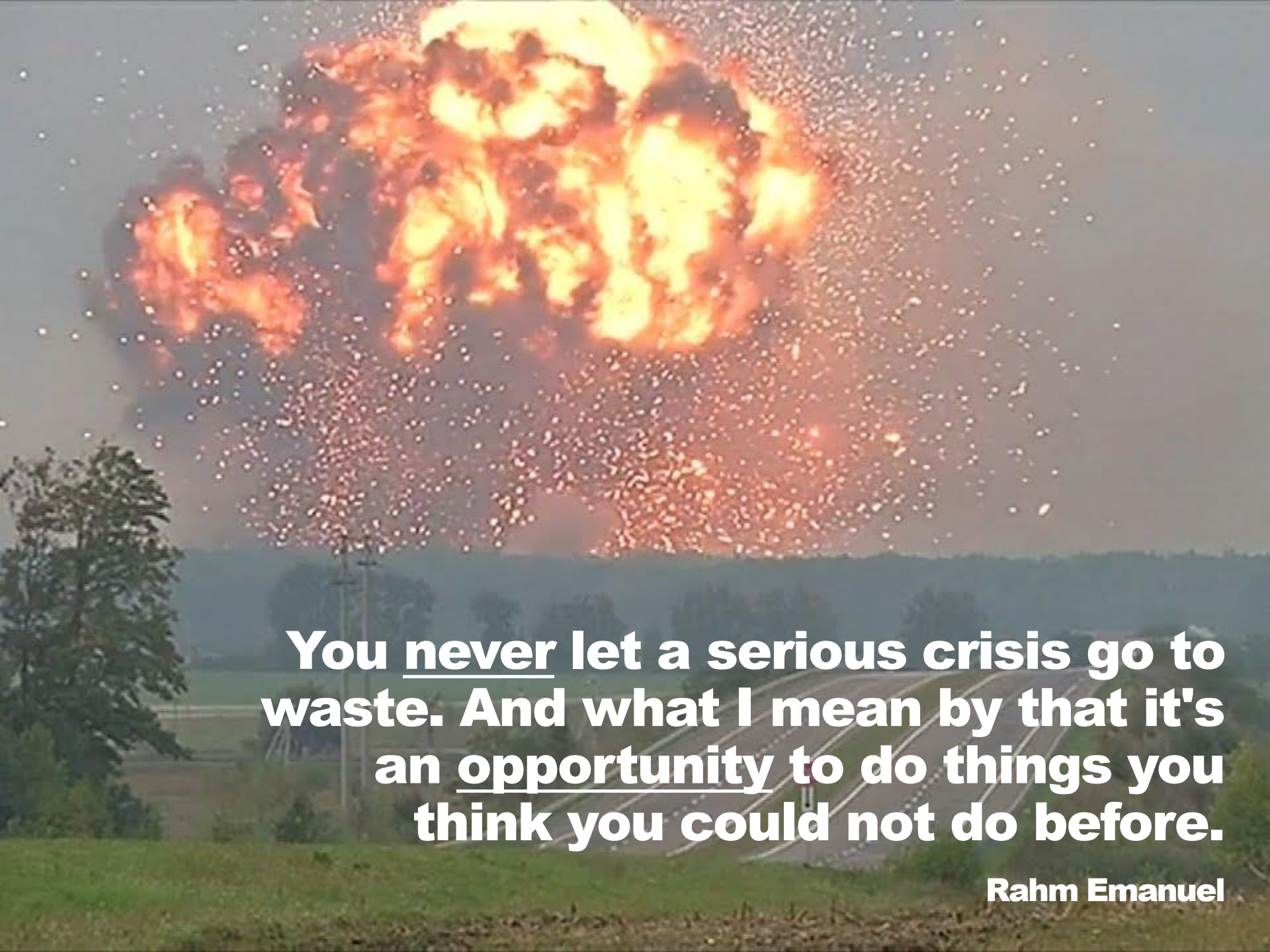


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In The End...



**What got you here
won't get you there**

A large, fiery explosion or fireball in the sky, with a road and trees in the background. The explosion is the central focus, with bright orange and yellow flames and a shower of sparks falling from it. The background shows a road with white lines, a utility pole, and a line of trees under a clear sky.

You never let a serious crisis go to waste. And what I mean by that it's an opportunity to do things you think you could not do before.

Rahm Emanuel

A neon sign with the text "STAY TUNED" is mounted on a dark brick wall. The sign is rectangular with rounded corners and a glowing blue border. The text is rendered in a bold, outlined font, with "STAY" on the top line and "TUNED" on the bottom line. The letters are filled with a gradient of red and purple, and they have a bright white outline. The background is a dark brick wall with a blue and purple light gradient behind the sign.

STAY
TUNED

Questions?





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Thank You!



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